Future of Gas (DPU 20-80) Summary of Final Order

Memorandum

TO: File

FROM: Sarah Krame, Staff Attorney, Sierra Club Environmental Law Program

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RE: Massachusetts Future of Gas Order, DPU Docket No. 20-80

At a high level, the DPU adopted advocates' vision of a future (calling it "Beyond Gas") where the gas system is significantly reduced in size. The DPU rejected a hybrid heating scenario where the gas system is kept intact as a viable path forward, rejected the LDCs' proposals from the docket including charging an exit fee from the gas system, and stated that ratepayers will not bear the cost of "unproven" RNG and hydrogen. The order requires utilities to pilot targeted electrification and decommissioning of the gas system; implement a non-pipes alternative framework; coordinate gas and electric planning; and file Climate Compliance Plans every five years. The order also prohibits the use of ratepayer dollars to market expansion of gas service.

In detail, the Order:

- Requires the LDCs to consider non-gas pipeline alternatives, including electrification, thermal networked systems, targeted energy efficiency and demand response, and behavior change and market transformation, as a condition of recovering investment in pipeline and distribution mains.
    - Going forward, as part of future cost recovery proposals, LDCs will bear the burden of demonstrating that NPAs were adequately considered and found to be non-viable or cost prohibitive to receive full cost recovery.
- States that the DPU is "not persuaded that pursuit of a broad hybrid heating strategy that would necessitate maintenance of the natural gas system to support backup heating systems is a viable path forward."
- Prohibits the LDCs from charging ratepayers for any marketing costs associated with the promotion or expansion of gas service.
- Directs each LDC to replace the current per-customer revenue decoupling mechanism with a total revenues or revenue cap decoupling mechanism which "disincentivizes LDCs to expand their gas customer base" and better aligns with the climate mandate.

- Disallows RNG proposals in an LDC's resource portfolio.

- Would still allow voluntary RNG programs if customers wanted to opt in, but all associated costs, including any system upgrades to transport RNG, would be assumed by customers opting into the RNG program or by shareholders.

- If LDCs want to conduct pilot programs with RNG or hydrogen all costs will be covered by utility shareholders.

    - "RNG and hydrogen blending are new, unproven, and uncertain technologies. LDCs may research and assess these technologies, but until they prove to be a viable alternative to the business-as-usual model and support the Commonwealth's climate targets, any infrastructure costs associated with RNG and hydrogen will be the sole responsibility of the utility shareholders and not their customers."

- States that "as the Commonwealth strives to achieve its 2050 climate targets, we envision that the long-term use of the natural gas distribution system generally will be limited to strategic circumstances where electrification is not feasible for all natural gas applications."

- Requires each LDC to identify demonstration projects in each of its service territories for targeted electrification technologies such as networked geothermal.

- States that the DPU will not approve ratepayer funding for hybrid heating system pilots.

- States that the DPU will allow hydrogen demonstration proposals for targeted hard to decarbonize end uses.

- Finds that geothermal networks have the potential to significantly reduce GHG emissions and that geothermal demonstration projects are worthwhile.

- Requires each LDC to coordinate with the applicable electric distribution company to propose at least one decommissioning/targeted electrification demonstration project in its service territory. The targeted portion of the system should be an area with pressure/reliability issues, leak-prone pipe, and/or environmental justice populations.

- Directs LDCs to review existing tariffs, policies, and practices related to new service connections to determine: (1) the number of de facto free extension allowances; (2) whether current models and policies accurately reflect the anticipated income and timeframe over which the capital investments will be recovered; and (3) whether existing state policies are inconsistent with current practices by incentivizing new customers to join the gas distribution system and allowing LDCs to extend their systems through plant additions.

- Recommends that the legislature repeal Section 3 of the Gas Leaks Act as conflicting with the GWSA. Notes this section led to the DPU decision in Town of Douglas. States that going forward companies will be required to consider alternatives to gas expansion.

- Directs LDCs to conduct a comprehensive review that includes a forecast of the potential magnitude of stranded investments, impacts of accelerated depreciation proposals, and identify potential alternatives to accelerated depreciation.

- Declines to adopt the cost recovery mechanisms proposed by the LDCs in their Net Zero Enablement Plans, including a fee to exit the gas system.

- Declines to approve the Net Zero Enablement Plans submitted by utilities in Docket No. 20-80.

- Recognizes need to adopt a rate mechanism to protect LMI customers from high energy burdens and potential rate increases as they transition from gas to electricity.

- Recognizes need for coordinated and comprehensive planning between electric and gas utilities to facilitate the energy transition. States that going forward, evaluation of any proposed investments will have to take place in the context of joint electric and gas system planning.

- Directs each LDC to file individual Climate Compliance Plans every five years, with the first Plan due April 1, 2025.

    - Climate Compliance Plans should demonstrate how each LDC proposes to: (1) contribute to the prescribed GHG emissions reduction sublimits set by EEA for both Scope 182 and Scope 383 emissions; (2) satisfy customer demand safely, reliably, affordably, and equitably using known and market-ready technology available at the time of the filing; (3) use pilot or demonstration projects to assist in identifying investment alternatives; (4) incorporate the evaluation of previous metrics; and (5) implement recommendations for future plans.

- Requires identification and quantification of transition costs to understand cost impacts associated with the various decarbonization strategies, and evaluation of impact of costs on ratepayers.