# The Commonwealth of Massachusetts

## DEPARTMENT OF PUBLIC UTILITIES

**MEMORANDUM**

TO: Distribution List and Service List, Role of Gas Local Distribution Companies as the Commonwealth Achieves its Target 2050 Climate Goals, D.P.U. 20-80

FROM: Jennifer Cargill, Hearing Officer

RE: Procedural Notice and Request for Comments Regarding Policies and Practices for Proposed Line Extension Allowances and Contributions in Aid of Construction for Gas Local Distribution Companies

DATE: February 5, 2025

CC: Mark D. Marini, Department Secretary

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## I. INTRODUCTION AND RELEVANT PROCEDURAL HISTORY

On December 6, 2023, the Department announced a regulatory framework intended to set forth its role and that of the Massachusetts local distribution companies ("LDCs") in working towards the Commonwealth's target of net-zero greenhouse gas ("GHG") emissions by 2050. Role of Gas Local Distribution Companies as the Commonwealth Achieves its Target 2050 Climate Goals, D.P.U. 20-80-B at 137 (2023).[1] The LDCs subject to the Department's jurisdiction are: The Berkshire Gas Company ("Berkshire Gas"); Boston Gas Company d/b/a National Grid ("Boston Gas"); Eversource Gas Company of Massachusetts ("EGMA") and NSTAR Gas Company ("NSTAR Gas"), each d/b/a Eversource Energy (together, "Eversource"); Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil"); and Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty ("Liberty"). The Department's Order established regulatory principles to guide its decision-making in future proceedings, which may include technical conferences, adjudications, and additional investigations wherein the

[1] For background and a complete procedural history, refer to D.P.U. 20-80-B at 4-13.

Department (with the input of stakeholders and the LDCs) will investigate and implement the issues and principles identified in the Order. D.P.U. 20-80-B, at 5-6.

Among other policies, the Department determined that it would examine and revise the standards for investments to serve new customers. D.P.U. 20-80-B at 98. To that end, the Department directed the LDCs to begin reviewing their existing tariffs, policies, and practices related to new service connections to determine: (1) the number of *de facto* free line 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. D.P.U. 20-80-B, at 99.

On June 14, 2024, the Department directed the LDCs to report, no later than August 13, 2024, regarding the information that they had collected based on their review of existing tariffs, policies, and practices related to new service connections. D.P.U. 20-80, Hearing Officer Memorandum at 3 (June 14, 2024). Berkshire Gas submitted the testimony of Frank Maher, senior business services manager, Berkshire Gas ("BGC") and attachments BGC-2 through BGC-6. Eversource submitted the testimony of: (1) Thomas C. Desrosiers, director, budget and investment planning group, Eversource Energy Service Company; (2) Liam J. Needham, director, gas operations sales and marketing, Eversource Energy; and (3) Tracy A. Giofriddo, climate and environmental regulatory program lead, Eversource Energy Service Company ("ES-1"), as well as attachments ES-2 through ES-5. Liberty submitted the testimony of: (1) Kristin M. Jardin, director of rates and regulatory affairs, Liberty; and (2) Ryan M. Lagasse, senior manager, key accounts, Liberty ("Liberty-1"), as well as attachments Liberty-2 and Liberty-3. Boston Gas submitted the testimony of James H. Patterson, Jr., director, customer connections, National Grid USA Service Company, Inc. ("NG-1"), as well as attachments NG-2 through NG-7. Lastly, Unitil submitted the testimony of: (1) Cindy L. Carroll, vice president, customer energy solutions, Until Service Corp.; and (2) Andre J. Francoeur, financial planning and analysis manager, Until Service Corp., ("CCAF-1"), as well as attachments CCAF-2 through CCAF-4.

The Department also invited interested parties to file written comments on the LDCs' line extension filings no later than October 11, 2024. The Department received comments from the following stakeholders: (1) Groundwork Data; (2) Energy Futures Group, Inc.; (3) Conservation Law Foundation, Environmental Defense Fund, and Sierra Club Environmental Law Program, jointly ("Joint Comments"); (4) the Attorney General of the Commonwealth of Massachusetts ("Attorney General"); (5) the Massachusetts Department of Energy Resources ("DOER"); (6) RMI; and (7) Advanced Energy United.

The Department issues this memorandum to establish deadlines for: (1) the LDCs to submit reply comments responding to the comments filed by interested parties, as identified above; and (2) for interested parties to submit written comments on the proposed policy for line extension allowances and contributions in aid of construction described below.

## II. CURRENT LINE EXTENSION ALLOWANCE AND CONTRIBUTIONS IN AID OF CONSTRUCTION POLICY

It is the Department's long-standing policy that an LDC need not serve new customers in circumstances in which the addition of new customers would raise the cost of gas service for existing firm ratepayers. D.P.U. 20-80-B at 54; Boston Gas Company, D.P.U. 22-149, at 48 (2023); Boston Gas Company, D.P.U. 88-67 (Phase I) at 282-284 (1988). Therefore, to include the cost of expanding its distribution network in rates, an LDC must first ensure that the incremental costs to expand its distribution network do not exceed the incremental revenues from such expansion so that existing customers do not subsidize the cost of the extension of service. Bay State Gas Company, D.P.U. 12-25, at 379 (2012); Boston Gas Company, D.T.E. 03-40, at 48 (2003); Arnold/Hawkins v. Boston Gas Company, D.P.U. 93-AD-16, at 9 (1994); D.P.U. 88-67 (Phase I) at 372.

With some exceptions, the LDCs state that they determine whether a main or service extension is economically feasible using a model to compare the estimated cost of the project to the estimated revenues over the expected useful life of the plant investment to ensure the internal rate of return exceeds the rate of return allowed in the company's most recent base distribution rate case (Exhs. BGC at 4, 6-7; BGC-5A at 17; ES-1, at 7-13; ES-4, at 2, 5; Liberty-1, at 6-11; NG-1, at 9-10, 16-18; NG-2, at 17; CCAF-1, at 3-6; CCAF-3, at 15). When an investment needed to serve a new customer does not pass the internal rate of return test, the LDCs may require the customer to pay a contribution in aid of construction ("CIAC")[2] to make up the deficit (Exhs. BGC at 4; ES-1, at 7-13; Liberty-1, at 6-11; NG-1, at 9-10, 16-18; NG-2, at 17; CCAF-1, at 3-6; CCAF-3, at 15).

The LDCs' policies differ in certain, limited respects. For example, Liberty and Unitil explain that they do not compute a CIAC for new residential customers requiring a new service that is no longer than 125 feet or 100 feet, respectively (Exhs. Liberty-1 at 7-8; CCAF-12). Boston Gas, for its part, states that it charges flat rates for a service installation that range from $1,800 to $7,200 depending on customer class, service size, and the reason for installation (Exhs. NG-1, at 12; NG-5).

## III. SUMMARY OF COMMENTS

As noted above, the Department asked the LDCs and interested parties to comment on "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" (Hearing Officer Memorandum at 3). D.P.U. 20-80-B at 99. All of the LDCs responded that existing practices are consistent with state policies, including state policies

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[2] Property that has been contributed to a utility is not included in rate base. D.P.U. 12-25, at 380 n.220, citing Milford Water Company, D.P.U. 771, at 21 (1982); Oxford Water Company, D.P.U. 18595, at 18 (1976); Commonwealth Gas Company, D.P.U. 18545, at 2 (1976).

regarding GHG emissions reduction (Exhs. BGC at 8-9; ES-1, at 14-20; Liberty-1, at 11-12; NG-1, at 19-20; CCAF-1, at 13-15).

The other interested parties disagree with the LDCs, explaining that line extension allowances are inconsistent with the state's GHG emissions reduction targets because the practice of gas ratepayers bearing costs associated with new service or line extensions works against policies meant to decrease the use of natural gas and encourage electrification (Attorney General Comments at 7-9; DOER Comments at 4-7; Advanced Energy United at 2, 6; Energy Futures Group Comments at 4-5; Joint Comments at 2-4; Groundwork Data Comments at 35-44; RMI Comments at 4-5). Accordingly, most commenters urge the Department to reduce or eliminate line extension allowances to reduce GHG emissions and to prevent stranded costs for gas customers (i.e., incurring costs for new gas distribution system plant investment with an expected useful life that exceeds the anticipated duration of use of such system) (Attorney General Comments at 3; DOER Comments at 3; Advanced Energy United at 2-3; Energy Futures Group Comments at 5, 9; Joint Comments at 5; Groundwork Data Comments at 52; RMI Comments at 9). Moreover, multiple interested parties note that the reduction or elimination of line extension allowances is consistent with public utility commission decisions and legislative initiatives in several other jurisdictions, including California, Colorado, Minnesota, New York, Oregon, Washington, and Ontario (Advanced Energy United Comments at 3; Energy Futures Group Comments at 12-16; Groundwork Data Comments at 11; RMI Comments at 7).

## IV. DRAFT POLICY

As a further step in this proceeding, the Department seeks comments on the following draft policy.

Effective as of a date to be established in this proceeding, an LDC shall require a customer seeking an extension for new gas service to pay for the entire cost of connecting to the distribution system unless the circumstances qualifying for an exception, as set forth below, are present. Under this policy, the costs paid by a customer for a new service or line extension shall be booked to an LDC's CIAC account. No costs associated with a new service or line extension shall be deemed prudently incurred and, thus, eligible for inclusion in an LDC's rate base, unless the LDC demonstrates in a base distribution rate case or other proceeding that the circumstances described below are present.

As an exception to this general policy against line extension allowances, an LDC may provide a line extension allowance towards a customer's CIAC where: (1) the project associated with the proposed line extension allowance will lead to a demonstrable reduction in GHG emissions; (2) the gas line extension required for the project is consistent with achieving the GHG limits under Chapter 21N; and (3) the project applicant demonstrates that it has no feasible alternatives to the use of natural gas, including electrification. If these criteria are met, an LDC may opt to calculate a customer's CIAC using its existing internal rate of return models, provided that an LDC granting such exception will bear the burden of demonstrating, at the time that it seeks to include any costs associated with a new service or line extension in rate base, that: (1) the project met the criteria described above; and (2) the incremental costs to connect the customer do not exceed the estimated incremental revenues from the connecting customer, so that existing customers do not subsidize the cost of the extension of service.

## V. SOLICITATION OF COMMENTS

The Department welcomes comments replying to previously filed comments and on any aspect of the draft policy. Topics for comment may include the appropriate criteria for application of the exception to the policy, how to assess whether there are no feasible alternatives to the use of natural gas, the appropriate timing for instituting the policy prohibiting line extension allowances following the anticipated order, equity implications, and any labor and employment impacts.

Written comments responding to the stakeholder comments filed on or around October 11, 2024, may be filed no later than **Thursday, February 27, 2025**. Written comments on the Department's draft policy may be filed no later than **Thursday, March 13, 2025**. Written reply comments regarding the draft policy may be filed no later than **Thursday, March 27, 2025**.

All documents should be submitted to the Department in .pdf format by email attachment to dpu.efiling@mass.gov, and Hearing Officer Jennifer Cargill at jennifer.cargill@mass.gov. The text of the e-mail must specify (1) the docket number of the proceeding (D.P.U. 20-80); (2) the name of the person or company submitting the filing; and (3) a brief descriptive title of the document. All documents submitted in electronic format will be posted on the Department's website through our online File Room as soon as practicable (enter "20-80") at: https://eeaonline.eea.state.ma.us/DPU/Fileroom/dockets/bynumber.

After review of the comments and reply comments, the Department will determine what further process is appropriate. For further information regarding this Memorandum, please contact me at jennifer.cargill@mass.gov.