Case Studies: Gas Line Extension Allowances

Gas Line Extension Allowances: What are they?

When new customers want to connect to the natural gas system, utilities have typically been allowed to subsidize some or all of the costs associated with building the new infrastructure by passing those costs onto existing customers. The policies that allow this, known as line extension allowances (LEAs), are used in both the gas and the electric sectors, and rely on the logic that expanding the service area will provide benefits to all customers. The economic justification is that by distributing the fixed cost of utility operation among more customers and greater energy throughput, service rates will be lower for everyone.

A changing landscape for the gas system

Gas line extension allowances rely on continued expansion of the gas system to realize economic and public benefits, but that expansion is no longer a foregone conclusion. In fact, it conflicts with market trends and many local, state, and federal decarbonization goals.[i] As such, LEAs may be distorting the market, pushing customers towards choices that do not serve their long-term interests, and increasing stranded asset risk.

Gas line extension policies vary by state and require different pathways to reform. In states with statutory obligations to provide LEAs, like New York, there must be legislative change. In other states, LEAs may be reformed by amending utility regulations. Below are a variety of recent examples of states that have taken a critical look at their LEA policies:

California

On September 15, 2022, the California Public Utilities Commission (CPUC) issued a decision to eliminate gas LEAs effective July 1, 2023.[ii] The CPUC initiated this rulemaking proceeding in 2019 to support California's building decarbonization goals (Senate Bill 1477).[iii] In this proceeding, the CPUC found that eliminating LEAs would save ratepayers an estimated $164 million each year. Notably, CPUC staff stated in their proposed decision that “any new gas infrastructure is likely to become a stranded asset.”[iv]

An even more recent decision[v] pioneered the elimination of *electric* line extension allowances for mixed-fuel new construction that includes a fossil-fuel hookup, even if that hookup is paid for exclusively by the customer (effective July 1, 2024). The new rule introduces “actual cost billing” for electric line extensions to charge customers based on real, detailed expenses, covering direct, indirect, and overhead costs rather than estimated costs. To evaluate the subsidy removal's impact, the CPUC also approved a reporting requirement for California's three largest electric investor-owned utilities, beginning May 1, 2024.

Colorado

Colorado recently implemented significant changes to its gas utility regulations with the passage of Senate Bill 291 (2023).[vi] This legislative action includes the elimination of gas LEAs and a directive to the Colorado Energy Office to assess the risks of stranded gas infrastructure investments. These updates complement recent legislative and regulatory actions focused on creating clean heat plans (Senate Bill 21-264) and gas infrastructure plans (Docket No. 21R-0449G), as well as reshaping gas demand-side management programs (House Bill 21-1238).[vii]

New York

New York has a unique gas line extension policy called the "100-foot rule."[viii] Under New York statute, utilities are required to cover the cost associated with connecting a new gas customer if they are within 100 feet of the existing distribution system. To better align utility regulation with state climate justice and decarbonization goals, New York legislators introduced Senate Bill 2016 and Assembly Bill 4592 (2023), which, among other provisions, strikes the 100-foot rule from statute to enable the Public Service Commission to eliminate gas LEAs for new service. As of December 2023, the bill has passed the Senate but remains in Assembly Committee.[ix]

Washington

In September 2021, the Washington Utilities and Transportation Commission (UTC) solicited input from regulated natural gas companies and stakeholders on its current methodology for calculating natural gas LEAs. At the end of the process, the UTC updated its methodology to better align with the state's policy direction by halving the allowances, though complete elimination did not occur.[x] Subsequently, a year later, the UTC made more definitive moves in its rulings on Avista[xi] and Puget Sound Energy’s[xii] 2022 rate cases, mandating the complete elimination of gas LEAs by January 1, 2025.

Oregon

In response to Avista Corporation's rate revision request in 2023, the Oregon Public Utility Commission accepted a stipulation among the parties that phases out gas LEAs over four years.[xiii] The stipulation was supported by stakeholders including the Oregon Citizens' Utility Board, Environmental Advocates, and Commission staff.

Minnesota

Over the last two years, the Minnesota Public Utilities Commission has approved settlements in the rate cases of three major utilities – CenterPoint Energy, Minnesota Energy Resources Corporation (MERC), and Xcel Energy – that make changes to existing LEA regulations. CenterPoint, the largest gas and electric utility, reduced the "free footage" of main line extensions from 150 feet to 100 feet.[xiv] MERC's settlement involved a commitment to exploring line extension policies further via a study due within 12 months.[xv] Xcel Energy, in its settlement, reduced the free footage allowance for distribution main line extensions by 20 feet.[xvi]

Massachusetts

On December 6, 2024, the Massachusetts Department of Public Utilities (DPU) issued a decision directing the state's Local Distribution Companies (LDCs) to begin reviewing their tariffs, policies, and practices related to new gas service connections.[xvii] The review must determine 1) the number of free line extensions in practice, 2) whether the current policy generates enough financial benefits to cover future cost recovery, and 3) whether incentivizing new customers to join the gas systems is inconsistent with state policy.

Interested in learning more? For more information about gas line extension allowances, contact Sarah Steinberg at ssteinberg@advancedenergyunited.org or Meron Lemmi at mlemmi@advancedenergyunited.org.

[i] Clean Energy States Alliance, 2021, https://www.cesa.org/projects/100-clean-energy-collaborative/guide/table-of-100-cleanenergy-states/

[ii] California Public Utilities Commission, Docket No. 19-01-011. *Order Instituting Rulemaking Regarding Building Decarbonization*. September 15, 2022, https://app.insightengine.org/dockets/ca-r1901011/filings/17256337?version=beta&filing_search_id=1616704&document_id=167522262

[iii] California Legislature, Senate Bill 1477 (2022). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB1477.

[iv] California Public Utilities Commission, Docket No. 19-01-001. *Phase III Decision Eliminating Gas Line Extension Allowances, Ten-Year Refundable Payment Options, and Fifty Percent Discount Payment Option Under Gas Line Extension Rules*, p. 16. August 8, 2022, https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K876/496876177.PDF.

[v] California Public Utilities Commission, Docket No. 19-01-011. *Decision Eliminating Electric Line Extension Subsidies for Mixed-Fuel New Construction and Setting Reporting Requirements*. December 14, 2023, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M520/K709/520709181.PDF

[vi] Colorado General Assembly, Senate Bill 291 (2023). https://leg.colorado.gov/bills/sb23-291

[vii] Colorado General Assembly, Senate Bill 264 (2021). https://leg.colorado.gov/sites/default/files/2021a_264_signed.pdf; Colorado General Assembly, House Bill 1238 (2021), https://leg.colorado.gov/bills/hb21-1238

[viii] New York Public Service Law, Section 31, https://www.nysenate.gov/legislation/laws/PBS/31.

[ix] New York Senate Bill 2016A, 2023-2024, https://www.nysenate.gov/legislation/bills/2023/S2016/amendment/A.

[x] Washington Utilities and Transportation Commission. Docket No. UG-210729. *Order 01 Authorizing and Requiring Tariff Revisions*. October 29, 2021, : https://app.insightengine.org/dockets/wa-ug-210729/filings/16024042?version=beta&filing_search_id=1616701&document_id=163670804.

[xi] Washington Utilities and Transportation Commission. Docket No. UE-220053, *Final Order 10/04*. December 12, 2022, https://app.insightengine.org/dockets/wa-ue-220053/filings/18044686?version=beta&filing_search_id=1621712&document_id=169947761

[xii] Washington Utilities and Transportation Commission. Docket No. UE-220066, *Final Order 24/10*. December 22,2022, https://app.insightengine.org/dockets/wa-ue-220066/filings/17952130?version=beta&filing_search_id=1621770&document_id=169936608

[xiii] Oregon Public Utility Commission. Docket No. UG 461. *Order No. 23 -384.* October 26, 2023, https://app.insightengine.org/dockets/or-ug-461/filings/21816367?version=beta&filing_search_id=1621805&document_id=178734993 https://apps.puc.state.or.us/edockets/docket.asp?DocketID=23628.

[xiv] The Minnesota Public Utilities Commission. Docket No. G-008/GR-21-435. *Settling Parties - Settlement Document.* March 14, 2022,https://app.insightengine.org/dockets/mn-21-435/filings/16537706?version=beta&filing_search_id=1621836&document_id=165021599

[xv] The Minnesota Public Utilities Commission. Docket No. G-011/GR-22-504. *Order Accepting Agreement Setting Rates And Updating Base Cost Of Gas.* November 14, 2023,https://app.insightengine.org/dockets/mn-22-504/filings/21910538?version=beta&filing_search_id=1633819&document_id=178970611

[xvi] The Minnesota Public Utilities Commission. Docket No. G-002/MR-21-679. *Order Accepting Agreement Setting Rates And Updating Base Cost Of Gas.* April 13, 2023, https://app.insightengine.org/dockets/mn-21-679/filings/18027374?version=beta&filing_search_id=1621851&document_id=169880271

[xvii] The Commonwealth of Massachusetts Department Of Public Utilities Docket No. 20-80-B. *Order On Regulatory Principles And Framework.* December 6, 2023, https://app.insightengine.org/dockets/ma-20-80/filings/22073067?version=beta&filing_search_id=1633451&document_id=179472636