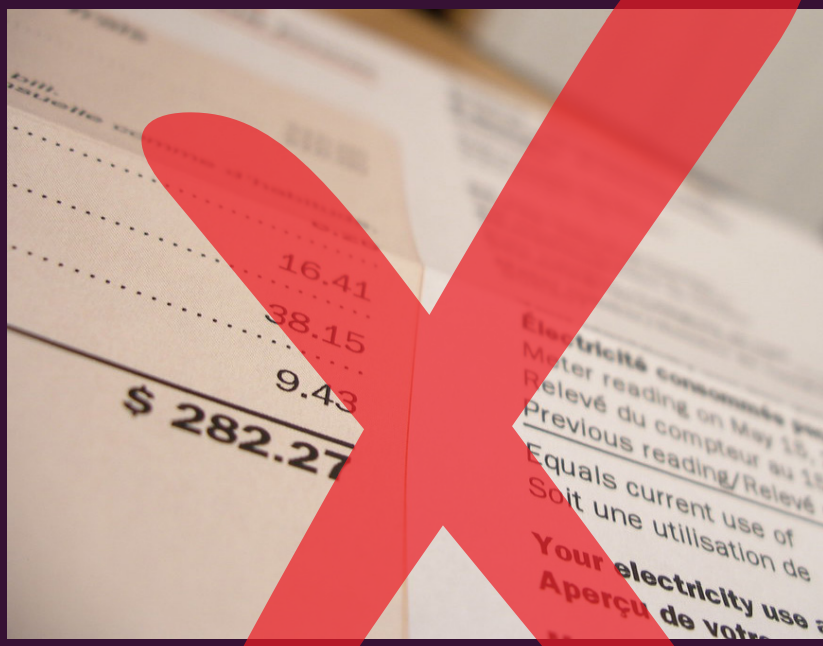
I-2066

would raise gas bills, harm families on low incomes

New analysis finds that **I-2066 could raise your gas bill by $150 or more** in the coming years.

Costs can be avoided with a well managed clean energy transition.



The following analysis was conducted by Climate Solutions. It is based on recent research and modeling that Climate Solutions hired Synapse Energy Economics (Synapse) to do examining the impacts of the clean energy transition on gas utilities and their customers. The research explored options to manage the gas system transition and minimize rate increases, and used data from Washington's largest utility, Puget Sound Energy (PSE), as a stand-in for all gas utilities operating in the state. "The utility" referenced throughout this analysis alludes to all business and financial traits of PSE.

Our analysis finds that **I-2066 could raise gas bills by $150 or more** in the coming years. We can avoid these costs and protect customers on low incomes with a well managed clean energy transition.

Utilities need to start planning for a managed, clean energy transition now.

A managed and timely transition—something made more challenging and costly should I-2066 pass—best protects customers and keeps rates the lowest over time. Utilities need tools as provided by the Washington Legislature and direction to begin thoughtful planning for this transition.

Customers on low incomes are the most vulnerable to rate increases if the transition to clean energy is unmanaged.

The last customers on the gas system will most likely be predominantly low-income in an unmanaged transition, and will experience sky-high gas rates due to poor planning. Clustered electrification programs will provide more clean energy options and will help manage gas rates for all customers. These programs should seek to transition low-income neighborhoods first and ensure households on low incomes can access the benefits of electrification. Utilities and policymakers must work together to best protect customers in the clean energy transition that is already underway.

Higher energy costs **do not** have to be part of the future for Washington families.

State law requires a significant reduction in climate pollution in all sectors, including buildings. Buildings are one of the biggest sources of climate pollution in Washington, primarily due to fossil gas use. **We must cut climate pollution from buildings to meet our science-based climate targets.** The transition to clean electricity has already started, and gas use is decreasing in Washington as people choose to upgrade their appliances and as new construction is increasingly all-electric. Managing this shift is critical for advancing social justice and protecting people from health and climate impacts.

Replacing fossil fuels with electricity reduces climate pollution by leveraging Washington's clean electric grid, which is on track to achieve 100% clean energy by 2045 under the Clean Energy Transformation Act (CETA). Additionally, the Climate Commitment Act (CCA) caps pollution from the state's largest emitters, supporting Washington's transition to a low-carbon economy. But this transition must be well-planned to protect customers. Gas consumption is declining and customers are already disconnecting from the gas system as they switch to electric. This departure is projected to continue and, unless the utility plans proactively, poses a financial risk to customers. Failure to align the revenue required to maintain the gas system with declining sales will lead to rate increases for the remaining gas customers – burdening households on lower incomes who are unable to afford the cost of switching from gas to electric appliances.

Background

What is a managed transition?

A managed transition is how the utility plans for the eventual departure of customers from the gas system to the electric system. By planning in advance, the utility can manage the size of its system and the retirement of its assets to avoid rate increases and inequitable outcomes.

The Synapse research modeled two actions to help achieve a managed transition: 1) accelerating depreciation and 2) using a clustered (also known as neighborhood, or geographically targeted) approach to electrification so that less-used sections of the gas system can be retired sooner.

Accelerated Depreciation

As Washington transitions away from gas, the economic lifespan of gas assets (such as meters, service lines, and mains) could shorten. Once gas assets are no longer needed for delivering gas, they are generally removed from service and the utility no longer recovers costs or earns returns on the remaining capital invested in those assets. Therefore, there is an incentive for utilities to recognize the trajectory of a declining gas system and align depreciation schedules with the predicted shortened lives, rather than continue business-as-usual and risk stranded assets.

Accelerated depreciation is a regulatory tool that allows utilities to recover costs more quickly from aging assets. Its use could result in near-term increased rates. However, this near-term increase—spread amongst many customers—is negligible compared to the alternative scenario (see Figure 1) in which the last customers remaining on the system will need to pay skyrocketing rates. Accelerated depreciation benefits low-income customers remaining on gas by limiting long-term rate increases. To protect customers, the utility should pursue accelerated depreciation in a planned way, paired with clustered electrification.

Clustered (geographically targeted) electrification

If electrification is scattered, all gas infrastructure (large pipes) must be maintained, increasing costs. In contrast, clustered electrification electrifies an entire geographic area at once, such as a street or the end of a cul-de-sac. This allows gas mains to be retired and reduces both operational and depreciation costs.

Unless current state law is changed, clustered electrification must be voluntary. Neighborhoods should be strategically selected based on gas network characteristics and electrification readiness. Neighborhood selection should also prioritize clustered electrification in low-income and disadvantaged communities to mitigate equity concerns, reach households who may be disproportionately energy burdened and impacted by long-term gas rate increases, and advance environmental justice by expanding access to clean, electric appliances.

If I-2066 were to pass, it will make utility planning much more difficult to achieve cost-effective clustered, or geographically targeted, electrification.

Accelerated Depreciation and Clustered Electrification must be paired for maximum impact.

For example, imagine the following scenario: In 2045, a main line serves gas to a single home at the end of a cul-de-sac after all the other homes have electrified. If clustered electrification is not utilized, the utility must pay to operate the main line despite serving just one house. The operational costs—once spread amongst many customers—will be paid for by the few customers remaining. If clustered electrification is used in conjunction with accelerated depreciation, the utility can plan to electrify the entire cul-de-sac, retire the line that is no longer cost-effective for customers early, and recover its costs earlier while there is a greater number of customers on the system.

The Utility "Death Spiral"

Utilities typically earn an approved rate of return on their investments that is recovered through customer rates. As more customers transition off the gas system, however, the remaining customer base shrinks and cost recovery is shared amongst fewer individuals. As a result, the last customers left on the gas system will face exponentially higher costs. This phenomenon is known as the utility death spiral.

Increasing gas bills, via the utility death spiral, will disproportionately harm gas customers on low incomes who may not be able to afford the full cost of an electric heat pump or face additional barriers in electrifying their homes. Households on low incomes, disproportionately BIPOC, are already overly impacted by pollution and should not be the last ones left on the gas system with high energy costs. Utility actions like accelerated depreciation and geographically targeted electrification, as well as low-income electrification programs, are paramount to mitigate this risk.

Research and analysis shows Washington utilities have the tools and resources in place to **keep costs low and protect customers** while meeting state law and continuing down the path to cleaner energy.

Washington's State Energy Strategy: A Timeline for Emissions Reductions

By law, Washington must achieve a 45% emissions reduction below 1990 levels by 2030, a 70% reduction by 2040, and a 95% reduction and net-zero emissions by 2050. The Washington State Energy Strategy, conducted by the Department of Commerce, found electrification to be the least-cost scenario to achieve emissions reductions throughout the economy. The modeling done by Synapse aligns with the State Energy Strategy.

Scenarios

The two scenarios below align with the State Energy Strategy. They differ in when and how the gas utility manages its transition through accelerated depreciation and clustered electrification.

Managed and Timely Transition (2025):

Beginning in 2025, the utility implements a plan for clustered electrification and all assets are assigned their expected lives for accelerated depreciation. This scenario is made possible by current policy, but it would be made much more challenging should I-2066 pass.

Unmanaged Transition (2050)

Electrification occurs at random across the utility's service territory. The utility gradually increases its depreciation rate to account for shifts in asset lives for service lines and meters. Mains continue to be used fully until all customers served by each main happen to have departed the system. Starting in 2050, the utility's financial accounts are updated to recognize the retirement and immediate depreciation of all meters, mains, and service lines that would otherwise be stranded. All remaining retiring assets are updated to short remaining lives (with high depreciation rates) and complete the transition to full retirement by 2064. If I-2066 passes, this is what we can expect to happen.

Research results

In all scenarios, rates are projected to increase because the revenue requirements will never decrease as quickly as sales decline. However, by **utilizing accelerated depreciation and clustered electrification, Managed and Timely Transition (2025) scenario results in the lowest and most stable rate trajectory.**

Beginning the Managed Transition in 2025 results in lower rates compared to other scenarios starting from 2031 onwards.

Beyond 2050, bills continue to rise gradually without further changes in the fuel blend.

Despite rising rates, average bills show a flatter trend in real terms due to declining gas consumption per customer. Individual households would likely experience rising bills initially followed by reductions as they weatherize, improve energy efficiency, or electrify. Households on low incomes will need assistance to transition off the gas system, via electrification readiness and electrification programs–both of which I-2066 removes from utility planning.

The Managed and Timely Transition (2025) case keeps average annual gas bills under $900 (in 2022$) into the 2040s, by which point fewer than one-third of customers remain on the gas system. Bills in the Unmanaged Transition (2050) case rise inversely to the number of customers, because the revenue requirement is not falling; average bills for this case pass $1,200 per year in 2044.

Figure 1. Residential delivery rate by scenario

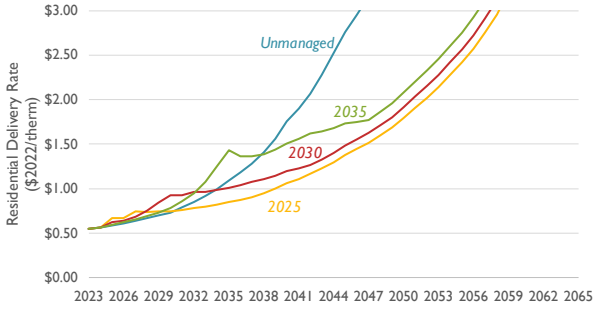
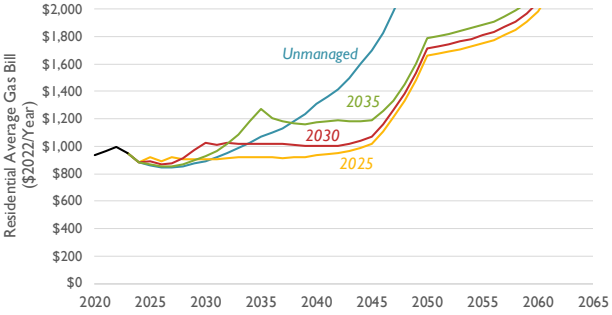


Figure 2. Residential average gas bills in each scenario through 2065



By 2035, the **average annual gas bill in the Unmanaged Transition is about $150 more** than in the Managed and Timely Transition. This cost gap only increases over time—by 2050, **gas bills in the Unmanaged Transition will be twice as high** as those in the Managed and Timely Transition.