



October 21, 2022

State of Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

Re: Investigation into the Future of the Regulated Gas Distribution Business in Rhode Island in Light of the Act on Climate, Docket No. 22-01-NG.

On behalf of RMI, we respectfully submit these initial scoping comments in Docket No. 22-01-NG.

About RMI

RMI is an independent, non-partisan, non-profit organization whose mission is to transform the global energy system to secure a clean, prosperous, zero-carbon future for all. Since our founding in 1982, we have grown to over 500 staff working on four continents with a global reach. Our initiatives include researching the business models, policies, technologies, and financing mechanisms necessary to decarbonize the buildings and power sectors and advance an equitable clean energy transition.

Introduction & Summary

Through opening this proceeding, the Rhode Island Public Utilities Commission (PUC) has recognized the need to reevaluate the status quo of utility regulation in light of ambitious climate legislation. Aligning gas utilities with state climate policy, if done well, unlocks a number of benefits for Rhode Island residents, including better health outcomes due to reductions in indoor air pollution,¹ reduced and less volatile energy bills,² and the achievement of Rhode Island’s emissions reduction targets. Realizing these benefits will require both policy and regulatory support to mitigate the risks of a disorderly transition and ensure an equitable distribution of the benefits of a decarbonized energy system.

RMI’s initial scoping comments respond to the Commission’s August 31 Notice to Seek Public Input on the Scope of Docket, which seeks stakeholder comment on the draft scope (Scoping Memo) prepared by PUC staff.³ Our comments make two main points, summarized below:

1. The proposed scope appropriately investigates the changes to utility regulation and the utility business model that are needed to align gas utilities with Rhode Island’s ambitious climate law.

¹ See, e.g., Brady Seals, “Indoor Air Pollution: the Link between Climate and Health,” RMI, May 2020, <https://rmi.org/indoor-air-pollution-the-link-between-climate-and-health>; Yu Ann Tan and Bomee Jung, *Decarbonizing Homes: Improving Health in Low-Income Communities through Beneficial Electrification*, RMI, 2021, <https://rmi.org/insight/decarbonizing-homes/>.

² Talor Gruenwald, “Reality Check: The Myth of Stable and Affordable Gas Prices.” RMI, November 2021, <https://rmi.org/the-myth-of-stable-and-affordable-natural-gas-prices/>.

³ Notice to Seek Public Input on the Scope of Docket, (“Notice to Seek Public Input”), Rhode Island Public Utilities Commission, Docket No. 22-01-NG, August 31, 2022, https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2022-09/2201-NG_FutureOfGas_PubLtr-8-31-22.pdf.



2. The Commission should strengthen this proceeding’s scope by investigating and developing tools to address customer impacts and equity considerations inherent to questions of “the future of the regulated gas distribution business.”⁴

1. The proposed scope appropriately investigates the changes to utility regulation and the utility business model that are needed to align gas utilities with Rhode Island’s ambitious climate law.

On the whole, Staff’s draft scope proposal thoroughly lays out the questions about utility regulation and the utility business model which will enable the Commission to evaluate the changes needed to bring gas utilities in line with the Act on Climate. In particular, in questions D.1-5, the Scoping Memo includes a thorough examination of the status quo of gas utility regulation and operations, including probing the current goals of the system, business-as-usual planning and regulation, cost and risk allocation, and regulatory principles:

- D.1. What are the goals of the gas system absent the Act and how were they developed?*
- D.2. What is the current business-as-usual status of the gas system?*
- D.3. What processes affect procurement of gas?*
- D.4. What processes affect investment in the gas system and spending on operation and maintenance?*
- D.5. What principles and policy does the PUC (and regulatory commissions generally) use in making decisions on procuring gas and spending on the system (including investment and O&M).⁵*

These questions are essential to informing stakeholders’ and the Commission’s understanding of how current decisions about the gas system are made that impact long-term investments and thus customers’ bills. Investigating these questions will help to make explicit the implicit assumptions and policy stances driving the status quo, making clearer which of these assumptions and policies are inconsistent with Rhode Island’s current climate policies and statewide emissions reduction targets.

The substance of questions D.10.a-g explores many of the regulatory tools essential to aligning utility regulation with emissions reduction targets:

- D.10. What mechanisms could be created that would enable decreased emissions from the gas system that are consistent with the Act?*
 - a) What programs can the PUC create to meet the emissions targets?*
 - b) What is RIE’s duty to serve?*
 - c) Can the PUC approve alternative technologies, commodities, or business practices and include cost-recovery in regulated rates?*
 - d) Can the PUC authorize RIE to construct, own, and operate district geothermal systems as an alternative to natural gas infrastructure as a distribution service to customers, regulated by the PUC?*

⁴ Draft Staff Recommendation for Public Comment, (“Scoping Memo”), Rhode Island Public Utilities Commission, Docket No. 22-01-NG, August 31, 2022, at 1, <https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2022-08/2201-FutureOfGas-StaffScope-Notice.pdf>.

⁵ *Id.* at 6.

- e) *Can the PUC employ alternative ratemaking to align RIE’s business model with the Act?*
- f) *Can the PUC alter other underlying revenue requirement factors, like capital structure and depreciation schedules and rules, in light of the Act?*
- g) *Can the PUC create a gas abandonment program?*⁶

However, rather than framing these questions in terms of what the Commission can or cannot accomplish, the Commission could instead start by asking what actions are needed in order for utilities to meet the requirements of the Act on Climate. Some of these steps may require the Commission to use specific regulatory tools to align the regulatory framework with the emissions reduction mandates of the Act on Climate. The Commission can then determine which of these tools are already within its authority and which will require further legislative guidance, as anticipated in questions D.14-16.⁷ Proceeding in this order will enable the Commission to take an expanded view of the tools that are needed to achieve the goals of decarbonization, rather than limiting the scope of potential actions.

In a similar vein, key questions currently scoped for the policy development phase should be answered prior to the scoping of the technical analysis. Questions about, for example, the regulatory values and goals of the gas system in light of the Act on Climate should be addressed first, in the policy analysis phase, as these goals and values can guide the answers to some of the technical analysis scoping questions. The goals and principles currently scoped to be identified in the policy development phase may significantly impact the inputs, scenario design, and essential metrics of the technical analysis. All technical analysis is subject to its framing and input assumptions, which are necessarily questions of policy. Should the stakeholder process identify goals and principles for the gas system that, for example, restrict the use of particular resources or prioritize investments for certain populations, these goals might inform a very different scope of technical analysis than what might be produced prior to the identification of such goals.

2. The Commission should strengthen this proceeding’s scope by investigating and developing tools to address customer impacts and equity considerations inherent to questions of “the future of the regulated gas distribution business.”⁸

Considering “the future of natural gas service” in the context of the PUC’s mandate to “provide fair regulation of public utilities [and]...ensure just and reasonable rates,” requires the Commission to investigate and develop tools to mitigate customer impacts, with particular attention to how those impacts are distributed across customer populations.⁹¹⁰ Specifically, a lack of Commission action to align utility regulation with climate laws would expose Rhode Island gas customers to a high and inequitably distributed risk of a utility death spiral, as better-resourced customers are able to realize the bill stability

⁶ Scoping Memo at 7.

⁷ “14. What updates to regulatory policy, rate design, and cost-recovery mechanisms are required to support stakeholders’ preferences? 15. What changes to support stakeholders’ preferences are not within the PUC’s jurisdiction? 16. What updates to statute are required to support stakeholders’ preferences?” *Id.* at 8.

⁸ *Id.* at 1.

⁹ Notice to Seek Public Input.

¹⁰ “Agency History,” State of Rhode Island Public Utilities Commission, <https://ripuc.ri.gov/general-information/agency-history>.



and air quality benefits of electrification, while customers with fewer resources are stranded on an increasingly unaffordable gas system. The Commission should therefore add to the Scoping Memo 1) a robust exploration of potential impacts to customers in the scope of the technical analysis; and 2) specific scoping questions to identify and develop policy and regulatory tools the Commission could use to equitably mitigate those impacts.¹¹

A comprehensive investigation of customer impacts within the technical analysis should include an assessment of the long-term rate and customer impacts of continued business-as-usual investment in the gas system. While the Scoping Memo asks about baselines for the gas system in terms of emissions, understanding the baseline for rate impacts and risks to customers is an essential component of the Commission’s investigation into the ‘future of natural gas service.’ Questions the Commission could add to the Scoping Memo to investigate and develop tools to address customer impacts include:

- Are there identifiable tipping points, in terms of the relationship of customer count or throughput to revenue requirement, at which the utility enters a feedback loop of declining revenues and escalating rates?
- What support, in terms of financing, programs, outreach, or otherwise, do low- and moderate-income customers need to decarbonize today, so as not to be left at risk of stranding on the gas system?
- What tools or strategies could the Commission use to identify priority areas or customer segments in which to target deployment of specific decarbonization solutions?
- What are the health impacts and savings associated with different strategies for reducing gas utility emissions? How are these impacts distributed across customers, particularly with respect to customers experiencing energy affordability challenges?
- What actions could the Commission, the utilities, or other actors take to improve the customer economics of decarbonization strategies?
- What actions could the Commission, the utilities, or other actors take to mitigate risks to customers, particularly those most vulnerable, as the transition unfolds?

Conclusion

We thank the Commission for engaging in such a thoughtful process to align gas utilities with Rhode Island’s ambitious emissions reduction targets, and for the opportunity to provide input on the scope of this investigation. A robust scope, strengthened by an explicit focus on customer impacts, will enable the development of the policy guidance the Commission and stakeholders need to meet the emissions reduction mandates of the Act on Climate. We look forward to participating in further phases of this proceeding.

Sincerely,

¹¹ While question D.13.c (“What are hard-to-quantify weaknesses and strengths, such as equity, inclusion, fairness, and socio-economic effect? Can weaknesses be mitigated (or strengths enhanced) through program design, cost allocation, or rate design?”) begins to explore these issues, the Commission can and should leverage the stakeholder process to help develop a more comprehensive set of solutions to address risks to customers identified through the technical analysis. Scoping Memo at 8.



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