



# OLR RESEARCH REPORT

July 26, 2013

2013-R-0282

## 2013 NATURAL GAS LEGISLATION

By: Kevin E. McCarthy, Principal Analyst

You asked for a summary of laws affecting natural gas passed this session.

### SUMMARY

Most of the 2013 legislation affecting natural gas is in [PA 13-298](#). This act requires the gas companies to develop plans to expand their distribution networks. The plans are subject to approve by the Department of Energy and Environmental Protection (DEEP) and the Public Utilities Regulatory Authority (PURA). The act expands the circumstances when all gas customers, rather than just new customers, pay for an expansion. It also requires DEEP, the Clean Energy Finance and Investment Authority (CEFIA), and the Energy Conservation Management Board (ECMB) to establish a pilot program in at least four municipalities to (1) provide incentives for customers targeted to convert to gas heating to install efficient equipment and improve the efficiency of their buildings at the time of conversion and (2) ensure that customers who cannot cost-effectively convert to gas are given incentives to install efficient equipment and improve the efficiency of their buildings. The act also requires ECMB and CEFIA, in consultation with the gas and electric companies, to establish a program to finance residential energy efficiency and renewable energy measures using private capital. The loans must be repaid on the gas or electric bills of participating customers.

In addition, [PA 13-119](#) modifies how often PURA must hold hearings on the purchased gas adjustment, which adjusts rates for changes in the gas companies' cost of buying gas on the wholesale market.

## [PA 13-298](#)

### ***Gas Network Expansions***

***Expansion Plan.*** The act requires the gas companies to jointly submit an expansion plan to DEEP and PURA. The plan must be designed to provide gas service to customers currently on and off distribution mains.

The plan must include, among other things, steps to:

1. expand the gas network,
2. increase cost-effective customer conversions to gas,
3. provide access to gas for industrial facilities to the greatest extent possible,
4. ensure the reliability of gas supply and its expansion in time to meet demand, and
5. adjust the pace of conversions to reflect changes in gas prices.

The plan must include:

1. a 10-year customer conversion plan and schedule;
2. outreach and marketing plans for each type of customer;
3. steps the companies will take to reduce conversion costs;
4. strategies for procuring (pipeline) capacity and leveraging outside investment to finance equipment replacement and main extensions for new customers;
5. a plan to synchronize infrastructure replacement with steps to reduce leaks from existing lines;
6. measures to encourage customers targeted for conversion to install efficient equipment and improve their building's energy efficiency when they switch fuels; and

7. proposals for rate design changes, including a description of the rate impacts of these changes and specific cost recovery mechanisms for each customer segment.

Once the plan is filed, PURA can approve new rate mechanisms to recover its costs for an individual company.

**Plan Approval.** The act requires the DEEP commissioner to review the plan and make a preliminary determination as to whether it is consistent with the goals of the comprehensive energy strategy within 30 days of receiving the plan. If he determines that the plan is consistent with these goals, PURA must approve or modify the plan. PURA must do this after holding a public hearing, within 120 days after the plan is submitted to PURA.

**Cost Recovery.** Under current practice, when a gas company seeks to expand its distribution system, it determines whether the distribution revenues the expansion will produce will equal or exceed the cost of the expansion over a specified period (15 years for Yankee Gas Services and 20 years for Connecticut Natural Gas and Southern Connecticut Gas). If the expansion will pay for itself in this period, all gas ratepayers pay for it in rates. If it does not, the benefitted customers must pay for the shortfall.

The act instead requires PURA to use a 25-year timeframe to make this analysis in implementing the expansion plan. As part of its analysis, PURA must develop a method to account for revenues that would be collected from new customers who plan to switch to gas over a period of least three years within a specific area. These provisions have the effect of expanding the circumstances when all gas customers, rather than just new customers, pay for an expansion.

The act also requires PURA to:

1. establish a new rate for new customers added under the expansion plan to offset the added costs of expanding gas infrastructure and
2. establish a mechanism for the companies to recover their prudent investments under the approved plan outside of a rate case, that must consider the additional revenues they will generate by implementing the plan.

The act requires PURA to reallocate part of the revenue gas companies earn from serving their interruptible customers to partially offset the costs of the expansion.

### ***Fuel Switching and Efficiency Pilot Program***

The act requires DEEP, CEFIA, and ECMB to establish a pilot program in at least four municipalities to:

1. ensure that potential customers targeted for conversion to gas are given incentives to install efficient equipment and improve the efficiency of their buildings at the time of conversion,
2. ensure that customers who cannot cost-effectively convert to gas are given incentives to install efficient equipment and improve the efficiency of the building envelope, and
3. provide access to low-cost financing for gas conversion or efficiency upgrades.

The program must use a community-based marketing campaign and a competitive solicitation for volume pricing on high efficiency heating equipment and insulation in coordination with the electric and gas companies.

The program ends on December 31, 2014. Thereafter, DEEP may evaluate the results of the program and determine whether to reestablish the pilot program or establish a permanent program.

### ***On-Bill Financing Program***

The act requires ECMB and CEFIA, in consultation with the gas and electric companies, to establish a program by April 1, 2014 to finance residential energy efficiency and renewable energy measures using private capital. The loans must be repaid on the gas or electric bills of participating customers.

The program must, among other things:

1. establish a process to determine which measures qualify for it;
2. rank measures based on their cost-effectiveness;

3. help participating customers obtain incentives, other cost savings, and financing for the measures, including gas heating equipment that is Energy Star rated and oil and propane equipment that is at least 84% efficient;
4. finance the measures so that the repayment term does not exceed their average expected life; and
5. provide that the repayment, added to the customer's utility bill after installation, is no more than the original utility bill.

Under the program, if the customer does not repay his loan, his utility service can be shut off. This provision does not apply if the customer has a pending complaint, investigation, hearing, or appeal challenging the accuracy, terms, or related issues regarding the loan.

In addition, the program must:

1. establish program guidelines to address the ramifications of on-bill repayment and the risks of service disconnections for low-income and other hardship customers;
2. require that the billing and collection services be available whether the energy or fuel the utility delivers is the customer's primary energy source;
3. generally require that the repayment obligation be assigned to subsequent property owners once ECMB and CEFIA develop guidelines regarding timely notice to the new owner.

These three guidelines are subject to PURA review and approval. The review, an uncontested proceeding, must begin when the guidelines are filed with PURA and is considered complete no more than 90 days after the filing.

## **OTHER LEGISLATION**

By law, PURA can approve a purchased gas adjustment clause for gas companies, which adjusts rates for changes in the gas companies' cost of buying gas on the wholesale market. Prior law required PURA to hold a public hearing once every six months to determine if the charges or credits made under the adjustment clauses reflected actual prices. [PA 13-119](#) decreases the hearing frequency to once every year, but also requires PURA to hold a hearing upon the Office of Consumer Counsel's application. Under existing law, unchanged by the act, PURA can also hold such a hearing whenever it deems it necessary.

KM:ro