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AOBA
— APARTMENT AND OFFICE — BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

June 26, 2020

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: Formal Case No. 1142
In the Matter of the Merger of AltaGas Ltd. and WGL Holdings, Inc.

Dear Ms. Westbrook-Sedgwick:

Enclosed for filing is the **Comments** of the Apartment and Office Building Association of Metropolitan in response to AltaGas, Ltd Merger Term Nos. 6 and 79 filed on March 16, 2020, in the above-captioned proceeding.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call me at (202) 296-3390. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esquire

cc: All parties of record

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BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF	*	
	*	**FORMAL CASE NO. 1142**
THE MERGER OF ALTAGAS LTD.	*	
AND WGL HOLDINGS, INC.	*	

COMMENTS OF THE APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

The Apartment and Office Building Association of Metropolitan Washington, ("AOBA"), pursuant to the Commission's March 18, 2020 Order No. 20310, hereby files these Comments in response to the March 16, 2020 AltaGas Ltd"s ("Company") Merger Term Nos. 6 and 79 ("Climate Business Plan" or "CBP") required by the Commission's June 29, 2018 Order No. 19396 which approved the merger Settlement Agreement with conditions.

I. SUMMARY

The merits of the Company's Climate Business Plan will be determined consistent with CleanEnergy DC Omnibus Amendment Act of 2018 ("CleanEnergy DC Act" or "Act") energy and environmental climate change mitigation mandates that requires the Commission in regulating public utilities to consider, among other issues, their "effects on global climate change and the District's public climate commitments."[1] In Order No. 20364, "The Commission affirms its commitment to address the District's mandate for a clean energy future by ensuring that the utilities we regulate act in

[1] *Notice of Inquiry*, GD2019-04-M, *In the Matter of the Implementation of the 2019 Clean Energy DC Omnibus Amendment Act Compliance Requirements* at 1,¶1 (September 26, 2019).

accordance with the District's energy and climate change commitments that facilitate a reduction in the District's GHG emissions by 50% below 2006 levels by 2032, achieve carbon neutrality by 2050, reduce energy use by 50% by 2032, and increase the use of renewable energy to 100% of the supply by 2032."[2]

AOBA submits that a critical assessment of the Company's Climate Business Plan requires (1) assessment of a number of interrelated issues, (2) integration of various pending dockets, and (3) and an evidentiary hearing process to comprehensively investigate the Company's proposal in response to the CleanEnergy DC Act energy and environmental climate change mitigation mandates and the merger Settlement Agreement Terms 6 and 79 approved by the Commission in the June 29, 2018 Order No. 19396, Appendix A.

If the Company's natural gas distribution operations in the District are to be sustained, WGL faces large financial commitments.[3] Although WGL's current District of Columbia rate base is only about $0.525 billion, the Company could face capital expenditures for safety and climate related investments totaling more than $7 billion. That is thirteen to fourteen times WGL's current DC rate base. WGL can be expected to encounter requirements for:

- $3.4 billion in 2021 dollar terms (i.e., without allowance for inflation) for its replacement of very old and leak prone cast iron mains-PROJECT*pipes*[4]

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2 Formal Case No. 1130, Order No. 20364 at 27, ¶88.

3 The Commission has also committed ratepayers to billions more in financial commitments for electric distribution services involving grid modernization and Pepco's transformation as a provider of electricity sourced 100% from renewable energy.

4 Formal Case Nos. 1115,1142,and 1154, Exhibit AOBA (A)- 5, filed June 15, 2020, with costs for bare steel main replacement included the total pipe replacement investment required in 2021 dollars is approximately $3.6 billion. This is consistent with the $3 billion to $ 4.5 billion range of costs cited by DC witness Yim. Formal Case Nos. 1115,1142,and 1154, The Direct Testimony of DCG witness Yim, Exhibit DCG (A), page 11, line 11.

- $3.8 Billion - CBP minimum costs[5]

Any credible business plan for WGL's District of Columbia distribution system must address the economic and financial trade-offs the Company will face as it attempts to balance safety and climate concerns. Unfortunately, WGL's substantial backlog of pipe replacement activity for safety reasons[6] may greatly impede its ability to financially support the District's climate goals.

The Company's ICF study recommendations are based upon various regulatory, financial, generation and distribution assumptions, which form the basis of the Company's CBP recommendations, seem at odds with the limits of the ICF study:

> This study was not designed, or intended, to address all the potential issues or alternatives to meeting the District of Columbia policy objectives, nor the region-wide issues and implications of emission reduction policies. The study did not attempt to optimize costs or find the most efficient emissions reduction strategy. Instead, the study was designed to highlight different emissions reduction approaches and strategies capable of meeting the District of Columbia policy objectives and to identify the potential trade-offs, costs, and equity implications of the different approaches.[7]

The Company's CBP was based upon the results of four different scenarios modeled in the ICF study that "reflect the District's requirement to have 100 percent of the District's electricity usage come from renewable generation by 2032:"

> Scenario 1, **Business as Usual (BAU)**, is used as a reference case against which to compare all other scenarios. Based on the 100 percent renewable portfolio standard (RPS), GHG emission reductions in 2032 and 2050 are approximately 73 percent to 75 percent relative to 2006.

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5 CBP at 41. The Company's recommended Fuel Neutral Decarbonization scenario projected cost to ratepayers is $3.8 billion, "Not including costs for offsets required for the last 6.5% of overall District emissions in 2050." *Id.* CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 13.

6 As AOBA Witness Bruce Oliver has documented in Formal Case Nos. 1115, 1142, and 1154 (Exhibit AOBA (A), June 15, 2020.) WGL did less over the last decade to replace old cast iron gas distribution mains than any other major gas utility in the U.S.

7 CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 1.

Scenario 2, **Partial Decarbonization**, uses BAU case as its foundation, with additional penetration of EVs, increased energy efficiency and modest decarbonization of gas supply including introduction of RNG and certified gas. It achieves additional GHG emissions reductions (82 percent) associated with those actions by 2050.

Scenario 3, **Policy-Driven Electrification**, uses the BAU case as its foundation, reaches net zero carbon emissions in the District in 2050 by requiring existing homes and businesses using natural gas to convert to electricity and banning natural gas for all new construction. It also reflects aggressive market penetration of electric vehicles and relies on a small volume of carbon offsets.

Scenario 4, **Fuel Neutral Decarbonization**, uses the BAU case as its foundation, reaches net zero carbon emissions in the District in 2050 by including significant actions to decarbonize the natural gas supply through the introduction of RNG, certified gas, and green hydrogen. As described in the preceding sections, it leverages expected improvements in technologies, aggressive energy efficiency programming for residential and commercial buildings, as well as hybridized dual fuel approaches. It also includes aggressive market penetration of electric vehicles and relies on a small volume of carbon offsets.[8]

For the reasons discussed in the ICF technical study summary, [9] the Company determined that the Fuel Neutral Decarbonization scenario best serves the public interest and ratepayers in achieving the energy and environmental mandates of the District of Columbia.[10]

According to the Company, notwithstanding the scope of the ICF study, "The outputs of the scenario models demonstrated that a Fuel Neutral Decarbonization approach provides the most affordable and flexible framework for meeting the District's climate goals through expeditious measures that also meet the District's needs for safe and reliable energy."[11] The Company also claims that "*Importantly, the*

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8 CBP at 21.

9 CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area*, Appendix E, ICF Technical Study Summary.

10 CBP at 7, "The outputs of the scenario models demonstrated that a Fuel Neutral Decarbonization approach provides the most affordable and flexible framework for meeting the District's climate goals through expeditious measures that also meet the District's needs for safe and reliable energy."

11 CBP at 7.

cost to implement the plan saves an estimated $2.7 billion as compared to approaches that rely solely on electrification, while enhancing the reliability of energy to the District's energy consumers."[12] The Company' argues that:

> A Fuel Neutral Decarbonization approach is also most compatible with the seven key factors identified in the DC PSC's Vision for modernizing the District's energy delivery system; namely that it be: (1) sustainable, (2) well-planned, (3) safe and reliable, (4) secure, (5) affordable, (6) interactive, and (7) non-discriminatory. To ensure further alignment with the needs and desires of District stakeholders, the company is conducting ongoing stakeholder outreach, including meetings and surveys, to solicit their input and inclusion in the ongoing process.
>
> The Plan, developed based on the Fuel Neutral Decarbonization scenario, contains recommendations to reduce GHG emissions from (a) end-use; (b) transmission and distribution; and (c) sourcing and supply.[13]

As proposed in the estimated $3.8 billion Fuel Neutral Decarbonization scenario preferred by the Company, in 2032 at least 87% and in 2050 at least 69% of gas following through the Company's pipeline infrastructure will be comprised of fossil fuel natural gas.[14] Under the Fuel Neutral Decarbonization scenario, at best only 17% in 2032 and 31% in 2050 of energy flowing through the Company's pipes will be derived from renewable energy sources.[15] In addition, significant components of the 100% net neutral decarbonization the Company promises will occur by 2050 under the Fuel Neutral Decarbonization scenario is dependent upon declining use of natural gas, ongoing building energy efficiency, technological developments and reductions in methane gas leaks.[16] Furthermore, the Company's recommendation is made while acknowledging that a study from the Rocky Mountain Institute is required in order "to

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12 CBP at 2.
13 CBP at 7.
14 CBP at 9, Detailed Estimated Climate Business Plan Emissions Reductions.
15 *Id.*
16 *Id* at 8-20.

validate emissions reductions" projected in the Company's "Building Blocks of Decarbonization."[17]

Core issues that must be decided are: 1) Is the Company's CBP consistent with the District of Columbia's mandates that energy consumed in the District originate from renewable energy sources, and not fossil fuels, in order to meet the environmental decarbonization goals of the City? 2) Can ratepayers afford to finance simultaneously electricity and natural gas utility decarbonization transformations? 3) Are ratepayers responsible for ensuring the continued existence of a utility company that markets energy primarily sourced from fossil fuels and, if so, at what cost? and 4) should the District of Columbia begin the transition from natural gas sourced from fossil fuels to electrification in order to (a) meet the City's environmental decarbonization mandates, (b) prevent costly further investments in pipeline replacement infrastructure which is likely to become stranded investments, and (c) increase investments in renewable energy sources and technology in furtherance of energy and environmental mandates to dramatically reducing human contributions to climate change created by global warming?

The Commission's October 28, 2018 testimony of former Commission Chair Kane, before the District of Columbia Council, on the Clean Energy DC Omnibus Amendment Act of 2018, Bill 22-904, reflected a growing concern regarding the costs to ratepayers of financing government mandates, and the financial limits of all ratepayers to meet legal, public policy and regulatory demands, regardless of merit. Then Commission Chair Kane remarked:

> In the bigger picture, the Commission also urges the Council to take a serious look at sources other than gas and electric ratepayers as the

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17 CBP at 3.

captive source to pay for meeting climate change and sustainability initiatives.[18] Unfortunately, except for a new tax on fuel oil, and a potential change in the excise tax for clean fuel vehicle registration, all of the new required costs of Bill 22-904 would be financed through surcharges, fees and REC purchases that are imposed on the energy distribution and energy supply bills paid by DC ratepayers.

We cannot keep going back to ratepayers and piling more and more mandatory charges on top of their bills—ratepayers are not a bottomless source. This burden also competes with the need to pay hundreds of millions of dollars for significant investments in reliability and modernization, including the DC PLUG that is putting key electric feeders underground and the Project Pipes which is replacing aging gas mains and connections, as well as critical ongoing maintenance and repairs; changes to safely service electric vehicles and public transportation; and technology and upgrades to continue to accommodate increased distributed energy generation and two-way interconnection. All of these projects will of course continue to receive full review and consideration by the Commission to determine the need and the most cost-effective method of achieving them. But there are limits. The electric transformers have to work and the gas pipes can't leak.[19]

The question the Commission must address in this investigation of the Company's CBP Fuel Neutral Decarbonization plan (with an initial price tag of $3.8 billion), and any alternative proposals, is does the data, the science, the law, the cost-benefit analysis, and the limits of rate increases that ratepayers can absorb, support an order in favor of decarbonization of WGL's fuel mix, including incorporating RNG? Additionally, the Commission must decide whether the decarbonization of WGL is in

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[18] For example, in a letter dated March 12, 2020 to Mayor Bowser from a diverse group of organizations and businesses expressed "strong support for the draft Memorandum of Understanding on the Transportation and Climate Initiative (TCI)" among nine states and the District of Columbia that would implement a region wide carbon pricing system focused on reducing pollution from the transportation sector. The "TCI would establish a regional cap on carbon emissions while auctioning emissions allowances. Proceeds from the TCI allowance sales would be sent back to the states and used for programs that allow consumers to avoid paying higher fees at the gas pump - electric vehicle (EV) incentives, public transit, rural broadband to support telecommuting and telemedicine, and more." *See Employer Support for Regional Proposal for Clean Transportation* (March 12, 2020), https://www.ceres.org/sites/default/files/DC_2020%20TCI%20Employer%20Support%20Letter.pdf.

[19] Report on Bill 22-904, the *Clean Energy DC Omnibus Amendment Act of 2018*, Testimony of Commission Chair Kane at 11, (October 29, 2018)(emphasis added), https://dcpsc.org/CMSPages/GetFile.aspx?guid=5a2d890a-f1da-42a8-a70c-2852ac180d12.

the public interest, or is an orderly transition of ratepayers from FNG to electrification or some form of reasonable and cost-efficient use of the natural gas infrastructure for other purposes in the public interest.

In Formal Case Nos. 1130 and 1155, the Commission's August 2, 2019 Order No. 19983 expressed concern regarding the costs to ratepayers of infrastructure programs stating, "Further, as a regulator, the Commission must be cognizant of program costs for achieving policy goals ...."[20] AOBA submits that the Company's estimated $3.8 billion CBP Fuel Neutral Decarbonization scenario requires careful scrutiny. AOBA submits that an evidentiary hearing process is clearly necessary in order to thoroughly investigate the Company's CBP, ICF study, and estimated $3.8 billion CBP Fuel Neutral Decarbonization scenario, as well as alternative proposals.

A. An Appropriate Washington Gas Climate Business Plan Must Integrate Safety Concerns with Climate Concerns and CleanEnergy DC Act Requirements

AOBA submits that this Commission must evaluate Washington Gas' proposed $3.8 billion CBP Fuel Neutral Decarbonization plan in conjunction with both CleanEnergy DC Act requirements and safety concerns. The Combined costs of WGL's CBP Fuel Neutral Decarbonization and its pipe replacement requirements are substantial and must be addressed concurrently in a coherent, consistent and financially manageable business plan. It makes no sense to invest in fuel neutral decarbonization for a system that cannot be operated with reasonable safety.

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[20] Order No. 19983 at 9, ¶16 (August 2, 2019).

While it is important to focus on the environmental impacts of increased leaks from Washington Gas' distribution system and the effect of such leaks with the attainment of the District's CleanEnergy DC Act goals, any long-term Climate Business Plan for Washington Gas must also address the affordability of the Company's gas distribution services for ratepayers in the District taking all of these costs into consideration. The costs of maintaining the safety of Washington Gas' distribution system may have a much more dramatic impact on the future use of natural gas by residents and businesses in the District than environmental considerations. Overall, Washington Gas' has demonstrated that it cannot ensure the safety of its gas distribution system in the District of Columbia while keeping its rates for gas service in the District at affordable levels, even without the additional costs of its proposed CBP.[21]

As has been well-documented, the Washington Gas system has major on-going leak problems. The number of miles of mains WGL replaced on an annual basis has declined, and the numbers of **hazardous leaks** on the Company's distribution system in the District of Columbia have **increased significantly**. In fact, Washington Gas' Cast Iron main replacement record in the District since 2010 ranks as the **worst in the industry**.[22] Over the period from 2010-2019, hazardous leaks per 100 miles of mains and hazardous leaks per 1,000 services on the Company's distribution system have both more than doubled. For WG's District of Columbia distribution mains, **hazardous** leaks have increased from 18.8 leaks per 100 miles of mains in 2010 to **41.8** hazardous leaks per 100 miles of mains in 2019 (i.e., an increase of

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21 Formal Case Nos. 1115, 1142, 1162, AOBA (A) page 8.
22 Formal Case Nos. 1115, 1142, 1162, AOBA (A) page 5.

122%).[23] Hazardous service leaks in the District have increased from 2.2 per 1,000 services to 5.02 per thousand services (i.e., an increase of 131%).[24] AOBA submits that WG's continuous and growing leak problems and the enormous costs of its Project*pipes* Plan must be part of, not an adjunct to, this Commission's considerations relating to an appropriate Business Climate Plan for WG's District of Columbia distribution system. Again, the combined rate impacts of required safety and climate investments are substantial and must not be overlooked. Furthermore, the magnitude of those investments threatens the economic viability of the very system they are intended to sustain.

II. MERGER SETTLEMENT AND THE CLIMATE BUSINESS PLAN

The merger Settlement Agreement Term No. 6 required the Company to finance an independent study that would investigate the following:

> The study will assess the potential environmental benefits of repurposing locally sourced waste streams into pipeline quality renewable gas, compressed natural gas and/or liquefied natural gas that can be used for carbon neutral vehicle fueling and onsite energy production. The study will evaluate the economic viability, identify operating challenges and solutions, and offer recommendations relating to regulatory and market approaches that can facilitate the utilization of renewable sources to support the achievement of local, state, and regional climate and energy plans. This study will be a single study funded by AltaGas with respect to all of the Washington Gas service territories and will be commenced within one year after Merger Close.[25]

The purpose of the study required by merger Settlement Agreement Tern No. 6 was the requirements of Term No. 79 of the Settlement Agreement:

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[23] Washington Gas Annual Reports to the Pipeline and Hazardous Materials Safety Administration ("PHMSA") for its District of Columbia distribution system for the years 2010 – 2019.

[24] Ibid.

[25] Order No. 20310, (March 18, 2020), *citing* Order No. 19396 (June 29, 218).

> By January 1, 2020, AltaGas will file with the Commission a long-term business plan on how it can evolve its business model to support and serve the District's 2050 climate goals (e.g., providing innovative and new services and products instead of relying only on selling natural gas). After the business plan is filed, AltaGas will hold bi-annual public meetings to report on and discuss its progress on the business plan.
>
> The Company's Climate Business Plan is summarized as follows:
>
> > AltaGas Ltd., with its subsidiary Washington Gas Light Company (Washington Gas), is proud to submit a comprehensive Climate Business Plan (the Plan) designed to serve as a bold blueprint to achieve carbon neutrality in support of the District of Columbia's long-term climate goals. The Plan achieves a 50 percent greenhouse gas (GHG) emissions reduction associated with the use of natural gas by 2032 and 100 percent carbon neutrality associated with the use of natural gas by 2050.
> >
> > The core tenets of the Plan's three-pronged approach will maximize energy efficiency programs as well as leverage our existing, vast and reliable energy infrastructure system to deliver not only natural gas but also forward-looking fuel sources like biogas and 'green' hydrogen as part of a broader portfolio mix of energy supply. Importantly, the cost to implement the plan saves an estimated $2.7 billion as compared to approaches that rely solely on electrification, while enhancing the reliability of energy to the District's energy consumers.
> >
> > The Plan is not only a part of AltaGas' commitment made with the Public Service Commission of the District of Columbia (DC PSC) during its proceedings to approve AltaGas' acquisition of Washington Gas in July 2018, but continues to demonstrate our long-standing efforts to address the issue of climate change.[26]

A centerpiece of the Company's CBP is the continued use of fossil fuel natural gas ("FNG"). Regarding the use of renewable natural gas ("RNG") as a component of the Company's fuel mix, "Relative to the Greater Washington, D.C. metropolitan area, local RNG resources could displace up to 33% of natural gas consumption in the Achievable scenario, without accessing any potential RNG resources from outside the immediate region."[27] The use of what the Company describes as "forward-looking

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[26] CBP at 2.

[27] CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area at 2* (March 2020).

fuel sources like biogas and 'green' hydrogen as part of a broader portfolio mix of energy supply"[28] is either in short supply, will require construction of expensive facilities, will compromise only a small component of the gas supply,[29] and in any event will be an expensive ratepayer burden.[30] Furthermore, the Company seeks regulatory relief in order to meet the promises of the CBP.[31]

The CBP also states in the Company's "Building Blocks of Decarbonization" that projected emission reductions from certified gas[32] are "Pending study with Rocky Mountain Institute to validate emissions reductions."[33] The Company later states that "Efforts to reduce methane emissions during the sourcing of traditional natural gas are also underway. The most practical near-term option is to arrange physical procurement of certified natural gas via third parties. Washington Gas is currently in

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[28] Gas for Climate Consortium, *Gas Decarbonisation Pathways 2020–2050 Gas for Climate* (April 2020). The Consortium consists of ten natural gas companies responsible distribution of 75% of natural gas consumed in Europe and two RNG trade groups, who collectively submit that net zero greenhouse gas emissions is achievable in the EU by 2050 by utilizing renewable and low carbon gas distributed through existing gas infrastructure, at the lowest possible costs and maximum benefits for the European economy, Download "Gas Decarbonisation Pathways"; Navigant, *Gas for Climate. The optimal role for gas in a net-zero emissions energy system* (March 2019), https://gasforclimate2050.eu/wp-content/uploads/2020/03/Navigant-Gas-for-Climate-The-optimal-role-for-gas-in-a-net-zero-emissions-energy-system-March-2019.pdf.

[29] CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 115-140.

[30] The RNG projected costs in the ICF report provided "Financing costs, including carrying costs of capital (assuming a 60/40 debt/equity ratio and an interest rate of 7%), an expected rate of return on investment (set at 10%), and a 15-year repayment period." CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 67. Additional financial data is discussed throughout the ICF Study. *Id.* at 67-80.

[31] "Faced with varying pressures to decarbonize, utilities need cost-recovery mechanisms for RNG procurement or investments. In particular, natural gas utilities will need a regulatory structure that provides cost recovery for the incremental costs of RNG, interconnection facilities and equipment for RNG to comply with gas quality specifications and standards, and investment in larger facilities such as pipelines and premium gas production, supply facilities, and pipeline capacity costs that would support and facilitate the development of RNG." CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 67. Additional financial data is discussed throughout the ICF Study at 128.

[32] Certified gas is natural gas certified as produced from industry best practices. *See* CBP at 21; CBP, ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area*, Appendix E, ICF Technical Study Summary at 8, "Current efforts by the natural gas industry to reduce emissions include certification of gas produced using industry best practices to reduce emissions."

[33] CBP at 3.

talks to collaborate with the Rocky Mountain Institute and others to quantify GHG emissions reductions from gas supply produced by best practice companies."[34] It is apparent that the Company's engagement with the Rocky Mountain Institute for further study of the Company's CBP is tenuous. What is clear, based on the Company's own statements, is that the Company's CBP is incomplete.

III. BETWEEN A ROCK AND A HARD PLACE - NEXT STEPS

The future of natural gas, in the context of meeting the District's environmental and climate goals, is an important issue for natural gas and electric ratepayers, as well as for those responsible for the City's clean energy transition. **This forward-looking transition must determine if there is a cost-effective future use of natural gas and renewable alternatives in the District of Columbia, focusing on implications for, and strategies to protect, ratepayers from rising energy costs and the adverse consequences of stranded utility investments.** Additionally, the ongoing health, economic and financial effects of the Covid-19 pandemic will impact the District of Columbia, residents and businesses as the City navigates a recovery, and determines whether ratepayers can afford to finance the estimated $3.8 billion cost of the energy transformation proposed by the Company in its CBP. Of course, the cost of the CBP must not be looked at in a vacuum, but rather in conjunction with all of the other infrastructure costs WG and Pepco ratepayers are and will be asked to bear.

AOBA supports cost-effective infrastructure proposals that ensure that ratepayers share equitably in the financial risks and benefits of approved projects.

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34 CBP at 20.

Our position is not intended to impact protected residential ratepayers, such as low-income customers, senior citizens, the disabled living on fixed incomes and others, who meet the Commission's income-based requirements in order to ensure access to affordable utility services and the goods and services derived from implementation of Commission approved mandates.[35]

AOBA strives to use the best information available to provide insights about how the Commission's decisions made today could affect future energy, environmental and climate change outcomes and costs in the District of Columbia. These Comments are intended to express AOBA's recommendations on next steps toward achieving the clean energy transition mandated in the CleanEnergy DC Act and any future climate change directives.

AOBA submits that there are a number of critical issues to be considered in the Commission's investigation of the Company's proposed CBP. WGL's CBP concludes that "In many instances, policymakers, corporations and RNG stakeholders may not be recognizing the complete benefits of RNG due to a limited assessment and reporting scope. In addition, the cost-effectiveness of RNG as an emission reduction measure is generally underestimated and underappreciated, particularly in comparison to other mitigation approaches over the long term and in a deep decarbonization policy environment."[36] However, AOBA submits that the Commission must decide whether the Company's CBP Fuel Neutral Decarbonization scenario is supported by the data and science. Additionally, the Commission must determine if

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35 *See* DC PSC Low-Income Discount Programs & Seniors and Disabled Residents Credit, https://dcpsc.org/Consumers-Corner/Programs/Low-Income-Discount-Program.aspx.

36 CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 81 (March 2020).

the projected initial cost of $3.8 billion is just and reasonable, in the public interest, and consistent with the evolving energy and environmental policies and mandates, considering declining demand and the legal and regulatory commitments to renewable energy sources, energy efficiency, and electrification in meeting decarbonization mandates.

A. California Energy Commission - The Challenge of Retail Gas in California's Low-Carbon Future Technology Options, Customer Costs, and Public Health Benefits of Reducing Natural Gas Use

The April 2020 Final Report by the California Energy Commission ("CEC"), on the role of retail natural gas in meeting the State's climate change goals, addresses the issues raised in the Company's CBP. This CEC study examined different scenarios on how gas use will change in California, focusing on the role of the State's gas infrastructure, particularly the low-pressure, retail gas distribution system in meeting the State's climate policy goals of an 80 percent reduction in carbon and GHG emissions below 1990 emissions by the 2050 target date. The CEC Final Report concluded that the costs of transitioning to renewable gas fuels far outweighed the cost of fossil fuel based natural gas, and the cost to deploy the technology necessary to provide carbon neutral natural gas was well beyond the cost to universally deploy electrification in California. According to the CEC Final Report:

> The implication is that any scenario that meets California's climate policy goals uses some amount of renewable natural gas (RNG). The research team defines RNG as climate-neutral gaseous fuels and uses it as an umbrella term to encompass four fuels, including 1) biomethane produced from anaerobic digestion of biomass wastes, 2) biomethane produced from gasification of biomass wastes and residues, 3) climate-neutral sources of hydrogen gas, and 4) methane produced synthetically from a climate-neutral source of carbon and hydrogen. (Gasification is a technology that converts carbon-containing materials,

including biomass, into synthetic gas.) This study finds that, at scale, the costs of these fuels far exceeds that of natural gas.

Furthermore, there are significant technology and cost risks of commercializing large quantities of renewable natural gas compared to electrifying buildings, which relies on technologies that are commercialized today.[37]

The CEC Final Report concluded that meeting the carbon reduction and climate change goals for California are significantly more costly and less likely to be achieved, and the cost to ratepayers to finance the transition of the natural gas utility to renewable natural gas are substantially greater than electrification with no assurance that RNG will meet consumer demand:

Project Results

This study evaluates the cost and resource potential for biomethane, hydrogen and synthetic natural gas, collectively, renewable natural gas. Of these three gases, biomethane is the most commercialized and is lowest cost, but is limited in availability based on sustainable sources of biomass feedstock. Hydrogen and synthetic natural gas could be produced with low-cost electricity that might otherwise be considered "over-supply" and curtailed, but the quantity of this low-cost electricity is far lower than the amounts of electricity that would be needed to produce large enough quantities of hydrogen and renewable natural gas to replace natural gas use in California. Hydrogen use in the natural gas pipeline is limited to 7 percent by energy, before costly pipeline upgrade costs would be incurred to transport higher concentrations of the gas. Even under optimistic cost assumptions, the blended cost of hydrogen and synthetic natural gas is 8 to 17 times more expensive than the expected price trajectory of natural gas.

Renewable natural gas is found to be a valuable, but relatively expensive from of carbon reduction. . . . The limited supply of and competing uses for biofuels mean that scenarios that maintain high volumes of gas throughput in buildings require hydrogen and synthetic natural gas to reduce emissions.

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37 California Energy Commission, Final Project Report, at 1-2 *The Challenge of Retail Gas in California's Low-Carbon Future Technology Options, Customer Costs, and Public Health Benefits of Reducing Natural Gas Use* (April 2020), https://ww2.energy.ca.gov/2019publications/CEC-500-2019-055/CEC-500-2019-055-F.pdf.

In all the long-term GHG reduction scenarios evaluated here, electrification of buildings, and particularly the use of electric heat pumps for space and water heating, leads to lower energy bills for customers over the long term than the use of renewable natural gas. Likewise, building electrification lowers the total societal cost of meeting California's long-term climate goals. . . .

This strategy, of leaving more fossil fuel emissions in the building sector in order to minimize the reliance on expensive RNG, may not be possible in a scenario that achieves the state's 2045 carbon-neutrality goal. Achieving carbon neutrality in buildings would likely increase the relative costs of high RNG scenarios, such as the no building electrification scenario, compared to scenarios relying on building electrification.

Building electrification is found to improve outdoor air quality and public health outcomes, particularly in the winter, when nitrogen oxide emissions create secondary fine particulate matter (PM 2.5) pollution in the Central Valley. Electrification in other sectors, including transportation and industry, also shows dramatic improvements in outdoor air quality.

. . . This study finds that the addition of new electric loads, in the form of electric vehicles and building electrification, helps mute ... cost impacts on electric rates. Furthermore, these new electric loads offer the possibility to provide flexibility to the grid, which could help to reduce the cost of decarbonized electricity. . . .

In all of the scenarios evaluated here, some gas consumers will find it in their economic self-interest to electrify. Electrification is likely cost effective for large subsets of Californians today, so higher gas commodity costs only expand the set of end-uses and customer types that would find electrification advantageous. In any future where California meets its long-term climate goals, natural gas demand is likely to decline, putting upward pressure on gas rates and bills. That pressure may cause more customers to exit the gas system, as a feedback loop takes effect (Figure ES-1). The prospect of such a feedback loop makes it prudent for the state to begin considering strategies for managing the costs of the natural gas distribution system in California.

The decline in gas demand in all scenarios meeting the state's climate goals, and especially in the High Building Electrification scenario, poses significant challenges to maintaining equitable cost allocation. Residential customers pay most of the costs of the gas distribution system. The gas distribution system constitutes the majority of the book value of both California's major natural gas utilities. As residential customers exit the gas system, those costs are spread over a smaller quantity of throughput and number of customers, leading to

> increased rates for remaining customers. Absent a policy intervention, low-income customers who are less able to electrify may face a disproportionate share of gas system costs.[38]

The CEC Final Report on the investigation of scenarios regarding the retail natural gas industry transitioning to RNG, in furtherance of the California State goal of an 80 percent reduction in carbon and GHG emissions below 1990 emissions by the 2050 target date was determined, to be cost prohibitive in the world's fifth largest economy. According to the CEC researchers' findings, various "scenarios suggest that building electrification is likely to be a lower-cost, lower-risk long-term strategy compared to renewable natural gas (RNG, defined as biomethane, hydrogen and synthetic natural gas, methane produced by combining hydrogen and carbon)."[39]

Furthermore, according to the CEC Final Report, "by 2050, the commodity cost of blended pipeline gas is more than four to seven times that of natural gas today. This premium leads to large increases in rates and total costs for all customers that use pipeline gas today."[40] Consequently, "these scenarios raise challenging issues related to the cost of maintaining the state's retail gas distribution infrastructure in the context of lower utilization. If throughput declines and gas system costs do not, then large financial obligations will be left to be paid by a smaller number of customers … [that] leads to rapidly increasing gas customer bills and rates. These rates and bills are unlikely to be consistent with an economically sustainable gas system. Particularly concerning is the prospect that low-and moderate-income Californians or renters, who may be unable to electrify due to upfront costs or lack of home ownership, could bear the impact of these cost increases."[41] Moreover, "customers who do not electrify face

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38 *Id.* at 4-5.
39 *Id. Abstract* at iii.
40 *Id.* at 69.
41 *Id.* at 69.

the risks associated with the high cost of gas, while customers who electrify, do not face the same level of rate impact risk. The results of the two bookend scenarios indicate that California should begin investigating a natural gas system transition strategy."[42]

As described in the CEC Final Report, a "gas transition strategy could have several goals, ranging from cost reductions to protection of gas utility workers ... reducing total system costs and the bill impacts for remaining gas customers .... Results from this analysis suggest that there is no silver bullet strategy to manage these challenges. Instead, a suite of measures will need to be considered, including reductions in gas system costs, accelerated depreciation, changes to cost allocation, and infusion of electric-or non-ratepayer funds .... The gas distribution system continues to be used throughout the study period in these scenarios, so such a strategy will need to be developed without compromising the safety and reliability of the remaining system."[43] In Chapter 4 and 5 of the CEC Final Report, a comprehensive cost-benefit financial analysis of various scenarios demonstrates that California's deployment of building electrification, an exit strategy from fossil fuel based future retail natural gas consumption, and no investment in RNG alternatives, is in the public interest from the perspective of protecting ratepayers from onerous costs, mitigating ratepayer stranded cost obligations, and meeting the state's carbon and GHG emission reduction goals by mid-century.[44]

In summary, the data and science analyzed in the CEC Final Report of various proposals for the cost-effective and environmentally sensible transition of the retail

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42 *Id.* at 70.
43 *Id.*
44 *Id.* at 43-68.

natural gas energy market into a decarbonized asset in the mitigation of climate change, does not support the basis for Company's CBP. The findings of the CEC Final Report stand in stark contrast to the Company's ICF study submitted in support of AltaGas' CBP Fuel Neutral Decarbonization scenario, which if implemented, would cost ratepayers at least $3.8 billion.

B. Georgia Tech Research on RNG Supply

In the recently reported Georgia Tech research on methane produced RNG, the data and science on supply availability, adverse environmental impacts, and expensive cost considerations, reached similar conclusions as reported in the CEC Final Report:

> RNG is not inherently climate friendly. Based on consideration of both the source of methane used to produce RNG and the likely alternative fate of that methane, and using reasonable assumptions about likely system methane leakage, it is unlikely that an RNG system could deliver GHG-negative, or even zero GHG, energy at scale. . . . Under some system leakage rates that have been observed for biogas systems ... RNG might not even meet the less stringent threshold of outperforming FNG ("fossil natural gas") from a GHG perspective.
>
> Designing a system that depends on RNG, or delaying transition to a system that does not depend on natural gas because of the promise of RNG, could delay climate mitigation because of induced demand for intentionally produced methane. Particularly given that past experience demonstrates that policy can rapidly drive resource allocation to RNG, ... RNG's environmental performance should be carefully compared with that of its likely long-term competitors - not just FNG - before resources are allocated. . . . Such fossil-linked benefits disappear in a context where RNG could be substituting for zero-GHG alternatives like zero-GHG electricity or hydrogen rather than FNG, petroleum fuels, and GHG-intensive electricity.
>
> Even beyond GHG emissions, environmental burdens associated with RNG that are acceptable relative to FNG merit deeper investigation when the alternative is, e.g., zero-GHG electricity.[45]

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[45] Grubert, E. 2020. *At scale, renewable natural gas systems could be climate intensive: The influence of methane feedstock and leakage rates*. Environmental Research Letters. DOI: 10.1088/1748-9326/ab9335 at 10, https://iopscience.iop.org/article/10.1088/1748-9326/ab9335/pdf;

The conclusions reached by the Georgia Tech research raise doubt regarding the viability of methane produced from feed stock as a viable component of any RNG proposal, including the Company's recommended CBP Fuel Neutral Decarbonization scenario. Furthermore, the data and science demonstrate that utilization of methane produced from feed stock is limited and expensive to produce, and that the overall reliance on methane produced RNG create greater adverse climate impacts and delays climate decarbonization mitigation.

While "ICF estimates that there are and will be sufficient RNG feedstock resources at a local, regional, and national level available for both near-term and long-term deployment of RNG to help decarbonize the natural gas system and contribute to the aggressive climate commitments in the Greater Washington D.C. metropolitan area,"[46] neither the data, science and cost-benefit analysis of the RNG supply as a replacement for FNG discussed in the CEC Final Report, nor the Georgia Tech research, support the robust conclusions in the ICF study that RNG can replace FNG load at scale to any significant degree to provide decarbonization consistent with the 2032 and 2050 goals of the CleanEnergy DC Act. The Company's recommended Fuel Neutral Decarbonization scenario, with an initial estimated cost to ratepayers of $3.8 billion, is not supported by the evidence in industry and regulatory data, nor the ICF study.

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calculations and computation file, http://emilygrubert.org/wp-content/uploads/2020/05/Grubert-2020-RNG-and-methane-Supplementary-Data-File.xlsx; Brentan Alexander, Forbes, *New Research Suggests Renewable Natural Gas Can't Deliver The Carbon Neutral Future We Need* (May 28, 2020), https://www.forbes.com/sites/brentanalexander/2020/05/28/new-research-suggests-renewable-natural-gas-cant-deliver-the-carbon-neutral-future-we-need/#1e982b03278e

[46] CBP at ICF *Study on the Use of Biofuels (Renewable Natural Gas) in the Greater Washington, D.C. Metropolitan Area* at 115.

IV. CALIFORNIA PUC INVESTIGATION

The April 2020 CEC Final Report on the challenges faced by retail natural gas utilities in a low carbon environment recommended that "California should begin investigating a natural gas system transition strategy."[47] On January 27, 2020, the California Public Utilities Commission ("CPUC") issued an *Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and Perform Long-Term Gas System Planning*.[48]

The CPUC rulemaking Order states that the CPUC "will determine the regulatory solutions and planning strategy that the Commission should implement to ensure that, as the demand for natural gas declines, gas utilities maintain safe and reliable gas systems at just and reasonable rates, and with minimal or no stranded costs."[49]

Among the issues the CPUC is investigating, regarding the future status of retail natural gas utility distribution operations in California, include:

- Given the current greenhouse gas-related laws, what is the appropriate gas infrastructure portfolio for gas utilities that operate in California?
- What type of data should the Commission collect from gas utilities to forecast the expected decline in demand for each customer class on the gas utilities' backbone, local transmission and distribution systems during each Time Horizon?
- For each Time Horizon, during which gas demand is expected to decline, how does the Commission ensure that the gas utilities maintain safe and reliable gas systems at rates that are just and reasonable?
- For each Time Horizon, how can the Commission manage the transition of gas infrastructure so that the stranded costs and operations and maintenance expenses caused by declining

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47 CEC Final Report at 70.

48 CPUC Rulemaking 20-01-007 (January 27, 2020), http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M325/K641/325641802.PDF.

49 CPUC Rulemaking 20-01-007 at 14, 16-17.

throughput are mitigated? Should the Commission consider accelerated depreciation or targeted infrastructure retirements?

- Should the Commission establish parameters to determine when aging infrastructure, such as assets that are near the end of their useful lives, should be replaced to meet reliability needs?

- Should the Commission reconsider gas rate design and cost allocation methods .... and Do rate design changes raise affordability and other economic concerns, especially for disadvantaged residential customers, and what criteria should the Commission apply when considering this issue?

- Do rate design changes raise affordability and other economic concerns, especially for disadvantaged residential customers, and what criteria should the Commission apply when considering this issue?[50]

The CPUC rulemaking raises important questions that should be considered in this Commission's assessment of the Company's CBP Fuel Neutral Decarbonization scenario, with an initial estimated cost to ratepayers of $3.8 billion, the ICF study, and any alternative proposals, in compliance with the CleanEnergy DC Act.

V. MIDDLE GROUND - SYNERGIES

A question arises as to whether to triage the most hazardous leaks for repair and use remaining assets to transition from FNG to RNG, electrification, something else or a middle ground by using synergies from RNG and electrification to mitigate the costs associated with choosing only one method to decarbonize the environment in accordance with the mandates of the CleanEnergy DC Act.[51]

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50 CPUC Rulemaking 20-01-007 at at 19-20 .

51 Oscar Serpell, Wan-Yi "Amy" Chu, Benjamin Paren, and Girish Sankar, University of Pennsylvania Kleinman Center for Energy Policy, *Preparing PGW for a Low-Carbon Future* (October 2019), https://kleinmanenergy.upenn.edu/sites/default/files/proceedingsreports/KCEP-Future-of-PGW-Singles.pdf

A. Philadelphia Gas Works

In an October 2019 study, researchers from the University of Pennsylvania's Kleiman Center for Energy Policy concluded:

> In Philadelphia, the municipally owned gas utility (PGW) is faced with a number of considerable challenges related to regional emissions targets and state or federally imposed carbon constraints.
>
> Natural gas distributed by PGW contributes nearly one-fifth of the city's carbon emissions, and alone is responsible for at least $184 million in externalized global warming costs each year. The transition to a carbon-constrained energy system poses an existential threat to the company, and a significant financial risk for the company's residential, commercial, and industrial customers who are likely to foot most of the cost.
>
> To protect Philadelphia from this vulnerability, and to work toward its ambitious emission goals, the City is considering options for how to decarbonize the energy demand currently met by the PGW network. This report explores two possible strategies for achieving this carbon neutrality.
>
> The first strategy is to maintain the existing PGW network and gas-powered end uses but to replace the natural gas with synthetically produced carbon-neutral methane fuel.
>
> The second decarbonization strategy is to electrify regional heating demand and meet the increased electricity demand with renewable grid capacity. This strategy would force the retirement of the existing pipeline network and all distributed gas-fired heating appliances including boilers, stoves, and furnaces.[52]

The University of Pennsylvania researchers concluded "analysis found that cost, design, and technology challenges associated with both the electrification strategy and the synthetic methane strategy were significant."[53] Accordingly, the researchers concluded that "By partially electrifying existing gas demand and meeting the remaining gas demand with zero-carbon sources, the City would be able to take

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52 *Id.* at 3.

53 *Id.* at 16.

advantage of a number of synergies between the two strategies that ought to lessen many of the challenges and costs …."[54]

AOBA submits that the Commission should also weigh the benefits of alternative strategies and synergies that may produce the desired decarbonization at significantly less cost to ratepayers, including avoidance of stranded costs, than the Company's CBP Fuel Neutral Decarbonization scenario.

B. National Resource Defense Council

Recently, the National Resource Defense Council ("NRDC") also concluded that the benefits of deploying RNG are limited, at best. According to the NRDC:

> While biogas and synthetic gas can be a part of the climate solution toolbox, they come with a host of limitations, such as resource availability, cost, and human health and environmental impacts. Most significantly, the potential availability of biogas and synthetic gas is dwarfed by the current level of fossil gas consumption in the United States. NRDC estimates biogas and synthetic gas from ecologically sound sources may be able to replace only roughly 3 to 7 percent of today's gas use, at projected costs that are many times the current price for fossil gas. In addition, biogas and synthetic gas produce the same health-harming pollutants as fossil gas when burned, and leaks will still release methane—an especially harmful greenhouse gas—directly into the atmosphere.
>
> As a result, biogas and synthetic gas should be used sparingly and strategically to meet on-site gas and electricity needs (to avoid transporting methane and building new pipelines), and to reduce emissions from activities that are most difficult to power with renewable electricity, such as industrial processes, aviation, long-distance transportation, and electricity generation to balance seasonal wind and solar resources.[55]

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[54] *Id.* The specifics of the proposed synergies between electrification and methanation that are recommended could be adopted by Philadelphia and PGW to meet decarbonation goals are discussed throughout the document. *Id.* at 16-18.

[55] NRDC Issues Brief, *A Pipe Dream or Climate Solution? The Opportunities and Limits of Biogas and Synthetic Gas to Replace Fossil Gas* at 2 (June 2020), https://www.nrdc.org/sites/default/files/pipe-dream-climate-solution-bio-synthetic-gas-ib.pdf.

Again, AOBA submits that Commission should determine if the NRDC proposal is a less costly and viable alternative to the decarbonization proposed in the Company's CBP Fuel Neutral Decarbonization scenario.

C. DC Environmental Groups Proposed Role for WGL

On April 22, 2020, a coalition of environmental groups ("Coalition') submitted a letter to D.C. Councilmember McDuffie in response to the CBP proposal to meet the mandates of the CleanEnergy DC Act.[56] The Coalition (1) demanded that WGL end FNG pollution, (2) concluded the Company's Climate Business Plan RNG proposal could not replace the demand load served by FNG, and (3) determined that Company's RNG proposal is expensive to implement. As an alternative to continuing as an FNG company or transforming its retail service through costly and limited supply of RNG, the Coalition recommended that WGL transform itself into a clean energy heating service company:

> WGL is fundamentally a company that enables households to heat their homes and heat their water. The company can continue to serve this fundamental purpose without selling gas and contributing to the climate crisis. To achieve this goal, WGL would own and service two proven zero-carbon technologies for heating services:
>
> 1. Clean energy micro-district heating systems that require a network of pipes in the ground that carry hot water in the winter and cold water in the summer from central units which generate the hot or cold water through geothermal energy, industrial-scale heat pumps, and sewage waste heat extraction.
>
> 2. Air-or ground-source heat pumps that heat and cool homes, offices and other buildings in areas that are not well suited for renewable energy district heating.

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[56] Sierra Club DC Chapter, *On Earth Day, Environmental Groups Call on Washington Gas to End Climate Pollution* (April 22, 2020), https://www.sierraclub.org/dc/blog/2020/04/earth-day-environmental-groups-call-washington-gas-end-climate-pollution.

> Continuing its fundamental mission of providing heat through clean energy would allow WGL to grow a customer base in a way consistent with the District's and WGL's climate commitments. Such a business model allows WGL to transition out of the gas and climate disruption business and into the business of providing heat without greenhouse gas emissions.[57]

With these modifications, the Coalition submits that WGL can become a valued contributor to the goals and objectives of the CleanEnergy DC Act. The Coalition called on the Council to convene a hearing with stakeholders, including the Commission "to discuss pathways for DC's gas utility to reduce its greenhouse gas emissions 50 percent by 2032 and to end all greenhouse gas emissions by 2050."[58]

The proposal from the Coalition of Environmental Groups should be investigated by the Commission to determine if their recommendations are a less costly alternative to decarbonization as compared to the Company's CBP Fuel Neutral Decarbonization scenario, with an initial estimated cost to ratepayers of $3.8 billion.

VI. COST RECOVERY CONSIDERATIONS

A well-constructed business plan for Washington Gas must also address the manner in which increased costs for climate and safety related expenditures will be recovered by the Company. The rate impacts of increased investment for climate and safety related matters must consider both the Company's ability to recover its costs and the impacts of required rate increases on the charges billed to customers in **all** rate classes. While AOBA recognizes natural gas as a preferred fuel for a number of current end uses, the Commission must be mindful of the fact that technological advances are providing customers have a growing number increasing attractive

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57 *Id.*
58 *Id*

alternatives that can be both non-polluting and cost-effective. These considerations emphasize the importance of properly structured cost allocations and rate designs.

Among the issues that require Commission action is the adverse impact that rate subsidies impose on Group Metered Apartment and Commercial customers in the District. Below authorized rates of return for residential service, which constitutes the largest single component of WGL's service in the District, have required other classes to subsidize the utility rates for service to large numbers of residential ratepayers whose incomes do not warrant rate subsidies.[59] Cost recovery for large incremental climate and safety investments is not sustainable in an environment in which large numbers of customers do not pay their fairly allocated cost responsibilities.

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[59] In Formal Case No. 1130, *In the Matter of the Investigation into the Modernizing the Energy Delivery System for Increased Sustainability*, AOBA reiterated our member's often stated concerns, raised in multiple proceedings, regarding the ongoing disparity in the allocation of costs to ratepayer classes, https://edocket.dcpsc.org/apis/api/filing/download?attachId=87448&guidFileName=adb7b891-e62c-4c84-a40b-d7960af30853.pdf.

Previously, the Commission acknowledged that "***residential rates in the District of Columbia continue to be highly subsidized...Requiring other rate classes (primarily the commercial classes) to substantially subsidize the cost of serving residential customers over an extended period of time has raised questions of equity in a system that seeks to align rates with cost-causation. It harms the reputation of the District as a business friendly environment at a time when the District is trying to attract new businesses to improve the District's job market, as AOBA has argued.*** *Id.* at 14. In approving the merger between Exelon and Pepco, the Commission condition number 46 provides "Nothing in these Terms and Conditions shall be construed as a change to the Commission's stated goal to move "in a deliberate and reasonable fashion over a series of Pepco rate cases to put an end to negative class RORs" as set forth in Formal Case 1087, Order No. 16930, ¶ 329 and affirmed in Formal Case 1103, Order No. 17424, ¶¶ 437 and 438." *Id.* at 13.

AOBA is concerned that the Commission's commitment to gradually eliminating negative class RORs has been walked back in a series of Orders. We said "*retention of commercial ratepayer subsidization of the vast majority of residential ratepayers' cost of service should be eliminated by the Commission.*" *Id.* at 10.

The Covid-19 pandemic created unprecedented challenges regarding the health, economic and financial security of the District of Columbia, residents and businesses. However, as AOBA stated, "*There will always be conditions that will give rise to additional costs and other financial burdens for all ratepayers. Careful Commission planning and diligent oversight can mitigate these impacts on ratepayers. We note that states with larger grid modernization efforts do not exempt the vast majority of residential ratepayers from providing their equitable share of escalating utility revenue required to meet grid modernization goals and objectives.*" *Id.* at 19. If we are all in this together, our shared recovery requires an equitable sharing of utility cost of service aligned with Commission approved orders.

VII. THE FUTURE OF NATURAL GAS IN WHOLESALE AND RETAIL MARKETS - DATA, SCIENCE AND COST- BENEFIT ANALYSIS

The CleanEnergy DC Act mandates that 100% of electricity provided in the District of Columbia must be originated from renewable energy sources, such as wind and solar by 2032.[60] In addition, the CleanEnergy DC Act building energy performance standard requires the reduction of GHG emissions by 50% by 2032 and carbon neutrality by 2050.[61] According to a recent assessment of the adverse impacts of the continued use of natural gas, and resulting methane leaks, the District of Columbia will not meet its CleanEnergy DC Act energy and climate related emissions standards by 2050.[62]

A January 6, 2020 article, authored by the Rocky Mountain Institute ("RMI"), observed that there is a need to consider retiring aging natural gas infrastructure, and avoid costly infrastructure replacements in favor of electrification consistent with efforts to make advances in clean energy developments and carbon and GHG emission mitigation. According to RMI:

> The increased spending on America's aging gas infrastructure system calls into question the wisdom of doubling down on a fossil fuel delivery network that's becoming more expensive at the same time the need for climate action is becoming more urgent.
>
> Greater recognition of methane leakage has also drawn attention to the challenges of operating an aging system. Research released earlier this

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60 D.C. Code §34-1432 (c)(22). The CleanEnergy DC Act renewable energy portfolio standard in the District of Columbia mandates that distribution energy sold in the City be sourced as follows: "In 2032, not less than 100% from tier one renewable sources, 0% from tier two renewable sources, and not less than 5.5% from solar energy." The definitions for Tier 1 and Tier 2 renewable energy sources are set forth in D.C. Code §34-1431 15 and 16, respectively.

61 D.C. Code §8-1772.21(b)(1)(C)(1).

62 Mark Rodeffer and Matthias Paustian, Greater Greater Washington, *DC & Washington Gas both agree we need to stop burning gas. What's next?* (September 5, 2019)(Part 1), https://ggwash.org/view/73727/dc-gas-utility-agree-time-to-shut-off-the-gas-pipeline; *What would DC look like without methane gas?* (September 11, 2019) (Part 2), https://ggwash.org/view/73728/what-would-dc-look-like-without-methane-gas.

year found that in six major US cities—Washington, D.C.; Baltimore; Philadelphia; New York City; Providence; and Boston—methane leaks are more than twice US Environmental Protection Agency (EPA) estimates.

Not only are main replacement and other gas system investments a significant financial burden that will take decades to complete, but doubling down on fossil fuel infrastructure is also entirely incompatible with climate change goals.

Instead of continuing to invest in pipe replacement and other gas assets, we can set a path toward retiring them altogether. This starts with moving away from burning gas in homes and buildings and transitioning to efficient electric heating, water heating, and cooking.

The first step on this path away from fossil fuels in buildings is to stop making the problem worse; in other words, stop constructing new homes and buildings connected to gas.

As for the vast network of gas assets currently serving existing buildings, there will be opportunities to pursue electrification as an alternative to expensive replacement or other planned projects. In some cases, when all of the customers served by an existing gas asset can switch to electric alternatives to their gas service, the asset can be retired instead of replaced. [63]

Again, the Commission must decide, with expanded deployment of energy storage technology,[64] should ratepayers subsidize ongoing investment in modernizing the natural gas distribution infrastructure for an industry that experts predict will become obsolete by mid-century, well short of the useful life of current infrastructure

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[63] Mike Henchen and Kiley Kroh, RMI, *A New Approach to America's Rapidly Aging Gas Infrastructure* (January 6, 2020), https://rmi.org/a-new-approach-to-americas-rapidly-aging-gas-infrastructure/.

[64] EIA, *U.S. utility-scale battery storage power capacity to grow substantially by 2023* (July 10, 2019), https://www.eia.gov/todayinenergy/detail.php?id=40072; Rich Powell and James Newcomb, ClearPath, *Scaling Energy Storage Is a Climate Action Enabler* (April 1, 2020), https://clearpath.org/our-take/scaling-energy-storage-is-a-climate-action-enabler/?gclid=EAIaIQobChMI5sWy7ban6QIVk4rICh0mnwAqEAAYASAAEgIDR_D_BwE; Wesley Cole and A. Will Frazier, National Renewable Energy Laboratory, *Cost Projections for Utility-Scale Battery Storage* (June 2019)("Battery storage costs have changed rapidly over the past decade. This rapid cost decline has given batteries more attention in long-term planning of the power sector). *Id.* at 1, https://www.nrel.gov/docs/fy19osti/73222.pdf; EEI, *Harnessing the Potential of Energy Storage* (February 2019), https://www.eei.org/issuesandpolicy/Energy%20Storage/Harnessing_Energy_Storage_Factsheet.pdf.

investments, including natural gas fired energy plants?[65] At issue is whether the ICF study supports the Company's CBP Fuel Neutral Decarbonization scenario, with an initial cost estimated at $3.8 billion to implement, achievable consistent with the data and science demonstrating the declining demand for FNG, the cost competitive scaling of, and commitment to, renewable energy sources that power electrification, and the virtual certainty of significant FNG stranded assets prior to benchmark dates of 2032 and 2050? The data and science do not support the ratepayer financing of the Company's CBP RNG Fuel Neutral Decarbonization scenario.

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65 Stephanie Tsao and Richard Martin, S&P Global Market Intelligence, *Overpowered: Why a US gas-building spree continues despite electricity glut* (December 2, 2019) https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/54188928.
As explained "Utilities are caught between a rock and a hard place," said Nick Goodman, the CEO of CYRQ Energy, an owner/operator of geothermal power generation facilities in the western U.S. "They have an obligation to serve, and the intermittency issues with wind and solar are real."
On the other hand, as of November, seven states, including California and New York, plus the District of Columbia had implemented laws that call for 100% of the electricity sold in the state to come from renewable or zero-carbon resources by 2050 or before. Achieving those goals will saddle utilities with billions of dollars of stranded investment in gas plants built in the last 10 years. "Gas is the new coal, and that's not a good thing," said Mark Dyson, a principal in RMI's electricity practice.

AOBA submits that the data, science and cost-benefit analysis demonstrate that current and future investments in natural gas and the supporting infrastructure is not in the public interest.[66] [67] [68]

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[66] Investments in natural gas fired plants constructed to produce electricity are projected to become stranded investments well before mid-century as demand for competitively priced clean renewable energy continues to dominate the political and economic landscape. *See* Catherine Morehouse, Utility Dive, *Renewables, storage poised to undercut natural gas prices, increase stranded assets: RMI, If all proposed gas plants are built, 70% of those investments will be rendered uneconomic by 2035, according to the Rocky Mountain Institute* (RMI)(September 11, 2019), https://www.utilitydive.com/news/renewables-storage-poised-to-undercut-natural-gas-prices-increase-strande/562674/, *citing*, Charles Teplin, Mark Dyson, Alex Engel, and Grant Glazer, RMI, *The Growing Market for Clean Energy Portfolios* (September 2019); Mark Dyson, Grant Glazer, and Charles Teplin, RMI, *Prospects for Gas Pipelines in the Era of Clean Energy* (September 2019), https://rmi.org/insight/clean-energy-portfolios-pipelines-and-plants.

RMI concludes that "But even as gas use has expanded, wind, solar, and energy storage technologies have improved and dropped precipitously in price. RMI research shows that "clean energy portfolios" (CEPs) comprised of these technologies are now cost-competitive with new natural gas power plants, while providing the same grid reliability services." Furthermore, RMI concludes "Even as clean energy costs continue to fall, utilities and other investors have announced plans for over $70 billion in new gas-fired power plant construction through 2025. RMI research finds that 90% of this proposed capacity is more costly than equivalent CEPs and, if those plants are built anyway, they would be uneconomic to continue operating in 2035, well ahead of the ends of their planned economic lifetime. Continued investments in these power plants will present stranded cost risk for customers, shareholders, and society, while locking in 100 million tons of CO2 emissions each year." Under the circumstances, the issue before the Commission is whether accelerated natural gas pipe replacement is a prudent investment in the District of Columbia. https://rmi.org/insight/clean-energy-portfolios-pipelines-and-plants.

According to a recent report by EIA, electricity produced with renewable energy, such as solar and wind, will exceed electricity produced with nuclear and coal by 2021 and natural gas by 2045. *See EIA expects U.S. electricity generation from renewables to soon surpass nuclear and coal* (January 30, 2020), https://www.eia.gov/todayinenergy/detail.php?id=42655&src=email.

[67] Formal Case Nos. 1115, 1142, 1154, 1162, AOBA Comments. at 14-19, ¶¶19-21. *See* Jonathan Mingle, Yale Environmental 360, *To Cut Carbon Emissions, a Movement Grows to 'Electrify Everything'* (April 14, 2020). As stated in the article "In an effort to move away from fossil fuels, U.S. communities from California to Massachusetts are instituting bans on natural gas in new construction. Proponents say the measures are critical for speeding the transition to an all-electric future powered by renewable energy." In the alternative, "States and cities are now pursuing a variety of approaches to cut carbon emissions produced by their buildings: whole-building energy efficiency targets, system-specific electric mandates, and, increasingly, comprehensive gas bans." https://e360.yale.edu/features/to-cut-carbon-emissions-a-movement-grows-to-electrify-everything; *Cf.* Institute for Energy Research, *California's Natural Gas to Electric Future* (March 12, 2020)("The natural gas bans, however, will increase costs, harm businesses and limit consumer choice."), https://www.instituteforenergyresearch.org/the-grid/californias-natural-gas-to-electric-future/

[68] Wood Mackenzie Power & Renewables/U.S. Energy Storage Association, *U.S. energy storage monitor 2019 year in review executive summary* (March 10, 2020), ("US storage market sets power capacity record with Q4 2019 deployments Sector to see strong growth through 2025"), https://www.woodmac.com/press-releases/us-storage-market-sets-power-capacity-record-with-q4-2019-deployments/.

A. Cost to Achieve the Desired Objectives - Expectations, Performance, Accountability and Regulatory Oversight of PROJECT*pipes*

Critically important to the Commission's deliberations are the costs to ratepayers of the modernization and transformation of the natural gas distribution infrastructure system, as performed by WGL. To date, the coupling of AltaGas and WGL, for the infrastructure modernization of WGL's natural gas distribution network in the District, has produced cost overruns and failed performance costing ratepayers tens of millions of dollars in near-term rate increases,[69] and increased safety risks and environmental exposure[70] from ongoing methane gas leaks.[71]

On June 15, 2020, AOBA filed direct testimony in Formal Case No. 1154 regarding the Commission's investigation of the Company's PROJECT*pipes* 2 Plan.[72] Witness Oliver addressed AOBA's concerns regarding the relationship between the cost of completion of PROJECT*pipes* and WGL's compliance with the CleanEnergy DC Act, recommending that "The Commission should find that, at the Company's

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69 Formal Case Nos. 1115,1142,1154, and 1116, Order No. 20313 at 8-11, ¶¶15-22 (March 26, 2020). The Commission issued Order No. 20313 granting WGL a second sixth month extension of time and another $12.5 million in immediate cost recovery through the surcharge imposed upon ratepayers. To date, cost overruns during the 12-month period of extensions have cost ratepayers an additional $25 million above the projected cost of $110 million for completion of the first 5 year phase of PROJECT*pipes* 1 Plan for a total spend of $135 million in immediate ratepayer cost recovery by WGL. What is eminently clear is that ratepayers can ill afford to experience the cost overruns and project completion delays of PROJECT*pipes* as acceptable business practices in any Commission approved CBP for the Company.

70 In Formal Case No. 1142, the Commission awaits the Company's compliance with merger Settlement Agreement Tern No. 67 that requires that WGL demonstrate conformity with industry standards on a culture of safety compliance. According to Term No. 67 "Washington Gas shall continue its plans to develop and implement a pipeline safety management system ("PSMS") in compliance with the American Petroleum Institute Recommended Practice 1173 ("RP 1173"). The PSMS shall be in place within six months of Merger Close. In addition, Washington Gas shall, as a part of its PSMS, be required to conduct a pipeline safety culture assessment in accordance with RP 1173 at a frequency it determines that does not exceed three years." Pursuant to a request from WGL, the Commission granted the Company's Motion for an Extension of Time, until October 5, 2020, to "Conduct a Pipeline Safety Culture Assessment." Order No. 20347 (May 18, 2020).

71 In Order No. 20313 at 9, ¶16, the Commission opined "The Commission has observed increases in gas leaks over the last several years" during WGL's PROJECT*pipes* 1 Plan.

72 Formal Case No. 1154, Direct Testimony of AOBA Witness Bruce R. Oliver, Exhibit AOBA-(A) (June 15, 2020).

estimates of costs for main replacement, large investments in the replacement of very old leak-prone mains in the District of Columbia are inconsistent with achievement of the District's energy and environmental goals and represent a recipe for greater future Stranded Cost claims by Washington Gas."[73] Witness Oliver further explained that "A particular concern for all parties should be the potential that expensive investments in long-lived gas distribution assets may soon become "stranded cost" burdens as environmental concerns increase and costs of gas distribution service continue to rise."[74]

Furthermore, the June 15, 2020 direct testimony of DCG witness Edward Yim in Formal Case No. 1154, on WGL's PROJECT*pipe*s 2 Plan, also concludes that investments in PROJECT*pipes* are inconsistent with reaching the decarbonization goals of the District of Columbia. DCG witness Yim states that "Pipes 2 will result in very small reductions of greenhouse gas (GHG) emissions despite the high cost of the program, and it entails enormous cost and equity implications for District of Columbia ratepayers by over-investing in natural gas infrastructure that, given the District's climate change policy on shifting away from fossil fuels and market trends in the building sector, natural gas will be used increasingly less and the costs invested in new infrastructure may become stranded."[75]

Moreover, witness Yim submits that "The central issue in the Pipes 2 application is not whether the Company has identified an appropriate set of pipes to be replaced and whether the proposed price tag of $374 million is a reasonable amount for the task. Rather, the central issue is whether this type of pipe replacement

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73 *Id.* at 14, lines 18-21; at 15, lines 1-2.

74 *Id.* at 61, footnote 30.

75 Formal Case No. 1154, Direct Testimony of DCG Witness Yim, Exhibit (A) at 3, lines 14-19 (June 15, 2020).

designed to mitigate future safety risks as determined by statistical modeling, rather than enhancing the current effort to identify and eliminate actually observed leaks, is a prudent investment given the District's efforts to phase out the use of natural gas in buildings by 2050."[76]

Witness Yim finds that the WGL PROJECT*pipes* 2 plan, coupled with the Company's CBP, will significantly impede reaching the City's decarbonation goals by 2050 - carbon neutrality - and create costly stranded investments well into the next century:

> . . . given the District's goals and targets, it is my opinion that the proposed Pipes 2 application is very likely to hinder the District's efforts to meet its climate and energy targets.
>
> Generally, the key issue lies in the fundamental premise of the PROJECTpipes program, which is that the use of natural gas for the buildings in the District of Columbia is assumed to continue well past 2050. I should note that AltaGas, the Company's parent, recently filed a Climate Business Plan (CBP) in Formal Case 1142, to demonstrate that some portion of the gas sold in the District of Columbia can come from carbon neutral sources, and the CBP identifies PROJECTpipes, i.e. leak reduction from the distribution system, as a measure for lowering the GHG footprint of the Company's business. However, even the CBP projects not only assume that the Company will continue to sell natural gas for consumption in the building sector by 2050, but that the majority of the gas sold in 2050 will likely come from carbon-intensive natural gas, delivered through these pipes that will last for 100 years, a significant portion of the new pipes lasting well into the middle of the 22nd century. Therefore, the very posture of PROJECTpipes stands in conflict with the District's goal of achieving carbon neutrality by 2050.
>
> More specifically, the Pipes 2 application is highly likely to push the District off course in its fight against climate change by misallocating ratepayer funds toward (1) activities that do not significantly reduce the GHG emissions attributable to the District of Columbia; and (2) a natural gas pipe infrastructure that is likely to be used increasingly less, turning these new costly pipes into unused, stranded assets.[77]

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76 *Id.* at 6, lines 17-22.
77 *Id.* at 7-8.

Additionally, DCG Witness Yim states that "what remains true regarding the GHG reduction estimates from PROJECT*pipes* is that they represent an unjustifiably small portion of the emissions reduction that is needed to achieve the District's climate and energy targets, especially given the huge costs of PROJECT*pipes*, which range from nearly $3 billion to $4.5 billion" and that "the Company's request for ratepayers to invest billions of dollars into a gas infrastructure is directly at odds with the District's efforts to phase out the use of gas for heating in buildings, as recommended by authoritative climate change scientists."[78]

AOBA submits that the data, science and cost-benefit analysis raises questions as to whether ongoing ratepayer financed investments in Project*pipes*, and the Company's recommended approval of the estimated $3.8 billion CBP Fuel Neutral Decarbonization scenario, are in the public interest. The burden of proof rests squarely upon the Company to support their request for cost recovery and regulatory relief.[79]

B. Stranded Costs and Risk Premium for WGL's Decarbonization

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78 *Id.* at 11-12.

79 D.C. Code § 2-509(b) (proponent of an order has the burden of proof); *Pepco v. Public Service Comm'n of the District of Columbia*, 661 A.2d 131 (1995) (burden of persuasion falls on public utility as proponent of cost recovery in utility rate case before Public Service Commission). Furthermore, "As the proponent of an order ... WGL has the burden of proof to justify ... an order." Moreover, "The essential difficulty of the Commission and the parties is to unearth sufficient information about WGL's proposed change in practice to conduct meaningful oversight. But if WGL fails to provide information about its challenged practices, or simply gives a conclusory justification for its challenged practices, meaningful scrutiny or review becomes impossible. It is not enough to provide an explanation. The Commission must be satisfied that the explanation carries the Company's burden of proof to demonstrate the reasonableness of the cost increase." Formal Case No. 1016, Order No. 13063 at 6, ¶9 (February 6, 2004); Formal Case No. 1093, Order No. 17204 at 23-24, ¶40 (July 31, 2013)("As the proponent of an order ..., WGL has the burden of persuasion to affirmatively convince the Commission that its proposed rate increase is warranted and that any deviation from the Commission's traditional regulation of WGL is warranted.") *Id.* 23.

WGL's January 13, 2020 application for a rate increase, under consideration in Formal Case No. 1162, factors into the Company's application stranded costs that will result from WGL's compliance with the CleanEnergy DC Act, and the need for a higher ROE.[80] WGL's witness Hevert's direct testimony states "As noted above, the movement towards electrification raises the risk profile for natural gas distribution utilities since it not only limits future growth potential, but suggests a loss of existing natural gas load as well. For Washington Gas, the elevated risk posed by the CleanEnergy Act must be viewed in comparison to its peer group companies. In my view, because Washington Gas faces risks associated with decreased demand and stranded assets, I have considered the risks posed by decarbonization to determine where, within a reasonable range of returns, Washington Gas" required ROE appropriately falls."[81]

The rapid obsolescence of the FNG industry, coupled with industry data demonstrating the significant costs associated with a transformation to RNG, limited supply of RNG, expected stranded investments, and data that the District of Columbia will not achieve the decarbonization goals of the CleanEnergy DC Act even with a transition to RNG, raise serious questions regarding the viability of the Company's CBP Fuel Neutral Decarbonization scenario.

VIII. CONCLUSION

The WGL CBP is fundamentally flawed. It does not provide a comprehensive and well-structured assessment of the factors influencing the Company's operations and finances going forward. The WGL CBP is, at best, a spending plan that ignores

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80 Formal Case No. 1162, Direct Testimony of WGL Witness Hevert, Exhibit WG-(C).

81 *Id.* at 32, lines 7-14.

substantial business considerations that this Commission should expect the Company to address. WGL has failed to produce a plan that properly integrates climate, safety, financial, ratemaking, customer impact and competitive considerations to ensure the provision of clean, safe, reliable, and affordable gas service in the District. The Commission should reject the Company's CBP as filed and require the submission of a more comprehensive document that portrays the full considerations of a well managed Company. A spending plan with no effort to address its interface with other activities (e.g., pipe replacement investment) and the ability of the Company to obtain cost recovery for large increases in expenditures while maintaining competitive rates is not a well founded business plan.

AOBA submits that a comprehensive review of the Company's proposed CBP requires an evidentiary process to consider all of the interrelated issues to develop the record necessary for the Commission to determine the appropriateness and viability of the WGL CBP. Furthermore, while this opportunity for stakeholders to provide written comments on the Company's incomplete CBP filing is welcomed, AOBA submits that after the Company files a more comprehensive business plan, such a plan should be the subject of an evidentiary process and a full airing of other parties considerations and concerns.

AOBA submits that it is important to keep in perspective that the focus of the plan and the Commission's considerations should be on the long term economics and viability of WGL's operations in the District. And, in that context it is important not to rush to decisions and to allow for a thorough examination of all aspects of the Company's business plan for its future operations in the District of Columbia.

Dated: June 26, 2020

Respectfully submitted,

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CERTIFICATE OF SERVICE
Formal Case No. 1142

I hereby certify on this 26th day of June 2020, that the attached **Comments** were filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington in Formal Case No. 1142 and copies were electronically delivered to the service list below:

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