Traditional Ratemaking Holds the Line: Washington Upholds NW Natural Gas Company’s Line Extension Allowances

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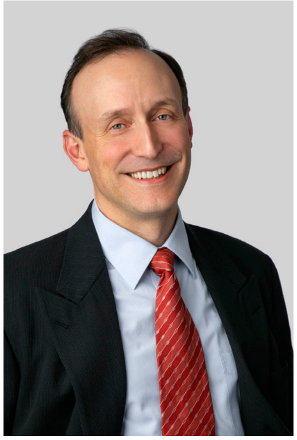

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Alexander Cochis is an energy industry consultant with regulatory and legal experience before state and federal agencies. His broad experience includes gas and electric distribution company rate cases, Federal Power Act proceedings, and rulemakings. He specializes in case strategy and regulatory requirements in retail and wholesale cases.

As a consultant, Mr. Cochis has experience in complex project management and client development. His subject matters include Grid Modernization, merger review, accelerated capital replacement plans, specialized cost recovery mechanisms, rate theory, storm response, renewable energy, power purchase agreements, and tariffs.

Prior to joining Concentric, Mr. Cochis worked as an Assistant Attorney General in the Utilities Division of the Massachusetts Attorney General's Office. While there, he drafted interventions and other regulatory filings for state and federal proceedings as well as regulatory briefs, settlements, and comments for administrative cases. He also analyzed regulatory filings and developed litigation plans, and participated in multi-party settlement negotiations and stakeholder collaboratives. He holds a Juris Doctor from Western New England College School of Law and was a visiting J.D. student at Suffolk University School of Law.

Alexander Cochis led the Concentric team that provided expert support and advisory services to NW Natural in this proceeding. Concentric Executive Advisor Carl Peterson submitted testimony on the LEAs before the Commission. To get in touch with Mr. Cochis, please email acochis@ceadvisors.com.

Introduction

As decarbonization policy continues to evolve, the Washington Utilities and Transportation Commission (Commission) has issued a decision that reaffirms the durability of long-standing ratemaking principles. In its July 2026 final order,[1] the Commission rejected proposals to eliminate or phase out by 2028 Northwest Natural Gas Company (NW Natural)'s line extension allowances (LEAs), concluding that the Company's current policy remains fair, just, reasonable, and in the public interest. This decision is significant as the Commission held that natural gas continues to play a meaningful role during the energy transition even as Washington pursues its long-term carbon-reduction objectives.

For utilities, regulators, and stakeholders across North America, the order serves as an example that decarbonization policy can be considered alongside the evidentiary and economic standards that have governed ratemaking for decades. While acknowledging the state's greenhouse gas reduction goals, the Commission found that the record simply did not demonstrate that NW Natural's LEAs conflict with those policies, and it recognized the value of gas-electric coordination as the state advances its climate agenda.

[1] State Regulators Approve NW Natural Gas Multi-year Rate Plan With Conditions, UTC News (July 29, 2026).

The Contested Issue

A line extension allowance is an amount a utility contributes toward the cost of connecting a new customer to its distribution system. NW Natural sets each allowance by measuring a new customer's load and applying a multiplier, a methodology it has used since 2004. LEAs became the single contested issue outside an otherwise comprehensive multiparty settlement of NW Natural's three-year rate plan. Public Counsel advocated eliminating the allowances entirely, arguing that they function as a subsidy that shifts a portion of new-customer connection costs onto the broader body of ratepayers, while Commission Staff recommended a phased elimination by 2028. NW Natural, supported by expert analysis from Concentric Energy Advisors, responded that its LEA methodology is designed so that new customers contribute sufficient incremental revenue over time to more than offset the cost of connecting them, thereby preventing, rather than creating, cost shifts to existing customers.

The Decision in Practical Terms

The Commission sided with NW Natural, upholding the allowances and rejecting both Public Counsel's proposed elimination and Staff's proposed phase-out. Critically, it found no demonstrated conflict between the LEAs and Washington's climate policy, observing that the parties challenging the existing tariff bore the burden of proof and that NW Natural was the only party to offer any quantitative LEA analysis. On the economics, the Commission accepted the Company's rationale that the allowances broaden the customer base over which fixed costs are recovered, benefiting both new and existing customers, and it credited unrebutted studies showing that the allowances pay for themselves within roughly 10 years while the underlying assets remain in service for at least 60 years.

Utilities that support cost-based tariff mechanisms with credible, quantitative analysis are better positioned to defend them, even on contested transition issues.

What This Signals for the Industry

The Commission's order carries lessons that reach well beyond NW Natural's service territory and speak to how the energy transition can unfold within an existing regulatory framework.

Traditional ratemaking can be a powerful tool. Even amid ambitious state decarbonization goals, the Commission applied conventional cost-causation and cross-subsidy analysis, and it declined to treat the elimination of LEAs in other utilities' settlements as precedent that predetermined the outcome here.

Evidence outweighs broad policy assertions. Perhaps the clearest takeaway is evidentiary. The Commission placed the burden of persuasion on the parties seeking to change the status quo and found that they had not conducted the financial or economic modeling needed to carry it, while NW Natural's quantitative showing went unrebutted. Parties seeking to reshape gas policy through adjudication will need a developed record, not generalized appeals to climate goals, an argument the Commission suggested was better suited to a rulemaking.

Reliability remains part of the transition conversation. The order reflects a pragmatic view that natural gas will remain a component of responsible grid-resilience planning over the next decade, particularly for winter peaking and through hybrid heating solutions that pair electric heat pumps with gas furnaces. Rather than framing gas and electrification as mutually exclusive, the Commission identified gas-electric coordination as a goal, positioning reliability as a continuing feature of the transition, rather than an obstacle to it.

Key Takeaways

- The Commission upheld NW Natural's LEAs, rejecting Public Counsel's proposed elimination and Staff's proposed phase-out by 2028.
- The Commission accepted the economic rationale that LEAs broaden the fixed-cost base and benefit both new and existing customers, with allowances recovering their cost in about ten years against a 60-year asset life.
- The Commission did not find that the LEAs constitute a "subsidy" from existing customers in favor of new customers for ratemaking purposes.
- The Commission found no record evidence that the LEAs conflict with Washington's greenhouse gas reduction and decarbonization policies.
- The parties challenging the existing tariff bore the burden of proof. NW Natural supplied the only quantitative LEA analysis in the record.
- The decision points to a continuing role for natural gas in the resource mix, noting that greater gas-electric coordination is a resource adequacy goal.

The Author’s Perspective

From Mr. Cochis’s perspective, the order offers a practical example of how a commission can weigh customer growth, system use, and cost recovery alongside longer-term climate goals. It is also a useful reminder that ratemaking decisions still rest on the strength of the evidence in the record. Utilities that support cost-based tariff mechanisms with credible, quantitative analysis and apply sound regulatory analysis are better positioned to defend them, even on contested transition issues.

Alexander Cochis led the Concentric team that provided expert support and advisory services to NW Natural in this proceeding. Concentric Executive Advisor Carl Peterson submitted testimony on the LEAs before the Commission.