

The Overview

Current line extension policies in Massachusetts allow all or some of the cost of connecting new customers to the gas system to be paid by the gas utility. That connection cost is passed back to existing customers with the assumption that new customers would pay it back over time, which would be possible if the system were continually growing. However, increasingly efficient buildings and electric alternatives have reduced gas system growth, challenging the viability of this practice and leaving existing ratepayers on the hook for these costs. The Massachusetts Department of Public Utilities (DPU) is now re-examining line extension allowances in light of this uncertainty.

The DPU's Questions and Our Responses

The DPU has asked whether gas companies' current models and policies accurately reflect the realistic income and timeframe over which investments in the gas distribution system to serve new customers will be recovered.

Our response: After extensive review of the data submitted by the gas companies, we cannot confirm that this standard is achieved in current practice, as gas company practices are inconsistent and there is significant risk that this standard will not be met going forward.

The DPU has also asked if gas companies' current practices, which incentivize growth of the gas system, are inconsistent with state greenhouse gas (GHG) policies.

Our response: Creating incentives to grow the gas system is incompatible with state GHG targets, especially given that such incentives are at risk of being unrecoverable. It will be more affordable in the long run to electrify heat and to improve rate design to make electric heat more affordable. Gas system growth is inconsistent with the broader public interest considerations in Massachusetts' climate law.

The Quick Facts

Since 2018, approximately 80% of new service-only gas connections have been provided at no cost to customers. Existing customers have subsidized new connections at an average rate of \$9,000 per new customer, totaling over \$160 million across Massachusetts gas companies in 2023. Investment in gas system growth is increasingly at risk of being unrecovered due to climate policy and increasing competition from non-gas technologies.

This incentivization of gas via allowances creates a market distortion.

Variations in gas companies' models for calculating customer contributions in aid of construction can lead to inconsistent excess allowances granted to new customers likely subsidized by existing customers.

Incentivizing new gas connections is incompatible with state GHG targets.

Between better-performing electric equipment and improved rate design, electric heating will soon challenge increasingly expensive gas heating. And while new gas connections may offer opportunities for least-cost heating in the near term, gas faces long-term affordability challenges.

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