



Managing the Transition

PROACTIVE SOLUTIONS FOR STRANDED GAS ASSET RISK IN CALIFORNIA

To cut greenhouse gas emissions and air pollution, California agencies, municipalities and some utilities are rethinking the role of natural gas within the state's energy system. This includes new policies and approaches to use more electric options in homes and businesses, and to reduce the use of natural gas in power plants. Succeeding in this endeavor will reduce reliance on the gas system, which could result in existing gas infrastructure becoming "stranded". This carries important financial and political implications that, if not managed effectively, could complicate the state's efforts to combat climate change. **This framework provides guidance on how policymakers can address the transition away from gas.**

While the issue of "stranded assets" in the gas system is legitimate, California doesn't yet know the potential magnitude or timeline of full concern. Appropriate data collection and analysis must therefore be at the start of the process. Then, with improved awareness of the size of the challenge, proactive planning and coordination can help manage the overall risk. Accordingly, the first step in responding to stranded assets is creating transparency on existing and future gas investments, and managing the interaction with expected electrification efforts. Then, decision-makers should design and dispatch an appropriate mix of solutions. There are several pathways for mitigating the risk and impact of stranded assets in California's gas system.

Strategic Electrification

As the state ramps up electrification efforts, there may be an opportunity to conduct electrification in a way that minimizes the impacts of stranded assets. Coordinated efforts - potentially neighborhood by neighborhood - can help mitigate costs and drive customer and grid benefits.

Pay for Early Retirement

The state can develop pathways to pay for early retirement through creative financing strategies that minimize and mitigate risks from potential stranded assets. These include securitization, accelerated depreciation, changes to return on equity, disallowance of recovery, among other mechanisms.

Planning to decommission gas infrastructure

As customers leave the system, fewer of them will be around to help pay for the high cost of retiring gas equipment. With the transition to cleaner energy happening now, it makes sense to develop a schedule for decommissioning costs factoring in this transition.

Find new uses for old assets

Alternative, lower carbon fuels like biomethane and hydrogen can be alternatives to fossil gas and extend the useful life of gas assets. With concerns over fuel availability, cost and safety, deployment of these fuels is likely to be best focused on specific applications that may have difficulty electrifying, such as heavy duty industrial facilities, and should be coupled with specific leakage abatement measures for the gas infrastructure.

Creating a bright line for new investments in the gas system

Preventing new investments from becoming stranded is as important as dealing with existing infrastructure. To ensure continued operations and safety, and investor confidence, a "bright line" for determining when investments are more at risk of being stranded is necessary. Clear mandates provide regulatory certainty and a transition timeline for utilities.