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**VIA EMAIL**

Oregon Public Utility Commission  
P.O. Box 1088  
Salem, OR 97308  
Attn: Commissioners

**Re: Docket No. AR-580 - In the Matter of a Rulemaking to Implement SB 844  
NWIGU Comments on Draft Rule Language**

Dear Commissioners –

This letter contains the comments of the Northwest Industrial Gas Users (“NWIGU”) in the above-captioned matter. NWIGU has reviewed the proposed rule language as recently modified by Commission Staff, participated in multiple workshops in this matter, and provided oral comments at the hearing on September 23, 2014.

In its broadest terms, NWIGU supports the goals the Legislature set out to achieve through the enactment of Senate Bill 844 (“SB 844”). NWIGU believes that facilitating an energy consumer’s switch from oil to natural gas, for example, is an effective way to address concerns about carbon dioxide emissions and emissions of other air pollutants while saving the energy consumer money and reducing dependency on foreign oil. As the Commission implements the Legislature’s goals through its rulemaking authority, however, it should adhere to well-established principles of utility regulation, including cost-effectiveness and cost-causation. It is with those principles in mind that NWIGU offers these limited comments on the current rule language being proposed.

First, NWIGU urges the Commission to modify the “project threshold” proposed in draft OAR 860-085-0650 to differentiate Tier 1 and Tier 2 projects. NWIGU’s understanding of the tiered approach contemplated in SB 844 is to allow an expedited review of uncontroversial projects. The current proposal of \$85/metric ton of reduced emissions does not serve that purpose. Projects that incentivize reduced carbon emissions, if they are sponsored by a natural gas utility and paid for by its ratepayers, should not offer incentives that result in project costs that are well beyond the ranges of the actual cost of carbon or the cost of gas. If they must go beyond those ranges to work, then they should be closely scrutinized rather than be allowed to go into effect on a fast track.

Staff’s original proposal was for projects with project costs equal to or less than \$39/metric ton of reduced emissions to qualify for Tier 1 status, but even that threshold is too

high. For reference, the cost of carbon in the California market has recently ranged from \$12 to \$15, much less than the incentive or total cost associated with an \$85 threshold. Using a different metric, if the gas commodity cost were converted to metric tons of carbon emissions, the \$85/metric ton figure would be more than 10% above the current cost of gas.

The basis for Staff's proposed increase in the threshold is that the \$39 figure would result in all potential projects currently under consideration being labeled as Tier 2. That is not a sufficient reason for changing the threshold. The fact that currently-conceived projects would not qualify for Tier 1 status under the original threshold does not indicate that the threshold needs to be changed. Rather, it indicates that those projects are costly and complicated and, therefore, should be reviewed in more detail than a fast-track project that is truly without controversy.

Second, NWIGU urges the Commission to modify the "project cap" proposed in draft OAR 860-085-0700. As proposed, the combined costs to ratepayers could be as much as 4% of the utility's revenue requirement. That magnitude of increase rivals an increase from a general rate case and is not appropriate for incentive programs that are put into place through a truncated review process. As an example, NW Natural's last general rate case proposed a rate increase of approximately 4%. After much scrutiny by Commission Staff, intervenors, and NW Natural, the Commission ultimately approved a 1.24% increase to NW Natural's revenue requirement. *See In re NW Natural Request for a General Rate Revision*, Docket UG 221, Order No. 12-437 (Nov. 16, 2002) at p.1. NWIGU offers this example because it demonstrates that even relatively "small" changes to a utility's revenue requirement can have real impacts on ratepayers that are important enough to justify spending time and effort to ensure such changes are appropriate.

NWIGU originally proposed that the project cap be 2%. NWIGU could support a slightly higher project cap, up to 3%, but objects to any cap beyond that amount. NWIGU understands that the smaller cap could have a different impact on a smaller utility by limiting the raw dollar value available for SB 844 programs, making it more difficult for that utility to fund the same program that a larger utility is funding. To address that concern, the Commission should consider setting a different cap for each utility, or at least setting a not-to-exceed amount. The express language of SB 844 provides for that kind of approach and requires the Commission to establish a rate cap "for each public utility." Nothing in the statutory language requires the cap to be the same for each utility as currently proposed.

NWIGU appreciates the continued opportunity to participate in this rulemaking.

Very truly yours,



Tommy A. Brooks