From:	KLOTZ Jason
To:	"gillaspie@oracwa.org"; "abaldwin@lclark.edu"; "Gary.Bauer@nwnatural.com"; SEN Beyer; BROCKMAN Kacia; "scot.davidson@cleanenergyworksoregon.org"; "aduncan@b-e-f.org"; "renee.m.france@doj.state.or.us"; "janag@oeconline.org"; "wendy@nwenergy.org"; "fred.gordon@energytrust.org"; "ann@climatesolutions.org"; "jennifer.gross@nwnatural.com"; "bob@oregoncub.org"; "dkirschner@nwga.org"; "pge.opuc.filings@pgn.com"; "debbie.menashe@energytrust.org"; "debbie.menashe@energytrust.org"; "kelley.miller@nwnatural.com"; "cnorris@neea.org"; "michael.parvinen@cngc.com"; PEACOCK Julie; "elaine.prause@energytrust.org"; "rhys@climatesolutions.org"; "derek@cleanenergyworksoregon.org"; "Paul.suto@portalndoregon.gov"; "David.tooze@portlandoregon.gov"; "jeff@oregoncub.org"; "Karla.Wenzel@pgn.com"; "szakreski@climatetrust.org"; "spenrith@climatetrust.org"; "ehardee@climatetrust.org"
Cc:	ADAMS Aster; EISDORFER Jason; SADHIR Ruchi; COLVILLE Erik
Subject:	SB 844 Workshop Informational Update
Date:	Friday, February 21, 2014 12:07:16 PM
Attachments:	SB 844_Workshop_1_Comments_Final.docx Straw Man Rule-v3.docx

All,

Thank you for attending our last workshop. The next workshop will take place as scheduled, at the commission's main hearing room on the 27th from 1-4PM.

A conference call-in phone number has been developed for our workshops:

Toll Free Number – 888-431-3632

Access Code – 5311729

The commission has assigned a docket number to our workshops: AR 580. You may file comments with the PUC filing center. These comments will then be posted to the comment center as informal comments. An ALJ will not be assigned nor will a formal rulemaking be opened until staff closes these workshops. AR 580 is not a contested case, there are no petitions to intervene, no parties, nor will a formal schedule be set. AR 580 was set up at the request of the workshop participants as a way to communicate as a group and share information as a working group.

Attached you'll find the Department of Energy's response to original questions presented. Thank you ODOE.

Additionally, you'll find a working straw man I developed in response to the our last workshop. I would like to focus a good portion of our time in the next workshop editing and adding to the language of this straw man. Please review this straw man and be prepared to contribute to its development.

On Monday I will send a new agenda, which attempts to give time to some of the issues the group identified at the tail end of our last workshop.

Thank you,

Jason

Oregon Department of Energy
Comments on OPUC Staff Questions About SB 844

The Oregon Department of Energy appreciates the opportunity to comment on an initial set of questions related to implementation of SB 844.

Order vs. Rule (Table)

While we have no specific comments at this time, it appears that commission staff made reasonable determinations about which types of requirements should be set out in rule versus requirements and guidance in a commission order.

Eligibility Criteria and Application Requirements

- As part of the responsibilities outlined in SB 844 the Commission must establish eligibility criteria.
  - Aside from the criteria listed within the legislation what other criterion should be used to evaluate project eligibility?

ODOE's Response: The department recommends that the Commission consider adding criteria that set minimum emission reduction thresholds and allow for prioritization of projects if the aggregate of all projects reaches the "not to exceed" rate impact amount established by the commission.

  - When defining and filing a project proposal to either the stakeholder working group and/or the Commission what are the basic necessary details that should be initially filed that would best enable a smooth application process?

ODOE's Response: The department does not have comments at this time on this issue.

- How shall the filing utility demonstrate that but for the SB 844 process it would not have otherwise invested in the project in the ordinary course of business?

ODOE's Response: Under SB 844 Sec. 2 (4)(g) the utility application must include an explanation of "why the public utility, without the emission reduction program, would not invest in the project in the ordinary course of business." While this concept is similar to the concept of "additionality" applied to greenhouse gas offsets, the department recommends that the Commission establish more flexible criteria for projects under SB 844. The rigor and detail that has been included in rules to determine additionality for offsets in programs, such as those of the Northeast U.S. Regional Greenhouse Gas Initiative, does not seem appropriate for a rule or order on this issue for the reasons described below. At least for the first few years of this program, it seems more appropriate to place the burden of proof on the filing utility. The rule or order might just require that the utility application include a detailed explanation of the elements of the proposal that place it outside of the utility's ordinary course of business. If the Commission does set criteria in rule or order, the criteria should not include a requirement that only projects that increase customers' rates be eligible for the SB 844 program. ODOE expects there are many measures that are beyond the utility's ordinary course of business[1] that both reduce emissions and do not raise rates. Similarly, rate reductions should not be the sole indicator of a project's merit.

Further reasoning for flexible criteria include the following. First, the Commission and its staff are fully aware of standard utility practices and the ordinary course of business by the utility. Second, the level of detail generally in rules to determine additionality for offsets is impractical and unnecessary for the SB 844 program. Offsets fulfill a regulatory requirement or are purchased by a third party. Measures under SB 844 are voluntary and the potential offsets should not be sold. If offsets or other tradable commodities are generated by a project, the program must ensure that they are retired on behalf of the utility's ratepayers. If offsets were to be sold, it would reduce the likelihood that the emissions reduced or avoided are additional. The department feels strongly that to avoid reducing the additionality of the projects under this voluntary program, offsets should not be sold even if the monetary benefit is passed to customers. Third, it is hard to anticipate all the types of measures that the utility may propose. The rule or order should not limit the types of proposals except to exclude proposals that do not meet the criteria of the statute. SB 844 outlines two separate tiers for project proposals.

- How shall Tier One project thresholds of overall project costs and costs per metric ton of emission reduced be considered?
- What tier two project threshold should the Commission consider?
    - What methodology should be employed when defining project thresholds for tier one and tier two processes?

ODOE's Response: Beyond setting a minimum emissions reduction threshold, the department does not have comments at this time for specific thresholds for overall project costs or cost per ton of emission reduction. Generally, projects with little or no risks to ratepayers should be classified as Tier One. Small to medium projects with lower costs per avoided or reduced tons should also be Tier One, provided that in aggregate they would not justify inclusion in Tier Two. Also, the Commission should consider classifying pilot projects as Tier One. This would encourage utilities to propose pilot projects that can be scaled up after a trial period where procedures are not well established elsewhere or where there is substantial uncertainty about the impacts. The potential for market transformation might also be a consideration for inclusion in Tier One. Such transformations might have large and enduring benefits that are hard to quantify.

- What would a utility need to present in order to demonstrate involvement of stakeholders prior to filing a project application?

ODOE's Response:

The department does not have comments on this issue at this time.

[1] Oregon Laws 2013, SB 844 Sect. 2(3)(d)

Incentives and Recovery:

- SB 844 grants authority to the Commission to create an incentive mechanism. As an incentive SB 844 may allow utilities to recover costs of and possibly a return on projects or preapproval for inclusion in the public utility's rates of costs prudently incurred and investments prudently made. Utilities might also be incented through a cost of, or a value of emissions mechanism and any other method approved by the Commission
  - What incentive structures might the Commission consider that addresses the emissions considerations adopted by the legislature in SB 844 while striking the needed balance for ratepayers, the utilities and other parties concerns?
  - What aspects of a project might entitle the utility to pre-approval for inclusion in rates?

ODOE's Response: Before commenting on possible incentive structures or any preapproval mechanisms, ODOE would like to understand better how a utility would administer specific programs under SB 844.

  - Should recovery of project costs be tied to revenue recovery, an emissions value, a hybrid system or a market mechanism?

ODOE's Response: To maximize the utility's ability to develop programs that create additionality while ensuring a high-quality program that benefits ratepayers, the department recommends a recovery method that allows for the greatest flexibility in the early years of the SB 844 program. The structure and type of projects proposed should be evaluated before determining optimal recovery mechanisms. The department has no direct recommendations at this time.

  - When evaluating the benefits and value of a project should the value of emissions and the value to ratepayers of the reduced emissions be calculated? How might the two be considered? How structured?

ODOE's Response: The value of reduced emissions to ratepayers should be included. However, the department would like to better understand the design of the projects that may be proposed before making a recommendation on how the benefits should be considered.

- Section (2)(3)(f) of SB 844 discusses a "not to exceed" rate impact of projects.
  - How shall this cap be defined?
    - Should the rate cap be rigid or flexible, allowing adjustment over time and circumstance?
    - Should the rate cap be sized to the individual utility rate base, each rate class?
- Should the cap be tied to an emissions market mechanism? If so what mechanism. If an existing mechanism, why? If a novel mechanism, how structured?

ODOE's Response: The rate cap attached to the program should be flexible over time and circumstance. Among the considerations when setting the rate cap should be to ensure a sufficient incentive for the utilities to use the program and to be able to adjust the cap over time as appropriate. The Commission should plan to review the rate cap and actual rate impacts after a predetermined amount of time, such every two or three years.

Emissions methodology:

- What methodology might be used to demonstrate indirect emissions reduction associated with proposed projects? When projecting the reduced emissions created by the project, what timeline or lifecycle should be considered?
  - Should the utility be required to have a third party evaluate the emissions reduction assumptions?
  - How should an emissions reduction evaluation methodology be structured?

ODOE's Response: The Commission should require third-party evaluations only for larger projects or projects with substantial rate impacts. Estimates of indirect or secondary impacts on emissions including upstream emissions (both positive and negative) should be part of the proposal submitted by the utility. The lifecycle should be the likely economic or useful life of the measures.

There is a large literature on offset measurement and evaluation. These methods should be considered here. The Climate Trust[2] has extensive experience with offset evaluation methodologies and may be able to offer advice. The methods used, either by the third party or the utility, should not have costs that are large relative to the overall project cost unless there are large uncertainties or the project is a pilot for a larger program.

Recommended Questions for this Process:

1. What should be the relationship between IRPs and SB 844 proposals?

ODOE's Response: Large projects or projects with significant rate impacts might be better addressed in the utility's IRP. Inclusion in an IRP action plan also would help establish the priority of proposals within the period covered by the IRP Action Plan. Still, being part of an acknowledged action plan should not be a requirement, particularly for small projects or projects that have rate impacts that are small relative to the rate cap.

2. How will the Public Utility Commission and the participating utility account for carbon offsets that may be produced by the project?

ODOE's Response: If offsets or other tradable commodities are generated by a project, the program must ensure that they are retired on behalf of the utility's ratepayers. If offsets were to be sold, it would reduce the likelihood that the emissions reduced or avoided are additional. The department feels

[2] In 1997 The Climate Trust was founded as a 501(c)(3) nonprofit organization to acquire carbon offsets on behalf of new fossil-fueled power plants regulated by the Oregon Carbon Dioxide Standard. www.climatetrust.org

strongly that to avoid reducing the additionality of the projects under this voluntary program, offsets should not be sold even if the monetary benefit is passed to customers.

Straw Man Rule Language for SB 844

* **Note: This is not a draft rule as much a straw man from which the group can work to help develop a draft rule and think about how other policy considerations affect the development of a draft rule. Below you'll find red font and black font. Red colored font indicates language that is either a verbatim quote from SB 844 or is essentially identical in substance. This language may not be present in draft or final rule. Black font indicates language which I have added based on our last workshop discussions.**

Purpose:

The purpose of this SB 844 rulemaking is to establish a voluntary emissions reduction program for the purpose of incentivizing public utilities that furnish natural gas to invest in projects that reduce emissions of anthropogenic gas and providing benefits to customers of public utilities that furnish natural gas.

Definitions:

Anthropogenic Gas includes the following gases: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perflurorocarbons and sulfur hexafluoride.

Project costs are all costs associated with the proposed project including all costs for which the public utility is seeking recovery, return on investment or an incentive based on emissions reductions.

Project means a measure or bundle of measures proposed for upgraded, installation or replacement in the pursuit of emissions reduction, which would directly affect any ratepayer class if the Commission approves cost recovery for the utility. A project includes all approaches to emission reductions which are related in measure type, emission reduction strategy and geographic and temporal proximity.

Project Eligibility Criteria:

To be eligible for a Commission determination, the project must satisfy the following minimum criteria:

- That the entity proposing the project is a public utility that furnishes natural gas and that the project involves the provision of natural gas;
- That the project directly or indirectly reduces emissions;
- That the project benefits customers of the public utility;
- That there are benefits received by the customer class or classes from the project;
- That the public utility would not invest in the project in the ordinary course of business without the emission reduction program;

- That the public utility involved stakeholders prior to filing the application; and
- That the rate impact of the aggregate of all projects undertaken by the public utility has not exceeded and will not exceed the amount established by the Commission.

Application Requirements:

An application filed under this rule shall include the following:

- A description of the project shall include all project measures being employed to reduce emissions, the project timeline, the project's location, an accounting of all anticipated costs including but not limited to: operations and maintenance costs, construction and installation costs, taxes, penalties, permits, infrastructure expenses, increased or decreased sales, entities directly affected by project measures or emissions reductions strategy.
- A description of how the project satisfies the minimum criteria set forth in the Project Eligibility Criteria section;
- The projected amount of capital and operating costs necessary to complete and operate the project differentiated by above and below the line accounts.
- The potential of the project to reduce emissions not otherwise identified;
- The projected date on which the project will become operational;
- A requested method for recovery of costs incurred and investments made. These may include:
  - Cost of service and cost allocation methodology
  - Payment per unit of reduced emissions
  - Preapproval for inclusion in the public utility's rates of costs prudently incurred and of investments prudently made;
  - Return of investment and return on investment; and
  - Any other method approved by the Commission.
- An explanation of why the public utility would not invest in the project in the ordinary course of business without the emission reduction program which includes an explanation of how the project leverages the value of emission reductions to enable investment in a measure that would otherwise not be cost effective or financially feasible to the utility, the ratepayers or the customer affected by the project.
- Proof of stakeholder involvement shall include at a minimum a demonstration that the utility conducted one or more stakeholder outreach workshops that included availability for stakeholder review of the full project proposal anticipated to be submitted to the Commission for approval. Opportunity for stakeholder input on the proposed project, opportunity for stakeholders to submit comments, a log of the stakeholder workshops including minutes, notes and any submitted comments by stakeholders. Each utility shall demonstrate that it made earnest attempts to include potentially affected entities and interested parties.
- The projected rate impact of the project means the affect the recovery of project costs will have on all customer classes for which the utility proposes recovery. Rate impacts shall be shown over the project's proposed recovery period. This shall affect the project aggregate rate impact as the public utility shall show the current proposed project rate impact both in isolation and as

part of all emission reductions projects approved by Commission. The public utility shall make a showing of how the current proposed project rate impacts will affect the utility's overall project rate cap under this rule.

- An explanation of how the public utility will provide the Commission with progress updates during the life of the project, including updates on costs and reduced emissions associated with the project;
- For projects in which a public utility proposes recovery based in part on emission reductions, the application must propose an emissions benefits allocation by customer class and the corresponding recovery amount requested from each customer class.
- If a project increases the utility rate base, the public utility must demonstrate how the increase will benefit all customers of the utility and how the costs and benefits will be allocated to all customer classes;
- A showing of the emissions reduced, the methodology used to calculate the emission reduction and the value of the emission. The calculations shall be shown on a yearly and lifecycle project perspective. Where these calculations are dependent upon future market purchases, the public utility submitting the project application shall use the most recent applicable Integrated Resource Plan preferred portfolio as acknowledged by the Commission, including the discount factor and other financial parameters.

Project Threshold

(A) A Tier 1 project is one that has costs equal to or less than 0.50% of the public utility's revenue requirement and has an associated direct emission benefit cost equal to or less than an average per ton cost set by the Commission.

(B) A Tier 2 project is one that has costs greater than 0.50% of the public utility's revenue requirement or has an associated direct emission benefit cost of greater than an average per ton cost set by the Commission.

Project Cap

The aggregate yearly costs to ratepayers for all of a public utility's authorized projects shall be no greater than:

(A) For Avista and Northwest Natural: 5% of the total revenue requirement for the residential, commercial classes. (Group to discuss costs to the industrial and transportation section cost cap.)

(B) For Cascade Natural Gas – 7% of total revenue requirement for the residential r and commercial classes. (Group to discuss costs to the industrial and transportation section cost cap.)

These tables were developed from 2012 revenue data. The utilties may have updated information. These tables are meant as a tool for the group to work from as we discuss project caps and project thresholds.

Percentage of Revenue		0.25%	0.50%	1%	2%	3%	4%	4.5%	5%	6%	7%
	Avista				2%	3%	4%				
Residential Sales	$ 61,614,793.00	$ 154,036.98	$ 308,073.97	$ 616,147.93	$ 1,232,295.86	$ 1,848,443.79	$ 2,464,591.72	$ 2,772,665.69	$ 3,080,739.65	$ 3,696,887.58	$ 4,313,035.51
Industrial Sales	$ 1,566,002.00	$ 3,915.01	$ 7,830.01	$ 15,660.02	$ 31,320.04	$ 46,980.06	$ 62,640.08	$ 70,470.09	$ 78,300.10	$ 93,960.12	$ 109,620.14
Commercial Sales	$ 33,641,279.00	$ 84,103.20	$ 168,206.40	$ 336,412.79	$ 672,825.58	$ 1,009,238.37	$ 1,345,651.16	$ 1,513,857.56	$ 1,682,063.95	$ 2,018,476.74	$ 2,354,889.53
Transportation	$ 2,892,363.00	$ 7,230.91	$ 14,461.82	$ 28,923.63	$ 57,847.26	$ 86,770.89	$ 115,694.52	$ 130,156.34	$ 144,618.15	$ 173,541.78	$ 202,465.41

Percentage of Revenue		0.25%	0.50%	1%	2%	3%	4%	4.5%	5%	6%	7%
	Northwest Natural				2%	3%	4%				
Residential Sales	$ 486,285,988.00	$ 1,215,714.97	$ 2,431,429.94	$ 4,862,859.88	$ 9,725,719.76	$ 14,588,579.64	$ 19,451,439.52	$ 21,882,869.46	$ 24,314,299.40	$ 29,177,159.28	$ 34,040,019.16
Industrial Sales	$ 51,277,881.00	$ 128,194.70	$ 256,389.41	$ 512,778.81	$ 1,025,557.62	$ 1,538,336.43	$ 2,051,115.24	$ 2,307,504.65	$ 2,563,894.05	$ 3,076,672.86	$ 3,589,451.67
Commercial Sales	$ 193,264,006.00	$ 483,160.02	$ 966,320.03	$ 1,932,640.06	$ 3,865,280.12	$ 5,797,920.18	$ 7,730,560.24	$ 8,696,880.27	$ 9,663,200.30	$ 11,595,840.36	$ 21,360,126.13
Transportation	$ 20,915,880.00	$ 52,289.70	$ 104,579.40	$ 209,158.80	$ 418,317.60	$ 627,476.40	$ 836,635.20	$ 941,214.60	$ 1,045,794.00	$ 1,254,952.80	$ 1,464,111.60

Percentage of Revenue		0.25%	0.50%	1%	2%	3%	4%	4.5%	5%	6%	7%
	Cascade				2%	3%	4%				
Residential Sales	$ 36,929,039.00	$ 92,322.60	$ 184,645.20	$ 369,290.39	$ 738,580.78	$ 1,107,871.17	$ 1,477,161.56	$ 1,661,806.76	$ 1,846,451.95	$ 2,215,742.34	$ 2,585,032.73
Commercial	$ 26,961,493.00	$ 67,403.73	$ 134,807.47	$ 269,614.93	$ 539,229.86	$ 808,844.79	$ 1,078,459.72	$ 1,213,267.19	$ 1,348,074.65	$ 1,617,689.58	$ 1,887,304.51
Transportation	$ 4,012,257.00	$ 10,030.64	$ 20,061.29	$ 40,122.57	$ 80,245.14	$ 120,367.71	$ 160,490.28	$ 180,551.57	$ 200,612.85	$ 240,735.42	$ 280,857.99