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October 7, 2014

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
Post Office Box 1088
Salem, OR 97308-1088

Attn: Filing Center

Re: **AR 580, NW Natural's Final Comments**

NW Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files the attached final comments in AR 580, rulemaking to implement SB 844 Greenhouse Gas Emissions legislation

A copy of this filing has been served to parties as indicated on the attached Certificate of Service.

Please call me if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Tariff and Regulatory Compliance Consultant

**Before the Public Utility Commission of Oregon
AR 580**

In the Matter of
the AR 580 Rulemaking to Implement
SB 844 (2013).

NW Natural's Final Comments

NW Natural appreciates the opportunity to submit comments on the draft rules filed in Docket AR 580. We want to begin by thanking Staff and parties for the progress that has been made in the development of these draft rules. Parties have worked well together and have come to agreement on many of the substantive issues raised in this docket. The Company does, however, believe revisions are still necessary to ensure the rules are clear and can be applied successfully over time.

On September 22, 2014, the Company submitted draft comments prior to the hearing held on September 23, 2014. While not intended to be the Company's final submission, those comments were admitted into the record, and the Company refers to them here, as the statements and suggestions still apply. Rather than reiterating all of its recommended changes, the Company is attaching its proposed revisions as submitted September 22, with additional revisions included. The new edits are explained below.

New Revisions

860-085-0850 - Ownership and Transferability of Emission Credits When Realized

The Company worked with The Climate Trust in proposing a revision of this Section. The proposed changes simplify the requirement and allow greater flexibility, which we believe is appropriate in this instance. Currently, it is unclear what projects will be proposed under these rules and what parties may deem an appropriate part of the offering in the future as carbon regulations continue to be discussed and adopted. Our revised language ensures that credits are addressed as part of the utility's application for a project, but gives parties greater flexibility to assess programs on a case by case basis.

General Clean-Up and Other Edits

As stated in NW Natural's September 22nd comments, the Company continues to believe the draft rules require certain clean-up edits to ensure that utilities and stakeholders can understand and

comply with them in future years. Also, the Company continues to believe that section 860-085-0950 should be revised to clarify that incentive payments authorized under these rules should not be included in an earnings test. We believe this is an important clarification that would provide certainty that the incentive provisions of the rules will remain operative, and can be depended upon in future program design. NW Natural believes that the policy issue to which its proposed edit relates (*i.e.* Should the Commission ensure that the incentive provisions are not undermined by being subject to an earnings review?) can be decided at this time just as easily as on a case-by-case basis. And, the certainty up front is important for the utilities who will be designing programs and factoring in the availability (or potential unavailability) of the incentive when undertaking those efforts. Both clean-up and edits to the language about the earnings test were addressed in the Company’s earlier written and verbal comments submitted in AR 580.

NW Natural hopes that the other suggested edits are clear enough to generally speak for themselves, and welcomes any discussion about the purpose of our proposed edits where it may be unclear.

Rate Cap and Incentive Structure

NW Natural supports the draft rule’s language concerning the rate cap and incentive structure. NW Natural believes that 4% is a reasonable cap on the costs of SB 844 programs. NW Natural also points out that because the Commission will have ongoing review of each and every program or project proposed under SB 844, that it and stakeholders will have every opportunity to judge the appropriateness of individual projects’ costs and impact on rates. NW Natural appreciates the discussion among the parties on this topic, and thinks the rule has settled into a good resolution of this issue.

NW Natural also supports the provisions which state that no more than 25% of the cap will be made up of costs of incentives for the utility. NW Natural believes this approach should alleviate stakeholders’ concerns of “unreasonable returns,” and yet appropriately provides opportunities for incentives to be present where the utility may be able to negotiate for and develop program offerings that do not rely on significant investment by the utility. Stakeholders had expressed concern over providing for incentives in such instances simply because the returns could appear high (because of little to no investment in the denominator of the return calculation), and NW Natural had expressed concern with applying such a metric to judge the reasonableness of returns, given that the utility should be incented to find low cost measures, and measures that may not involve rate base investments. The

draft rule's proposed limitation on incentives strikes a good balance that allows all parties interests to be met, subject to appropriate limits.

NW Natural appreciates the opportunity to provide these comments, and looks forward to a successful implementation of this important bill.

860-085-0500

Definitions

VOLUNTARY EMISSION REDUCTION PROGRAM

As used in OAR 860-085-0500 through 860-085-1000:

~~(1) "Ordinary course of business" means the set of conditions reasonably expected to occur within the Emission Reduction Project Boundary in the absence of the financial incentives and other inducements provided by this program, taking into account all current laws and regulations, as well as current economic and technological trends.~~

~~(2) "Direct emission reduction" means emissions reductions resulting from project emission sources that are controlled by or subject to the proposed activity or activities Emission Reduction Project.~~

~~(3) "Emission Reduction Project" or "Project" means a single measure or a set of interrelated measures, including all labor, equipment, materials, items or actions that comprise a voluntary coordinated action which lead are undertaken in order to achieve anthropogenic greenhouse house gas emission reductions within the projecta defined boundary that are additional to any emission reductions that would occur in the absence of the emission reduction projectthe measure or interrelated measures.~~

~~(4) "Emission Reduction Project Plan" sets forth the specific details of a proposed Emission Reduction Project meeting the requirements set forth in these rules.~~

~~(5) "Emission Reduction Project Report" means the report prepared by the utility each year that provides the information and documentation required under OAR 860-085-0800.~~

~~(6) "Emission reduction verification" means a systematicthe evaluation process for calculating and reporting project baseline emissions, project emissions, and emissions reductions.~~

~~(7) "Indirect emission reduction" means emissions reductions from sources not directly controlled by or subject to the proposed activity Emission Reduction Project but that are a related consequence of the emission reduction project activities. +-~~

~~(8) "Leakage" means the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundaryfrom sources other than those that are directly controlled by or subject to the Emission Reduction Project, and but which is are measurable and can be attributable attributed to the project activity.~~

~~(9) "Monitoring" means the ongoing collection and archiving of all relevant and required data for determining the project baseline, project emissions, and quantifying emissions reductions or that are attributable to the emission reduction project.~~

~~(10) "Ordinary course of business" means the set of conditions reasonably expected to occur within the Emission Reduction Project Boundarydefined boundary and scope of an Emission Reduction Project in the absence of the financial incentives and other inducements provided by this program, Emission Reduction Project, taking into account all current laws and regulations, as well as current economic and technological trends.~~

~~(11) "Project baseline" means an estimate of the emissions that would occur under the ordinary course of business-emission reductions.~~

~~(12) "Project benefits" means those quantifiable-benefits that accrue to the ratepayers of the utility conducting the Emission Reduction Project when such benefits can reasonably be attributed to the emissions reduction workEmission Reduction Project.~~

~~(13) "Project boundary" includes a projects geographical implementation area encompassing all anthropogenic emission by sources of greenhouse gases under the control of the project participants that are significant and reasonable to the project activity during its duration.~~

(13) "Project costs" means the sum total of all costs incurred in the pursuit and implementation of a voluntary emission reduction project. When a project is undertaken as additive to an existing project because an emission reduction opportunity is present, project costs are all those associated costs incurred specifically to capture emission reductions opportunities.

(14) "Project emissions" means any emissions attributable to the implementation of an Emission Reduction Project ~~that must be accounted for in the Emission Reduction Project Report.~~

860-08X-0550

Project Eligibility Criteria

To be eligible for a Commission determination approval, the project must satisfy the following minimum criteria ~~set forth in ORS 757.539(3)(a)-(f)~~:

(a) The public utility requesting the emissions reduction project must be a public utility that furnishes natural gas and the project must involve the provision of natural gas;

(b) The emissions reduction project must directly or indirectly reduce emissions;

(c) The emissions reduction project must benefit customers of the public utility;

(d) The project must be of such a type that absent approval under this rule, the public utility would not invest in the project in the ordinary course of business; and

(e) The public utility, prior to submitting a filing with the Commission, must involve stakeholders;

(f) The rate impact of the aggregate of all emissions reduction projects undertaken by a public utility under this section must not exceed the project cap established in OAR 860-08X-0700;

~~The and the project must be related by similar type of measure and or emission reduction strategy undertaken within the project boundary.~~

860-085-0600

Project Application Requirements

The utility must submit file with the Commission an Emission Reduction Project Plan which includes:

(1) The information required by ORS 757.539(4)(a)- (k) and:

(2) A description of how the project satisfies the minimum criteria set forth in the OAR 860-085-0550;

(3) A showing of the project benefits received and of the apportionment of benefits by ~~the~~ each type of ~~ratepayer~~ customer; ~~and~~

(4) A discussion of all project measures being employed to reduce emissions;

(5) Project measure life;

(6) The project boundary ~~(only one project boundary may be included in the application)~~;

(7) A discussion of the emission reduction strategy being utilized, why the approach is appropriate, timely and merits approval;

(8) Any tariffs, if necessary; and

(9) An Emissions Reduction Verification Plan that satisfies the criteria set forth in OAR 860-085-0750;.

860-085-0650

Project Threshold

For the purpose of determining whether the Company’s application will be subjected to the procedural process described in either ORS 757.539(6) or (7), tiers 1 and 2 are defined as follows:

(1) A Tier 1 project is one that has projected costs that would be borne by the customers of the utility proposing the project that are equal to or less than one million dollars and has an overall project cost per metric ton of reduced emissions of less than \$85.

(2) A Tier 2 project is one that has projected costs that would be borne by the customers of the utility proposing the project that are greater than one million dollars or has an overall project cost per metric ton of reduced emissions greater than \$85.

860-085-0700

Project Cap

Projected costs to ratepayers of an Emission Reduction Project, when combined with a utility's previously authorized Emission Reduction Projects must not exceed four percent of the utility's last approved retail revenue requirement at the time a project application is filed, inclusive of all revenue collected under adjustment schedules (e.g. the Purchased Gas Adjustment). The costs of incentives the utility proposes to recover under this rule will be included in the determination of the costs to ratepayers under this cap.

860-085-0750

Emission Reduction Verification Plan

(1) Each project application must be accompanied by an Emission Reduction Verification Plan, tailored to the size and other characteristics of each project, that must include:

(a) The methodology used by the utility to calculate the projected emission reductions, which include:

(A) A project baseline,

(B) Identification of emission leakage, which must be deducted from the emission reductions generated by the project activity;

(C) A description of how the emission reduction verification methodology was developed,

(b) A monitoring plan, which includes:

(A) A description of the monitoring methods employed,

(B) Monitoring equipment used; and

(C) Anticipated costs of monitoring and emission reduction verification.

(2) The Commission may require third party emission reduction verification as it determines necessary.

860-085-0800

Emission Reduction Project Report

~~(1) Each year after the utility has commenced work on Emission Reduction Projects approved by the Commission, the utility must submit to the Commission an Emission Reduction Report which includes information on all currently approved emissions reduction projects:~~

~~(a) Updated information contained in the project application and OAR 860-085-0600 and OAR 860-085-0750; and~~

~~(b) Updated information on emission reductions achieved and anticipated.~~

~~(c) Updated information regarding how the aggregate of all project costs, including incentives received by the utility will affect the project cap outlined in OAR 860-085-0700.~~

~~(2) The Commission, upon acknowledgement of the utility's first Emission Reduction Project Report, may modify the interval for the submission of future Emission Reduction Project Reports~~

~~for that utility.~~

860-085-0850

Ownership and Transferability of Emission Credits When Realized

~~In instances when a utility participates in an emission reduction credit market related to its Emission Reduction Project:~~

- ~~(1) The utility must retain for the benefit of its ratepayers the emission reduction credits realized through emission reduction project activity.~~
- ~~(2) The utility must retire the emission reduction credits it owns or of which it retains control.~~
- ~~(3) The utility must ensure an unbroken chain of ownership of emission reduction credits.~~
- ~~(4) If split ownership arises, such that the ratepayer or project owner or project participant may be owner of some of or all of the emissions reduction credits, the utility must work with the ratepayer or project owner/participant to ensure proper retirement, registration and an unbroken chain of custody. Each project application will address whether the proposed project is expected to generate environmental credits or certificates and any potential revenues associated with their sale or use. The application shall explain the rationale for the proposed treatment of any credits and shall refer to any appropriate protocols, certification systems, regulatory regimes, or other rules for generating, trading and retirement of such credits or certificates.~~

860-085-0900

Ineligibility Due to Noncompliance

If an Emission Reduction Project is ~~is, or has been,~~ out of compliance with the requirements of OAR 860-085-0500 through 860-085-0850, the Commission may discontinue or reduce the incentives to be paid to the utility.

860-085-0950

Treatment of Emission Reduction Project for Purpose of the Utility Earnings Test

- (1) The utility must include the costs, revenues and incentives associated with an emission reduction project in its annual Results of Operation Report. The Commission ~~may will~~ exclude incentives received from an Emission Reduction Project ~~from in any an~~ earnings test associated with the Purchased Gas Adjustment, deferrals ~~and or~~ any other mechanism.
- ~~(2) The utility must include all incentives earned from emissions reduction projects in their year annual results of operations report to the Commission.~~

860-085-1000

Utility Incentives for Applicable Projects

- (1) The utility may propose a method to recover costs and incentives ~~in accordance with~~ through the methods provided in ORS 757.539(8)(b)(A) ~~and (D)~~, or any other method deemed reasonable by the Commission;
- (2) Incentives received by a utility under this rule ~~must may~~ be in part tied to the unit of emissions reduced;
- (3) The costs to ratepayers of incentives received by the utility ~~conducting related to~~ an emission Emission reduction-Reduction project-Project or projects may not exceed 25 percent of the project cap ~~as outlined-specified~~ in 860-085-0700;

- (4) One half of the net present value of the incentive amount projected to be allowed for the proposed emission reduction project is recoverable within a year of project implementation;
- (5) The remainder of the incentive will be recoverable within five years of full project implementation at such time as the emissions reductions are confirmed through appropriate monitoring and verification, consistent with the project’s approved Emission Reduction Reports and projected emission reductions.
- (6) The commission may structure incentives such that the amounts allowed vary depending on ~~based on whether~~ a project ~~is’s~~ rate based capital ~~intensity~~ intensive or relies more on amounts that are expensed. ~~; a capital intensive project may receive a lower incentive than those projects that require less rate base capital.~~
- (7) A utility may propose an incentive structure with its initial project proposal that can then be applied to all subsequent approved proposed projects.



CERTIFICATE OF SERVICE

I hereby certify that I have this day served NW Natural's Final Comments in AR 580 upon all parties of record in the proceeding.

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DATED at Portland, Oregon, this 7th day of October 2014.

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