

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1744

In the Matters of)
)
NORTHWEST NATURAL GAS COMPANY)
dba NW NATURAL,)
)
Application for Approval of an Emission)
Reduction Program)
)
_____)

**REPLY TESTIMONY OF EDWARD A. FINKLEA
ON BEHALF OF NORTHWEST INDUSTRIAL GAS USERS**

October 2, 2015

1 **Q. PLEASE STATE YOUR NAME AND THE PARTY YOU ARE APPEARING**
2 **FOR.**

3 **A.** My name is Edward A. Finklea, and I am an attorney serving as the Executive Director
4 of the Northwest Industrial Gas Users (“NWIGU”).

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

6 **A.** Yes. I previously filed testimony in this proceeding, which can be found at NWIGU/100,
7 and my qualifications can be found at NWIGU/101.

8 **Q. WHAT IS THE PURPOSE OF YOUR REPLY TESTIMONY?**

9 **A.** The purpose of my reply testimony is to address arguments made by the electric utilities
10 regarding fuel switching, comments and comparisons to this proposal made by CUB
11 regarding California’s cap and trade program and the cost of this program, and Staff’s
12 discussion of a reverse auction.

13 **Q. PACIFICORP WITNESS WIENCKE AT PAGE 4 OF HER RESPONSE**
14 **TESTIMONY STATES THAT “RATEPAYER MONEY SHOULD NOT BE**
15 **USED TO INCENTIVIZE A PUBLIC UTILITY TO ENCOURAGE**
16 **CUSTOMERS TO SWITCH FROM ONE FUEL TO ANOTHER.” PGE**
17 **WITNESS BARRA IS ALSO CRITICAL AT PAGE 2 OF HIS RESPONSE**
TESTIMONY OF THE FACT THAT THE NW NATURAL TARIFF WOULD
PROMOTE “FUEL SWITCHING”. DO YOU HAVE A RESPONSE TO THOSE
STATEMENTS?

18 **A.** Yes. Absent SB 844, I agree that the Oregon Public Utility Commission’s (Commission)
19 policy has been to not allow utilities to provide incentives for customers to fuel switch.
20 The issue of fuel switching has been a hot button issue before this Commission and in
21 other forums in Oregon since the mid-1980s.

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1 In my opinion, SB 844 was a legislative change in Oregon policy regarding fuel
2 switching. SB 844 authorizes Oregon natural gas local distribution companies (LDCs)
3 to incentivize their customers to reduce carbon dioxide emissions through the greater use
4 of natural gas. Since natural gas is a fossil fuel, the only way one can use natural gas as
5 a carbon dioxide emission reduction measure is to use natural gas instead of a more
6 carbon-intensive fuel. Natural gas is the least carbon intensive fuel among the fossil
7 fuels. The intent of SB 844 is to use natural gas to reduce carbon dioxide emissions by
8 switching from a more carbon intensive source of energy to natural gas. Thus, SB 844
9 measures will, by definition, incentivize fuel switching in some form or another--from
10 oil to natural gas, or from electricity to natural gas. In my opinion, this was understood
11 by the Oregon legislature when the bill was being debated and enacted. If the
12 Commission were to rule that the tariff filed by NW Natural is inappropriate because it
13 incentivizes fuel switching, the Commission would be undermining the intent of SB 844.

14 **Q. CUB WITNESSES MCGOVERN AND JENKS OBSERVE AT PAGE 18 OF**
15 **THEIR RESPONSE TESTIMONY THAT THE CHP PROGRAM IS “AN**
16 **EXPENSIVE PROGRAM.” MS. MCGOVERN AND MR. JENKS COMPARE**
17 **THE NW NATURAL PROGRAM WITH CALIFORNIA’S CAP AND TRADE**
18 **PROGRAM WHICH THEY CLAIM “PRODUCES CARBON REDUCTION AT A**
19 **COST OF 1/3 TO 1/4 OF THE COST OF THIS PROGRAM. DO YOU HAVE A**
20 **COMMENT REGARDING THEIR ASSERTION?**

21 **A.** Yes. In my opinion, Ms. McGovern and Mr. Jenks are making a valid comparison, but
22 have come to a wrong conclusion on which program is more costly to natural gas
23 consumers. Ms. McGovern and Mr. Jenks correctly note that the current carbon price in
California is approximately \$12.75 per metric tonne. That price under the California
program is 6.75 cents per therm of natural gas burned. A 6.75 cent per therm increase

1 would impose a 7.2 percent rate increase on NW Natural's residential customers, based
2 on the expected November 1, 2015 residential rate of 93.513 cents per therm for natural
3 gas. If Oregon had the California carbon price of \$12.75 per metric tonne, industrial
4 interruptible sales customers would see a 14.6 % increase to the first block rate they will
5 pay for natural gas effective November 1, 2015. The 4 percent limit on SB 844 programs
6 keeps NW Natural's programs below the cost of cap and trade at today's California
7 carbon prices. Furthermore, Oregon's program is capped, while California's carbon price
8 could grow to be substantially higher over time as emission caps are decreased.

9 Where I agree with Ms. McGovern and Mr. Jenks is that the 4 % increase is a significant
10 rate increase. This means that ratepayer dollars must be spent in a cost-effective manner.
11 NWIGU understands that the Oregon Legislature by enacting SB 844 and the
12 Commission by capping programs at 4% have committed significant ratepayer dollars to
13 carbon reduction through voluntary programs that qualify under the statute and
14 regulations. If Oregon LDCs were mandated to participate in a cap and trade regime
15 modeled after the California program, the cost to ratepayers would be significantly more.
16 It is also important to note that the California price is an allowance price. Consumers can
17 choose to pay the \$12.75 per metric tonne to emit carbon. In other words, there is no
18 guarantee of an actual carbon emission reduction. NWIGU recognizes that a 4% increase
19 is a significant amount for natural gas consumers to spend for carbon emission
20 reductions, which is why ratepayer dollars should be spent on programs that achieve the
21 greatest overall benefit, and the CHP proposal has the lowest overall cost and greatest
22 benefit compared to the other measures discussed in the stakeholder process.

1 **Q. DOES THIS MEAN THAT YOU ARE NOT AS CONCERNED AS MS.**
2 **MCGOVERN AND MR. JENKS WITH THE \$10 PER TON INCENTIVE NW**
3 **NATURAL PROPOSES UNDER THE PROGRAM AS FILED?**

4 **A.** No. NWIGU shares CUB's concern with the size of the company incentive. At the
5 \$5.00 incentive level recommended by Ms. McGovern and Mr. Jenks, and that I made
6 independently in my previous Response Testimony, the Company's incentive is not an
7 excessive percentage of the overall cost of the program. At \$10.00 per tonne, the utility
8 incentive is too high of a percentage of the total cost of the program which is capped at
9 4%.

10 **Q. IN THE RESPONSE TESTIMONY FOR COMMISSION STAFF WITNESS ST.**
11 **BROWN AT PAGE 12 HE DISCUSSES THE MERITS OF A REVERSE**
12 **AUCTION? DO YOU HAVE ANY CONCERNS WITH A REVERSE AUCTION?**

13 **A.** The whole concept of a reverse auction is premised on the assumption that the utility will
14 get applications from potential companies seeking to participate in the program. The
15 Commission and NW Natural would be relying on that assumption. To submit a bid,
16 companies with a large number of projects competing for capital would have to invest
17 significant time and resources into developing a bid for the auction. The obvious risk
18 with this approach is that no bids come in. The advantage of setting the number
19 somewhere in the \$25 to \$30 range is that companies considering a CHP investment have
20 a concrete number to run their assumptions against. If the investment meets internal
21 approval, companies will apply for the incentives. In my opinion, adopting a price rather
22 than conducting a reverse auction increases the likelihood that this program is successful.
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