Citizens' Utility Board of Oregon

CUB

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September 30, 2013

Public Utility Commission
Attn: Filing Center
3930 Fairview Industrial Dr. SE
P.O. Box 1088
Salem, OR 97308-1088

Re: NW Natural Advice No. 13-10

Dear Filing Center:

The Citizens' Utility Board of Oregon ("CUB") appreciates the opportunity to provide comments on NW Natural's Advice No. 13-10, in which the Company proposes to add Schedule H, Large Volume Non-Residential High Pressure Gas Service Rider, to its Schedules 3, 31, and 32 non-residential natural gas service schedules. While CUB recognizes that there may be non-system benefits to NW Natural offering High Pressure Gas Service ("HPGS"), particularly through reductions in greenhouse gas emissions that may not be achievable through other means at this time,[1] the Company is still required to demonstrate that offering HPGS to its commercial and industrial customers under the terms in its currently proposed Schedule H will provide a net benefit to all ratepayers.

I. The Net Benefit Standard

Prior to the Commission approving NW Natural's proposed Schedule H, the Company must demonstrate that extending HPGS is in the public interest and provides a long-term benefit to existing customers, consistent with its own Schedule X. NW Natural agrees that providing HPGS is subject to the terms and conditions contained in the Company's Schedule X, [2] which guards against long-term cross-subsidization for new projects by requiring that extensions of new service for non-residential projects begin contributing to the system after the fifth year of being in service, as discussed more fully below. However, the Company has yet to provide analysis that demonstrates that its proposed HPGS project will begin benefitting the system after five years, as required by its own Schedule X for extension of service to non-residential projects.[3]

[1] *See* Comments of the Oregon Trucking Association filed in response to NW Natural Advice No. 13-10 (September 4, 2013) and Comments of Con-Way Freight filed in response to NW Natural Advice No. 13-10 (September 5, 2013).

[2] Attachment 1 at DR 16. In its response to CUB DR 16, the Company states: "To receive HPGS, a customer must also receive Schedule 3, 31, or 32 natural gas service. A service line request from an HPGS customer will be treated like all other service line requests in that the costs either credited or charged to the customer for the service connection will comply with the terms and conditions established in the Company's Schedule X."

[3] *See* Schedule X at X-6.

A. NW Natural's Schedule X

Gas service is not an essential service. Customers always have the ability to consume another energy source to satisfy their end-use demands. Accordingly, natural gas utilities have an obligation to extend service only if the expected revenues from new customers cover the incremental costs and make a contribution to system costs, thus providing a benefit to other ratepayers. NW Natural's line extension policy, contained in Schedule X, is an example of this principle. Schedule X requires new customers to assume financial responsibility for costs associated with extending service if those costs are greater than the benefits the service will provide other ratepayers. The allowable costs for extending service are based upon the "construction allowance," which differs between residential and non-residential developments.[4] For residential developments, the construction allowance is based on the type and number of gas-fired appliances to be installed to ensure that the customer's gas usage will be great enough to provide a benefit to the system. Customers without gas heating or gas water heating have a low construction allowance because they will provide little revenue to the system, whereas customers with gas heating have a higher construction allowance because they will provide greater revenue to the system. But in both cases, the expectation is that the customers will provide net margin revenues within five years and therefore provide a net benefit to the system. For non-residential projects, the construction allowance is based upon the estimated annual margin revenue:

> The Company will perform an investment analysis for each installation to determine the amount of any Construction Allowance. At a minimum, the Construction Allowance will equal 5.0 times the annual margin revenue that is estimated to be generated from the operation of natural gas-fired equipment to be installed at the service address.[5]

The purpose behind this calculation is to estimate the cost of extending service and to ensure that for non-residential projects, customers begin to contribute to the shared fixed costs of the distribution system at year six, thereby benefiting all ratepayers. This ensures that the Company's growth is profitable.

B. The Example of Coos County

The Commission affirmed a net benefit standard for extending natural gas service when NW Natural sought to provide natural gas service into Coos County. In late 2002, NW Natural filed an application to revise its tariff schedules to include NW Natural's planned investment in the construction of the Coos County distribution system. Prior to constructing the system, NW Natural conducted a market study to gauge demand. It ultimately concluded that there was a "shortfall in the revenues necessary to provide an adequate rate of return on the construction of a distribution system in Coos County."[6] NW Natural declined to construct the system unless the shortfall could be recovered from its customers, and initially proposed to recover the shortfall, in part, from its current residential and commercial customers. NWIGU and the Company entered into a stipulation agreement to that effect, which was opposed by CUB and Staff because of the

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[4] *See* Schedule X at X-5.
[5] Schedule X at X-6.
[6] OPUC Order No. 03-236 at 1.

burden it placed on statewide residential and commercial customers. NW Natural, CUB, Staff and NWIGU entered into a second stipulation agreement in which NW Natural agreed to recover the revenue shortfall through Schedule 160, which placed the burden of recovery on Coos County customers, rather than customers state-wide. In addition to paying for the cost of infrastructure required for extending service to Coos County, customers are contributing to system costs via the volumetric charges on their bills, thereby creating a long-term net benefit to the system. The Commission adopted the settlement in Order No. 03-236, finding that approval of the stipulation was in the public interest.

C. SB 844- Natural Gas carbon legislation

While NW Natural is not proposing this project under the terms of SB 844, CUB believes that this law helps inform us as to what the policy in this docket should be because the primary example of what SB 844 would allow is CNG. Under SB 844, there is a clear standard of customer benefit.

> **SECTION 2. (1) As used in this section, "emission" means any anthropogenic gas, such as carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.**
> **(2) The Public Utility Commission shall establish a voluntary emission reduction program for the purposes of incentivizing public utilities that furnish natural gas to invest in projects that reduce emissions and *providing benefits to customers of public utilities that furnish natural gas*.**
> **(3) As part of the emission reduction program, the commission shall establish eligibility criteria for projects. The eligibility criteria must include:**
> **(a) That the public utility requesting the project be a public utility that furnishes natural gas and that the project involve the provision of natural gas;**
> **(b) That the project directly or indirectly reduce emissions;**
> **(c) *That the project benefit customers of the public utility* as identified by the commission by rule or order;**
> **(d) That the public utility, without the emission reduction program, would not invest in the project in the ordinary course of business;**
> **(e) That the public utility, prior to filing an application under subsection (4) of this section, involve stakeholders as required by the commission by rule or order; and**
> **(f) That the rate impact of the aggregate of all projects undertaken by a public utility under this section not exceed an amount established by the commission by rule or order.**
> *** * * * * ***
> **(8) If a final order issued under subsection (6)(c) or (7)(b) of this section authorizes a project, the order shall specify:**
> **(a) The type of ratepayer from whom the public utility that submitted the project proposal may recover costs incurred and investments made. A public utility may recover costs incurred and investments made from a type of**

> **ratepayer under this paragraph *only if the commission makes a finding that the type of ratepayer receives a benefit from the project.***
> **If the commission makes a finding that more than one type of ratepayer receives a benefit from the project, the commission shall allow recovery from each type of ratepayer in an amount that is proportionate to the proportion of the benefit received, as determined by the commission, by the type of ratepayer.**[7]

D. Net Benefit Standard for Fueling Infrastructure

The Commission has also applied the net benefit standard in the context of a regulated utility recovering costs for infrastructure related to fuel sources for vehicles. In UM 1461, the docket opened to investigate matters related to electric vehicle charging and infrastructure, the Commission stated:

> We expect a utility that requests rate recovery for EVSE investment to make a *compelling* case that the utility's ownership and operation of the EVSE is beneficial to ratepayers—not just the public generally. Utilities suggest that prudence be the primary measure used to determine whether EVSE investment should be recoverable in rates. We respond that prudence, in the context of EVSE investment, requires a showing of net benefits to customers.[8]

There is no meaningful difference between electric charging stations and HPGS in the context of rate recovery for proposed infrastructure. Just as utilities seeking rate recovery for EVSE investment are required to demonstrate a net benefit to ratepayers, recovery for HPGS is also required to demonstrate a similar net benefit to customers.

II. Demonstrating the Net Benefit Standard

As recognized by the National Association of State Utility Consumer Advocates, "Gas distribution utility ownership, operation or maintenance of natural gas refueling stations may result in cross-subsidies of the new services by traditional ratepayers, either directly or indirectly, due to the complex overlapping of monopoly and competitive utility roles."[9] This statement rings true in the context of NW Natural's proposed HPGS.

NW Natural concedes that there are implicit subsidies with the evaluation and development of the HPGS project that must be analyzed and accounted for in the Company's calculation of the construction allowance in its Schedule X. In its response to CUB DR 18, the Company states "costs during phase one which include customer service and a feasibility study would be incurred through the labor of employees whose costs are recovered in general rates."[10] In response to CUB DR 28, the Company states "[l]egal costs and business development costs

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[7] S.B. 844, 77th Leg. Assem., Reg. Sess. (OR 2013) (emphasis added).
[8] OPUC Order No. 12-013 at 10 (emphasis in original).
[9] NASUCA Resolution 2013-04, accessed at http://www.nasuca.org/archive/NASUCA%20Gas%20Resolution-%20Final%202013-04.doc
[10] Attachment 1 at DR 18.

for program design and implementation are being paid for by customers…to the extent determined in NW Natural's last rate case."[11] Additionally, ratepayers are also subsidizing HPGS through the time that Commission Staff and CUB spend evaluating and analyzing this project.

NW Natural must be required to track the time that existing and future personnel spend on this project in order to ensure that costs associated with this service are paid back to the system. The fact that ratepayers are already subsidizing the development of this project further underscores the fact that there must be a net benefit to the system over all. The Company has the ability to project the pay-back time for this project, and must be required to perform and provide this analysis prior to the Commission's approval of its proposed Schedule H. If the cost of extending service for other commercial or industrial projects is based upon analysis that ensures contributions to the system starting in year six, HPGS should be no exception and should include program specific costs. High pressure gas service is a competitive service, and cannot be subsidized by other customer classes in the long-term. NW Natural must be required to provide the analysis that demonstrates there will be no long-term cross-subsidization between existing customers and HPGS customers.

Quite frankly, CUB does not understand the Company's hesitation to agree to this and its apparent inability, to date, to demonstrate this. These transportation customers will be purchasing additional gas from the Company. The rates charged for that gas include a margin that contributes to fixed costs. Using the Schedule X approach, that margin needs to be set high enough that it recovers any costs associated with that the new program that fall on general customers within five years. This will guarantee that, over time, this new service provides a benefit to the system. If this is the requirement for residential service and this is the requirement for commercial service, making it the requirement for transportation service is also necessary.

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[11] Attachment 1 at DR 28.

III. Conclusion

In conclusion CUB requests that the Commission posit the question: “Does the cost of extending natural gas service to HPGS customers provide a net benefit to NW Natural customers?” In answering this question, CUB has found that NW Natural has failed to carry the burden to demonstrate that it does. CUB, therefore, respectfully recommends that the Commission find that, at this time, NW Natural has not demonstrated a net benefit to existing customers. CUB further requests that the Commission find that in order to be consistent with its line extension policy and prior Commission precedent, NW Natural must demonstrate that existing customers are not saddled with economic risk and that HPGS must provide a net benefit to all current ratepayers.

Respectfully submitted,

Executive Director
Citizens' Utility Board of Oregon

Data Request No. 16

NW Natural stated at the workshop on July 26, 2013 that it would not be participating in finding locations for sites at which HPGS might be offered. What, if any, changes will be needed for existing gas lines to allow for HPGS service? Who will pay for making the necessary changes to provide HPGS service?

NW Natural Response

To receive HPGS, a customer must also receive Schedule 3, 31, or 32 natural gas service. A service line request from an HPGS customer will be treated like all other service line requests in that the costs either credited or charged to the customer for the service connection will comply with the terms and conditions established in the Company's Schedule X. Any gas line extensions required will be handled the same way they are currently handled. Proposed Schedule H addresses only the equipment installed behind the meter and provision of compression services received after the natural gas service has been established.

Data Request No. 18

At the workshop on July 26, 2013, NW Natural stated that marketing costs and feasibility costs are spread to all customers and not just contractors for HPGS service. Please explain.

NW Natural Response

NW Natural intended to communicate that the costs during phase one which include customer service and a feasibility study would be incurred through the labor of employees whose costs are recovered in general rates. The Company believes this is appropriate because the customer will also be either a new gas customer or will be an existing gas customer adding a new service line for HPGS service. The work the Company will perform to establish service for this customer and to install the service line and determine if the feasibility of that customer using CNG is the same work it would perform for a customer putting in a service line to its own or a third party's compression facilities.

NW Natural notes that all customers taking HPGS will also be taking service under another general rate schedule from NW Natural. With respect to marketing costs, NW Natural assumes the same rules about cost recovery for marketing will apply in this case as apply generally to NW Natural's marketing costs, which are reviewed and set in a rate case.

Data Request No. 28

Who will pay for the legal fees related to design, implementation, and enforcement of the contracts? Who is paying for legal fees and staff time related to the workshops currently being conducted in regard to the implementation of HPGS?

NW Natural Response

Legal costs and business development costs for program design and implementation are being paid for by customers only to the extent determined in NW Natural's last rate case. Thus, the Company is bearing any differences in actual costs incurred in the workshops and other efforts referred to above. NW Natural expects that this will be the case going forward as well. Also please note that a level of O&M related to an LRIC study from a prior rate case proceeding is included in the scheduled maintenance charge. This revenue recovery is intended to offset administrative costs related to the service, including legal contract work, accounting, program oversight, etc.