



Oregon

John A. Kitzhaber, MD, Governor



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Oregon Public Utility Commission
3930 Fairview Industrial Dr. SE
Salem, OR 97302

Re: Oregon Department of Energy comments on NW Natural Advice No. 13-10

The Oregon Department of Energy (ODOE) supports NW Natural's proposal in Advice No. 13-10 to offer high-pressure natural gas services to its non-residential customers.

NW Natural's advice filing is a positive step toward developing a successful market for natural gas as an alternative transportation fuel in Oregon because it will address one of the main market barriers to conversion of vehicle fleets to compressed natural gas (CNG): the high initial cost of fueling infrastructure. Financing this investment can be difficult because "[f]inanciers in Oregon and private fleet operators are not experienced with the risk assessment necessary for financing CNG infrastructure," according to a recent report for Columbia Willamette Clean Cities Coalition, a group funded by the U.S. Department of Energy to promote local actions that reduce petroleum consumption in transportation.¹ Utility ownership of the gas compression infrastructure, as NW Natural proposes in its filing, may eliminate this investment barrier for some customers and accelerate the conversion of some fleets to CNG vehicles.

The Commission has the authority to approve this tariff because it is consistent with Oregon's greenhouse gas and energy policies, and is likely to provide economic benefit to non-participating ratepayers.

I. Consistent with Oregon's greenhouse gas and energy policies

It is Oregon state policy to reduce greenhouse gas emissions to levels 10 percent below 1990 levels by 2020 and at least 75 percent below 1990 levels by 2050.² The transportation sector accounts for about a third of the energy use in Oregon and is the single largest contributor to the state's carbon dioxide emissions and a significant source of air toxics. According to the U.S. Department of Energy, natural gas

¹ Oregon Natural Gas Transportation Fuel: Information Paper, prepared for and by Columbia Willamette Clean Cities Coalition and Kendall Energy Consulting, LLC, 2013, pgs. 19-20.

² Oregon Revised Statute 468A.205.

emits “about 6% to 11% less greenhouse gas emissions” and “roughly 20% to 45% less smog-producing pollutants” than gasoline throughout the fuel life cycle.³

Conversion of large vehicle fleets to alternative fuels, including natural gas, is recognized as a key strategy to meeting the state’s policy on greenhouse gas reduction. The Governor’s 10-Year Energy Action Plan for Oregon proposes a “20 percent conversion of large fleets to alternative fuel vehicles, including, but not limited to, electric, compressed natural gas (CNG), and liquefied natural gas (LNG)” over the next 10 years.⁴ Oregon’s Statewide Transportation Strategy recommends developing the network infrastructure for low or zero-emission fuels such as compressed natural gas (CNG), liquefied natural gas, renewable natural gas, and electricity, and transitioning transit and light- and heavy-duty commercial fleets to vehicles powered by those fuels.⁵

The state provides tax credits and loans to accelerate the transition of Oregon’s transportation sector to alternative fuels. Senate Bill 583, enacted by the 2013 Oregon Legislative Assembly, established the Alternative Fuel Vehicle Revolving Fund, from which ODOE will administer loans to public bodies and tribes to purchase alternative fuel vehicle fleets or convert existing fleet vehicles to alternative fuels. ODOE currently offers tax credits for the development of alternative fueling infrastructure. Senate Bill 583 also extends those tax credits to the acquisition of or conversion to alternative fuel vehicle fleets.

Utility participation in alternative fuel markets has been a common factor among successful alternative fuel vehicle programs in other states, according to the Columbia Willamette Clean Cities Coalition report. The report states, “The eleven states with some form of regulatory allowance for utility CNG market participation accounted for over 253 million [gasoline gallons equivalent] of CNG sales in 2012, or 84 percent of the nationwide total.”⁶

To date, the Oregon market has been slow to develop CNG fueling infrastructure, and this has deterred fleet owners from investing in CNG vehicles. NW Natural’s proposal to offer natural gas compression services to its nonresidential customers will accelerate the development of the CNG fueling infrastructure that is prerequisite to investments in CNG vehicle fleets.

ODOE is also working to build the market for biogas in Oregon. There are currently 20 facilities in Oregon generating biogas from agricultural, animal, food and other wastes and additional biogas production at

³ From U.S. Department of Energy (USDOE) fuel economy website: <http://www.fueleconomy.gov/feg/bifueltech.shtml#3>. USDOE cites as the source for this estimate in greenhouse gas reductions Argonne National Laboratory’s Greenhouse Gases, Regulated Emissions, and Energy Use in Transportation (GREET) model, which evaluates full life cycle energy consumption and emission of greenhouse gases and six criteria pollutants. See <http://greet.es.anl.gov/>.

⁴ John A. Kitzhaber, M.D., Governor, 10-Year Energy Action Plan, December 2012, pg. 13, available at: http://www.oregon.gov/energy/Ten_Year/Ten_Year_Energy_Action_Plan_Final.pdf

⁵ Oregon Sustainable Transportation Strategy, Oregon Department of Transportation, March 2013, pgs. 60 and 63, available at: http://www.oregon.gov/ODOT/TD/OSTI/docs/STS/STS%20Report%20-Clean_March%202013_AP%20Final_for%20website_2.pdf.

⁶ Oregon Natural Gas Transportation Fuel: Information Paper, prepared for and by Columbia Willamette Clean Cities Coalition and Kendall Energy Consulting, LLC, 2013, pg. 30.

landfills with methane capture systems. Traditionally biogas has been flared or used in a generator or turbine to produce electricity. However, there is significant market potential for biogas to be upgraded to a renewable natural gas (RNG) standard and injected into the natural gas pipeline or used as a vehicle fuel. NW Natural has already established specifications for accepting RNG into its system. NW Natural's proposed compression services could give customers the opportunity to access both CNG and RNG, which in turn would help build a stable market for CNG and RNG as transportation fuels. This would increase consumer choice and provide biogas producers access to a new, higher value market.

II. Likely to provide economic benefit to non-participating ratepayers

NW Natural's proposal has participating customers pay all the incremental costs associated with providing the high-pressure gas service. The costs of the compression infrastructure installed at the customer site will be fully recovered from the participating customer through a monthly facility charge over ten years. Those costs are not shifted to other ratepayers.

In addition, if the new tariff is adopted, participating customers will purchase natural gas for use in vehicles and will make the same contribution to fixed costs as other commercial gas customers. Thus, gas compression services will help lower natural gas rates for non-participating customers by broadening the customer base over which NW Natural's fixed system costs are recovered.

The only possible downside would be if some customers switched off the proposed tariff before the costs of the compressor infrastructure had been recovered. That outcome is unlikely, as the ten years to recover the compressor costs is consistent with the time the participating customers will need to recover their investments in the CNG vehicles using the compressor. If a few customers do switch off the tariff before ten years, any unrecovered costs of compression infrastructure will likely be outweighed by the contribution to fixed costs by the remaining participating customers through the gas they purchase for vehicle use. Also, participating customers who continue to subscribe to NW Natural's high-pressure gas service after the initial 10 years will continue to contribute to fixed costs through their ongoing gas purchases. There is very little risk and potential economic benefit to non-participating customers.

These comments are respectfully submitted by:

/s/ _____

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