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VIA ELECTRONIC FILING

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

Attention: Filing Center

Re: NW Natural's Comments
Advice No. 13-10, Schedule H, High Pressure Gas Service

NW Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), hereby submits the attached comments for consideration in the Commission's review of the Company's filing, Advice No. 13-10, which proposes Schedule H, High Pressure Gas Service.

Please call me if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Tariff and Regulatory Compliance Consultant

enclosure

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

**In the Matter of NW Natural's
Advice No. 13-10,
High Pressure Gas Service**

NW Natural's Comments

1 Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company") files the
2 following comments in response to Staff's letter, dated August 15, 2013, requesting that parties submit
3 written comments on issues related to NW Natural's Advice No. 13-10, High Pressure Gas Service.

4 **I. Background**

5 On June 27, 2013, NW Natural filed Advice No. 13-10, which introduced proposed Schedule H,
6 High Pressure Gas Service (HPGS), a rider to nonresidential gas service received under Schedule 3, 31, or
7 32. On July 26, 2013, the Commission hosted a workshop to allow the Company to explain its program
8 to interested parties and answer their questions. Upon Staff's request, the Company revised its
9 requested effective date of September 1, 2013 to November 1, 2013 to allow time for a comment
10 period. NW Natural appreciates the opportunity to offer these comments to assist the Commission in its
11 review of NW Natural's request.

12 **II. High Pressure Gas Service**

13 The Company's proposed Schedule H introduces a new service option for nonresidential
14 customers receiving gas service on Schedules 3, 31, or 32. Under Schedule H, the Company will design,
15 install, and maintain Company-owned compression facilities on a participating customer's property.
16 These HPGS facilities will provide participating customers with the ability to fuel their vehicles with
17 compressed natural gas ("CNG").

1 NW Natural is proposing the HPGS program in response to requests by many of our customers
2 that the utility assist them in utilizing natural gas to fuel CNG vehicles. Many customers with return-to-
3 base fleets such as waste haulers, local delivery services, and public transit agencies would like to
4 convert their fleets from diesel to natural gas. However, despite the favorable economics of natural gas
5 as a fuel, conversions are not occurring at an appreciable rate in Oregon. This is in part because
6 transitioning to alternatively-fueled vehicles requires a significant investment in either replacing or
7 converting fleets, which is justified only if sufficient refueling infrastructure is available to ensure that
8 the benefits of the fleet investments can be realized. NW Natural hopes that its proposed service—
9 which would provide customers with utility supplied and maintained on-site refueling infrastructure—
10 will act as the assurance and incentive our customers require to convert their fleets to natural gas. On
11 this point, NW Natural notes that no other provider has made significant inroads in siting CNG refueling
12 infrastructure within the state to date.

13 NW Natural believes its proposed HPGS is appropriately a utility service because it involves the
14 provision of natural gas service to its end-use customers. Also, the Company is a qualified provider of
15 high pressure gas service. The Company currently provides high pressure gas service to a number of
16 customers, and managing and maintaining the compression equipment is a natural application of the
17 Company's expertise.

18 The Company is not proposing in this filing to operate CNG refueling stations or to determine
19 their location. Additionally, NW Natural is not proposing that its core customers take on risks associated
20 with the CNG market. Instead, NW Natural is seeking to provide to customers that are willing to pay for
21 it, gas service at pressures that are sufficient to make use of natural gas as a transportation fuel.

22 Part of NW Natural's proposal is that a HPGS customer could choose to make all or part of the
23 Company-owned facilities accessible to the public. However, as in the case of our fleet customers, the

1 customer would be responsible for the management and operation of the station. NW Natural believes
2 that this is an important element of its HPGS, because it allows for the efficient deployment of natural
3 gas fueling infrastructure in the state without requiring NW Natural's core customers or the Company to
4 bear market risks associated with public refueling stations. This option also gives HPGS customers the
5 opportunity to make the highest use of the infrastructure for which they will be paying.

6 In sum, the Company is seeking to take a reasonable and limited action to address the
7 demonstrated need for gas compression infrastructure among its customers.

8 **III. HPGS Pricing**

9 As stated above, the HPGS program is designed so that HPGS customers bear the costs related
10 to the service. In order to receive HPGS, a customer must sign a 10-year agreement that obligates the
11 customer to pay the costs associated with the site design, HPGS facilities, installation, and maintenance.
12 As provided in Schedule H, customers receiving HPGS pay a monthly facilities charge that allows for the
13 10-year recovery of the design, installation, and facilities costs through the application of a capital
14 recovery factor. The Company's proposed approach also ensures that the Company recovers its
15 incremental capital related costs, including depreciation, interest, property taxes, and any other costs
16 customarily relating to a utility investment. The customer taking HPGS service also pays a monthly
17 maintenance charge which includes actual costs plus a factor for administration. Schedule H allows the
18 Company to adjust maintenance costs annually to ensure it is neither over- nor under- collecting. Other
19 non-routine services, such as back-up services or non-scheduled maintenance, are billed at cost as they
20 are incurred.

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1 **IV. Risk Mitigation**

2 The Company has taken significant measures to mitigate any risks associated with its provision
3 of HPGS. This is evident in the many parameters included in the program design and the terms of the
4 customer contracts. Examples include the following:

- 5 • Participating customers will be required to meet credit requirements for the service in
6 accordance with Rule 2 of the Company's Tariff.
- 7 • Implementing service occurs over three phases, where each phase requires the execution of a
8 unique contract in order to secure the customer's commitment based on the known obligations
9 or costs to the customer at the time.
- 10 • The customers will be provided with cost estimates for HPGS prior to entering to the final, phase
11 three, ten-year HPGS Agreement. The Company will not incur any cost for compression facilities
12 until this agreement is executed. And, should the customer terminate service prior to the end
13 of the ten-year term established in the HPGS agreement, the customer will be required to pay
14 all costs associated with the remaining term of the contract.
- 15 • If after all of these protections, a customer were to fail to pay for the HPGS equipment, the
16 equipment could be removed and redeployed elsewhere or, if necessary, sold. This
17 redeployment opportunity offers significant protection on top of the other mitigation measures
18 and will prevent the Company from being burdened with stranded investments in compression
19 equipment located on a customer's site.

20 **V. UM 1461, Electric Vehicle Charging Investigation**

21 In UM 1461, the Commission explored the various policy issues raised by the utilities' potential
22 participation in another nascent transportation market—the electric vehicle ("EV") market. In
23 particular, the Commission analyzed the risks and benefits to utility customers and to the public

1 generally of utility provision of EV charging stations, and adopted criteria that an electric utility would be
2 required to fulfill before it would be allowed general rate recovery of public operating electric vehicle
3 service equipment ("ESVE") that it intends to operate.

4 There are many differences between the services proposed in Schedule H and the ESVE at issue
5 in UM 1461. However, the four criteria adopted are relevant to how a utility can appropriately engage
6 in and provide benefits to an emerging alternative fueling market.¹ We will therefore briefly address
7 the application of those criteria to NW Natural's proposed tariff filing.

8 **1. The utility's cost (investment and operating) in charging stations must meet the same net**
9 **benefit test as other utility investments.**

10 In adopting this first criterion, the Commission referred to Staff's recommendation that "to
11 justify general rate recovery . . . a utility would have to demonstrate net benefits provided to all
12 ratepayers" (page 8). On this point, it is significant that the Company has designed its HPGS to recover
13 100% of incremental costs from HPGS recipients. Accordingly, NW Natural's general ratepayers are held
14 harmless. Additionally, we note that NW Natural's other customers actually benefit from having new
15 uses of gas over the existing system that help offset NW Natural's fixed costs. As shown in the study
16 contained in Attachment F to the Company's Advice No. 12-10, we believe that existing customers will
17 benefit from increased usage under the schedules that are expected to take HPGS Service.²

18 **2. Charging infrastructure is essential at the location to facilitate plug-in adoption in the area.**

19 **Staff suggests that the Commission should consider factors such as:**

¹ See Commission Order No. 12-013, page 8.

² That analysis shows that, conservatively, HPGS customers are expected to pay more than the cost to serve their customer class as determined in the LRIC study included in the Company's last rate case, UG-221. The analysis estimates that HPGS customers will provide a present value revenue requirement (PVRR) system benefit of \$5.1 million over 10 years and \$4.5 over 20 years.

- 1 **(a) Whether the proposed location is on an important travel corridor that requires**
2 **adequate charging;**
- 3 **(b) The proposed location would fill a gap on a corridor that could not be adequately**
4 **served by private charging stations; and**
- 5 **(c) Utility service at the proposed location would enable private charging stations to**
6 **competitively serve other locations on the corridor.**

7 This criterion is specific to facilities that are placed by the utilities for public refueling. NW
8 Natural does not propose to operate public stations, and as such, the Company is not looking to locate
9 its facilities on traffic-heavy corridors or to determine their location through choosing locations that are
10 likely to serve an unmet public demand. Instead, HPGS facilities will be sited on a participating
11 customers' property to meet that customer's refueling needs, and it is up to that customer whether or
12 not the facilities will also be used to serve public demand. If a customer chooses to offer service to the
13 public, that customer will be wholly responsible for the public operation. Moreover, the Company will
14 have no direct stake in any revenues generated by a public HPGS station. Whether the facilities are
15 open to the public or are used solely for the customer's vehicles, the customer receiving HPGS is
16 responsible to the Company for all costs associated with HPGS.

17 Finally, NW Natural notes that there are currently almost no public fueling stations available
18 within the state or Oregon, which may substantially reduce the applicability of the concerns expressed
19 by the Commission in the EV docket on this topic.

20 **3. There is no likelihood that a third party EVSP or utility affiliate could provide the same services at**
21 **the location or a nearby location.**

22 In Staff's Closing Comments filed in UM 1461, Staff explained this criterion saying, "Allowing
23 utilities to rate base public charging stations could crowd out third party charging providers which must

1 recover their investment from revenue alone.” This concern does not apply to HPGS as the Company is
2 neither planning to recover costs from all rate payers nor is it asking to operate public stations. The
3 customer may freely choose any provider of compression equipment and may solicit bids for the
4 service.³

5 The design of NW Natural's proposed tariff gives the Company no advantage over other
6 compression service providers. Under the tariff, the Company will charge participants the full cost of
7 the services, and will not leverage revenues from elsewhere in its business for the provision of HPGS, as
8 a non-regulated provider of compression services may do.

9 **4. The utility has a separate EV rate class**

10 NW Natural notes that the costs of HPGS compression equipment will be directly assigned to the
11 customers taking such service, which essentially accomplishes the same goal as having a separate rate
12 class.

13 As explained in Commission Order no. 12-013, “Staff favored creating a separate EV rate in
14 order to encourage off-peak charging for vehicles and to provide the Commission with data on charging
15 patterns” (page 11). NW Natural notes that the gas system is significantly different than the electric
16 system in its ability to handle peak demand. HPGS customers are not expected to impose high demand
17 peaks to the system resulting in additional costs for supply-side resources.

18 **VI. Environmental Benefits**

19 A primary benefit that results from a change in transportation fuel from distillates to natural gas
20 is the environmental benefit of such a shift. Natural gas burns more cleanly than diesel and is the
21 cleanest of all fossil fuels-- with significantly fewer emissions of carbon dioxide and carbon monoxide,

³ Order No. 12-013 states “Staff suggests that solicitation of third party bids should always precede utility investment” (page 8). This would make sense if all customers were paying for the utility investment.

1 and only minimal levels of nitrogen oxide, sulfur dioxide, particulates and mercury. CNG produces little
2 or no evaporative emissions during fueling and use, compared to gasoline vehicles where evaporative
3 and fueling emissions are a significant portion of the emissions associated with operation. Moreover,
4 replacing a typical older in-use vehicle with a new CNG vehicles provide the following reductions in
5 exhaust emissions of:

- 6 • Carbon monoxide ("CO") by 70%–90%
- 7 • Non-methane organic gas ("NMOG") by 50%–75%
- 8 • Nitrogen oxides ("NOx") by 75%–95%
- 9 • Carbon dioxide ("CO2") by 20%–30%⁴

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11 In recognition of the environmental benefits of alternative fuels, Governor John Kitzhaber's 10-
12 Year Energy Plan calls for the acceleration of a more efficient and cleaner transportation system.⁵

13 Specifically, the plan says:

14

15 **Accelerate the market transition to a more efficient, cleaner transportation system.**
16 Transportation is the single largest contributor to Oregon's carbon emissions and a significant
17 source of air toxics. Oregonians consume 1.5 billion gallons of gasoline and drive 39 billion miles
18 every year. According to an analysis conducted by the Oregon Department of Energy from U.S.
19 Census Bureau data, fuel costs average Oregonians nearly seven percent of disposable income;
20 nearly double the cost ten years ago. This plan calls for focusing on achieving a 20 percent
21 conversion of large fleets to alternative fuel vehicles over the next ten years.⁶

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23 NW Natural believes it is important to point out that HPGS is a modest proposal that will assist Oregon
24 in making the transition to cleaner-fueled vehicles.

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⁴ http://www.ngvc.org/about_ngv/index.html

⁵ 10-Year Energy Action Plan. Governor Kitzhaber. Page 13: "Over the next ten years, the State will reduce dependence on fossil fuels by assisting in the conversion of 20 percent of large fleets to alternative fuel vehicles, including, but not limited to, electric, compressed natural gas ("CNG"), and liquefied natural gas ("LNG")." http://www.oregon.gov/energy/Ten_Year/Ten_Year_Energy_Action_Plan_Final.pdf

⁶ IBID, page 2 of cover letter to Plan (Kitzhaber to Oregon).

1 **VII. Conclusion**

2 In conclusion, the Company requests that the Commission approve its proposal to begin offering
3 HPGS services as detailed in its Advice No. 13-10. The Company has tried to design the program so that
4 it would benefit its customers while avoiding any harm to competitive interests. We believe our offering
5 achieves both goals. **First**, as discussed above, the program will not burden rate payers with additional
6 costs and in fact will provide net benefits to our customers. **Second**, far from impeding competition, we
7 believe our proposal will help to advance the market for CNG as a transportation fuel. As the
8 Commission stated in UM 1651:

9 We deem it paramount to allow all market players, including the electric utilities, to have
10 flexibility to respond to emerging market demands. We do not find that allowing utilities to
11 potentially participate in the EVSE market will necessarily impede the vibrancy of the whole
12 market." (pg 6)

13
14 In the case of Schedule H, we believe that NW Natural's provision of CNG infrastructure will help spur
15 CNG adoption for vehicles. A Clean Cities Coalition funded white paper notes that "[t]he eleven states
16 with some form of regulatory allowance for utility participation in the CNG market accounted for over
17 253 million GGE of CNG sales in 2012, or 84 percent of the nationwide total."⁷ While the Company's
18 HPGS program is modest, the Company believes it is a small step in the right direction for Oregonians.

⁷ U.S. Department of Energy, Clean Cities Coalition. 2013. "Oregon Natural Gas Transportation Fuel: Information Paper," by Columbia Willamette Clean Cities Coalition and Kendall Energy Consulting, LLC. Portland, Oregon. Pps 4-5.