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***Via Electronic Filing and U.S. Mail***  
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Public Utility Commission of Oregon  
Attention: Filing Center  
PO Box 1088  
Salem OR 97308-1088

**Re: UM 1744 – NW Natural’s Application of an Emission Reduction Plan**

Attention Filing Center:

Enclosed for filing in Docket Number UM 1744 is Portland General Electric Company’s **Prehearing Memorandum**. This document is being filed by electronic mail with the Filing Center.

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Richard George", with a long, sweeping flourish extending to the right.

J. Richard George  
Assistant General Counsel

JRG:fff  
Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UM 1744**

In the Matter of )  
 )  
NORTHWEST NATURAL GAS ) **PREHEARING MEMORANDUM OF**  
COMPANY, dba NW NATURAL ) **PORTLAND GENERAL ELECTRIC**  
 )  
Application for approval of an Emission )  
Reduction Program )

**I. Introduction and Summary**

Portland General Electric Company (“PGE”) hereby submits this prehearing brief in docket UM 1744 concerning Northwest Natural Gas Company’s (NWN) application for carbon emission reduction program pursuant to SB 844.

As an initial matter, PGE would like to express its disappointment at the development of this program and application by NWN. At no point during the legislative process was Combined Heat and Power (CHP), a program that will have significant impacts on the electric utilities, raised as the prime prospect for carbon reductions. All examples before the legislature were programs that involved carbon reductions with respect to natural gas service and transportation. PGE was not included in workshops leading to the development of this program, including those related to the calculation of avoided electric utility carbon emissions.

In fact, PGE’s involvement in workshops to review the proposed program once developed, occurred by happenstance. PGE learned of them one business day before the first workshop was held. We then attended as an uninvited participant. PGE notes that SB 844 requires proof of stakeholder involvement. ORS 757.539(3)(e) and (4)(h). In the scoping process prior to NWN filing its application, even though electric utility interests would be significantly affected, and given PGE’s public comments in the SB 844 rulemaking (AR 580)

requesting the Commission mandate notice to the electric utilities of certain SB 844 filings, NWN did not provide notice to, or invite PGE to, these critical public workshops during the development of its proposed program. It is our belief that at least some of the disagreements found with this proposal from NWN could have been resolved had NWN included PGE and the other electric utilities from the beginning, as intended by the law.

PGE recommends the Commission reject NWN's application. The intent of SB 844 was to encourage cost-effective carbon reductions that natural gas utilities would not pursue in the "ordinary course of business." PGE believes NWN has not met its burden of proof for either criteria—cost effectiveness and outside the normal course of business. The application relies on overstated avoided emissions calculations which result in an inaccurate and artificially low price for carbon reductions. NWN also requests a substantial incentive payment to pursue CHP projects, an activity they have engaged in for more than a decade. Additionally, PGE believes that the proposed program:

- inappropriately incentivizes customers to switch from electrical service to natural gas service; and
- relies on an ETO incentive for natural gas efficiency that is inappropriately funded from monies collected from electric utility customers for electric efficiency.

While the latter may not be contrary to the law, electric customer funded incentives should be reserved for electric efficiency efforts/measures as a matter of fairness to electric utilities and their customers.

## II. PGE Positions by Issue

**(1) NWN's Proposal does not meet the requirements of SB 844, as promotion of CHP is in the usual course of its business.**

SB 844, codified at ORS 757.539(3)(d), requires that “the public utility, without the emission reduction program, would not invest in the project in the ordinary course of business.” As the applicant, NWN bears the burden to show that it would not invest in the project but for the emission reduction program. NWN has not met its burden and in fact, cannot meet it because NWN has been involved in CHP prior to the passage of SB 844. From January 1, 2005 to December 31, 2009, for example, NWN offered Schedules 31 CHP-1, and 32 CHP-2, Riders for Combined Heat and Power (Experimental). The programs were available to non-residential customers taking service under Schedules 31 and 32 for using natural gas to fuel customer or third-party owned CHP equipment up to 25 MW. Customers were provided bill credits for five years to incentivize CHP development. “The riders are designed to encourage development of CHP systems, which the company defines as ‘the simultaneous production of power and the useful integration of waste heat recovery from that production of power at a customer’s site’.” See December 15, 2004 Staff Memo,

<http://www.puc.state.or.us/meetings/pmemos/2004/122104/ca15.pdf>

CHP involves development of gas generation at a customer’s site to the benefit of NWN-increased load. NWN specifically claims this benefit. NWN/300 Summers/11. As NWN suggests in its testimony, this “will lower overall system costs to the Company’s customers.” NWN already has an ordinary course of business incentive to increase its load and customer gas usage, and has promoted CHP projects for years. Through its promotional materials, NWN heavily encourages load growth and conversion from electricity. It claims greater energy

efficiency, more affordability “in most areas” than electricity, and availability during outages, unlike electricity. See <https://www.nwnatural.com/ConnectToGas/BenefitsOfGas>.

**(2) Using ratepayer dollars to incentivize customers to switch from PGE load to NWN load is a significant change in policy.**

The Commission should carefully consider the underlying fuel switching policy in allowing NWN to use ratepayer dollars to cause customers to switch from PGE to NWN. The Commission has previously examined similar fuel switching issues in UM 1565. The docket was prompted by NWN and focused on the question of whether ETO’s high efficiency heat pump incentives were causing customers to switch from natural gas to electricity<sup>1</sup>. NWN then contended that the use of ETO incentives to drive customer fuel switching was inappropriate, stating: “NW Natural believes it is wrong for an incentive, which is paid for by ratepayers, to be used by third parties in a way that interferes with NW Natural’s competitive business. NWN is happy to compete with electric utilities for business, but believes it should be able to do so based on factors such as price, product qualities, and service, not against a ratepayer-funded space condition incentive offered to gas customers to switch fuels.” NWN/200 Edmonds/3.

With regard to its SB 844 application and required demonstration of customer benefit, NWN claims the primary customer benefit comes from the “incremental gas throughput expected in NW Natural’s service territory, which will lower overall system costs to the Company’s customers.” NWN/300 Summers/11. By this same measure, the program is harmful to electric customers, because it will lower electrical utility load and increase rates for the electric utilities’ customers. Attempting to address this harm to electric customers, NWN claims that there are other offsetting benefits such as “reduced transmission and distribution costs, lower cost electric generation, better system resiliency, avoided line losses, improved power quality and provision

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<sup>1</sup> The outcome of the docket was to have the ETO revise its customer messaging so that its information was fuel neutral, and to ensure that the customer remains at the center of fuel choice.

for ancillary services, fast and flexible asset development, improved environmental compliance, fuel flexibility and increase[d] customer retention.” NWN/300 Summers/15. NWN offers no support for these alleged benefits, and does not calculate them. *See Id.* In fact, these are the same arguments NWN used when it proposed certain tariff riders to support CHP in 2004. *See* Advice 04-17, filed November 3, 2004.<sup>2</sup> Many of the statements are just not true. For example, the CHP program is targeting existing electrical customers, and therefore, transmission and distribution facilities already exist and are not avoided. Moreover, many of these alleged benefits cut both ways. NWN will likely need to build gas transportation and distribution facilities to accommodate this switch, leading to increased gas customer costs.

If the Commission allows the program to switch load between the utilities, it will introduce market changes that bet on the future promise of cost-effective carbon reductions. Whether potential reductions in carbon actually result from the program, or are cost-effective, depends on the actions and regulatory future of the electrical sector, not NWN. By locking in incentives, and having customers bear the cost, it forces these customers to bear the long-term risk that burning fossil fuel at localized CHP facilities will not be less carbon intensive than utility system mixes or less expensive than other carbon reduction approaches, such as increased renewable generation. In the beginning, depending on the appropriate calculation/modeling method, a reduction may be shown, but in the end, as PGE’s portfolio of resources includes greater and greater penetration of renewables, it is possible that PGE’s carbon emissions will have a rate lower than that of a CHP natural gas fired generator. Given that NWN’s application

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<sup>2</sup> In making the arguments previously, NWN specifically included the modifier “if located where the electrical grid is constrained” when describing the suggested benefits. <http://www.puc.state.or.us/meetings/pmemos/2004/122104/ca15.pdf>. PGE notes that there is no evidence in the record or indication in the current proposal that the CHP projects would be installed in such a location.

is for a ten year program, PGE advises against a short-sighted approach that inextricably links the two utility sectors.

**(3) If the Commission allows NWN's Fuel Switching CHP Incentive, it should allow PGE to similarly offer incentives to gas customers for carbon reductions.**

PGE has identified carbon reduction programs it may develop that would similarly result in fuel switching. In the event the Commission finds the fuel switching component of NWN's SB 844 CHP program acceptable, then it should not object to a fuel switching incentives to natural gas customers as part PGE proposed programs, provided those program meets other carbon savings, reasonableness, and prudence requirements.

**(4) NWN's proposed methodology overstates carbon reductions.**

PGE objects to NWN's proposed use of eGRID non-baseload emissions data from the Northwest Power Pool as the basis for avoided electric utility carbon emissions. The NWPP is overly broad and includes many states that are heavily reliant on coal generation<sup>3</sup>. NWN's chosen methodology significantly overstates carbon emissions that would be avoided if the project were located in PGE service territory.

NWN's defends its choice, claiming that the proposed methodology is supported for use by EPA's Combined Heat & Power Partnership. However, the Partnership only recommends eGRID as appropriate in the absence of consistent and complete utility-specific import and export data, which is readily available for PGE. *See Fuel and Carbon Dioxide Emissions Savings Calculation Methodology for Combined Heat and Power Systems*, U.S. Environmental Protection Agency Combined Heat and Power Partnership, Feb. 2015, at 25, [http://www3.epa.gov/chp/documents/fuel\\_and\\_co2\\_savings.pdf](http://www3.epa.gov/chp/documents/fuel_and_co2_savings.pdf). PGE tracks greenhouse gas emissions associated with the power we generate and purchase on behalf of our customers and

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<sup>3</sup> The NWPP includes Montana, Utah and Wyoming.

reports it annually. For NWN sited projects in PGE's service territory, the Commission should rely on accurate, current, utility specific data. PGE has proposed two methodologies. *See* PGE/200 Barra/3-5.

As an alternative to utility specific data, PGE supports Staff's proposal to rely on regional emissions data calculated by the Northwest Power & Conservation Council, as outlined in Staff/300 Klotz/21-26.

Not only does NWN choose a methodology resulting in an inflated avoided carbon value, NW Natural also proposes to "lock-in" the incentive payment for carbon reductions for 10 years. The incentive calculation then relies on 2012 data for avoided utility emissions, when reality is more fluid. PGE's carbon emissions have declined since 2012, and will likely continue to decline in the coming decade as more renewables are added and our Boardman generating station ceases coal-fired operation after 2020. PGE understands the desirability of a fixed project incentive, but objects to it being based on outdated information that does not accurately reflect our current or future carbon emissions.

**(5) NWN's proposed program appears to be more about promoting CHP than cost-effective carbon reductions.**

SB 844 aimed to incentivize the reduction of carbon emissions, not test the price at which the gas company could make CHP viable. When pressured to adopt a carbon reduction calculation methodology that produces more realistic estimates, NWN proposes to increase their per ton incentive. NWN's proposed program appears to be designed to pay whatever it takes to achieve targeted levels of CHP, rather than cost-effective carbon reductions.



- (6) **If ETO incentives are applied, they should be sourced from funds collected from NWN customers.**

PGE questions whether the proposed program should be eligible for ETO incentives. In the UM 1565 docket, *Investigation into Fuel Switching*, the ETO provided its Fuel-switching policy, which should apply to energy efficiency matters such as CHP. It provides that the ETO “does not intend its incentives to affect fuel choice.” (ETO Policy 4.03.000-P Fuel-switching). In that docket, the Commission specifically ordered that the ETO incentive should “be designed to avoid the inadvertent promotion of fuel switching.” (OPUC Order No. 13-104). If the Commission were to decide that the proposed program should be eligible for ETO incentives, those incentives should rightly be sourced from funds collected from NWN customers for natural gas efficiency, not electric efficiency funds, as is current ETO practice. The proposed incentives are “based on the energy efficiency and cost-effectiveness of the installed CHP system” - specifically the natural gas savings. There is no reduction or conservation in electric usage. In raising the source of funds issue with the ETO, the ETO indicated that it is a matter of OPUC policy. Regardless of its legality<sup>4</sup>, funding CHP incentives from electric efficiency funds should not be endorsed as a matter of Commission policy.

### **III. Conclusion**

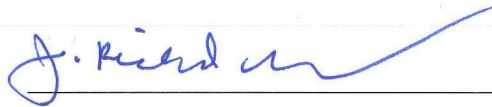
PGE respectfully requests that the Commission not approve NWN’s proposed carbon reduction program for Combined Heat and Power. The application grossly overestimates emissions reductions and is not cost-effective. The application does not meet the requirements of SB 844, in particular that the “public utility, without the emission reduction program, would not invest in the project in the ordinary course of business.” NWN already is incentivized by

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<sup>4</sup> We understand that the Dept. of Justice suggested in a 2005 memo to Commissioners that fossil-fueled combined heat and power systems may be funded by public purpose charges. *See* PGE/101 Barra. While this technical statutory analysis may suggest that doing so is legal, it does not suggest that it is proper or that the Commission should, as a policy matter allow ETO incentives to fund CHP fuel switching.

load growth potential to promote investment in CHP, does so now and has in the past. For policy reasons, it is not appropriate or fair to electric utilities and their customers for the Commission to allow NWN to incentivize and recover costs in rates that directly promote fuel switching. Nor is it appropriate for ETO funds that are collected from electric customers to be used to promote fuel switching through incentivizing increased gas consumption by gas customers. For these reasons, PGE requests that NWN's application be denied.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "J. Richard George", is written over a horizontal line.

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