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January 26, 2016

Via Electronic Filing

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem OR 97308-1088

RE: UM 1744 – NW Natural's Application for Approval of an Emission Reduction Program

Attention Filing Center:

Enclosed for filing in Docket Number UM 1744 is Portland General Electric Company's **Post-Hearing Brief** to be filed electronic with the Filing Center.

Thank you in advance for your assistance.

Sincerely,

J. Richard George
Assistant General Counsel

JRG:bop

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1744

In the Matter of	)	
	)	
NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL,	)	**POST-HEARING BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY**
	)	
Application for Approval of an Emission Reduction Program.	)	

I. Introduction and Summary

Portland General Electric Company ("PGE") hereby submits this post-hearing brief in docket UM 1744 concerning Northwest Natural Gas Company's ("NWN") application for a carbon emission reduction program pursuant to SB 844. As we expressed previously, PGE believes that NWN was less than forthright with the electrical utilities during the legislative process and during implementation of SB 844, of its intent to offer a Combined Heat and Power ("CHP") program that would have direct impacts on the electric utilities. All examples before the legislature during the pendency of the legislation involved carbon reductions with respect to natural gas service and transportation,[1] and after the bill was approved and NWN commenced its stakeholder engagement process, PGE was not included in initial development and stakeholder meetings. NWN claims a robust process, citing input from "Staff, ODOE, ETO, the Northwest CHP Technical Assistance Partnership ("TAP"), and Washington State University ("WSU")", but notably absent are electric utilities, the stakeholders whose customers will be harmed by NWN's proposal. *See* NWN Post-Hearing Br 37 at 6-8.

[1] See, for example, legislative history, including meeting minutes and written testimony for SB 844 at https://olis.leg.state.or.us/liz/2013R1/Measures/Exhibits/SB844.

PGE continues to recommend the Commission reject NWN's application for both legal and policy reasons. NWN has not satisfied the requirements of SB 844—in particular, that it would not otherwise pursue CHP in the "ordinary course of business." Moreover, the proposal is not cost effective. The application relies on overstated avoided emissions calculations which result in an inaccurate and artificially low price for carbon reductions.

The proposal results in fuel switching—it inappropriately incentivizes customers to switch from electrical to gas service, to the detriment of electric utility customers generally. It also relies on an Energy Trust of Oregon ("ETO") incentive for natural gas efficiency that is inappropriately funded from monies collected from electric utility customers for electric efficiency. 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 ordinary course of NWN's 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." NWN suggests that PGE is arguing that "any programs that even marginally increase natural gas consumption" would not meet this test. *See* NWN Post-Hearing Br 31, at 13-15. PGE is not making such a broad generalization. Rather we point out that this test is not met because there is direct evidence that NWN has designed and implemented incentivized CHP programs in the ordinary course of its business without SB 844. Specifically from January 1, 2005 to December 31, 2009, 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. Staff noted, "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'." Staff Report, Item No. CA15, December 15, 2004. Customers were provided bill credits for five years to incentivize CHP development. Advice No. 04-17 at 1-2.[2]

The fact that NWN has largely attempted the CHP proposal before in the ordinary course of its business is evidence that the ORS 757.539(3)(d) criterion is not met.

(2) Using Ratepayer Dollars to Incentivize Customers to Switch from PGE Load to NWN Load is a Significant Change in Policy.

The CHP program assumes and claims as fundamental to the program both an increase in the use of natural gas and a decrease in the purchase of electricity from the grid. *See* NW Natural's Application for Authorization of an Emission Reduction Project 5-6. The only way these two statements can be true is if the CHP Program results in fuel switching from electricity to natural gas. NWN claims the benefit to NWN customers is because of increased gas throughput and argues that overall carbon benefits are realized by decreasing electrical load of utilities (or other providers such as energy service suppliers). NWN tries to make a semantic argument that no fuel switching exists, because ultimately the customers are still using electricity both before and after the switch. *See* NWN Br 30 at lines 3-10. Fuel switching, however, pertaining to this docket, prior dockets (UM 1565) and by the parties to this docket, generally refers to customers switching between electrical and gas service from respective utilities for all or a portion of their load. NWN's CHP Program would promote and incentivize exactly this.

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[2] http://www.puc.state.or.us/meetings/pmemos/2004/122104/ca15.pdf

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, *Investigation into Fuel Switching*. That 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.[3] 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." *See* UM 1565, NWN/200 Edmonds/3.

Ironically, NWN's opposition to fuel switching in UM 1565 would be undermined if the characterization of fuel switching proposed in its current brief had been utilized—that no fuel switching exists because customers are using electricity both before and after the switch. In UM 1565, NWN argued that incentives for high efficiency heat pumps could result in an increase in electric company load and a reduction of NWN gas load. But, using NWN's current logic, to the degree any of the additional electrical service was generated by natural gas, it would not have constituted fuel switching. NWN certainly did not make the distinction it attempts to draw now in UM 1565. While the Commission has not opined broadly on the question of fuel switching, if NWN's fuel switching program is approved, then PGE may prepare similar programs that demonstrate similar benefits.

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[3] 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.

NWN's claimed primary customer benefit is incremental gas throughput, which is expected to lower per unit system costs to the Company's customers. *See* NWN/300 Summers/11. Conversely, the reduced throughput on PGE's system will result in higher per unit costs. NWN's assertion of other offsetting benefits to electrical customers, such as "reduced transmission and distribution costs, lower cost electric generation, better system resiliency, avoided line losses, improved power quality and provision for ancillary services, fast and flexible asset development, improved environmental compliance, fuel flexibility and increase[d] customer retention" are unsupported in the record and undetermined.[4] *See* NWN/300 Summers/15 at 15. Many of the statements are just not true. For example, the CHP program is targeting existing electric customers, and therefore, transmission and distribution facilities already exist and are not avoided. The infrastructure investments to serve these customers are already in place. Reduced throughput will mean higher rates for other electric customers. Moreover, increased gas throughput cuts both ways. NWN may need to upgrade gas transportation and distribution facilities to accommodate this switch, leading to increased gas customer costs.

The Commission has considered similar situations, where customers switching from PGE service results in negative impacts for remaining customers in the direct access context. Under PGE's Schedules 128 and 129, transition adjustments are applied to customers opting out of PGE's energy service. When transition charges are applied, they are intended to keep remaining customers whole. This indicates that the Commission recognizes the system impact caused by loss of load, which would occur if NWN's proposal were allowed.

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[4] Note that these are the same arguments NWN used when it proposed the tariff riders to support CHP in 2004. *See* Advice 04-17, filed November 3, 2004. 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 proposal that the CHP projects would be installed in such a location.

Moreover, as PGE has explained before, if the Commission allows the program to switch load from the electric to gas utility, it will introduce market changes that bet on the future promise that alleged CHP carbon reductions continue to be cost-effective. This depends on the actions and regulatory future of the electrical sector, not NWN, and forces 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. Given that NWN's application is for a ten year program, PGE advises against a short-sighted approach that inextricably links the two utility sectors.

NW Natural proposes to "lock-in" the incentive payment for carbon reductions for ten years, based on projected year one savings. PGE's carbon emissions have declined in recent years, and will 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 year one reductions that will not accurately reflect emissions reductions over the duration of the program period.

(3) 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 pool of generation that eGRID draws from is overly broad and includes "hundreds of units ... most of those units don't serve resources within Oregon or load within Oregon."[5] NWN's chosen methodology significantly overstates carbon emissions that would be avoided for CHP projects located in Oregon, and PGE service territory in particular.

NWN claims that the eGRID model is superior because "there is no need to design a new methodology" and it will "ensure nationally consistent results". PGE finds neither argument

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[5] Transcript of Proceedings, UM 1744 Hearing, Jason Salmi Klotz, Vol. I of I at 92 (December 18, 2015).

convincing. Convenience is not a compelling reason to use a model that will not accurately measure emissions reductions. As the Northwest pursues carbon reductions as a region, it will be important that the baseline used to measure those reductions reflect *regional* realities.

NWN states that stakeholders initially agreed on the eGRID methodology. PGE would like to point out that the electric utilities were excluded from the stakeholder meetings that led to initial support of the eGRID methodology. As NWN explains, several stakeholders have since shifted their support to use of the NWPCC Aurora model, and NWN now appears reluctantly willing to accept it. *See* NWN Post-Hearing Br 14 at 19-20. Had NWN's stakeholder process been more robust and inclusive at the outset, this issue might have been resolved prior to their application.

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.

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

SB 844 was intended 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 double their per ton incentive. *See* NWN Post-Hearing Br 19, at line 23. 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. And the incentives required reflect the considerable risk associated with these projects. In response to Staff's suggestion that an IRR of 10 – 15% ought to be sufficient for an energy efficiency project, NWN was quick to point out that these are "risky investments" and typically require IRRs of 18 – 35%. *See* NWN Post Hearing Br 8 at line 12. PGE urges the Commission to examine this program through a different lens, a lens required by

ORS 469.010(f)[6] – is this a cost-effective means of achieving a material reduction in carbon emissions?

(5) 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, 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." *See* 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." *See* 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. 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. Moreover, there is no benefit to electric customers—the customers who paid the incentive. The notion that reduced natural gas usage as a result of this program will reduce the market price of natural gas for electric utilities is far-fetched. In fact, as cited earlier, lower electric utility loads will, in all likelihood, result in rate increases for electric utility customers.

In raising the source of funds issue generally with the ETO, the ETO indicated to PGE that it is a matter of Commission policy. Thus, PGE strongly encourages the Commission to adopt a policy that CHP incentives should not be funded from electric efficiency funds.

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[6] ORS 469.010(f) provides: "That cost-effectiveness be considered in state agency decision-making relating to energy sources, facilities or conservation, and that cost-effectiveness be considered in all agency decision-making relating to energy facilities."

III. Conclusion

PGE respectfully requests that the Commission not approve NWN's proposed carbon reduction program for Combined Heat and Power for the following reasons:

- The application 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 load growth potential to promote investment in CHP, does so now and has in the past.
- As a matter of policy, it is not appropriate or fair to electric utilities and their customers for the Commission to allow NWN to promote fuel switching and recover costs, plus an incentive, in rates. 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.
- In the event the Commission finds the fuel switching component of NWN's SB 844 CHP program acceptable, then it should not object if PGE proposes fuel switching incentives to natural gas customers as part of future programs, provided those program meets other carbon savings, reasonableness, and prudency requirements.

Respectfully submitted,

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