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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1744

In the Matter of
NORTHWEST NATURAL GAS
COMPANY, dba NW Natural
Emissions Reduction Program.

**NORTHWEST NATURAL GAS
COMPANY’S REPLY BRIEF**

I. INTRODUCTION

Northwest Natural Gas Company (“NW Natural” or the “Company”) submits this reply brief urging the Oregon Public Utility Commission (the “Commission”) to approve its Combined Heat and Power (“CHP”) Solicitation Program (“CHP Program”). The CHP Program provides the Commission with the best opportunity to benefit customers and reduce anthropogenic greenhouse gas emissions through the use of natural gas. If successful, the CHP Program and SB 844 may become a national example of how private natural gas utilities can voluntarily make significant contributions to reducing the harmful impacts of greenhouse gas emissions that contribute to climate change.

The issues and record in this proceeding have been well developed through four rounds of testimony by eight parties, an evidentiary hearing, and (soon to be) four rounds of briefing. Given the voluminous amount of information before the Commission, this brief will respond only to major arguments raised by Staff and intervenors that have not already been fully addressed in previous briefing.

This brief will also highlight the changes and modifications NW Natural has made to address the parties’ concerns, and identify the remaining issues that require Commission

1 resolution. Even in places in which differences have not been resolved, NW Natural has
2 modified many of its positions in order to bridge the last remaining gaps.

3 **II. NW NATURAL HAS REVISED THE PROGRAM TO ADDRESS ISSUES**
4 **AND CONCERNS RAISED BY THE PARTIES**

5 Starting with the informal stakeholder process, NW Natural has sought to
6 accommodate the legitimate interests of the parties and repeatedly made program
7 modifications. NW Natural's numerous responsive changes illustrate the Company's
8 approach, which is to collaboratively develop a cost effective SB 844 carbon reduction
9 program.

10 Despite NW Natural's changes, the core of the CHP Program remains the same:
11 natural gas customers will receive monetary payments after they invest in and install
12 cogeneration and begin reducing greenhouse gas emissions. The key program design is
13 that customers will only be paid for measured and verified carbon emissions over the ten-
14 year life of the program. This will reduce risks, encourage customers to achieve real
15 carbon reductions, and protect ratepayers. NW Natural will also be paid monetary
16 incentives based on measured and verified carbon reductions, which aligns the
17 Company's interest with the success of the program. The CHP Program will provide
18 monetary and non-economic benefits to customers, and is not the type of program that
19 NW Natural or any natural gas utility would pursue in their ordinary or day-to-day course of
20 business.

21 NW Natural notes that many aspects of the CHP Program have not been disputed,
22 or are supported by the non-electric utility parties, including but not limited to: the CHP
23 Program will reduce carbon emissions in Oregon; SB 844 authorizes a CHP carbon
24 emissions program; customers will benefit from lower average system costs and increased
25 reliability; customers should be paid a monetary incentive based on a measured and
26 verified carbon emissions reductions; NW Natural should be paid a monetary incentive

1 based on measured and verified carbon emissions reductions; NW Natural would not have
2 proposed the CHP Program in the ordinary course of business; program costs will be less
3 than half of the overall SB 844 cost cap; the CHP Program should be subject to a
4 Commission review after achieving a specific emissions level and after three years; the
5 CHP installations 20 year measure life are correct; the CHP Program's ten-year incentive
6 payments are appropriate; the measurement and verification program ("M&V") is
7 appropriately designed; the CHP Program has the correct geographic boundary and
8 scope; program costs should be categorized as annual operations and maintenance
9 expenditures; program costs should be placed in a deferred account for later recovery;
10 program benefits between rate cases should be placed in a deferred account to be
11 returned to customers; program benefits after rate cases should be returned to customers
12 through ordinary cost of service ratemaking; programs costs and benefits should be
13 allocated to all customers on an equal percentage basis; there will be no "emissions
14 leakage"; projects emissions have been appropriately calculated; projects need to be
15 operational within 24 months of their application to be eligible for incentive payments;
16 stakeholders were involved in the development of the CHP Program; project updates will
17 provide the Commission with appropriate information regarding costs and reduced
18 emissions; and issues related to the Energy Trust of Oregon ("ETO") incentives are
19 outside the scope of the proceeding.

20 Key CHP Program changes are listed below:

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CHP Program Changes	
Change	Reason
Return to customers <u>all</u> increased margins (the “customer benefit”) associated with higher throughput due to CHP installations through a deferred account between rate cases, and through ordinary cost of service regulation after a rate case.	Addresses the concern that all customer benefits should be returned to customers. Also addresses the concern raised by Portland General Electric Company (“PGE”) and PacifiCorp regarding the ordinary course of business incentives.
Openness to using the Northwest Power and Conservation Council (the “Council”) methodology for calculating carbon emissions reductions caused by the displacement of electricity from the grid due to the installation of CHP.	Addresses the concerns regarding the use of eGRID.
If eGRID is used, then the NW Natural incentive (but not the customer incentive) would be capped at the 2010 eGRID.	Addresses the concern that NW Natural has a financial incentive to use higher carbon reduction assumptions over time.
The Application proposed to keep the customer incentive payment and emissions numbers unchanged for customers already participating in the program, but to update the emissions reduction data for new customers. <ul style="list-style-type: none"> • For customers already in the program, NW Natural first agreed to update the carbon emissions numbers <u>for reporting purposes only</u>. • NW Natural further agreed to update the incentive payment and emissions reductions numbers for customers already participating in the program as well, as long as the <u>total customer payment remains the same</u>. 	Addresses the concern that a fixed carbon reduction number over the customer’s ten-year participation will not accurately reflect actual carbon emissions. Addresses the concern that customer incentives are not scaled to ensure that accurate carbon reductions are identified. Adopts Citizens’ Utility Board of Oregon’s (“CUB”) proposal on scaling the customer payment raised for the first time in their Post-Hearing Brief.
A cap on participation and program costs, which will initiate further Commission review if the CHP Program is able to incentivize 240,000 metric tonne of CO ₂ equivalent (“MTCO ₂ (e)”) reductions per year.	Addresses the concerns regarding uncertain total costs and that there be an overall cost cap.

1	The 240,000 MTCO ₂ (e) cap be scaled to reflect the carbon reductions methodology approved by the Commission.	Addresses the concern that the carbon reduction cap would be exceeded if the carbon savings are lower than the 1,340 lbs. per MWh from the 2010 e GRID.
2		
3	For example, the cap would be scaled to approximately 120,000 MTCO ₂ (e) using the Council's 950 lbs. per MWh rather than 240,000 MTCO ₂ (e) using 2010 eGRID's 1,340 lbs. per MWh.	Adopts Staff proposal raised for the first time in their Post-Hearing Brief.
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6	NW Natural will file a full and comprehensive report after three years regardless of participation levels.	Addresses concern regarding overall program costs and other uncertainties.
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9	The Commission should conduct a review of the CHP program to determine if it should be continued and/or modified if Oregon adopts comprehensive carbon regulation. Contracts in place at that time would remain unaffected.	Addresses the concern that the program be revisited in the event of a comprehensive cap and trade program.
10		
11		NW Natural adopts the Northwest Industrial Gas Users' ("NWIGU") proposal raised for the first time in their Post-Hearing Brief.
12		
13	Made program and evaluation changes before and during the stakeholder process, including retaining the Climate Action Reserve to evaluate the M&V Plan, revising the M&V Plan, changing the ETO incentives, revising the reporting of emissions, correcting emission reductions to state in metric tonnes versus tons, and adding the NW Natural incentive over the same 40 operating quarters as the customer incentive.	Addresses program design and verification and other concerns.
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19	Providing measurement and verification information to the Commission in the same form and on the same timeline as provided to NW Natural, and providing whatever additional reporting Staff or Commission desire.	Addresses concerns regarding the timing of measurement and verification information.
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21		All of Staff's concerns regarding the measurement and verification process have been addressed.
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III. OUTSTANDING ISSUES

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24 Despite significant progress, there remain a handful of issues that the parties have
25 been unable to resolve. NW Natural appreciates that Staff, CUB, NWIGU, and PacifiCorp
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1 have all also revised their positions, and many of the parties support most aspects of the
 2 CHP Program. NW Natural respects the parties' intentions and recognizes that most of the
 3 proposals have been made with the intention of improving the CHP Program; however, the
 4 Company believes that the parties' remaining proposed changes unnecessarily hinder the
 5 implementation of SB 844 or financially harm the Company for a voluntary program. The
 6 remaining disputed major issues are listed below, and NW Natural's reply brief responds to
 7 these issues in the order presented in Staff's brief to facilitate the Administrative Law Judge
 8 and the Commission's analysis.
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Disputed Issues	
Staff or Intervenor Position	NW Natural Position
<p>11 Overall program costs are too high, overall 12 customer benefits are insufficient, and the 13 customer incentive should be lower.</p>	<p>14 The mandatory review and emissions 15 reductions cap will sufficiently limit costs.</p> <p>16 CHP is likely the least cost carbon 17 reduction program, and overall customer 18 benefits are likely to be higher than most 19 other SB 844 programs.</p> <p>20 The customer incentive may already be 21 too low to achieve significant carbon 22 reductions.</p>
<p>23 Staff, CUB, and NWIGU recommend a \$5 24 per MTCO₂(e) company incentive.</p> <p>25 CUB and NWIGU oppose setting a baseline 26 incentive for future natural gas related carbon emissions reduction programs.</p>	<p>27 A \$10 per MTCO₂(e) incentive is 28 reasonable given the high level of carbon 29 savings associated with CHP, NW 30 Natural's effort, that no significant costs are rate based, and that the incentive will never exceed the 25% incentive cap.</p> <p>A \$10 per MTCO₂(e) incentive should be a baseline for future programs, but can be adjusted upward or downward given future program specifics.</p>

1	CUB, Staff, and NWIGU recommend that the program cost and company incentive should be subject to an earnings test.	Earnings tests are not appropriate for the CHP Program because it is a voluntary program, and the Company should be allowed to recover all of its prudently incurred costs.
2		
3	CUB is willing to agree to exclude the company incentive, but not the program costs, from an earnings test.	NW Natural will not proceed with the CHP Program if the program costs themselves are subject to an earnings test because it could result in the Company being financially harmed through its voluntary efforts to reduce carbon and implement SB 844.
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9	CUB is concerned that one CHP project could use slightly more than half of the available customer incentives.	The lowest cost CHP projects should be funded regardless of size.
10		
11	CUB does not propose a specific recommendation to address this concern.	No customers should be excluded from the CHP Program.
12		
13	PGE and/or PacifiCorp recommend that the CHP Program be rejected or modified because of fuel switching, ordinary course of business, use of ETO funds, and CHP will allegedly harm electric customers.	All the non-electric utility parties oppose the electric utilities' recommendations.
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16		The CHP Program does not result in fuel switching, would not occur in the ordinary course of business, and benefits electric customers. The issue of ETO funds is outside the scope of this proceeding

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IV. ARGUMENT

A. Overall Program Costs Have Been Sufficiently Limited.

Staff states that the overall program costs are “high,” “poorly-defined,” and present a significant risk. (*Staff Post-Hearing Brief at 2-3*). NW Natural addressed this concern by capping the program at a set level of greenhouse gas savings, which translates into a de facto cost cap. In addition, risks are limited because the original design ensures that incentive payments are only made if the program succeeds.

1 **1. Staff Is Significantly Overstating the Potential Customer Costs.**

2 Staff continues to erroneously argue that the CHP Program could result in average
3 residential customer monthly bills as high as \$2.50, and a possible rate increase of 9% for
4 certain industrial customer classes. (*Staff Post-Hearing Brief at 2-3*). This is simply
5 wrong. While Staff acknowledges that NW Natural provided evidence explaining why
6 these numbers are incorrect, Staff states that it stands by its testimony. (*Staff Post-*
7 *Hearing Brief at 3*).

8 While Staff never explains why it disagrees with the rate impact analysis provided by
9 NW Natural, it appears that Staff's confusion is based on a misunderstanding of how the
10 program cap will work. To support its alleged high numbers, Staff refers to its initial
11 testimony, which cited to the possible rate impacts of the low, base, and high estimates of
12 potential CHP adoption. (*Staff/100, Klotz/5-7*). Therefore, the high rate impacts cited by
13 Staff appear to be tied to the high level of carbon reductions that will not occur due to the
14 emissions reduction cap. The actual forecasted rate impacts are much lower under the
15 base case emissions cap. (*NWN/400, Speer/1-4*); (*NWN/402, Speer/1*).

16 Staff also points to a \$2.50 potential average residential bill impact. (*Staff Post-*
17 *Hearing Brief at 3 citing Staff/100, Klotz/5-6*). The \$2.50 number was a mistake in NW
18 Natural's original filing. NW Natural corrected this with supplemental testimony shortly
19 after filing, and then explained again in reply testimony why the number was incorrect.
20 (*NWN/400, Speer/4*). Mr. Speer's testimony shows the maximum average rate impact for
21 customer classes using the base case (with no class close to 9%), and the average
22 residential customer bill impact (about \$1). (*NWN/400, Speer/4*); (*NWN/402, Speer/1*).
23 Staff has not pointed to any flaws in NW Natural's analysis or data regarding rate impacts.

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1 **2. Program Costs Are As Clearly Defined As Possible Given that**
2 **Participation Levels Are Unknown.**

3 Staff continues to argue that the exact costs of the program are poorly defined.
4 (*Staff Post-Hearing Brief at 2-3*). NW Natural agrees that program costs cannot be clearly
5 identified because it is unknown how many (if any) customers will participate. The vast
6 majority of costs cannot be known until customers actually participate, unless the entire
7 program design is changed so that a potential CHP customer is paid regardless of
8 whether it achieves any greenhouse gas emissions. Staff supports the measurement and
9 verification program, which will have variable costs based on participation levels. NW
10 Natural is unsure what else can be done to more clearly define the costs for Staff, since
11 customers should only be paid if they achieve savings and it is impossible to predict if
12 incentives will be high enough to cause any customers to install CHP.

13 **3. NW Natural Should Not Be Penalized if the CHP Program Does Not**
14 **Result in CHP Installations.**

15 Staff also remains concerned that the CHP Program “places the entire risk of failure
16 upon the Company’s customers.” (*Staff Post-Hearing Brief at 2*). Staff recognizes that it
17 “is well and good” that the Company will only receive incentive payments upon measured
18 and verified carbon savings, but there is a risk that the program could fail. (*Staff Post-*
19 *Hearing Brief at 3*). Staff’s has never explained what additional “risks” it believes the
20 Company should bear, which is deeply concerning to a utility working on a voluntary
21 program with the primary goal of benefiting society and customers. NW Natural requests
22 that the Commission reject Staff’s vague recommendation regarding risk, and provide NW
23 Natural with assurance that the Company will not be penalized simply because CHP fails
24 to materialize.

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1 **B. The CHP Program Provides Sufficient Customer Benefits.**

2 Staff has clarified that it agrees with NW Natural that customer benefits do not need
3 to outweigh costs, but it is concerned that the economic and non-economic benefits are
4 much smaller than the costs. (*Staff Post-Hearing Brief at 4-5*). NW Natural disagrees
5 with Staff's overall approach to analyzing the customer benefit issue. SB 844 and the
6 rules implementing the statute are devoid of any mention that the monetary costs of the
7 program should be weighed against the "Project benefits," as defined in OAR § 860-085-
8 0600(2)(b). The costs and Project benefits should not be thought of as being on opposite
9 ends of an SB 844 scale. Rather, a key reason to identify Project benefits is to allocate
10 the program costs to those customers that benefit from the program. ORS §
11 757.539(8)(a); OAR § 860-085-0600(2)(b). If, on the other hand, the Commission believes
12 the overall program costs have the potential of being too high, then the Commission can
13 reduce the 240,000 MTCO₂(e) base case. The program cap can be reduced without the
14 Commission needing to weigh costs against the Project benefits.

15 **C. The Customer Incentive Should Target a Three to Four Year Payback to Allow**
16 **at least Some CHP Projects to be Installed.**

17 Staff continues to argue that using a three to four year simple payback to determine
18 the customer incentive to invest in CHP is overly generous. Specifically, Staff
19 recommends that the Commission: 1) rely upon the internal rate of return ("IRR") method;
20 2) conclude that CHP costs have been inflated; and 3) order a reverse auction.

21 NW Natural has already responded in depth to these arguments, and urges the
22 Commission to consider the real world impact of Staff's arguments. Staff believes that a
23 customer incentive in the \$0 to \$10 range may be appropriate. (*Staff Post-Hearing Brief at*
24 *6-7*). If Staff is correct, then there is no need for an incentive payment at all because CHP
25 is already an extremely attractive investment opportunity. The best response to Staff is
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1 that there are almost no existing or expected CHP facilities, even though electricity rates
2 keep rising and we are in a period of historically low natural gas prices.

3 Staff claims that NW Natural has not provided any specific examples that it has
4 incorrectly used the IRR method. (*Staff Post-Hearing Brief at 7*). NW Natural does not
5 dispute that some companies interested in environmental excellence will invest in low risk
6 energy efficiency programs if they are provided a 10-15% return. This does not mean that
7 these returns are sufficient to cause a company whose core business is producing paper
8 or processing food to make a risky and long-term investment in an area that they have
9 little to no experience.

10 Staff does not raise any concerns regarding the cost estimates for the smaller CHP
11 prototypes, but claims that the 45 MW prototype is “overstated” based on its readings of
12 data responses introduced into the record following the hearing. (*Staff Post-Hearing Brief*
13 *at 9-10*). NW Natural has identified a number of different CHP “prototypes” from 500 kW
14 to 45 MWs, and their cost estimates are based on the Energy Information Agency’s (“EIA”)
15 vendor supplied data from actual facilities, except the 45 MW prototype. (*NWN Post-*
16 *Hearing Brief at 11*); (*NWN/500, Summers/13*). EIA data was not available for the 45 MW
17 prototype, so vendor supplied Environmental Protection Agency (“EPA”) data was used.
18 (*NWN/500, Summers/13*).

19 Staff argues that some CHP facilities will be built at locations that can reuse or
20 already have facilities installed, which will lower the overall costs from the 45 MW
21 prototype. (*Staff Post-Hearing Brief at 9-10*). Staff’s concern regarding overstated costs
22 appears to be limited to the unique and rare circumstance of a 45 MW prototype at a
23 location that does not need all the capital investments that most CHP facilities will need.
24 NW Natural agrees that certain existing facilities could have lower costs; however, neither
25 Staff nor the Company are aware of any currently operating facilities in the 45 MW range
26 that would not need all the capital investments.

1 Staff also supports its position pointing out NW Natural's analysis that a 45 MW
2 prototype facility with 70% of the capital costs would have an IRR of 20.6% with a four-
3 year simple payback, prior to any SB 844 incentive. (*Staff Post-Hearing Brief at 9-10*).
4 Again, the best counter to Staff's argument is the real world. If costs have been
5 overstated, then this allegedly lower cost 45 MW facility would already have been built
6 given that its IRR is well above what Staff believes is necessary and the payback is at four
7 years.

8 NW Natural continues to believe that a reverse auction is a poor fit for CHP, and will
9 significantly harm the program by adding uncertainty, creating additional barriers, and
10 reducing participation. In support of a reverse auction approach, Staff notes that reverse
11 auctions have been used in the context of greenhouse gas emissions and that the use of
12 an expert consultant should resolve the Company's concerns regarding running an
13 auction. (*Staff Post-Hearing Brief at 10-11*). A reverse auction for CHP-related
14 greenhouse gas emissions has never been tried. Retaining an expert consultant to help
15 design a reverse auction will not overcome the real problems associated with a reverse
16 auction: which is the lack of a market of potential projects willing to invest significant
17 human and capital resources to have a chance at obtaining incentive payments that will be
18 used to invest in an entirely new business.

19 **D. The Company's \$10 MTCO₂(e) Incentive Is Reasonable.**

20 Staff, CUB, and NWIGU support a \$5 MTCO₂(e) company incentive arguing that the
21 Company has not supported a \$10 MTCO₂(e) incentive. NW Natural's \$10 MTCO₂(e)
22 incentive should be approved because it encourages the Company to obtain emissions
23 reductions, rewards the Company for seeking out the most cost effective greenhouse gas
24 emissions reductions program, provides a fair baseline for future SB 844 projects, is lower
25 than the maximum amount allowed, and the Company is not rate basing program costs.

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1 NWIGU incorrectly asserts that “the Company is arguing that the Commission should
2 approve a maximum incentive payment” (*NWIGU Post-Hearing Brief at 3-4*). The
3 Commission’s rules limit carbon reduction incentives to no more than 25% of the total SB
4 844 costs included in rates. OAR § 860-085-0750(2). Under NW Natural’s original
5 proposal, the total program costs would be \$42.59, including a \$30 MTCO₂(e) customer
6 incentive, \$10 MTCO₂(e) company incentive, and about \$2.59 MTCO₂(e) program costs.
7 (*NWN/100, Summers/17-21*). This would result in the Company’s incentive payments
8 being close to, but never reaching the 25% incentive cap.

9 CUB and NWIGU also argue that the incentive payment approved in this proceeding
10 should not be used as a baseline for future programs. (*CUB Post-Hearing Brief at 10*);
11 (*NWIGU Post-Hearing Brief at 8*). CUB and NWIGU may misunderstand the Company’s
12 position. NW Natural proposes that the \$10 incentive payment should be the baseline for
13 new greenhouse gas emissions reductions programs, but that “future projects could justify
14 an upward or downward adjustment to the per ton incentive.” (*NWN/100, Summers/19-*
15 *20*). For example, a lower incentive may be appropriate if a project has significant rate
16 base investment, and a higher incentive may be appropriate if a program has other
17 desirable attributes. (*NWN/100, Summers/20*). A baseline is appropriate, however,
18 because the Company should have some general certainty regarding the benefits it could
19 achieve before designing future carbon reductions programs. (*NWN/100, Summers/19*).

20 In the end, devising incentive payments for voluntary carbon reduction programs is
21 uncharted territory for the Commission. The parties agree that an incentive is warranted,
22 but differences remain in determining the right incentive that strikes the balance between
23 encouraging the Company to participate in voluntary programs while remaining under the
24 incentive cap established in SB 844. The Commission is best suited to answer this type of
25 policy question.

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1 **E. Program Costs and Incentive Payments Should Not Be Subjected to an**
2 **Earnings Test.**

3 Staff, CUB, and NWIGU continue to support applying an earnings test; however,
4 CUB has moderated its position and “would be open to excluding the Company incentive
5 altogether from the earnings test so that regardless of earnings, the Company would
6 receive its full incentive.” (*CUB Post-Hearing Brief at 12*). Staff, CUB, and NWIGU also
7 complain that NW Natural has “draw[n] a line in the sand” and will not proceed with the
8 CHP Program if Commission adopts an earnings test for the program costs. (*E.g., CUB*
9 *Post-Hearing Brief at 12*). NW Natural appreciates CUB’s movement on this issue, but
10 reiterates that the Company will not proceed with the CHP Program if the program costs
11 are subject to an incentive. NW Natural’s participation in the CHP Program should not
12 result in the Company being worse off financially, which can occur if program costs are
13 unrecovered due to an earnings test.

14 The majority of the CHP Program’s costs customer incentive payments (which may
15 be between \$25 to \$60 per MTCO₂(e)). If the CHP Program is successful, these program
16 costs could equal tens of millions of dollars. NW Natural could be required to absorb all of
17 the program costs if it is overearning and they are subject to an earnings test. In contrast,
18 if NW Natural had not participated in the CHP Program, then the Company would be
19 allowed to keep a portion of any overearnings. NW Natural’s position is not some arbitrary
20 “line in the sand”, but the simple fact that it would be irresponsible to risk losing potentially
21 millions of dollars of prudently incurred program costs simply for participating in a
22 voluntary program to help meet the state’s greenhouse gas reduction goals.¹

23 ¹ The company incentive will always be significantly lower than program costs. Assume that
24 CHP Program achieves 100,000 MTCO₂(e) in savings with \$60 per MTCO₂(e) customer incentive,
25 \$2 per MTCO₂(e) for measurement, verification and program administrative costs, and \$10 per
26 MTCO₂(e) company incentive. The Company would have an opportunity to recover \$1 million in
incentive payments, but could risk having to write off and not recover the \$6.2 million in program
costs, if it is over earning. NW Natural is not willing to gamble to obtain \$1 million in incentive
payments with the risk of losing \$6.2 million in program costs.

1 **F. The CHP Program Should Be Open to All NW Natural’s Customers**

2 CUB is concerned that the capping the CHP Program at 240,000 MTCO₂(e)
3 reductions per year will leave the program vulnerable to subscription by a large, single
4 customer. (*CUB Post-Hearing Brief at 14-15*). CUB believes the “better tactic is to ensure
5 that a diversity of projects are able to come online” (*CUB Post-Hearing Brief at 15*).
6 CUB does not make a specific proposal to address this concern.

7 If the CHP Program is going to include a participation cap, then it is possible that a
8 large customer will be responsible for more than half the carbon savings. The only way to
9 avoid this “issue” is to either increase the cap or bar large customers from participating.

10 No customers should be barred from participating. NW Natural would love to have a
11 diversity of projects, but is primarily concerned that the program incentives will be set so
12 low or additional barriers raised so that few, if any, projects are installed. All customers
13 should be encouraged to apply for incentive payments to increase the chances of any
14 customers participating, and widespread eligibility can encourage the most cost effective
15 CHP installations.

16 CUB’s concern may be partially mitigated because the program cap of 240,000
17 MTCO₂(e) reductions per year will hopefully not end the program. The program cap will
18 provide an opportunity to evaluate and potentially expand the program.

19 **G. Electric Utility Issues**

20 PGE’s and PacifiCorp’s issues have been largely addressed and refuted in the briefs
21 and testimony from NW Natural, Staff, CUB, and NWIGU. This reply brief only responds
22 to PGE’s additional argument regarding how CHP will allegedly harm electric customers,
23 and to note that PacifiCorp has softened its arguments regarding the “ordinary course of
24 business.”

25 PGE argues that use of CHP will harm electric customers by reducing “throughput”
26 on its system. (*PGE Post-Hearing Brief at 5*). PGE asserts that many electric

1 transmission and distribution facilities are in place and cannot be avoided, and that the
2 direct access transition charges support a finding that electric customers will be harmed by
3 loss of load. (*PGE Post-Hearing Brief at 5*). NW Natural does not disagree that there are
4 costs and benefits to electric customers; however, the installation of CHP will result in
5 overall net benefits to electric customers. NW Natural presented extensive evidence
6 supporting electric customer benefits, including that the facilities eligible for incentive
7 payments in this specific CHP program will result “in overall benefits to electric customers”
8 because they will increase total system efficiency, and are more cost-effective than the
9 alternative resource. (*NWN/300, Summers/15*); (*NWN/301*). PGE elected not to dispute
10 this evidence, and the Commission should ignore its unsupported arguments raised in
11 briefing.

12 PacifiCorp has back tracked from its earlier arguments that the CHP Program should
13 be rejected because the Company allegedly has an incentive to increase margins in the
14 “ordinary course of business.” PacifiCorp notes that NW Natural will return to customers
15 all increased margins, which PacifiCorp believes means that the Company is foregoing its
16 ordinary course of business incentives and that the statutory standard can be met.
17 (*PacifiCorp Post-Hearing Brief at 3*). While NW Natural disagrees with PacifiCorp’s
18 reading of the statute that requires the Company to give up margins to meet the ordinary
19 course of business test, NW Natural appreciates the electric company’s recognition that
20 “the question comes down to establishing the correct level of incentive” rather than
21 whether the program should be allowed. (*PacifiCorp Post-Hearing Brief at 3-4*).

22 **V. CONCLUSION**

23 For the reasons explained in NW Natural’s testimony and briefs, the Commission
24 should approve NW Natural’s CHP Program.

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1 Respectfully submitted this 10th day of February, 2016.

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NW NATURAL

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/s/ Zachary D. Kravitz

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