



PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: January 12, 2016

REGULAR  X  CONSENT       EFFECTIVE DATE  February 1, 2016

DATE: December 29, 2015

TO: Public Utility Commission

FROM: Erik Colville 

THROUGH: Jason Eisdorfer and Aster Adams  

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: (Docket No. UG 266)  
Report to the Commission Regarding Investigation of Compressed Natural  
Gas Fueling Market and Northwest Natural's Participation.

NORTHWEST NATURAL: (Docket No. ADV 173/Advice No. 15-19)  
Request for Two Year Extension of Schedule H, Large Volume Non-  
Residential High Pressure Gas Service Rider.

**STAFF RECOMMENDATION:**

Staff recommends approval of Northwest Natural's request in Advice No. 15-19 to become effective on and after February 1, 2016.

**ISSUE:**

Whether the Commission should allow Northwest Natural (NWN) to offer non-residential High Pressure Gas Service (HPGS), for which there is a potential competitive market, for another two years?

**APPLICABLE LAW:**

The Commission approved NWN's request to offer optional non-residential HPGS in Order No. 14-014 for a period of two years, concluding the service would provide a net benefit to NWN customers, that there was no pre-existing competitive market for HPGS in Oregon, and that it was possible a competitive HPGS market would not emerge without NWN's participation.<sup>1</sup> The Commission ordered that NWN may ask to continue providing HPGS at the end of the two-year period, and ordered Staff to investigate, following the end of the two year period "whether circumstances on which we based our

<sup>1</sup> Order No. 14-014 at 7-9.

our decision have changed, and to report on the market development in parts of Oregon not served by NW Natural.

#### HPGS Service<sup>4</sup>

This optional rider provides HPGS through NWN owned and maintained compression equipment sited on a HPGS customer's premises. According to NWN the HPGS rider responds to customer requests for utility services that would provide the infrastructure needed to support the customer's ability to fuel vehicles using compressed natural gas (CNG).

NWN states that service under Schedule H provides a non-residential customer with a turn-key solution not otherwise available for providing the gas pressure required for vehicle fueling, without a significant upfront capital investment into compression facilities. The terms of service and pricing for HPGS will vary for each installation and will be laid out in the customer's HPGS Service Agreement. The customer will be billed a monthly facility charge designed to recover all equipment, permitting and siting costs. NWN proposes that the monthly facility charge be derived by multiplying the actual project costs by an annual cost recovery factor, divided by 12. The cost recovery factor is designed to recover in each year the depreciation on the HPGS equipment plus NWN's financing costs, at its authorized return, for the investment made on behalf of the customer.

In addition, NWN states the HPGS customer's monthly bill will also include a charge for scheduled maintenance, and when applicable, charges for any other services such as unscheduled maintenance or back-up gas service that NWN may provide. The charges under Schedule H will be in addition to the charges for natural gas service billed in accordance with the non-residential rate schedule on which the customer is served. Both the costs and the revenues of this rate rider are treated as "above-the-line" rate regulated services. HPGS customers served under Schedule H will pay all costs associated with the provision of HPGS, and the addition of this service offering will have no negative cost impact on, and in fact benefit, other ratepayers.

#### Staff Report

Staff's review of this request included the filing itself, and the conditions set forth in Order No. 14-014.

In Order No. 14-014 the Commission instructed Staff to report on the CNG fueling market and NWN's participation in that market following the two-year period after the

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<sup>4</sup> Drawn from the October 14, 2013, Staff Report in Advice No. 13-10, pages 2 and 3.

After performing its investigation into the CNG vehicle fueling market in parts of Oregon not served by NWN, and considering whether circumstances have changed from when the Commission approved NWN's request to offer the service, Staff concludes the NWN requested tariff extension should be approved and allowed to go into effect, and no further proceedings are warranted.

**PROPOSED COMMISSION MOTION:**

Northwest Natural's request in Advice No. 15-19 be approved and become effective on and after February 1, 2016.

# Investigation of CNG Fueling Market and NWN's Participation

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This report concerns Northwest Natural Gas Company's (NW Natural or NWN) optional tariff for High Pressure Gas Service (HPGS) through company-owned and maintained compression equipment sited on customers' premises (Schedule H). The Commission authorized NW Natural to provide HPGS on January 14, 2014. In response to intervenors' concerns that NW Natural may have unfair advantage in a competitive market, the Commission ordered Staff to report on the compressed natural gas (CNG) fueling market and NWN's participation in that market following the two-year period after the effective date (November 1, 2013) of the Northwest Natural Gas Schedule H, High Pressure Gas Service (HPGS) Rider.

The January 14, 2014, Order No. 14-014 (pp. 9-10) in NWN's HPGS docket (Docket No. UG 266) says:

In reaching these decisions, we acknowledge the concerns raised by Clean Energy and other [sic] that utilities may have certain advantages as marketplace participants. Due to these potential advantages, we conclude that reviews are necessary to assure the viability and integrity of competitive markets.

Accordingly, we condition our approval of NW Natural's HPGS to a period of two years from the effective date of the tariffs. Following that period, we will revisit the offering to determine whether the regulated service should continue, or whether it should be modified or discontinued on a going-forward basis. To assist that effort, we instruct our Staff to undertake an investigation of the CNG fueling market and NW Natural's participation in it, and to make such recommendations to the Commission as will further the growth of a robust competitive market. We specifically direct Staff to examine whether circumstances on which we based our decision have changed, and to report on the market development in parts of Oregon not served by NW Natural.

Specifically, as a result of this Order, Staff is to report on the CNG vehicle fueling market in parts of Oregon not served by NWN, and to examine whether circumstances have changed from when the Commission made its decision.

## **NWN's Participation in the Market**

Information provided by NWN shows that they have not begun providing HPGS to any customer under Schedule H, although two customers have signed feasibility study agreements.<sup>1</sup> This information shows that although NWN has participated in the CNG fueling market since receiving approval to do so, it has not yet entered that market.<sup>2</sup>

## **Fueling Markets in Parts of Oregon not Served by NWN**

After reviewing data found at the United States Department of Energy Alternative Fuels Data Center (AFDC) website and data provided by Oregon Department of Energy (ODOE), Staff found six CNG fueling stations that became operational since the Order authorizing NWN's participation in the CNG

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<sup>1</sup> See Attachment 1; NWN Natural Gas Vehicle

<sup>2</sup> See Attachment 1; NWN Natural Gas Vehicle

Table 1. CNG Stations Operating in Oregon

<b>May 2013 Stations (based on information in UG 266)</b>	<b>Open to Public?</b>	<b>October 2015 Stations</b>	<b>Open to Public?</b>
Salem-Keizer Transit		Salem – Keizer Transit	
Northwest Natural Gas - Parkrose Service Center		Northwest Natural Gas - Parkrose Service Center	
Northwest Natural Gas - Sunset Service Center		Northwest Natural Gas - Sunset Service Center	
Northwest Natural Gas - Mt Scott Service Center		Northwest Natural Gas - Mt Scott Service Center	
		<b>Waste Management - Washington County</b>	
Port of Portland Airport		Port of Portland Airport	
		<b>Truck 'N Travel CFN #746 (FleetCor)</b>	<b>Yes</b>
Rogue Valley Transportation District	Yes	Rogue Valley Transportation District	Yes
Jackson County Motorpool	Yes	Jackson County Motorpool	Yes
Avista Klamath Falls Service Center		Avista Klamath Falls Service Center	
		<b>South Metro Area Regional Transit Agency</b>	
		<b>Waste Management - Portland Hauling</b>	
Oregon Department of Administrative Services Motor Pool	Yes	Oregon Department of Administrative Services Motor Pool	Yes
Northwest Natural Gas - Sherwood Service Center		Northwest Natural Gas - Sherwood Service Center	
Northwest Natural Gas - Salem Service Center		Northwest Natural Gas - Salem Service Center	
<i>Northwest Natural Gas - Tualatin Service Center</i>			
<i>Northwest Natural Gas - South Service Center</i>			

Based upon data obtained from ODOE (from business energy tax credit (BETC) applications), there are two CNG stations not included in the data from the AFDC that were under construction during the time of the UG 266 docket, as shown in Table 2 below. Both these stations are located in the area served by NWN. Attachment 2 contains the communication with and data received from ODOE.

Table 2. CNG Stations Under Construction During UG 266

Company	Site City	Site County	Actual Operation Date
M.A.E.M.E. Rentals, Inc.	Gresham	Multnomah	12/17/2014
Corvallis Disposal Co.	Corvallis	Benton	3/14/2014

Also, based on data obtained from NWN and from ODOE, there are ten CNG fueling stations in planning stages. As shown in Table 3 below, nine of these stations applied for BETC after the Order in UG 266 authorizing NWN's participation in the market. One of these planned stations is located outside the area served by NWN.

The additional sales made through the HPGS offering will provide net benefits generally to other customers. The sales of natural gas to the new HPGS customers will make the same contribution to fixed costs as gas purchases by other commercial gas customers. By spreading these costs over a larger volume of sales, the amount of fixed costs that are recovered per unit of sales is reduced. The Commission found that NWN's provision of CNG fueling as a regulated service will provide a net benefit to other customers.

#### ***Absence of a pre-existing competitive market***

Where a robust competitive marketplace for a particular service already exists, there is no policy rationale to support entry by a public utility into the market with a regulated, tariffed service. The record in this case clearly shows that there is no competitive market, robust or otherwise, in Oregon for CNG fueling services. The Commission therefore found that NWN's proposed HPGS will help fill a gap that is not currently being satisfied in the competitive marketplace.

#### ***Development of market absent utility participation***

In determining whether regulated services should be offered in a potentially competitive marketplace, the Commission also considered the development of the market absent utility investment. There is no rationale to simply allow a utility to be first in a market that would develop and become robust regardless. Rather, the Commission looked for evidence that utility participation in the market will be a likely catalyst to the establishment and growth of a competitive market. The Commission found that a preponderance of the evidence shows that the CNG fueling market in Oregon may not develop in the absence of utility company participation and that participation in the market by NWN may well stimulate market development for CNG fueling station by facilitating fleet conversions.

#### **Other Benefits**

Many parties supported NWN's entry into the CNG fueling market to help fulfill enumerated state policies and goals, including the Governor's 10-year Energy Action plan for a twenty percent conversion of large fleets to alternative fuels such as CNG. Although NWN's offering may be consistent with and help promote those goals, the Commission based its decision solely on the legal and economic criteria presented above.

#### **Circumstance Changes**

None of the legal and economic criteria presented above has changed since the Commission's Order in Docket No. UG 266, with the exception of market development. Although NWN has participated in the CNG fueling market since receiving approval to do so, it has not secured a customer. As discussed above, six CNG fueling stations are known to have become operational since the Order authorizing NWN's participation in the CNG fueling market. All of those stations are located in the area served by NWN. In addition, there are ten CNG fueling stations known to be in planning stages. One of these planned stations, Avista Corporation dba Avista Utilities, White City, is located outside the area served by NWN. NWN reports that it has contracted to do a feasibility study for, Fitz Enterprises Inc., dba StarOilco, one of those nine planned stations.<sup>5</sup>

There is evidence indicating that a market for CNG fueling stations is developing, exclusive of NWN's successful entry – six operational stations and nine planned stations since the Order authorizing NWN's entry. Since the CNG fueling market is growing, exclusive of NWN's successful participation, there is evidence indicating that a market for CNG fueling stations is developing without the need for entry by a

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<sup>5</sup> Attachment 1.

## Attachment 1

**From:** Hammer, Gail A. [mailto:Gail.Hammer@nwnatural.com]  
**Sent:** Friday, October 30, 2015 10:22 AM  
**To:** COLVILLE Erik  
**Cc:** Thompson, Mark R.; Edmonds, Bill  
**Subject:** RE: NGV update

Erik,

Per our conversation this morning, following is an update on the current status of NW Natural's High Pressure Gas Service:

- Two customers have signed feasibility agreements (Star Oil and Metro).
  - NW Natural helped both entities receive funds under the Congestion Mitigation and Air Quality Improvement (CMAQ) program. CMAQ is a program administered by Oregon DOT to disperse USDOT funds.
  - Currently the customers and Oregon DOT are discussing the use of CMAQ funds for equipment that the customers do not own.
- While diesel prices have made the economic case more challenging, the environmental benefits remain compelling. NW Natural continues to look for additional avenues to help build the market for NGVs.
- NW Natural is planning to file for approval to continue to offer High Pressure Gas Service for an additional two years.

I will be requesting to be added to the service list for UG 266 and will be available to provide additional information that may help with the study. Please let me know if you have any additional questions.

Thank you,

**Gail Hammer** | Rates/Regulatory Consultant  
NW Natural | 220 NW Second Avenue | Portland, Oregon 97209  
503.226.4211 ext. 5865 | [Gail.Hammer@nwnatural.com](mailto:Gail.Hammer@nwnatural.com)

**From:** Edmonds, Bill [mailto:Bill.Edmonds@nwnatural.com]  
**Sent:** Wednesday, January 14, 2015 10:40 AM  
**To:** SADHIR Ruchi  
**Cc:** Thompson, Mark R.; Summers, Barbara J.  
**Subject:** NGV update

Ruchi:

Here's just a very quick update on what's happened thus far under the High Pressure Gas Service Tariff. The bullets below might serve your purposes with the Commissioner. I'll give you a quick call too to make sure you have what you need.

All of this information is public.

## Attachment 2

**From:** Wetherbee, Jenifer [mailto:jenifer.wetherbee@state.or.us]  
**Sent:** Tuesday, August 11, 2015 10:29 AM  
**To:** COLVILLE Erik  
**Subject:** RE: CNG Vehicle Data

Hi Erik,

Please find attached a list of projects that have applied for Energy Tax Credits for CNG Fueling Stations. If you need any additional information, please feel free to contact me.

Sincerely,  
 Jenifer

**Jenifer Wetherbee**  
 EIP Program Specialist  
 Oregon Department of Energy  
 625 Marion Street N.E.  
 Salem, OR 97301  
 P:(503) 378-5049  
 P:(In Oregon): (800) 221-8035  
 F:(503) 934-4006

Company	Site City	Site County	Estimated Operation Date	Actual Operation Date
Heiberg Garbage & Recycling, LLC	Milwaukie	Clackamas		2/12/2013
M.A.E.M.E. Rentals, Inc.	Gresham	Multnomah		12/17/2014
Waste Management, Inc.	Portland	Multnomah		8/20/2012
Rogue Valley Transportation District (RVTD)	Medford	Jackson		12/28/2012
Pride Disposal Company	Sherwood	Washington	8/31/2012	
Eugene Truck Haven, Inc.	Eugene	Lane		6/10/2014
NW Natural	Sherwood	Washington		12/20/2013
NW Natural	Beaverton	Washington	7/31/2014	
	Forest			
Waste Management of Oregon, Inc.	Grove	Washington	12/31/2014	
Corvallis Disposal Co.	Corvallis	Benton		3/14/2014
Avista Corporation dba Avista Utilities, a Washington Corporation	White City	Jackson	2/28/2015	
Fitz Enterprises Inc., dba StarOilco	Portland	Multnomah	5/1/2015	
City of Portland, Bureau of Environmental Services	Portland	Multnomah	2/1/2016	
Linn-Benton Community College	Lebanon	Linn	7/1/2015	
NW Natural	Portland	Multnomah	6/15/2014	
M.A.E.M.E. Rentals, Inc.	Gresham	Multnomah	12/31/2015	
Heiberg Garbage & Recycling, LLC	Milwaukie	Clackamas	12/31/2015	
Republic Services of Corvallis and Washington Counties	Wilsonville	Clackamas	9/1/2015	