

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 24, 2023**

REGULAR **CONSENT** **EFFECTIVE DATE** February 1, 2023

DATE: January 13, 2023

TO: Public Utility Commission

FROM: Ishraq Ahmed

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: NORTHWEST NATURAL GAS COMPANY:
(Docket No. ADV 1472/Advice No. 22-23)
Requests an extension for the Company's Schedule H Large Volume Non-Residential High-Pressure Gas Service Rider.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's (NW Natural or Company) Advice No. 22-23 to extend its compressed natural gas (CNG) program set to expire January 31, 2023 through January 31, 2025.

DISCUSSION:

Issue

Whether the Commission should allow NW Natural to continue to offer to provide compressed natural gas to interested customers under Schedules 3, 31, and 32 until January 31, 2025.

Applicable Law

NW Natural proposes to extend the provision of its optional non-residential High-Pressure Gas Service (HPGS) under Schedule H in this current filing. The Company first proposed Schedule H with Advice No. 13-10 in 2013 (Docket No. UG 266). The Commission subsequently approved Schedule H, effective February 1, 2014, in Order No. 14-014, which originally stated the program to be effective through January 31, 2016. Order No. 16-013 in 2016 approved NW Natural's request to extend the Schedule H term through January 31, 2018. The Commission approved a five-year

extension in Order No. 18-043 in 2018, conditional on a Staff market condition review by February 1, 2020. The expiry date of January 31, 2023, remained in place after Staff concluded in their review that no further Commission action was required.

NW Natural is making this filing under ORS 757.205 which requires public utilities to file all rates, rules, and charges with the Commission, and under OAR 860-022-0025 which requires the tariff changes proposed in this filing will affect those customers that elect to participate in the Schedule H program.

Analysis

Schedule H¹

The optional rider provides HPGS through NW Natural owned and maintained compression equipment located on HPGS customers' premises. The equipment will provide sufficient gas pressure to fuel vehicles using compressed natural gas. NW Natural notes that service under Schedule H provides non-residential customers with a turn-key solution not otherwise available for providing the gas pressure required for vehicle fueling, without significant upfront capital investment into compression facilities.

The terms of service and pricing for HPGS will vary for each installation and will be described 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. The monthly facility charge is derived by multiplying the actual project costs by an annual cost recovery factor,² divided by 12. 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 backup gas service that NW Natural may provide.

These charges under Schedule H will be in addition to the charges for natural gas service billed under the non-residential rate schedule on which the customer is served. 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 other ratepayers.

¹ Summary excerpted from October 14, 2013, Staff Report in Advice No. 13-10.

² 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.

Historical background

NWN filed Advice No. 22-23 on December 15, 2022, requesting a two-year extension of its Schedule H, Large Volume Non-Residential HPGS Rider. NW Natural originally asked for authority to provide this service in Advice No. 13-10, submitted on June 27, 2013. NW Natural proposed to add Schedule H, Large Volume Non-Residential HPGS Rider to its Rate Schedules 3, 31, and 32 non-residential natural gas service schedules. Due to a significant number of parties expressing interest or concerns in the matter, the Commission opened Docket No. UG 266 to investigate NWN's proposal.

The Commission issued Order No. 14-014 in light of some considerations.³ First, while natural gas vehicle fueling is potentially a competitive business, CNG fueling is considered a utility service and may be offered under regulated tariffs. Furthermore, NW Natural has structured its HPGS tariff rider in a manner that meets Commission requirements for a utility proposing to provide a regulated service in a potentially competitive marketplace while ensuring that costs in providing HPGS are not recovered from non-HPGS customers. Second, at the time of the order in 2013, a competitive market in Oregon for CNG fueling services did not exist. The 28 CNG fueling stations at the time were privately owned and operated by individual fleet owners for their use, leaving most businesses and public bodies with CNG fleets without access to CNG fueling. Fleet owners unsuccessfully sought third-party vendors to establish CNG fueling facilities. Third, NW Natural's participation in the CNG market may stimulate the development of a CNG fueling market.

On December 21, 2017, NW Natural filed Advice No. 17-21 requesting a five-year extension of its Schedule H, through January 31, 2023. The Commission approved the five-year extension in Order No. 18-043 in January 2018, on the condition that Staff performs a market condition review by February 1, 2020. Staff concluded that there was no legitimate competitive market for CNG vehicle fueling stations in Oregon. On December 2, 2019, NW Natural filed the Report on Compressed Natural Gas (CNG) Market Conditions and proposed the program maintain the expiration date through January 31, 2023.

Current market conditions

The City of Portland, a HPGS customer, added one new CNG fleet since 2018, with NW Natural estimating there to be 14 active CNG vehicles in use. NW Natural's second customer under Schedule H—City of Wilsonville—expanded their fleet of CNG buses from nine to 12, complementing their fleet of four electric buses. The City of Wilsonville installed a new CNG station under Schedule H to serve their expansion of CNG buses.

³ Commission Order No. 14-014.

NW Natural indicated that based on their conversations with customers, industry partners, and interested fleets, there continues to be significant interest for diesel fleets to move to CNG. NW Natural states that the most significant barrier to the adoption of CNG is the lack of state incentives to help with the incremental vehicle costs and fueling infrastructure investment. The City of Wilsonville had received a grant from the Department of Transportation to offset the infrastructure costs for the increased capacity project under Schedule H.⁴

Staff Review

Staff has reviewed the filing and engaged in discussions with the Company via a workshop and emails.

Market Analysis

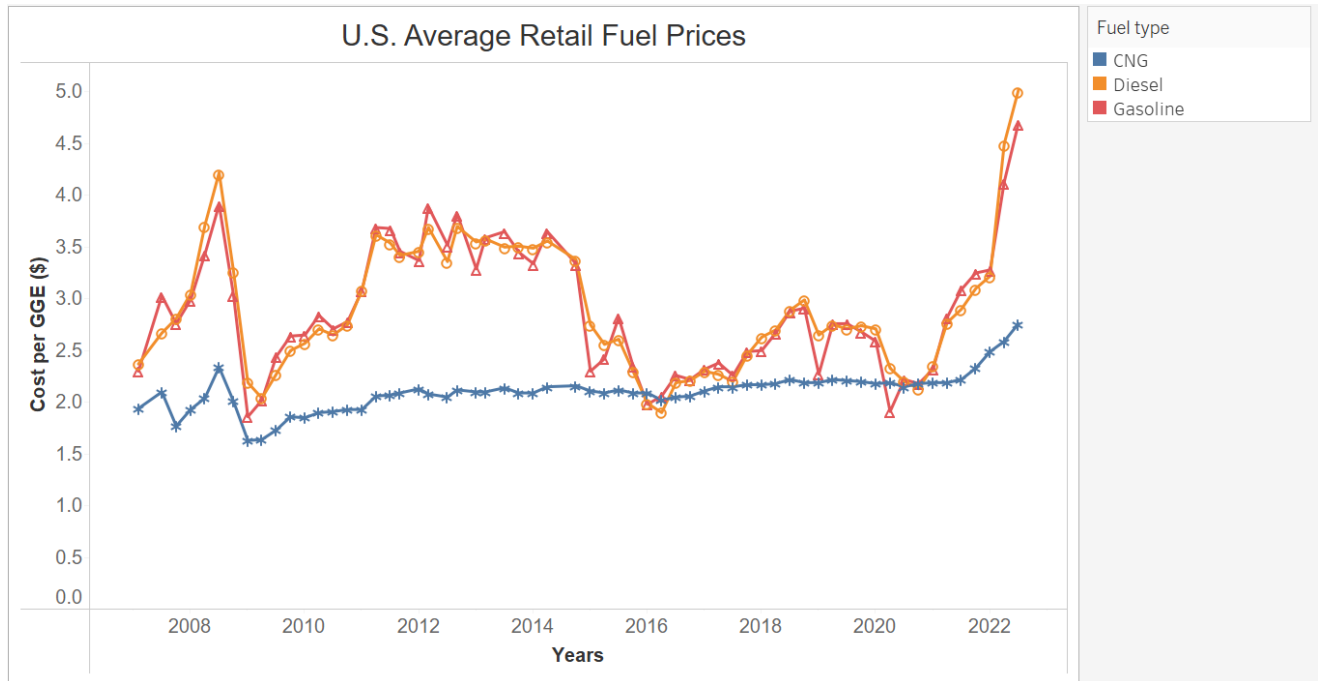
NW Natural has two customers obtaining HPGS—The City of Portland Wastewater Treatment Plant (CBWTP) and the City of Wilsonville. City of Portland CBWTP started service on March 8, 2018, while the City of Wilsonville CNG station has been in operation since September 2022, with Schedule H to be reconciled in February 2023. Staff inquired whether there are any potential customers on feasibility agreements. The Company indicated they do not have any customers currently on feasibility agreements. The Company anticipates the City of Wilsonville to receive three CNG buses during the second quarter of 2023 and a further estimated 17-19 vehicles for other fleets in its service area.

Staff also analyzed the broader market trends to see how the CNG fueling market may develop. Figure 1 below shows the price of CNG compared to several substitute fuels.⁵ Apart from a brief period in 2016 and for a few months in 2020, the relative price of CNG compared to other fuels which could be utilized to power large vehicles, has not been favorable to CNG. The divergence has grown wider since 2021. Along with a rapid increase in diesel prices, Staff sees some merits in NW Natural's assessment that there may be interest for diesel fleets to convert to CNG in the near term.

⁴ From discussions with Company.

⁵ Alternative Fuels Data Center (<https://afdc.energy.gov/fuels/prices.html>).

Figure 1



Market structure

Staff report dated January 29, 2018,⁶ stated that there were 16 CNG fueling stations open and operating in Oregon as of 2017. Based on data from the US Department of Energy’s Alternative Fuels Data Center, Staff found a total of fourteen CNG fueling stations as of 2023 and finds the market has not changed appreciably from that standpoint since 2018. Staff further assesses that two public CNG stations have opened since 2016 giving more access to public bodies and businesses with CNG fleets. Staff notes this makeup of the market is potentially beneficial for CNG adoption as the availability of nascent publicly available CNG fueling stations can facilitate fleet conversions for entities without such facilities.

On balance, Staff believes that NW Natural’s participation in the CNG market has not prevented competition in the market, nor has this created a monopoly market as evidenced by an unchanged market structure with some public fueling stations. In this vein, Staff also anticipates that the development of the CNG market will plateau and may have already reached close to, if not, full potential.

⁶ Commission approved Staff recommendations in Order No. 18-043.

Cross subsidization

Staff inquired whether other customer classes have borne the costs of providing HPGS to customers in Schedule H. NW Natural indicated no cross-subsidization has taken place and HPGS-related costs are recovered from HPGS customers through Schedule H in addition to charges incurred through Rate Schedules 3, 31, and 32. Company further noted that they have not specifically engaged in any advertising efforts promoting HPGS.

Conclusion

Staff finds that the CNG fuel market has not appreciably changed since 2018. Despite Staff's assessment that the CNG market may have plateaued, Staff is of the view that NW Natural is providing a service that would not otherwise be available to customers without the utility's involvement in the market. HPGS program provides a benefit to existing customers and a possible scenario can arise where if low CNG prices persist, diesel fleets can have incentives to convert to CNG thus further fueling CNG market development. NW Natural noted this scenario if CNG prices continue to be low relative to gasoline and diesel.

The Company has reviewed the memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request in Advice No. 22-23 to extend the Company's Schedule H Rider, effective for service on and after February 1, 2023.