

**BEFORE THE PUBLIC UTILITY
COMMISSION OF OREGON**

LC 79

In the Matter of NORTHWEST
NATURAL GAS COMPANY DBA NW
NATURAL,

2022 INTEGRATED RESOURCE PLAN.

ALLIANCE OF WESTERN ENERGY
CONSUMERS REPLY TO STAFF'S
FINAL COMMENTS

Introduction and Summary

Alliance of Western Energy Consumers (“AWEC”) appreciates this opportunity to provide comments in response to Staff’s March 30, 2023 Final Comments (“Staff’s Final Comments”) on NW Natural’s 2022 Integrated Resource Plan (“IRP”). AWEC member companies include both sales and transportation customers of NW Natural. Accordingly, AWEC is interested in ensuring that the planning decisions of NW Natural result in safe, reliable and affordable services. AWEC supports cost effective efforts to decarbonize the natural gas system.

This is NW Natural’s first IRP following the enactment of the Climate Protection Plan (“CPP”) rules by the Oregon Department of Environmental Quality (“DEQ”). Accordingly, this IRP presents many new planning issues that have not been considered and evaluated in past IRP processes. CPP compliance is expected to have a major impact on the cost of energy for Oregon businesses, including jobs and economic impacts generated by those businesses. Accordingly, AWEC appreciates the thorough analysis in Staff’s Final Comments.

NW Natural’s IRP has focused historically on establishing a least-cost, least-risk plan for NW Natural, viewed in isolation. Many of the issues raised by parties in this proceeding, however, seek to expand the IRP analysis to consider factors external to NW Natural’s natural gas distribution services, including the costs, risks and potential impacts of electrification. While considering some external factors is not necessarily inappropriate, AWEC does not believe it is reasonable to require NW Natural to plan for costs and potential impacts over which it has little or no control. Accordingly, any discussion of the electrification concept should involve other stakeholders, take place outside of this IRP, and consider the carbon and cost impacts on Oregon as a whole, including increased electric service costs, stranded natural gas costs, reliability issues, economic considerations, and the actual impact on carbon emissions.

Some intervenors have suggested that the Commission must make a decision in this IRP between two paths: (1) a strategy of fuel decarbonization; or (2) a strategy of electrification. As it

stands today, there is uncertainty about both alternatives, which importantly are not mutually exclusive. For purposes of this IRP, however, there is no reason for the Public Utility Commission of Oregon (“Commission”) to commit exclusively to one path or the other. Rather, AWEC recommends the Commission adopt a wait and see approach, allowing both of these pathways to develop independently. Taking a strong stance on one, or the other, will only limit future alternatives as new technologies are developed. For example, by some accounts, decarbonization of the electricity sector will inherently require decarbonization of the natural gas sector. Therefore, it is appropriate for the Commission to leave its options open for both paths and adopting policies encouraging technological development.

AWEC continues to recommend that the Commission acknowledge NW Natural’s IRP subject to the modifications suggested by AWEC and other stakeholders.

Action Item 1 - Mist Recall or City Gate Deal

Acquire 20,000 Dth/day of deliverability from either recalling Mist, a city gate deal, or a combination of both for the 2023-24 gas year. Based upon updated load forecast in upcoming IRP updates, recall Mist capacity as required for the 2024-25 and 2025-26 gas years.

AWEC agrees with Staff’s conclusion that Mist Recall is a reasonable, low-cost way to meet supply needs in the near-term for sales customers. NW Natural has demonstrated this project is prudent and necessary to provide safe and reliable service for sales customers. AWEC recommends acknowledgement of Action Item 1 to acquire deliverability from Mist Recall or city gate deals.

Action Item 2 - Portland Cold Box

Replace the Cold Box at the Portland liquified natural gas (LNG) facility for a targeted in-service date of 2026 at an estimated cost of \$7.5 to \$15 million.

NW Natural has demonstrated that the Cold Box replacement is the least cost and least risky way to meet system supply needs for sales customers. While some parties have raised concerns about the Cold Box replacement project, no party has provided any compelling justification to delay or avoid this project altogether. AWEC recommends, like Staff, that the Commission acknowledge the Portland Cold Box replacement.

Action Item 4 - Efficiency Acquisition

Working through Energy Trust of Oregon, acquire 5.7 – 7.8 million therms of first year savings in 2023 and 6.7 – 8.9 million therms of first year savings in 2024, or the amount identified by the Energy Trust board.

AWEC concurs with Staff that Action Item 4 should be acknowledged. AWEC suggest that NW Natural work with Energy Trust of Oregon to determine the appropriate avoided cost considering the CPP.

Other Action Items

In consideration of NW Natural's and Staff's Comments, AWEC has made several changes to the Action Plan recommendations proposed in its Opening Comments. AWEC's revised recommendations are summarized as follows:

- a. **Action Item 6 Modification:** *NW Natural will independently procure custom transportation energy efficiency and carbon capture projects at a fixed rate of up to \$14.00/dth, while continuing to develop a transportation energy efficiency program in collaboration with the ETO, AWEC, Staff and other interested parties.*
- b. **Action Item 7 Modification:** *NW Natural will monitor the development of the CCI program and, if available, procure CCIs as necessary and appropriate to ensure compliance with the 2022-2024 compliance period.*
- c. **Proposed Action Item:** *NW Natural will develop and propose tariff language to attribute carbon savings resulting from the CPP to transportation customers.*
- d. **Proposed Action Item:** *NW Natural will meet with AWEC prior to the 2022 IRP Update to discuss potential studies for the impact of weather variable loads on CPP compliance and the value of interruptible loads.*

Transportation Energy Efficiency and Carbon Capture

AWEC has reviewed Staff's Final Comments on AWEC's transportation energy efficiency proposal. To address Staff's concerns, AWEC proposes to modify its recommendation to be less determinative with respect to the price paid, as detailed below. Based on further analysis, AWEC also recommends expanding the program to include both pre- and post-combustion carbon capture technologies.

Action Item 6: *NW Natural will independently procure custom transportation energy efficiency and carbon capture projects at a fixed rate of up to \$14.00/dth, while continuing to develop a transportation energy efficiency program in collaboration with the ETO, AWEC, Staff and other interested parties.*

In Opening Comments, AWEC recommended that NW Natural begin independently procuring energy efficiency from industrial customers. AWEC noted that transportation energy efficiency has the potential to be a cost-effective method for meeting a significant portion of NW Natural's CPP compliance targets. Because no systematic energy efficiency program has ever been conducted with respect to transportation customer loads, an extensive study is not necessary to recognize that significant transportation energy efficiency potential exists, which may be used

for CPP compliance. Considering the potential, AWEC is concerned that NW Natural failed to include any assumed transportation energy efficiency procurement in the 2022 IRP CPP compliance plan.

NW Natural had proposed to continue to “study” the potential for transportation energy efficiency and to continue stakeholder engagement in developing a working, long-term energy efficiency program. While supportive of such engagement, AWEC is concerned that such a process will take too long and may not lead to an effective program. The CPP compliance targets are aggressive and even a delay of a few years may result in significant unnecessary costs for CPP compliance.

Accordingly, AWEC recommended that NW Natural begin independently acquiring discrete transportation energy efficiency projects at the marginal cost of CPP compliance, while a long-term program can be evaluated and developed. This action would ensure that new projects are implemented rapidly and meaningfully contribute to CPP compliance. The marginal cost of compliance AWEC had proposed was \$14.00/dth based on the cost of Tranche 1 RNG.

Staff acknowledged AWEC’s concerns about timing. Notwithstanding, Staff recommended the Commission require NW Natural to convene a stakeholder group immediately following the conclusion of the IRP to establish a transport customer efficiency program in time to be able to report on its status in the 2024 IRP update.¹ Staff also stated that it would support “immediately waiving the rules prohibiting the sharing of transport customer information with Energy Trust.”²

Staff did not agree with AWEC’s proposal to authorize NW Natural to invest in custom transportation energy efficiency projects. Staff appears to be concerned with the “fixed” incentive price AWEC recommended in its opening comments. Notwithstanding, Staff did not appear to object to the concept of NW Natural funding custom transportation energy efficiency measures while a long-term program is developed. Regardless of the price assumed, AWEC continues to recommend that NW Natural be authorized to incentivize custom transportation energy efficiency investments until such a time that a long-term program can be developed.

With respect to the price AWEC had proposed, Staff made four comments. Some of those comments, however, were not necessarily an accurate representation of AWEC’s proposal.

First, Staff stated that a “\$14/dth is not an appropriate incentive level, because it would potentially reward transportation customers for reducing usage for any reason, which is not a least-cost incentive.”³ AWEC, however, only recommended that the incentive be applied to projects with verifiable energy efficiency savings. Accordingly, Staff’s concern was addressed in AWEC’s proposal.

Second, Staff stated that “[a]ll energy efficiency, regardless of customer type, avoids CPP

¹ Staff Final Report at 35

² *Id.*

³ *Id.*

compliance costs.”⁴ AWEC does not disagree with this statement. Notwithstanding, the statement is not relevant to AWEC’s recommendation. AWEC would not necessarily oppose a similar incentive structure for other similarly situated customers that can demonstrate verifiable energy efficiency savings through energy efficiency. Transportation customers have historically been excluded from conservation programs because they purchase their own gas. Accordingly, there may be a significant amount of unutilized energy efficiency available in the transportation sector that can be used for CPP compliance. This may be true for other types of customers as well.

Third, Staff states that “There is no evidence yet that RNG is the marginal cost of CPP compliance.”⁵ AWEC respectfully disagrees with Staff on this point. The information provided in this docket provides clear evidence that RNG is the marginal compliance cost for the CPP. It is possible that will change in the future as new technologies are developed. As it stands today, one additional term of load on NW Natural’s system will require one additional therm of RNG.

Finally, Staff states the “PUC’s existing dockets and processes are a more appropriate forum to conduct the analysis and due diligence necessary to develop and adopt any new avoided cost value.”⁶ Again, AWEC disagrees with this statement. This docket is an appropriate forum to consider potential pricing for a custom industrial energy efficiency program. Waiting for another docket will merely delay the implementation of such a program.

Finally, AWEC believes it is also appropriate to begin considering end-use carbon capture technologies as a means for achieving CPP compliance. This includes both pre- and post-combustion technologies. There are many different carbon capture technologies under development. The Inflation Reduction Act enhanced the tax credit for carbon capture, and also implemented a new Advanced Industrial Facilities Deployment Program, which may provide up to 50% funding for high-impact, transformational projects to significantly reduce greenhouse gas emission. While NW Natural’s IRP focuses on decarbonizing gas at the source, decarbonization may be more practical in some cases at the point of use. Carbon capture technologies, such as hydrogen pyrolysis, can be implemented at industrial sites without running into the challenges of distributing the smaller sized hydrogen molecules through the legacy natural gas distribution system. These end-use carbon reduction strategies have the potential to materially reduce carbon emissions. Accordingly, in addition to RNG, Syngas, and Hydrogen, AWEC recommends NW Natural also begin evaluating emergent end-use carbon capture technologies.

Community Climate Investments

In Opening Comments, AWEC recommended modifying Action Item #7 to require NW Natural to procure the maximum amount of CCI’s for CPP compliance. Upon a more detailed review of the CCI Program, AWEC is modifying its recommendation. In its place, AWEC is recommending the following:

⁴ *Id.* at 36.

⁵ *Id.*

⁶ *Id.*

Action Item 7: *NW Natural will monitor the development of the CCI program and, if available, procure CCIs as necessary and appropriate to ensure compliance with the 2022-2024 compliance period.*

Upon a more detailed review of the CCI program, AWEC is concerned that the CCI framework is not sufficiently developed for CPP compliance, at least in the near term. Based on AWEC's understanding, it is not yet possible to purchase CCIs because there are no CCI entities approved by the DEQ. Since there are no approved CCI entities, no entities are authorized to accept funds from NW Natural, and it is not yet possible to evaluate how the funds might be used and whether the funding is in the public interest. Accordingly, while CCIs may ultimately be a low-cost tool for a portion of CCP compliance, there is not yet sufficient availability of these compliance alternatives for this action plan period.

In Staff's Final Comments, it generally agreed with AWEC's original recommendation. In Staff Recommendation #7, Staff recommended "non-acknowledgment of the SB 98 RNG acquisition under Action Item 5 because acquisition of CCIs is a significantly less costly and risky method of complying with the CPP."⁷

If the CCI compliance instruments were available, and being used for a purpose that was beneficial to the policy objectives of Oregon, AWEC would continue to argue that NW Natural should acquire all CCI's available for CPP compliance. There is no question that CCIs have the potential to be a cost-effective tool for a portion of NW Natural's CPP compliance obligations. AWEC, however, is concerned that the CCI money be used appropriately and that there should be visibility into the program. The DEQ is currently accepting applications from potential CCI entities through May 10, 2023. It is not yet clear what entities will apply, or the amount of funding projects the DEQ will accept. Without having any approved CCI entities, it is impossible to know how the funding might be used and whether the funding is in the public interest or whether the projects will reduce greenhouse gas emissions. While AWEC is withdrawing its original recommendation, it is still important for NW Natural to monitor the development of the CCI program and procure CCI's as necessary and appropriate. Accordingly, AWEC has modified its recommended action plan languages as set forth above.

Attribution of Transportation Customer Carbon Savings

In its Opening Comments, AWEC proposed the following Action Plan item:

Proposed Action Item: *NW Natural will develop and propose tariff language to attribute carbon savings resulting from the CPP to transportation customers.*

In Reply Comments, NW Natural stated that it is "willing to work with AWEC to better understand this request."⁸ Notwithstanding, NW Natural was not willing to accept AWEC's proposal. NW Natural took the position that such an action "would actually need to be taken by the

⁷ *Id.* at 10.

⁸ NW Natural Reply Comments at 103

Oregon Department of Environmental Quality (ODEQ) based upon a reading of the ODEQ’s Climate Protection Program rules.”⁹

Staff, on the other hand, supported AWEC’s recommendation and encouraged NW Natural to work with AWEC to implement this proposal.¹⁰

AWEC disagrees with NW Natural’s statement that attributing carbon savings to transportation customers will require a change to the CPP rules. The attribution of carbon savings to transportation customers can be accomplished through a simple revision to NW Natural’s filed tariffs. All customers, regardless of whether they are sales or transportation customers, take delivery from the same pool of gas on NW Natural’s gas system. Tariff language could be approved stating that the carbon intensity of gas delivered to transportation customers from that pool is adjusted for renewable natural gas and renewable thermal credits purchased by NW Natural on the behalf of transportation customers. NW Natural would also be required to report the carbon intensity of gas transported on a monthly or annual basis. This simple tariff change would not implicate CPP compliance in any way. Therefore, it is not clear why NW Natural believes that the DEQ must modify or clarify its rules to provide transportation customers with the benefit of renewable natural gas that they are paying for.

Further, to the extent that a rulemaking is necessary to accomplish this change, AWEC requests that NW Natural work with the DEQ to implement the appropriate rules.

Requested Studies

In Opening Comments, AWEC recommended a new action plan items requiring NW Natural to study the impact of weather variable loads on *CPP* compliance and the value of interruptible loads. AWEC appreciates Staff’s Final Comments on this matter, and is open to a softer requirement that NW Natural work with AWEC on these issue prior to the next IRP:

Proposed Action Item: *NW Natural will meet with AWEC prior to the 2022 IRP Update to discuss potential studies for the impact of weather variable loads on CPP compliance and the value of interruptible loads.*

With respect to the weather variable loads, AWEC is concerned that weather-variable loads may require NW Natural to over-comply with the CPP. Staff disagreed with AWEC’s concerns to the extent that “the Company has some flexible compliance options that can be adjusted at the end of the compliance period.”¹¹ The issue AWEC identified, however, has to do with the fact that not using and reserving those flexible compliance options may result in additional costs for ratepayers. If the flexible compliance options reserved are low-cost alternatives, such as CCIs, withholding those instruments as a buffer for weather variability will result in increased cost to ratepayers.

⁹ *Id.*

¹⁰ Staff Final Comments at 36

¹¹ *Id.* at 37.

With respect to interruptible loads, Staff expressed concern that “interruptible loads are not always called up during peak events and thus calls into question their tariff design.”¹² Staff’s statement, however, ignores the system benefits provided by interruptible customers. The number of times a customer is interrupted has no bearing on the massive system benefits provided by interruptible customers. In fact, this misconception is the reason that AWEC has requested a study be performed.

NW Natural plans its system based on design day requirements. As NW Natural discussed in response to AWEC Data Request 04, “[t]o be able to serve all interruptible customers on a firm basis would require numerous system reinforcement projects throughout NW Natural’s system.” These system upgrades would otherwise be necessary regardless of the number of times that an interruptible customer is interrupted. Given NW Natural’s inability to quantify the incremental cost of serving interruptible customers on a firm basis, AWEC was interested in gaining an understanding of the magnitude and cost of system reinforcements that would be necessary if interruptible customers were assumed to be firm.

Staff also recommended that “NW Natural should provide a better understanding of the intersection of interruptible programs and transport customers as a demand response resource,”¹³ a recommendation with which AWEC does not disagree.

Electrification

In response to certain parties recommendations regarding electrification, Staff recommended that the Commission wait to make a decision on electrification until a more comprehensive study of electrification can take place.¹⁴ Staff stated “one of the elements which should be considered in gas and electric utility planning moving forward is the variety of costs and risks associated with electrification.”¹⁵ Staff acknowledges the challenge of considering these costs and risks in stand-alone IRP, and recommends that the Commission look “holistically at the effects of various decarbonization pathways on households as gas and electric customers, rather than just their gas bills.”¹⁶ Staff engaged Synapse to review the costs and benefits of electrification, notwithstanding Staff’s acknowledgement that the Synapse report “does not address many of the important questions raised by stakeholders in comments filed March 8, including the potential electric rate impacts of increased demand on the electric system and building-specific electrification costs in Oregon.”¹⁷

AWEC generally agrees with Staff’s recommendation that the Commission not address electrification in this docket. AWEC, however, does not agree with the results of the Synapse report, nor the recommendation for a policy docket regarding electrification. Staff acknowledges that that electrification issues are difficult to analyze in NW Natural’s stand-alone IRP, viewed in

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at 41.

¹⁵ *Id.* at 39.

¹⁶ *Id.* at 39-40.

¹⁷ *Id.* at 40.

isolation from the impacts on electric service customers. While a multi-utility investigation into electrification may yield a more comprehensive analysis, it will be challenging to find consensus across a such a broad range of interests. Absent a demonstration that electrification actually reduces carbon emissions, AWEC finds it premature to begin undertaking such a docket.

Efforts are underway to decarbonize both the gas and the electric systems. There are some advocates that strongly believe that decarbonization of the electric system is more likely or more feasible than decarbonization of the gas system. Notwithstanding, it is important to note that the electric system still depends heavily on carbon emitting resources and the direct use of natural gas is more carbon efficient than using that natural gas to generate electricity. Granted the evaluation of the carbon emissions and greenhouse gases is complicated and must consider the efficiencies of different technologies (e.g. heat pumps versus a furnace), direct vs indirect use of fuel, and considerations of methane emissions and leakage which would be present in both the electric system through gas fired generation and the gas system. A comprehensive analysis of these factors needs to take place before determining that electrification is a viable pathway for decarbonization.

Syngas and Hydrogen

Staff and CUB both have expressed concerns over NW Natural's assumptions regarding Syngas and Hydrogen. These technologies, however, present a significant opportunity for the natural gas transportation and gas distribution system. Notably, for purposes of this IRP, NW Natural's analysis of these alternatives has zero impact on the action plan that is being proposed in this docket. Accordingly, it is most appropriate for the Commission to not foreclose the development of either of these alternatives.

Conclusion

Thank you for the opportunity to provide these comments and we look forward to participating in the remainder of this docket.

Respectfully submitted,



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