NW Energy Coalition

December 3, 2021
NWEC Comments in UM 2178, Natural Gas Fact Finding
Response to Utility Supplemental Modeling

Submitted via email to puc.hearing@puc.oregon.gov

Thank you for the opportunity to comment on the supplemental modeling scenarios for UM 2178, the Natural Gas Fact Finding docket. The NW Energy Coalition (NWEC) appreciates the ongoing work of Staff to try to make this process as transparent and accessible as possible and the additional modeling work that utilities have submitted into the docket.

Introduction

This docket was originally opened to determine how to implement compliance with the Oregon Department of Environmental Quality's (DEQ) imminent rules around their new Climate Protection Program, which seeks to significantly reduce greenhouse gas emissions and address the impacts of climate change. The two rounds of modeling have served to identify the following:

1) Scenarios in which current fossil-based product could be replaced with less carbon-based gas created from bio-sources and hydrogen created from renewable energy sources.
2) A real potential for rapid electrification of homes and buildings.
3) A real potential for state and local policies that will reduce demand for fossil-based gas.
4) A real potential for reduced market-based demand for fossil-based gas.
5) A real potential for a shrinking customer base responsible for increasing costs of legacy gas systems.

In addition, this docket has had a solid review of existing regulatory tools that the Commission has at its disposal to help customers navigate these pressures for decarbonization of the gas industry. The identification of the potential risks listed above along with the examination of the regulatory tools provide a basis for a robust, ongoing conversation about how the Commission can protect customers amidst a rapidly changing landscape for gas utilities.

The Pressures Faced by the Gas Industry

In their initial modeling exercise, the gas companies outlined a future for an essentially unchanged business model wherein their existing and future infrastructure simply carries renewable gas and clean hydrogen instead of the fossil-based gas it carries today. The NW Energy Coalition does contend that alternative fuels can be part of the clean energy transition, and has supported policy initiatives such as Senate Bill 98 (2019) that allows gas companies to explore renewable gas investments, as well as Senate Bill 844 (2013) that allows gas companies to receive incentives for reducing emissions. But the companies' optimistic view is clouded by undeniable pressures on the gas industry, to which the alternative modeling scenario results have alluded.

First, while the gas utilities should continue to pursue renewable gas opportunities, we need to be realistic about its potential and timeline. A January 2021 article on GreenBiz.com cited, among other sources, a 2019 American Gas Foundation study that suggested that as much as 11 percent of current gas consumption could be replaced with renewable gas – if crop and forest residues are included with landfill and manure sources. Additionally, the conversion of those crop and forest residues depends on thermal gasification, a still nascent technology. Needless to say, 11 percent is far short of a one-to-one replacement for the current fossil gas product.

Clean hydrogen is the other potential replacement cited to reduce emissions in the current gas sector. Despite the potential of such an application for clean hydrogen, it is not yet commercialized, and many steps exist before it is a viable product that can be used directly in appliances. Even when it is, there are still questions about how much hydrogen will be available. Again, it may not be a one-to-one replacement.

Second, policy-driven building decarbonization is putting increased pressure on the cost and future of gas and are often prioritizing electrification. State and local policies are looking to electrification strategies as an effective tool to implement climate protection plans. Indeed, the DEQ's climate protection plan, while not addressing electrification directly, will make fossil gas more expensive going forward. Those policy pressures are likely to magnify rather than lessen.

Third, the market is responding to both economic and climate pressures. As climate policies develop due to public demands in legislative bodies at all levels of government, reasonable assumptions can be made that those policy demands could translate to market demands, such as consumer decisions to replace gas appliances—especially furnaces—with full-electric appliances, such as heat pumps. As greenhouse gas emissions policies push up costs of fossil fuel-based products, market demand for products that use lower emitting products and appliances will grow.

Those are pressures that gas companies face today. They are real and they are significant. And they are only likely to grow. Even a higher than assumed social cost of carbon, or at some point an actual price on carbon at the state or even federal level will increase those pressures. However, those pressures should not be the focus on the ongoing discussion of the future of gas.

How the Commission Should Proceed

The intent of UM 2178 was never to help the gas companies determine a viable path forward to effectively decarbonize their system. We do hope they continue to pursue that goal and we hope to continue to be engaged in that pursuit with them.

Instead, the intent of UM 2178 at its outset was stated plainly by Staff:

> *"The purpose of this Fact Finding will be to analyze the potential natural gas utility bill impacts that may result from limiting GHG emissions of regulated natural gas utilities under the DEQ's Climate Protection Program and to identify appropriate regulatory tools to mitigate potential customer impacts. The goal of the Fact Finding will be to inform future policy decisions and other key analyses to be considered in 2022, once the CPP is in place."*

NWEC thinks that that Staff is meeting the stated intent. The process has so far found – as reflected in the utility modeling – that "the potential natural gas utility bill impacts that may result from limiting GHG emissions of regulated natural gas utilities under the DEQ's Climate Protection Program" are significant. We would also agree that the docket has identified "appropriate regulatory tools to mitigate potential customer impacts." So, now what?

We believe that the Commission and Staff need to be clear-eyed about the risks facing customers of gas utilities. While we can hope for the optimistic future proffered by renewable gas and clean hydrogen, we cannot afford to count on it as the full solution. Rather, we must balance that optimism with the very real risks faced by customers of gas companies – substantial bill impacts because of policy and market pressures to reduce greenhouse gas emissions. Then, we must design effective strategies with existing regulatory tools to protect customers from those risks. To the extent we identify that existing tools are not adequate, we will need to propose developing legislative authority for additional tools.

Gas company comments throughout this docket highlighted several long-term initiatives that would be helpful to the ongoing discussions. Those initiatives include: a decarbonization study, joint system planning, and an innovation fund. All of these are good suggestions but are either a longer-term discussion or a discussion that happens on a parallel track.

Recommendation
NWEC looks forward to the report from staff, to be issued next week, and the subsequent discussions that are planned. At this point, we think that, following the completion of that report, the Commission should continue UM 2178 with an updated purpose of how the existing regulatory tools identified in this initial phase of the discussion can be used to help customers manage the risks that currently face gas service. Specifically, the tools that should be explored are: low-income rate mitigation, as authorized by HB 2475 (2021), rate design issues, and other planning, program/policy, and ratemaking tools that can be implemented in the near term to protect customers.

NWEC appreciates the opportunity to offer these comments and we look forward to continuing our participation in these discussions.

Sincerely,

/s/
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