

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UM 2178**

In the Matter of

In the Matter of OREGON PUBLIC  
UTILITY COMMISSION STAFF Natural  
Gas Fact Finding per Executive Order 20-  
04 PUC Year One Work Plan.

COMMENTS OF THE ALLIANCE OF  
WESTERN ENERGY CONSUMERS

The Alliance of Western Energy Consumers (AWEC) appreciates the opportunity to provide comments on the Natural Gas Fact Finding Draft Report issued by the Staff of the Public Utility Commission of Oregon on April 15, 2022 (Staff Report). AWEC would like to thank Staff and all the stakeholders for the thoughtful discussions and comments that have taken place in this docket.

**AWEC Comments**

AWEC represents large energy consumers in the Pacific Northwest, including natural gas sales and transportation customers of Oregon natural gas distribution companies. Many AWEC member company facilities are energy-intensive, trade-exposed (EITE) entities. These businesses are core industries to Oregon's economy, employ many Oregonians and face significant national or global competition for their products and are highly sensitive to the cost of electricity and natural gas. Accordingly, AWEC is interested in ensuring that Oregon consumers maintain safe and reliable service and competitive access to energy supplies and energy services while decarbonizing the energy system consistent with the Climate Protection Plan (CPP) and state policy.

Stakeholders in this docket represent broad interests and have presented diverse points of view for consideration. Energy policy and planning is complicated and the CPP has added another layer of complexity in Oregon. Notwithstanding, it is imperative when looking at decarbonization to remain focused on providing safe, reliable and affordable services for customers including during peak loads and during extreme weather or other challenging operational events. In general, AWEC is supportive of the long-term goals of decarbonization. Such goals, however, must be realistic, based on technologies and services that exist today, and consider the real-world energy requirements and the cost of compliance for consumers located in Oregon.

The stated purpose of this Natural Gas Fact Finding docket was described as follows:

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 ultimate 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.<sup>1</sup>

Notwithstanding the initial scope, some stakeholders have used this docket as a forum to advocate for electrification and the elimination of natural gas in Oregon. Even Staff argues “Given the desire by most of the public to address global warming due to fossil fuel use momentum exists for limiting gas expansion and reducing or shifting energy use away from the natural gas system....”<sup>2</sup> While AWEC does not agree that this is how the decarbonization discussion should be framed, it is a view shared by many stakeholders in this docket. AWEC believes that the decarbonization discussion should be fuel neutral and that decisions should be made carefully and based on facts and studies and consistent with state law.

The focus on electrification and “shifting use away from the Oregon gas system” ignores the detailed analysis and modeling performed by the gas utilities showing various decarbonization models designed to comply with the CPP. It is not appropriate to simply assume that electrification is the only way to decarbonize the energy supply in Oregon without an Oregon specific study demonstrating that the assumption is accurate. In fact, AWEC is not aware of any fuel neutral Oregon study demonstrating: (a) that electrification is the least cost/least risk option for ratepayers; or (b) that electric utilities will be able to provide safe and reliable service to their customers during peak loads and critical weather events and other critical operating conditions comparable to the dual fuel system we have in place now. Natural gas continues to be a reliable and essential source of energy in Oregon. The natural gas industry and gas utilities have a financial incentive to implement existing technology to decarbonize through renewable natural gas, renewable hydrogen, carbon capture and other methods and to invest in pilot programs and other innovative technologies to decarbonize the gas system. Finally, there are real world implications from phasing out one energy source and relying on another that warrant careful consideration. Wars, supply chain issues, and long lead times have impacted the availability of utility supplies, including raw materials, transformers and batteries, all of which could have an impact on safe and reliable service.

Even if there is a move towards electrification, this will happen over time, and there will be some customers that decide not to electrify, and some customers that are unable to fuel switch. For those customers, they will continue to rely on a safe, affordable and viable natural gas industry for service. AWEC is interested in ensuring that its members continue to have safe, reliable and affordable access to energy, including both natural gas and electricity, while complying with the CPP.

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<sup>1</sup> UM 2178, First Public Workshop May 27, 2021, Agenda.

<sup>2</sup> Staff Report, p. 7.

## **Staff Report**

AWEC appreciates the hard work that went into the Staff Report. Staff did a commendable job summarizing the divergent views expressed in this docket. Below AWEC offers initial comments on several proposals or recommendations in the Staff Report.<sup>3</sup>

### **Energy Efficiency for Transporters<sup>4</sup>:**

Staff recommends that transport customers be included in energy efficiency programs.<sup>5</sup> AWEC agrees with the concept, and recommends that the Commission open a separate docket to consider the development of a Large Customer Carbon Reduction Program (LCCRP) substantially similar to the AWEC proposal set forth below. Such a program initially could be implemented as a pilot beginning in January 2023, or even earlier if such a program was approved before the end of the year. The LCCRP would provide transportation customers with both an incentive, and a pathway, for achieving carbon reductions. The LCCRP would apply to all industrial transportation customers of LDCs above a yet to be determined threshold.

The LCCRP would be mandatory for all industrial transportation customers exceeding the throughput threshold, although customers will have the opportunity to select between two different programs: a group funded option or a self-funding option. Fundamental to this proposal is that the LCCRP customers will be treated as their own CPP rate class so that any gains from energy efficiency are retained by the customers in the class.

- LCCRP Group Funding Option - Unless electing to self-fund energy efficiency, all customers will be enrolled in the group funding option. This program would be similar to other energy efficiency programs where the costs are paid by all customers within the LCCRP class. The utility would collect a certain percent in rates and that money would be set aside to fund energy efficiency programs that would be collaboratively designed by the utilities and the LCCRP customers.
  - Individual customers would apply to the utility in order to fund specific energy efficiency projects at their respective facilities. As mentioned above, for CPP compliance, the transportation class will be its own class so that the money collected will be used by the transportation class and any gains from energy efficiency (ie. decreases in CPP compliance costs) are retained to offset CPP compliance costs for the transportation class as a whole. Of course in this Program the decrease in gas commodity and transportation costs resulting from reduced gas consumption would accrue to the individual customer undertaking the energy efficiency measures.

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<sup>3</sup> AWEC's silence on a particular item should not be construed as opposition to or support of a particular recommendation or proposal contained in the Staff Report.

<sup>4</sup> AWEC reserves the right to modify the LCCRP.

<sup>5</sup> Staff Report p. 21, 28.

- LCCRP Self-Funding Option – If customers elect to participate in this option, they will be responsible for independently managing their CPP compliance obligations. The program would provide financial incentives from the Utility for large customers to invest in energy efficiency, and other measures to reduce carbon emissions consistent with the objectives of the CPP. For CPP compliance, each customer selecting this option will have an individual compliance obligation.
  - Each LCCRP Self-Funding Customer will be provided with an LCCRP Baseline. AWEC recommends this baseline be established based on throughput over the 12-months ending October 31, 2022. To the extent operations were abnormal in 2022, an LCCRP Self-Funding Customer may apply to adjust its LCCRP Baseline. The calendar year 2022 is selected because it is the first year of the CPP and does not require any incremental carbon reductions relative to the CPP baseline.
  - Under this alternative, it is assumed that all customers, including LCCRP Customers, will be responsible for paying a CPP Surcharge(s) covering CPP compliance costs. Participating customers that invest in energy efficiency, carbon reduction measure and load curtailment programs will receive a LCCRP Surcredit, offsetting the cost of the CPP Surcharge.
  - The LCCRP Surcredit would be calculated on an annual basis corresponding to the timing of utilities' Purchased Gas Adjustment filings. The LCCRP Surcredit will be calculated based the Marginal Compliance Rate multiplied by the difference between the LCCRP Customer's actual throughput over the 12-month period ending September 30 and the Customer's LCCRP Baseline. The Marginal Compliance Rate will be calculated based on the dollars per therm cost of the utilities' most expensive renewable natural gas acquisition or community climate investment over the preceding year. The LCCRP Surcredit amount will be divided by 12 and applied to LCCRP customer's bills over a 12-month period starting in November.
  - The LCCRP Self Funding option assumes that the transportation customers self funds the energy efficiency program. A customer participating in the LCCRP must document the investment and energy efficiency measures implemented as part of this program. The information will be provided to the utility and the Commission and may be designated as confidential. This program would be self regulating because if the customer does not invest in energy efficiency, it will pay the full CPP Surcharge without any offset.

Examples of how the LCCRP would be calculated and that illustrate three different levels of LCCRP Surcredit follow on the next page.<sup>6</sup>

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<sup>6</sup> These figures are illustrative only.

**Example 1:**

Customer Baseline:	100,000	dth/yr
Actual Usage	<u>- 95,000</u>	dth/yr (a)
Difference	5,000	dth/yr
Marginal Compliance Rate	<u>× \$12.00</u>	/dth
Annual LCCRP Surcredit	\$60,000	(b)
Monthly LCCRP Surcredit (b) ÷ 12	\$5,000	(c)
Monthly Usage (a) ÷ 12	7,917	dth
CPP Surcharge Rate	<u>\$1.00</u>	/dth
CPP Surcharge	\$7,917	(d)
Monthly Net CPP Cost / (Savings) (d) – (c)	\$2,917	

**Example 2:**

Customer Baseline:	100,000	dth/yr
Actual Usage	<u>- 92,308</u>	dth/yr (a)
Difference	7,692	dth/yr
Marginal Compliance Rate	<u>× \$12.00</u>	/dth
Annual LCCRP Surcredit	\$160,000	(b)
Monthly LCCRP Surcredit (b) ÷ 12	\$7,692	(c)
Monthly Usage (a) ÷ 12	7,692	dth
CPP Surcharge Rate	<u>\$1.00</u>	/dth
CPP Surcharge	\$7,692	(d)
Monthly Net CPP Cost / (Savings) (d) – (c)	\$0	

**Example 3:**

Customer Baseline:	100,000	dth/yr
Actual Usage	<u>- 90,000</u>	dth/yr (a)
Difference	10,000	dth/yr
Marginal Compliance Rate	<u>× \$12.00</u>	/dth
Annual LCCRP Surcredit	\$120,000	(b)
Monthly LCCRP Surcredit (b) ÷ 12	\$10,000	(c)
Monthly Usage (a) ÷ 12	7,500	dth
CPP Surcharge Rate	<u>\$1.00</u>	/dth
CPP Surcharge	\$7,500	(d)
Monthly Net CPP Cost / (Savings) (d) – (c)	\$(2,500)	

## **Line Extension Policy**

Staff's draft report suggests that stakeholders explore "an easily implemented approach to line extension allowance policy"<sup>7</sup> relative to the state's policy on decarbonization. While AWEC is not sure of the intent of this recommendation, AWEC supports line extension policies that are grounded in sound economic principles. If Staff intends to implement a line extension policy as a means for achieving policy objectives, such as fuel switching, that is a broader discussion that should take place in the decarbonization discussion.

## **Rate Spread and Rate Design for Transport Customers**

AWEC supports rate spread and rate design that follows cost causation and other ratemaking principles. In its report, Staff recommends exploring these issues in general rate cases for transport customers.<sup>8</sup> While AWEC is unclear about what Staff is referring to, AWEC agrees that it is important to understand how the traditional ratemaking paradigm and the CPP intersect.

The CPP will make it more expensive to operate in Oregon compared to other states, putting manufactures at a competitive disadvantage to operations in other states. Depending on how costs are allocated, the utilities' modeling in this docket shows that natural-gas intensive manufacturing will be directly and significantly impacted by higher natural gas costs and other compliance costs natural gas utilities incur to comply with the CPP. CPP compliance costs increase the potential that these businesses could move out of state or influence their decisions to invest in expanding their businesses elsewhere. If that happens, these relocated or expanded operations will almost certainly be conducted with far greater carbon intensity than if located in Oregon. That is not in the interests of the environment, the economy or citizens of Oregon. It would also mean that costs could increase for other customers because of fewer customers to pay fixed costs.

Rate spread and rate design discussions evolve out of a utilities' long run incremental cost studies. These studies often show that larger customers pay rates that are significantly above the cost of service, while smaller customers pay rates that are under the cost of service. While there is often some movement towards cost of service in rate cases, principles of gradualism and rate shock prevent large moves towards cost of service. In looking at CPP compliance costs and how to spread those costs, there also needs to be a serious discussion about bring rates closer to parity for all customer classes.

## **Depreciation Rates**

In the Staff report, Staff discusses various ratemaking tools "that can direct how investments are incentivized and socialized, limit cost-shifting across rate classes, or protect certain customers from increased energy burdens."<sup>9</sup> One of the tools was "aligning asset

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<sup>7</sup> Staff Report p. 24.

<sup>8</sup> *Id.* at 22.

<sup>9</sup> *Id.* at 19.

depreciation times with anticipated use over a decarbonization timeline.”<sup>10</sup> If implemented, rates would increase now across a larger customer base assuming an eventual migration to the electric system and preventing potential stranded costs. AWEC disagrees with this proposal. Depreciation rates should be based on the useful life of facilities, and inappropriately increasing or decreasing the time period over which investments are recovered is not in the best interest of utilities or their customers. Furthermore, assuming there will be stranded costs again presumes electrification, without a robust Oregon specific decarbonization study that includes the increased load from the transportation sector.

## **Decoupling**

Decoupling programs may be appropriate in some circumstances, but in general decoupling sends the wrong price signals to customers. For example, customers that invest in conservation end up paying more to make the utility whole, which is counterintuitive and confusing to the customer. *Use less -- pay more.* Utilities usually support decoupling because it stabilizes revenue. The Staff report discusses “Performance-based regulation, in addition to currently utilized decoupling...”<sup>11</sup> If Staff is suggesting some form of revenue stability for the natural gas utilities, which translates into increased costs for natural gas ratepayers to encourage electrification, AWEC does not support this proposal.

## **Integrated Resources Plans**

Staff makes a number of recommendations with regards to both electric and natural gas integrated resources plans (IRP), including the future use of the IRP guidance found in Appendix B. While AWEC has no objection to improving the quality and usefulness of the information contained in IRPs, there are several categories of requested information that need more detail. AWEC recommends that a separate docket be opened to explore changes to the IRP guidelines.

## **Independent Third-Party Consultant**

Staff recommends that the Commission contract with a third-party consulting firm to “evaluate market trends around alternative fuel and low-carbon technology cost and availability and to analyze Pacific Northwest market adoption of decarbonization technologies that are central to any utilities’ CPP compliance pathway on a regular basis to inform utility planning.”<sup>12</sup> AWEC would be supportive of such a consultant so long as the consulting firm is unbiased and takes a fuel neutral approach. A consulting firm that supports electrification would not be appropriate, nor would a consulting firm that is anti-electrification. It may prove to be difficult to find such a consultant. Since the consultant would presumably be paid for by ratepayers, the consulting firm should be focused on what is in the best interest of ratepayers—regardless of the ultimate fuel of choice.

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<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 24.

## **Annual Reports on CPP Compliance**

The CPP has changed natural gas regulation in Oregon. AWEC supports Staff's recommendation to require annual CPP reports to be filed with the Commission.<sup>13</sup> This will also enable stakeholders to review CPP compliance costs on an annual basis.

## **Explore Green Hydrogen and SB 844 Pilot Programs**

Staff has several recommendations to "Actively Incentivize or Facilitate GHG Emission Reduction Pathways."<sup>14</sup> AWEC would be interested in exploring this concept more, as pilot programs could be beneficial in kickstarting green hydrogen, carbon capture and other projects in Oregon. However, the costs of these projects are significant, and the costs should be fairly allocated between shareholders and ratepayers. The traditional ratemaking paradigm where utilities invest and have the opportunity to earn their authorized rate of return may not work for expensive pilot programs where shareholders are also benefiting from the projects.

## **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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<sup>13</sup> *Id.* at 26.

<sup>14</sup> *Id.* at 27.