June 3, 2022
NWEC Comments in UM 2178, Natural Gas Fact Finding
Response to Draft Staff Report, dated April 15, 2022

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

Thank you for the opportunity to comment on the draft staff report, released on April 15, 2022. The NW Energy Coalition (NWEC) appreciates the ongoing work of Staff to try to make this process productive and as transparent and accessible as possible. We also appreciate the effort to summarize the work in this docket in the draft staff report.

We note that we see this docket's work as being very closely related to the work and analysis currently ongoing in the NW Natural (NWN) Integrated Resource Plan (IRP). We have been participating in the series of technical working groups being conducted by the company. We are preparing comments for that process that we will be providing to the company in the coming week and will also provide a copy to staff. While there are many overlapping issues between this docket and the ongoing NWN IRP process, we try to focus our comments here on the draft staff report and this docket. However, we hope that the Commission will consider these comments and comments on the NWN IRP together, to inform a comprehensive view on the future of gas.

On December 3, 2021, NWEC submitted comments on the supplemental modeling stage of UM 2178. In those comments, we noted that the intent of UM 2178 was outlined by staff at its outset:

> *"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."*

Staff also noted in the draft report that the docket was designed to produce two outcomes to support the purpose and goal named above:

1) *An understanding of potential natural gas customer bill impacts associated with the CPP GHG emission target compliance; and*
2) *the identification of strategies and regulatory tools that equitably mitigate potential harm to natural gas customers while accommodating action that supports compliance*

We noted in our December 2021 comments that the stated purpose, goal, and outcomes of this docket did not include determining a viable path forward to effectively decarbonize the gas system. We remain hopeful that the Commission, staff, and the gas companies will take this next important step, and we stand ready to engage in that effort.

However, given the more narrow scope of this inquiry, we believe that the draft staff report demonstrates that the original purpose, goal, and outcomes have been achieved: it shows that there could be substantial impacts on gas utility bills resulting from limiting GHG emissions under the Climate Protection Program

(CPP) and that there are regulatory tools available to the Commission to mitigate these potential customer impacts. However, the draft report spends significant time speculating about how to help gas utilities

reduce their GHG emissions, and not enough time considering the interests of customers. While the optimal decarbonization pathway for gas utilities is an important topic to explore, at this point in time, it falls outside the scope of this docket, and is secondary to what should be the Commission's main focus - protecting customers as we move to an increasingly GHG-constrained world, required if we are to mitigate the worst impacts of climate change.

For the remainder of these comments, we outline the positive aspects of the draft report as well as some more concerning points that we think should be addressed in the final report.

<u>Positive Aspects of UM 2178 and Draft Report</u>

This section highlights both the positive aspects of the draft report as well as the overall process.

Overall, the meetings and workshops that Staff facilitated were well-run and provided extremely useful information. They outlined the fundamentals of gas utilities and highlighted potential regulatory tools available to the Commission. We commend PUC staff and presenters from the Regulatory Assistance Project (RAP), who were particularly effective in providing relevant material and insightful commentary.

It was also helpful for the utilities to present the various approaches and considerations they developed to demonstrate how they could meet the requirements of the CPP. Since these were preliminary modelling exercises, we agree with Staff's characterization on page 9 of the report:

> *"The analysis from the NGFF, while informative, made it clear that more robust modeling and rigorous vetting of resource assumptions within Integrated Resource Plans (IRPs) will be required to make informed assessments about least cost, least risk paths for compliance."*

We also agree with Staff's comment on page 15:

> *"To meet the state's GHG reduction targets and avoid unnecessary costs and reliability risks, the planning of both gas and electric utilities will require the sharing of key data in the near-term and the explicit recognition of planning interdependencies."*

We like the starting point outlined in Section 5.2 of the draft report regarding coordinated communication and stakeholder access (page 22). We believe there is an inherent recognition that the policy framework to create better, more inclusive processes as well as providing more robust tools to help mitigate impacts on customers are in place with HB 2475 adopted in the 2021 session of the Oregon legislature.

Finally, we support the inclination to pursue a "systems thinking" approach in creating pathways forward. The report raises many tough questions – including how to reduce emissions from the gas sector, which customers should receive gas service, and how gas utilities should be regulated moving forward. By definition, systems thinking is called for. To the extent that the Commission needs to seek additional resources to pursue this approach – and implement its equity goals as well – as suggested in Section 5.6, we are eager to engage in that discussion.

<u>Concerning Aspects of Draft Report</u>

Notwithstanding the positive aspects of the draft report noted above, we had concerns about other aspects that we think should be addressed in the final report. We offer them here, in no particular order.

Potential Use of Renewable Gas and New Gas Technologies: In Section 3.1 – Momentum, the report seems to give substantial credence to gas decarbonizing technologies (renewable gas, gas heat pumps, etc.) without much in the way of questioning assumptions provided in the process. We are getting a great deal of information about the hopes for technological help but little independent analysis. We urge any work beyond this immediate docket take pains to include other analysis beyond that provided by the gas companies.

On a related note, there is some policy uncertainty on how and whether Renewable Thermal Certificates (RTCs) can be used for CPP compliance. Without a better understanding of how RTCs will be used as a compliance tool, it is difficult to determine the ultimate feasibility of renewable gas—particularly out of state production of renewable gas— as a viable pathway to decarbonization.

Potential Bill Impacts: Staff noted in the draft report that "Any compliance pathway will very likely increase the costs of energy service for all categories of customers over the next decade." That is likely true. The analysis provided thus far in the docket shows that there will be an impact on customer bills. But the analysis is primarily based in gas utility modeling, again rather than in any independent analysis. While we must be prepared that decarbonization is likely to increase direct costs to gas customers, we cannot help but note that it may currently be in the interest of the companies to demonstrate increased costs for complying with the CPP, as they embark on a legal challenge to the rule. We also do not have a holistic view in this docket of the impacts of gas utility decarbonization on customers' overall energy costs, or energy burden. In other words, we do not know what trade-offs and mitigating factors exist. While it is possible that a smaller gas system with fewer customers may be the long-term best outcome for customers and the climate, more robust and diverse inputs are needed in order to reach a well-informed regulatory conclusion.

Imperative of Deploying Regulatory Tools to Manage the Transition: In Section 4 - Regulatory Tools, staff

> *"…finds current PUC authority likely sufficient to apply all of the regulatory tools found in the categories of planning, programs, and ratemaking to support and shape any number of CPP compliance pathways. However, some of the tools require new resources and a coordinated, strategic focus to both develop and implement across dockets and utilities, as they call for optimization across Oregon's entire energy system, not just a single fuel."*

In a similar vein, Section 5.1 - Reality of Rate Pressure notes that

> *"Staff believes compliance with the CPP will very likely increase costs to all customers in the near-term, and the modeling suggests it may have differing impacts."*

Taken together, these observations point to the imperative for the Commission to work urgently to provide guidance to the regulated gas companies to ensure a managed transition that will reduce emissions on the timeline outlined in the CPP, preserve affordability of energy services in Oregon, and protect the most vulnerable customers. A lack of guidance leaves customers at risk of either: (a) experiencing increased climate impacts due to gas companies' failure to meet the CPP targets; or (b) paying much more than necessary for essential energy services. Both outcomes should be avoided.

Also in the regulatory tools section, staff comments,

> *"Finally, regarding declining customer counts, staff would note that Oregon's current regulatory structure, and recent experience in the telecom industry, creates some level of institutional bias toward recommendations that maintain customer counts. This is due to how rate spread and rate design is conducted."*

We hope that this statement does not convey the staff's policy position on this matter, which is not supported by the record. In our view, this is exactly what the exploration of regulatory tools was intended to do – not assume "maintenance of customer counts" and determining what ratemaking tools will help remove existing biases of any kind. Options that enable gas companies to maintain customer counts in the near-term could include installing "hybrid" dual fuel heat pumps (which maintain customer counts, but reduce load), or installing solar thermal systems, which provide renewable heat while allowing customers to disconnect from the gas system.

Rather than suggesting that the Commission should pursue policy and tools that maintain customer counts and allow for load growth, we recommend that the final report include more discussion of staff's initial thinking about what tools are available to *manage* declining customer counts, as policy and market drivers are indicating. For example, as customers shift heating load from the gas system to the electric system, the Commission could explore whether some form of compensation by electric utilities to gas utilities could help mitigate the near-term rate and bill impacts.

Section 5.5 is titled "Actively Incentivize or Facilitate GHG Emission Reduction Pathways." We respectfully suggest that there is no need to "actively incentivize" anything. The CPP is in place and has the force of law. Gas utilities are required to reduce GHG emissions or be out of compliance, with attendant financial risks. Ensuring the gas utilities are in compliance with the CPP should be the focus of the Commission. The only facilitation the Commission need do is to ensure that customers pay fair, just, and reasonable rates and if gas customers choose to remove themselves from the system – despite the impact on customer counts and load growth – then they should be allowed to do that without encountering significant barriers. Then, the Commission's focus needs to be on ensuring any remaining customers are not saddled with an overbuilt, overextended system. Any regulatory moves that have the unintended consequence of making gas appliances more affordable or any other similar outcome in the face of an uncertain future is likely not in customers' long-term interests.

Green Hydrogen R&D: Staff includes a recommendation to

> *"Request the gas and electric utilities explore studying the development of a joint pilot for Green Hydrogen production and present their findings to the Commission before January 2025."*

There is a long historical precedent for the Commission not wanting the utilities to use customer funds as a source of support for R&D experimentation. Now is not the time to move away from that precedent. Given the significant level of federal funds and private investment being dedicated to this emerging sector, we do not think ratepayers should be expected to fund green hydrogen demonstration projects until the technology has been proven effective and economical for use cases that will benefit customers.

Conclusion

We conclude by echoing the risks facing gas customers that we identified in our December 2021 comments:

- gas companies facing pressure to meet their optimistic projections about the availability and commercial viability of both renewable gas and hydrogen
- policy-driven building decarbonization is putting increased pressure on the cost and future of gas and those policies are often prioritizing electrification
- the market response to both economic and climate pressures and the fact that climate policies developed due to public demands in legislative bodies at all levels of government can and should lead to reasonable assumptions that those policy demands might translate to market demands, such as consumer decisions to replace gas appliances—especially furnaces—with full-electric appliances.

These risks on customers remain and increase as long as the Commission does not take steps to mitigate them. We recommend that the Commission pursue next steps to avoid adverse outcomes that will harm customers. Specifically, following the completion of the staff 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 include, but are not limited to: 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.

The staff report in this docket is just a starting point. Whether the issues raised are pursued under the current docket or a new one with a new charge, the next phase of the process needs to include more robust independent analysis, an active effort to overcome the inertia of "business as usual" – whether intended or not, and must be laser-focused on protecting customers as they navigate the path toward the GHG-constrained world we need to create.

Thank you for the opportunity to comment on the draft staff report. We look forward to the continued process.

Sincerely,

/s/
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