

October 26, 2021

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

**RE: UM 2178, Natural Gas Fact-Finding Per Executive Order 20-04
NW Natural's Comments**

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), appreciates the opportunity to provide comments regarding the regulatory tools discussed at the October 12th workshop in the above-captioned docket. The Company's comments focus on the following: 1) foundational questions that should be asked before the deployment of any regulatory tool by the Public Utility Commission of Oregon (Commission) with respect to Climate Protection Program (CPP) compliance; 2) the importance of deploying regulatory tools based on meaningful, robust studies of decarbonization pathways that demonstrate their likely efficacy, rather than speculation or presumptions; and 3) issues with certain regulatory tools identified by Commission Staff (Staff) in the Regulatory Tools Matrix. In addition, NW Natural has filled out the Regulatory Tools Matrix prepared by Staff and the Regulatory Assistance Project (see Attachment 1).

Foundational Questions for Regulatory Tools

NW Natural believes that the following foundational questions should be asked when evaluating regulatory tools that may help the Commission exercise its regulatory oversight over a utility's CPP compliance:

- Whether the regulatory tool is expected to reduce emissions or, at the very least, facilitate emission reductions in a clear and quantifiable manner.
- Whether the regulatory tool positively or negatively impacts the safety, reliability, or resiliency of the overall energy system (both natural gas and electric).
- Whether the regulatory tool promotes equity and mitigates impacts to low-income customers.
- Determining the costs and risks of the deployment of any regulatory tool, as well as the costs and risks of all other alternatives considered.

- Whether the regulatory tool comports with the Commission's statutory duties, including its duty to ensure customers continue to have access to safe, reliable natural gas service.

In answering these foundational questions, the Commission and interested stakeholders should consider the CPP compliance modeling performed by Oregon's natural gas utilities in this docket, including scenario modeling requested by stakeholders that is currently ongoing. To date, the results of these modeling efforts demonstrate that natural gas utilities can comply with the CPP with limited rate pressure on customers in the near term. Therefore, it is premature to discuss certain regulatory tools that appear to presuppose that natural gas utilities cannot comply with the CPP. Furthermore, utilities have expertise about their own systems and customer base and can seek Commission approval of any necessary tools in order to safely serve customers at just and reasonable rates while complying with the CPP. A one size fits all approach may not always be appropriate and may discourage utilities from pursuing innovative solutions to decarbonize their systems.

To the extent, however, there is interest in selecting or imposing certain regulatory tools on utilities for a specific purpose (presumably to ensure customers continue to receive safe, affordable, reliable service that complies with the CPP), NW Natural notes that the focus should be on identifying and pursuing those regulatory tools that can balance all of the foundational questions raised above in the least cost/least risk manner while being within the authority of the Commission. This must be supported by analysis and, in many cases, requires a decarbonization study that evaluates the impact on the affordability, reliability, and resiliency of the overall energy system of various decarbonization pathways, in addition to the modeling that is already being performed in this docket.

Recommended Regulatory Tools

At the outset of this docket, Staff explained, the purpose of this docket is 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 [CPP] 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." NW Natural does not view this as a forum for pre-deciding Oregon's decarbonization pathway. Establishing decarbonization mandates or pre-deciding how the state should achieve its climate action goals are not within the Commission's statutory purview. To the extent stakeholders wish to look beyond the scope of this fact-finding, the analysis should be performed pursuant to the Commission's statutory mandates—ensuring the provision of safe, reliable, and affordable natural gas service.

As noted in NW Natural's completed Regulatory Tools Matrix (Attachment 1), any regulatory tools that are ultimately adopted as a result of this proceeding should not be based on assumptions of how Oregon will decarbonize. Nor should it rely on the

experiences or conclusions of other states which have a different climate than Oregon or that rely on a different electric resource mix. Unfortunately, however, portions of the Regulatory Tools Matrix appear to be based on assumptions unsupported by analysis. For example, there are several regulatory tools in the Regulatory Tools Matrix that call for “electrification.” While the Regulatory Matrix does not define the term “electrification” or explain what is meant by this, in any scenario that encouraged the defection of customers from the gas system to the electric system, the Commission would have to consider several issues. In addition to whether it has statutory authority to adopt such tools, it would also have to consider potential impacts to Oregonians of the state’s electric demand increasing when electric capacity in the region is becoming more constrained, the impact to electric rates, the impact of additional emissions to the electric grid, the safety of the system, and the regulatory tools needed to mitigate these impacts on electric customers.

As stated in NW Natural’s September 24 comments in this docket, an in-depth decarbonization study that examines the overall energy system (both electric and gas) is needed to fully understand the impact of pursuing “electrification,” as well as the impact of other potential decarbonization pathways. The Company recognizes that this is a very resource intensive endeavor, but it is a crucial first step in understanding the costs and benefits of various decarbonization pathways. Such a study must be undertaken before the Commission takes any significant action that relies on assumptions about the state’s decarbonization pathway. Nevertheless, there are many useful, constructive actions the Commission can take pending the completion of such a study. As NW Natural noted in its September 24 comments, there are several tools that the Commission can pursue in the near-term that will be useful while remaining neutral to determining Oregon’s decarbonization pathway.

CPP Implementation: The initial compliance period for the CPP begins on January 1, 2022. The natural gas utilities subject to the CPP will need to immediately begin pursuing emissions reductions to meet the mandate in the CPP. There are numerous questions regarding the implementation of the CPP at the Commission that have not been addressed in this Fact-Finding. The following are several areas where regulatory tools will be needed, but are not identified on the Regulatory Tool Matrix:

- CPP Compliance: NW Natural expects that the Commission will require compliance reporting for meeting the mandates of the CPP. Interested stakeholders should discuss how often these reports should be presented, in what form, and what is the required information in the reports.
- Cost Recovery of Compliance with CPP: Natural gas utilities will need a method or mechanisms to recover the costs of complying with the mandates of the CPP. While some tools already exist, additional tools will be needed to recover the expenses of community climate investments and increased energy efficiency beyond what is currently authorized for the Company.

- Energy Efficiency Programs for Transportation Customers: Currently, NW Natural does not have energy efficiency programs for its transportation customers. The current draft rules of the CPP designates natural gas utilities as the point of regulation for these customers, and therefore, it will be the natural gas utilities' legal obligation to reduce emissions associated with the throughput of these customers. An exploration of the policy considerations associated with expanding energy efficiency programs and the costs and benefits of these is appropriate.
- Rate Design and Rate Spread: Natural gas utilities will need to allocate the costs of the CPP in a manner that is fair to all customers and reflects appropriate cost causation principles. These types of decisions can be made on a case-by-case basis, or policy guidance can be provided by the Commission at the outset.

Joint System Planning: The Commission should explore opportunities for joint system planning between electric utilities and natural gas utilities. This may include planning for hydrogen that could be produced from excess renewables on the electric system and stored in existing underground storage on the gas system. This would create long-term seasonal renewable capacity for both the gas and electric systems. Additionally, further joint study of hybrid heating, which NW Natural modeled in its CPP compliance, would be beneficial. Hybrid heating helps address resource adequacy issues on the regional power grid by having natural gas utilities meet space heating demand at peak periods while electricity provides space heating during off-peak hours.

Low-Income Rate Mitigation: HB 2475 provides an opportunity to mitigate the energy burden of the CPP on low-income residential customers. While the Company's initial modeling does not show extreme residential bill increases over the next 30 years, low-income customer protections should nonetheless be pursued as part of the regulatory tools discussion.

We look forward to the ongoing discussion on these important topics. Please address correspondence on this matter to me with copies to the following:

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Sincerely,

/s/ Zachary Kravitz

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