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Sent: Thursday, May 22, 2014 10:21 AM

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Subject: NW Natural Redline and Comments - SB 844 Draft Rules

Jason, et al.,

Attached are some comments and proposed edits to the draft rules last circulated by Staff. I've attached both clean and redline versions, to hopefully assist your review. I've indicated with red wording a couple of places where NW Natural is proposing language for consideration that is more substantive in nature, and where we acknowledge there are still differing views.

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SB 844 Proposed Draft Rule Language

VOLUNTARY EMISSION REDUCTION PROGRAM

860-08X-0500

Definitions

As used in OAR 860-08X-0500 through 860-80X-1150:

~~(1) “Business as Usual Scenario” means the set of conditions reasonably expected to occur within the Emission Reduction Project Boundary in the absence of the financial incentives (1) provided by this program, taking into account all current laws and regulations, as well as current economic and technological trends.~~

~~(2)~~ “Direct emission reduction” means emissions reduction resulting from project emission sources that are controlled by the ~~proposed activity~~ Emission Reduction Project.

~~(3)~~ “Emission Reduction Project” means a single measure or a set of interrelated measures, all labor, equipment, materials, items or actions that comprise a voluntary coordinated action which lead to anthropogenic greenhouse house gas emission reductions within the project boundary that are additional to any reductions that would occur in the ~~absence of the emission reduction project~~ ordinary course of business.

~~(4) “Emission Reduction Project Plan” sets forth the specific details of a proposed Emission Reduction Project meeting the requirements set forth in these rules.~~

~~(5) “Emission Reduction Project Report” means the report prepared by the utility each year that provides the information and documentation required under OAR 860-08X-0800.~~

~~(6)~~ “Emission reduction verification” means a systematic evaluation process for calculating and reporting project baseline emissions, project emissions, and emissions reductions.

Comment [A1]: Defined where used in rule

Comment [A2]: This is defined where it is used in the rule

~~(7)~~ “Indirect emission reduction” means emissions reductions from sources not directly controlled by the proposed activity but that are a related consequence of the emissions reduction project activities.

~~(8)~~ “Leakage” means the net change either positive or negative of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the project activity.

~~(9)~~ “Monitoring” means the ongoing collection and archiving of all relevant and required data for determining the project baseline, project emissions, and quantifying emissions reductions ~~or that are attributable to the emission reduction project.~~

(7) “Ordinary Course of Business” means the set of conditions reasonably expected to occur within the Emission Reduction Project Boundary in the absence of the financial incentives and

other inducements provided by this program, taking into account all current laws and regulations, as well as current economic and technological trends.

~~(148)~~ “Project baseline” means an estimate of ~~business as usual~~ emission reductions that would occur in the ordinary course of business.

~~(149)~~ “Project benefits” means those quantifiable benefits that accrue to the ratepayers of the utility conducting the Emission Reduction Project when such benefits can reasonably be attributed to the emissions reduction work.

~~(1210)~~ “Project boundary” delineates the emission sources, ~~and sinks and reservoirs~~ that must be included when quantifying the net change in emissions associated with the emissions reduction project.

~~(1311)~~ “Project costs” means the sum total of all costs incurred in the pursuit and implementation of a voluntary ~~emission reduction project~~ Emission Reduction Project. When a ~~project~~ Emission Reduction Project is undertaken as additive to an existing or planned project because an emission reduction opportunity is present, project costs are all those ~~associated~~ incremental costs incurred to capture emission reductions opportunities.

~~(14)~~ “Project emissions” means ~~any emissions attributable to the implementation of an Emission Reduction Project that must be accounted for in the Emission Reduction Project Report.~~

860-08X-0550

Project Eligibility Criteria

To be eligible for a Commission determination, the emissions reduction project must satisfy the minimum following criteria ~~set forth in ORS 757.539(3)~~:

~~(a) (f) and:~~ That the public utility requesting the emissions reduction project be a public utility that furnishes natural gas and that the project involve the provision of natural gas;

~~(1) The-~~ (b) That the emissions reduction project benefits must be received by the ratepayers and categorized by directly or indirectly reduce emissions;

(c) That the type or types emissions reduction project benefit customers of ratepayers that received the benefits of public utility;

(d) That absent approval under this rule, the project, and public utility would not invest in the project in the ordinary course of business;

~~(2) The project must be related by similar type of measure and emission reduction strategy undertaken within the project boundary. The utility shall not break emission reductions projects related by measure type and emission reduction strategy into sub-projects.~~

(e) That the public utility, prior to submitting a filing with the Commission, involve stakeholders; and

(f) That the rate impact of the aggregate of all emissions reduction projects undertaken by a public utility under this section not exceed the project cap established in OAR 860-08X-0700.

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860-08X-0600

Project Application Requirements

A project application must include the ~~information required by ORS 757.539(4)~~ (following:

~~(a) —(k) and:~~

~~(1) A description of how the emissions reduction project satisfies the minimum criteria set forth in the OAR 860-08X-0550;~~

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~~(2) An Emissions Reduction Verification Plan that satisfies the criteria set forth in OAR 860-08X-XXX;~~

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~~(3) An Emission Reduction Project Plan which includes;~~

~~(a) All project measures being employed to reduce emissions~~

~~(b) (b) The project timeline~~

~~(c) The project location~~

~~(d) The project boundary~~

~~(A) The project will only use one project boundary to avoid double counting;~~

~~(e) A discussion forecasted amount of capital and operating costs necessary to complete and operate the emission reduction strategy being utilized, why the approach is appropriate, timely and merits approval project;~~

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~~A showing (c) The forecasted amount of how reduced emissions created by the current proposed emission reduction project will affect;~~

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~~(d) The potential of the utility's overall emission reduction project rate cap to reduce emissions not identified in (c) of this subsection;~~

~~(e) The projected date on which the emission reduction project will become operational;~~

~~(f) A requested method for recovery of costs incurred and investments made;~~

~~(f) (g) An explanation of why the public utility, without approval under this rule, would not invest in the emissions reduction project in the ordinary course of business;~~

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~~(h) Proof of stakeholder involvement;~~

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~~(i) The projected rate impact of the emissions reduction project;~~

~~(j) The projected aggregate rate impact of all emissions reduction projects proposed by the public utility under this section and approved by the commission for the public utility under this section;~~

~~(k) An explanation of how the public utility will provide the commission with progress updates no less than annually during the life of the project, including updates on costs and reduced emissions associated with the project;~~

~~(l) A description of how the costs of the Emission Reduction Project are proposed to be allocated by customer class, including a description of how the proposed allocation relates to the benefits received by each customer class;~~

~~(m) A description of whether the utility views the Emission Reduction Project as part of a broader emission reduction strategy that may involve future projects related to or similar to the proposed Emission Reduction Project;~~

(n) An Emission Reduction Verification Plan, which describes how the utility will account for and determine emissions reductions that occur as a result of the emissions reduction project. The Emission Reduction Verification Plan, tailored to the size and other characteristics of each project, must include:

~~(g) A proposed accounting of all anticipated costs and benefits including but not limited to;~~

~~(A) Operations and maintenance costs;~~

~~(B) Construction and installation costs;~~

~~(C) Taxes;~~

~~(D) Permitting costs;~~

~~(E) Infrastructure expenses;~~

~~(F) Increased or decreased sale revenues, and~~

~~(G) Any proposed incentive to) The methodology used by the utility related to calculate the proposed project projected emission reductions, which includes:~~

~~860-08X-0650~~

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Project Threshold

~~(1) A project baseline,~~

~~(2) Identification of emission leakage, which must be accounted for in the emission reductions generated by the project activity~~

~~(3) A description of how the methodology was developed.~~

~~(ii) A monitoring plan, which includes:~~

~~(1) A description of the monitoring methods employed,~~

~~(2) Monitoring equipment used; and~~

~~(3) Anticipated costs of monitoring and emission reduction verification.~~

~~860-08X-0650~~

Project Threshold

~~1) A Tier 1 project is one that has costs that are proposed to be assigned to ratepayers of equal to or less than \$750,000 and has an overall project cost per metric ton of reduced emissions less than \$39. Tier 1 projects shall be subject to the filing process established in 757.539(6).~~

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Comment [A3]: NW Natural is open to discussing whether this should be reduced, in light of the UCT type approach.

Comment [A4]: Same as above

~~(2) A Tier 2 project is one that has costs that are proposed to be assigned to ratepayers of greater than \$750,000 or has an overall project cost per metric ton of reduced emissions greater than \$39. Tier 2 projects shall be subject to the filing process established in 757.539(7)~~

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Comment [A5]: Same as above

Comment [A6]: Same as above

~~860-08X-0700~~

Project Cap

~~860-08X-0700~~

~~Project Cap~~

~~(1) Projected~~(1) The Commission will not approve any Emission Reduction Project where, at the time of application, the projected costs to ratepayers, by rate schedule, of ~~ansuch~~ Emission Reduction Project when combined with a utility's previously authorized Emission Reduction Projects ~~must not~~would cause the utility's revenue requirement to exceed four percent (4%) of the utility's retail revenue requirement for the applicable rate schedule ~~in any year~~. The costs of incentives the utility proposes to recover under this rule will be included in the determination of the costs to ratepayers under this cap. ~~If changes in a utility's revenue requirement cause the costs of previously approved Emission Reduction Projects to exceed the threshold established in this section, the utility may request a general waiver.~~

~~860-08X-0750~~

~~Emission Reduction Verification Plan~~

~~(1) Each project application must be accompanied by an Emission Reduction Verification Plan, a description of how the utility proposes to account for and accurately determine emissions reductions that occur as a result of the project. The Emission Reduction Verification Plan, tailored to the size and other characteristics of each project, must include:~~

~~(a) The methodology used by the utility to calculate the projected emission reductions, which include:~~

~~(A) A project baseline;~~

~~(B) Identification of emission leakage, which must be deducted from the emission reductions generated by the project activity~~

~~(C) A description of how the methodology was developed;~~

~~(b) A monitoring plan, which includes;~~

~~(A) A description of the monitoring methods employed;~~

~~(B) Monitoring equipment used; and~~

~~(c) Anticipated costs of monitoring and emission reduction verification.~~

~~(2) The Commission may require third party emission reduction verification as it determines is necessary.~~

~~860-08X-0800~~

~~Emission Reduction Project Report~~

~~(1) Each year after the utility has commenced work on Emission Reduction Projects approved by the Commission the utility shall submit to the Commission an Emission Reduction Report which includes information on all currently approved emissions reduction projects:~~

~~(a) Updated information similar to that contained in the project proposal and OAR 860-08X-0600 and OAR 860-08X-0750; and~~

~~(b) Updated information on emission reductions achieved and anticipated.~~

~~(c) Updated information regarding how the aggregate of all project costs, including incentives received by the utility will affect the project cap outlined in OAR 860-08X-0700.~~

~~(2) The Commission, upon acknowledgement of the utility's first Emission Reduction Project Report, may modify the interval for the submission of future Emission Reduction Project Reports for that utility.~~

Comment [A7]: This wasn't included in the move because it is true regardless of whether or not it is stated in the rule.

860-08X-0850

Ownership and Transferability Treatment of Emission Credits When Realized ~~Applicable~~

~~In instances where~~ **Where** a utility participates in an emission reduction credit market related to its Emission Reduction Project, the utility must work with stakeholders to seek to determine appropriate actions regarding such emission credits, which must be submitted to the Commission for approval.

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- ~~(1) The utility must retain for the benefit of its ratepayers the emission reduction credits realized through emission reduction project activity.~~
- ~~(2) The utility must retire the emission reduction credits it owns or of which it retains control.~~
- ~~(3) The utility must ensure an unbroken chain of ownership of emission reduction credits.~~
- ~~(4) If split ownership arises, such that the ratepayer or project owner/participant may be owner of some of or all of the emissions reduction credits, the utility must work with the ratepayer or project owner/participant to ensure proper retirement, registration and an unbroken chain of custody.~~

860-08X-900

Ineligibility Due to Noncompliance

~~(1) If an Emission Reduction Project is, or has been, out of compliance with the requirements of OAR 860-08X-0500 through 860-08X-850, the Commission may discontinue or reduce the incentives to be paid to the utility.~~

Comment [A8]: Seems the commission could deal with this through orders approving incentives.

860-08X-950

Treatment of Emission Reduction Project for Purpose of the Utility Earnings Test

(1) The utility will include the costs, revenues and incentives associated with an emission reduction project in its annual Results of Operation Report. The Commission may exclude, or include, both project costs and incentives from an Emission Reduction Project in an earning test associated with the Purchased Gas Adjustment, deferrals and any other mechanism.

NW Natural Proposal – For submission to Commission as alternative language:

A utility's recovery of Emission Reduction Project costs and any incentive granted by the Commission in connection with any Emission Reduction Project shall not be caused to be forfeited by any utility or diminished by means of the application of an earning test or earnings review.

860-08X-1000

Utility Incentives

NW Natural Proposes the following language for discussion about whether the parties and Commissioners could agree to this as a path forward:

As part of a project application, a utility may propose an incentive for pursuing projects under these rules that includes recovery of a dollar amount per ton of emissions forecast to be reduced from such projects. The Commission will evaluate the proposed incentive and determine an appropriate dollar per ton incentive that will be available to the utility for the project and other projects under these rules in the future, until such time as the incentive is altered by Commission action. The amount of such incentive may be set so that it is adjustable from project to project based on the amount of capital related to the project on which the utility is allowed to recover a return. The Commission will re-evaluate the dollar per ton incentive no later than upon a determination that the annual total revenue requirement for any class of the utility's customers has increased by 2% due to costs of projects adopted under these rules.

SB 844 Proposed Draft Rule Language

VOLUNTARY EMISSION REDUCTION PROGRAM

860-08X-0500

Definitions

As used in OAR 860-08X-0500 through 860-80X-1150:

- (1) “Direct emission reduction” means emissions reduction resulting from project emission sources that are controlled by the Emission Reduction Project.
- (2) “Emission Reduction Project” means a single measure or a set of interrelated measures, all labor, equipment, materials, items or actions that comprise a voluntary coordinated action which lead to anthropogenic greenhouse house gas emission reductions within the project boundary that are additional to any reductions that would occur in the ordinary course of business.
- (3) “Emission reduction verification” means a systematic evaluation process for calculating and reporting project baseline emissions, project emissions, and emissions reductions.
- (4) “Indirect emission reduction” means emissions reductions from sources not directly controlled by the proposed activity but that are a related consequence of the emissions reduction project activities.
- (5) “Leakage” means the net change either positive or negative of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the project activity.
- (6) “Monitoring” means the ongoing collection and archiving of all relevant and required data for determining the project baseline, project emissions, and quantifying emissions reductions.
- (7) “Ordinary Course of Business” means the set of conditions reasonably expected to occur within the Emission Reduction Project Boundary in the absence of the financial incentives and other inducements provided by this program, taking into account all current laws and regulations, as well as current economic and technological trends.
- (8) “Project baseline” means an estimate of emission reductions that would occur in the ordinary course of business.
- (9) “Project benefits” means those quantifiable benefits that accrue to the ratepayers of the utility conducting the Emission Reduction Project when such benefits can reasonably be attributed to the emissions reduction work.
- (10) “Project boundary” delineates the emission sources and sinks that must be included when quantifying the net change in emissions associated with the emissions reduction project.

(11) “Project costs” means the sum total of all costs incurred in the pursuit and implementation of a voluntary Emission Reduction Project. When an Emission Reduction Project is undertaken as additive to an existing or planned project because an emission reduction opportunity is present, project costs are all those incremental costs incurred to capture emission reductions opportunities.

860-08X-0550

Project Eligibility Criteria

To be eligible for a Commission determination, the emissions reduction project must satisfy the following criteria:

- (a) That the public utility requesting the emissions reduction project be a public utility that furnishes natural gas and that the project involve the provision of natural gas;
- (b) That the emissions reduction project directly or indirectly reduce emissions;
- (c) That the emissions reduction project benefit customers of the public utility;
- (d) That absent approval under this rule, the public utility would not invest in the project in the ordinary course of business;
- (e) That the public utility, prior to submitting a filing with the Commission, involve stakeholders; and
- (f) That the rate impact of the aggregate of all emissions reduction projects undertaken by a public utility under this section not exceed the project cap established in OAR 860-08X-0700.

860-08X-0600

Project Application Requirements

A project application must include the following:

- (a) A description of the emissions reduction project;
- (b) The forecasted amount of capital and operating costs necessary to complete and operate the emission reduction project;
- (c) The forecasted amount of reduced emissions created by the emission reduction project;
- (d) The potential of the emission reduction project to reduce emissions not identified in (c) of this subsection;
- (e) The projected date on which the emission reduction project will become operational;
- (f) A requested method for recovery of costs incurred and investments made;
- (g) An explanation of why the public utility, without approval under this rule, would not invest in the emissions reduction project in the ordinary course of business;
- (h) Proof of stakeholder involvement;
- (i) The projected rate impact of the emissions reduction project;
- (j) The projected aggregate rate impact of all emissions reduction projects proposed by the public utility under this section and approved by the commission for the public utility under this section;

(k) An explanation of how the public utility will provide the commission with progress updates no less than annually during the life of the project, including updates on costs and reduced emissions associated with the project;

(l) A description of how the costs of the Emission Reduction Project are proposed to be allocated by customer class, including a description of how the proposed allocation relates to the benefits received by each customer class;

(m) A description of whether the utility views the Emission Reduction Project as part of a broader emission reduction strategy that may involve future projects related to or similar to the proposed Emission Reduction Project;

(n) An Emission Reduction Verification Plan, which describes how the utility will account for and determine emissions reductions that occur as a result of the emissions reduction project. The Emission Reduction Verification Plan, tailored to the size and other characteristics of each project, must include;

(i) The methodology used by the utility to calculate the projected emission reductions, which includes:

- (1) A project baseline,
- (2) Identification of emission leakage, which must be accounted for in the emission reductions generated by the project activity
- (3) A description of how the methodology was developed,

(ii) A monitoring plan, which includes;

- (1) A description of the monitoring methods employed,
- (2) Monitoring equipment used; and
- (3) Anticipated costs of monitoring and emission reduction verification.

860-08X-0650

Project Threshold

1) A Tier 1 project is one that has costs that are proposed to be assigned to ratepayers of equal to or less than \$750,000 and has an overall project cost per metric ton of reduced emissions less than \$39. Tier 1 projects shall be subject to the filing process established in 757.539(6).

Comment [A1]: NW Natural is open to discussing whether this should be reduced, in light of the UCT type approach.

Comment [A2]: Same as above

(2) A Tier 2 project is one that has costs that are proposed to be assigned to ratepayers of greater than \$750,000 or has an overall project cost per metric ton of reduced emissions greater than \$39. Tier 2 projects shall be subject to the filing process established in 757.539(7)

Comment [A3]: Same as above

Comment [A4]: Same as above

860-08X-0700

Project Cap

(1) The Commission will not approve any Emission Reduction Project where, at the time of application, the projected costs to ratepayers, by rate schedule, of such Emission Reduction Project when combined with a utility's previously authorized Emission Reduction Projects would cause the utility's revenue requirement to exceed four percent (4%) of the utility's retail

revenue requirement for the applicable rate schedule. The costs of incentives the utility proposes to recover under this rule will be included in the determination of the costs to ratepayers under this cap.

860-08X-0850

Treatment of Emission Credits When Applicable

Where a utility participates in an emission reduction credit market related to its Emission Reduction Project, the utility must work with stakeholders to seek to determine appropriate actions regarding such emission credits, which must be submitted to the Commission for approval.

860-08X-950

Treatment of Emission Reduction Project for Purpose of the Utility Earnings Test

(1) The utility will include the costs, revenues and incentives associated with an emission reduction project in its annual Results of Operation Report. The Commission may exclude, or include, both project costs and incentives from an Emission Reduction Project in an earning test associated with the Purchased Gas Adjustment, deferrals and any other mechanism.

NW Natural Proposal – For submission to Commission as alternative language:

A utility's recovery of Emission Reduction Project costs and any incentive granted by the Commission in connection with any Emission Reduction Project shall not be caused to be forfeited by any utility or diminished by means of the application of an earning test or earnings review.

860-08X-1000

Utility Incentives

NW Natural Proposes the following language for discussion about whether the parties and Commissioners could agree to this as a path forward:

As part of a project application, a utility may propose an incentive for pursuing projects under these rules that includes recovery of a dollar amount per ton of emissions forecast to be reduced from such projects. The Commission will evaluate the proposed incentive and determine an appropriate dollar per ton incentive that will be available to the utility for the project and other projects under these rules in the future, until such time as the incentive is altered by Commission action. The amount of such incentive may be set so that it is adjustable from project to project based on the amount of capital related to the project on which the utility is allowed to recover a return. The Commission will re-evaluate the dollar per ton incentive no later than upon a determination that the annual total revenue requirement for any class of the utility's customers has increased by 2% due to costs of projects adopted under these rules.