State of Utah

Department of Commerce
Division of Public Utilities

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Recommendation

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager
Doug Wheelwright, Technical Consultant
Eric Orton, Technical Consultant
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Jeff Einfeldt, Utility Analyst

Date: June 5, 2019

Re: **In the Matter of the Application of Dominion Energy Utah for the Creation of a Voluntary Renewable Natural Gas Program** Docket No. 19-057-T04

RECOMMENDATION

The Division of Public Utilities ("Division") recommends the Public Service Commission of Utah ("Commission") deny approval of the application of Dominion Energy Utah ("DEU") to create a voluntary renewable natural gas program ("Program").

BACKGROUND

On March 29, 2019, DEU submitted its Application in this docket to the Commission. That same day the Commission issued its Action Request to the Division asking it to investigate DEU's application. On April 2, 2019, the Commission issued a Notice of Scheduling Conference. The noticed Scheduling Conference was held April 9, 2019. The Commission issued its Scheduling Order, Notice of Technical Conference, and Notice of Hearing on April 11, 2019. On May 1, 2019, the Commission held a Technical Conference. Additionally, as part of the Scheduling Conference the Commission ordered parties to file comments on or before June 5, 2019. These are the Division's comments.

DISCUSSSION

The Division generally supports energy conservation, the wise use of renewable energy, and prudent environmental preservation. However, the Program currently proposed by DEU in this docket, while potentially based on a desire to further the wise use of renewable energy, is not sufficiently developed to be in the public interest. The Division's primary concerns with DEU's Program are that it is undeveloped, too broad, the costs are not fully defined, the definition is artificial, the claimed benefits are ambiguous and not measurable, and there is no significant market supporting the purchase and sale of natural gas green attributes.

Proposed Program is Undeveloped

In support of its proposal, DEU provided a summary of voluntary renewable natural gas programs of five other LDCs for comparison, however, the referenced programs are of little value in evaluating DEU's proposal. There is simply too much variance in the programs to make a valid comparison. For example of the five programs used as a comparison:

> Two programs, DTE Energy and Vermont Gas, have so few participants as to make any possible conclusions speculative.
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> The third program, SoCal Gas, is so early in the initial launch phase that it has yet to seek regulatory approval, and currently has no participation or stated expectations.
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> The fourth program, CenterPoint, filed for regulatory approval last year. Its program has yet to be approved and has no participants.

The fifth program, which may be somewhat comparable, is Fortis BC. DEU and Fortis BC both have approximately 1 million customers. A significant difference, however, between the two programs is the unit cost of approximately $1 per therm for the Fortis program compared to $4 per therm for the proposed DEU Program. In the Fortis program, administrative and marketing costs are subsidized by ratepayers, which is one of the main reasons for the significant difference in cost per therm. In the Fortis program, ratepayers can sign up for 100% renewable natural gas status for an estimated cost of approximately $630 annually. By contrast, for a typical DEU residential customer to achieve 100% renewable status (based on a typical annual usage of 80 Dth), the cost would be $3,200 per year. The current Fortis program has been in place for over 5 years and has approximately 12,000 participants. A simple comparison of the time and participation numbers indicates growth in that program of approximately 200 customers per month. The DEU proposal anticipates adding 250 customers per month. The significant cost difference could also adversely impact participation projections in the proposed DEU program. DEU's comparison and estimated participation falls short.

According to DEU, two primary market price drivers exist for a renewable program. The first is the Federal Renewable Fuel Standards implemented in 2005 (over 13 years ago), which require a transportation fuel to contain a minimum volume of renewable fuel. A second price driver is a low carbon transportation fuel credit offered by the state of California. DEU has not shown that transportation fuel credits are a significant motivator to attract participation by DEU's customer base, generally.

Proposed Program is Too Broad

In the opening paragraph of its application, DEU states the implementation of this plan "would result in an opportunity for Dominion Energy's customers to voluntarily contribute to a fund that would be used to purchase Renewal Natural Gas and fund projects designed to promote Renewable Natural Gas and energy efficiency."[1] It is not apparent that a need exists for additional energy efficiency beyond the energy efficiency program currently in place and approved by the Commission (initially approved in Docket No. 05-057-T01).

Costs and revenues of the proposed program should not be comingled with the costs and revenues of the existing energy efficiency program, if it is approved. Any new voluntary renewable natural gas program should not be a potential funding mechanism for, or cost to, the existing energy efficiency program. Additionally, the parameters surrounding "additional programs" to be funded have not been sufficiently defined to warrant a finding that they are in the public interest.

The communication with customers as outlined in the proposed Program is not well defined and leaves room for misinterpretation and confusion for DEU's customers. The Program suggests that renewable natural gas be priced on a per therm basis whereas current customer invoices are priced on a per dekatherm basis. DEU's current tariff is also constructed with dekatherm as the standard unit of measure. The $4 per therm price referenced in the Application may seem low at first glance, but it equates to $40 per dekatherm when converted to the standard billed unit. The purchase of one therm of renewable natural gas represents only 1/800th of a typical customer's annual usage. Ill-informed customer might be confused, thinking it will cost much less. Other customers might conclude buying a few therms is immaterial and consequently view the Program as prohibitively expensive to achieve any effect on the environment. All of these are only speculative based on DEU's limited application.

Costs are not Fully Defined

[1] Renewable Natural Gas is defined in the pre-filed Direct Testimony of Travis S. Willey, DEU Exhibit 1.0.

The underdevelopment of the market for renewable natural gas attributes (mentioned above), could also lead to volatile costs to acquire such attributes. This could make it almost impossible to plan a RNG purchasing budget with any reliability. Because the cost to acquire the renewable natural gas attributes is unknown and the "Company acknowledges that the price is significantly higher than the procurement cost of conventional natural gas,"[2] the rate cannot accurately represent cost of service, and therefore the Division cannot conclude the program is just and reasonable.

The initial application provided an estimate of annual administrative costs for the Program. The Company estimates an annual administrative cost of $265,000 for year 1 and $300,000 for year 2.[3] The Division noted a number of errors and discrepancies between the information presented in the application, the information presented by the Company in the technical conference, and in response to data requests. In response to OCS Data Request 1.08 Attachment 1, the Company prepared a 2-year participation and expense forecast to better explain the information included in the original filing as DEU Exhibit 2.4. This revised forecast is significantly different than the information presented in the original application and has been included as DPU Exhibit 1.0. The revised forecast is more consistent with the information presented in the technical conference but does not match the material that was filed in the Company's application as noted below.

1. The revised forecast shows a delay in the start of the program and lower participation particularly during the starting months of the program.
2. Marketing cost has been reduced by approximately 50% while administrative cost has increased.
3. The revised cost estimate shows only 17% of the expense for this program will be used to purchase renewable natural gas attributes while the remaining 83% will be spent for marketing and administrative cost.
4. The cost for renewable attributes has been reduced from $1.50 per therm to $1.10 and the purchase of renewable attributes is projected to occur much earlier than originally represented in the application. With lower participation and lower per unit cost, the projected total cost for renewable natural gas has been reduced from $260,000 to $70,000.
5. The earlier purchase of renewable natural gas does not match the proposed tariff language, which allows 2 years from the date of contribution to purchase renewable natural gas.[4]
6. The projected negative balance in the proposed balancing account is significantly smaller in the revised projection, but continues to increase each month. With a large and growing

[2] Peterson, Line 59.
[3] Peterson, Line 93.
[4] Peterson, Exhibit 2.2, Proposed Dominion Energy Utah Tariff PCSU 500, Page 8-21, Special Conditions #5.

> negative balance and high administrative cost, it will be some time before this account is anticipated to have excess funds that could be used for the development of future renewable resources. Information presented in the technical conference anticipates funding qualified projects beginning in 2023.[5] This funding time frame is not supported by the information or projections that have been provided.

It is unclear to the Division why there are significant differences between what was originally filed compared to what was represented in the technical conference and in subsequent data requests. The mostly likely reason is that so many elements remain uncertain and fluctuating. With all of the significant changes, the Company has not provided a clear or consistent understanding of what is being requested for approval. The direct testimony included in the filing does not match the current estimates and does not support approval of the application.

Definition is Artificial

Mr. Willey states that "Renewable Natural Gas is not necessarily the direct Bio methane molecule produced from a Biogas Source."[6] For example, "if a Utah customer wants to purchase RNG, that customer is really purchasing the Green Attributes from a Bio methane source. That Bio methane source could be in Utah, or it could be in another state. When Green Attributes are combined with the conventional gas supply burned by a customer, the customer is buying RNG."[7] In other words, the purchased Green Attribute may represent only a very expensive label ($40/Dth) on molecules of methane that would have been produced regardless of the purchased attribute.

Program Benefits Have Not Been Defined

In the second paragraph of the application, DEU states "the GreenTherm program would provide benefits to Utah customers, and to the environment. These benefits include satisfying customer demand for renewable energy options, support for the development of the renewable energy resources, and, potentially, advancing the improvement of environmental conditions here in Utah." A method for quantifying these potential benefits has not been defined. Determining program success with regard to the stated benefits will be virtually impossible.

No Current Green Attribute Market

Another area of concern for the Division is the underdevelopment of the market for purchases and sales of renewable credits and green attributes associated with renewable natural gas. The

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[5] May 1, 2019, Technical Conference slide 28.
[6] Willey, Line 123.
[7] Willey, Line 132.

proposed clearinghouse through which green attributes are to be traded is a private venture currently in development and apparently without government oversight or regulation. Trading of renewable natural gas credits may be (or may not be) similar to renewable energy credits ("RECs"), however the renewable natural gas market is illiquid and lacks transparency. There is no current evidence that green attribute trading will be oriented like or function similar to ICE,[8] or NYSE where transparency and a robust market exists. That being said, the trading for renewable natural gas credits is in its infancy and is significantly behind the trading of renewable energy credits (REC) for electricity where RECs are traded in the west through WREGIS and can be certified renewable through Green-e. The market for trading renewable gas credits or green attributes is currently too underdeveloped to rely upon.

Mr. Willey's testimony beginning at line 65 references RMP's Blue Sky Program where it "uses those funds to purchase renewable energy certificates (RECs). RECs are market-based instruments that represent the rights to the environmental, social, and other non-power attributes of electricity generation." Basically, the participants in the RMP program are buying (through RMP as an agent) RECs. One of the difficulties in DEU's proposed program is no market currently exists where renewable natural gas attributes may be purchased or sold.[9] Mr. Peterson clearly states "The Company understands that the RNG market is still developing and that it would take some time to accrue an adequate balance in its balancing account to acquire RNG at a reasonable rate."[10] Since there is not a sufficient market for RNG and thereby no rate or range of rates, the statement that it would be wise to wait to buy green attributes until there is a "reasonable rate" is inconsistent with the stated purpose. What is a reasonable rate as opposed to an unreasonable rate, since none have been sold/purchased and may never be sold/purchased? Who will determine if a future rate is reasonable? The Division fails to see how DEU can state that "it would purchase RNG for the first time in late 2019 and monthly thereafter."[11] Since there is no established market or clearing agency for RNG, the Division questions the accuracy of these statements.

CONCLUSION

The Division generally supports energy conservation, the wise use of renewable energy, and prudent environmental preservation. However, the Program currently proposed by DEU in this docket, is not sufficiently developed to gain Division support. DEU's Program is too underdeveloped and too broad, the costs are not fully defined, the definition of Green Attribute is

[8] Intercontinental Exchange (ICE) provides electronic trading, central counterparty clearing and data services to the energy markets.
[9] Willey, Lines 28-29.
[10] Peterson, Lines 82-84.
[11] Peterson, Lines 84-86.

artificial, the claimed benefits are ambiguous and not measurable, and there is not a sufficient market supporting the purchase and sale of natural gas green attributes.

The Division is focused on ensuring that ventures such as these impose no costs, undue burdens, financial risk, or confusing statements on ratepayers. Additionally, the DEU has not clearly defined and quantified benefits to customers. The proposed RNG program as currently defined is not in the public interest and would not result in just and reasonable rates for Utah customers. Therefore, the application should be denied.

CC: Kelly Mendenhall, Dominion Energy Utah
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