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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: Utah Public Service Commission

From: Office of Consumer Services
Michele Beck, Director
Bela Vastag, Utility Analyst

Date: June 5, 2019

Subject: 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

Introduction

On March 29, 2019, Dominion Energy Utah (DEU or Company) filed with the Public Service Commission of Utah (Commission) an application requesting approval of changes to its tariff which would allow DEU to create a new program to sell renewable natural gas (RNG) on a voluntary basis to its customers.

The Commission, on April 11, 2019, issued a Scheduling Order and Notice of Hearing setting forth the following schedule for the case:

Comments	June 5, 2019
Reply Comments	July 3, 2019
Hearing	July 16, 2019

The Office of Consumer Services (OCS or Office) submits the following initial comments on the Company's proposed voluntary RNG program.

Overview of the Proposed Voluntary RNG Program

The Company states that it is proposing to offer this new voluntary RNG program because its customers want an option to purchase renewable energy and the ability to take action to improve the environment.¹ This new renewable energy option for natural gas customers would be analogous to Rocky Mountain Power's Blue Sky Program for electricity customers. However, for the natural gas industry, this type of program is relatively new. The Company is aware of only five other utilities currently offering or proposing a voluntary RNG program for its customers.²

Renewable natural gas is produced through the decomposition of organic materials from sustainable biomass sources such as found in wastewater treatment plants, animal manure, landfills, woody biomass and crop residuals.³ The Company does not intend to inject actual RNG molecules into its distribution system but instead plans to purchase RNG green attributes to satisfy the demand for RNG from customers who participate in this voluntary RNG program. The Company's response to OCS data request 1.04 further explains the Company's plans to purchase green attributes:

...the Company intends to purchase RNG Green attributes from projects that may or may not inject actual RNG molecules into the DEU distribution system for this program. In the case that the Company purchases green attributes from a project that injects RNG molecules in the DEU distribution system, those physical molecules will be considered traditional natural gas and will be transported to a transportation customer on the DEU system elsewhere. DEU will not buy the physical gas from the RNG plant.

The Company states that there is "not a national standard" for the certification of the green attributes of RNG.⁴ Unlike the green attributes for renewable electricity (i.e. renewable energy certificates or RECs), there is currently no formal certification, verification, tracking or trading for the green attributes of RNG. The Company will acquire RNG green attributes via "private party transactions"⁵ and need to create an in-house system to verify that the green attributes are valid. It plans to model its verification system on the system used by Vermont Gas for its voluntary RNG program. Vermont Gas states that transparency and integrity are essential to the success of its RNG program. To that end, Vermont Gas will use an independent third party to verify and track the green attributes of the RNG for its program and provide clear communication to its customers on what they are buying and what the additional costs are to participate in the RNG program.⁶

¹ March 29, 2019 Application pages 2 - 3.

² May 1, 2019 Technical Conference, Slide 16. The five utilities are Fortis BC, DTE Energy, Vermont Gas, CenterPoint and SoCal/SDG&E.

³ Direct Testimony of Travis S. Willey, page 6.

⁴ Ibid, page 4.

⁵ May 1, 2019 Technical Conference, Slide 10.

⁶ Vermont Gas Systems Renewable Natural Gas Program Manual, Section 3.4, Exhibits 3.1, 3.3, 5.2 & 5.4. Available at: <http://www.vermontgas.com/wp-content/uploads/2018/09/VGS-RNG-Manual-Final-V-1.01.pdf>

In marketing materials to customers, the Company plans to promote the environmental benefits of the proposed RNG program. In OCS data request 1.07, the Office asked the Company to clarify which environmental benefits it will promote as part of this program. The Company responded:

The Company plans to communicate to customers that participation in the program will discuss at least the following benefits:

- *Participation in the program will encourage development of renewable energy.*
- *Purchase of green attributes will result in reduction in greenhouse gas emissions.*
- *Purchase of green attributes may result in improved air quality where the gas is produced.*
- *Purchase of green attributes will result in improved waste management where the gas is produced.*

The Company has proposed to charge customers \$4 for one block of RNG. One block is defined as one Therm of RNG. Customers would be able to subscribe to a set number of blocks per month. According to the Company, the average GS customer uses 800 Therms of gas annually. Therefore, if an average GS customer wishes to commit to 100% RNG usage on an annual basis, the customer would need to subscribe to 67 blocks of RNG per month ($800 \div 12$). To be 100% renewable, this would cost the customer an additional \$268 per month or \$3,216 per year. If a customer chooses to subscribe to just one block per month (a cost of \$4 monthly or \$48 annually), this would average out to 1.5% of his/her annual natural gas usage being supplied by RNG.

If the Company collects from customers more funds than is required for the purchase of RNG green attributes and to cover the administrative costs of the program, the Company proposes to use any RNG program surplus funds for “qualifying initiatives”. The Company states that the goal of these qualifying initiatives is to enhance the supply and use of RNG. The Company's application outlines three possible initiatives for which surplus funds could be used:⁷

1. To purchase additional RNG beyond the blocks already being purchased for customers.
2. To invest in infrastructure development that will support Renewable Natural Gas.
3. For grants to fund energy efficiency projects for Utah customers that are non-profits and governmental institutions.

OCS Comments

The Office generally supports the creation of voluntary renewable energy programs for utility customers so long as the programs do not shift costs to non-participating customers and the programs are transparent in what the customer is receiving and at what cost.

⁷ Direct Testimony of Ted C. Peterson, page 5.

However, the Office is concerned about several elements of how the Company has proposed the marketing, design, and reporting of this new program.

Program Marketing

For DEU's proposed voluntary RNG program, the Office believes there are several elements of the program that may be confusing to customers and may be unintentionally misleading. These areas include:

- Pricing that is based on one block of RNG equaling one therm
- The purchase of RNG green attributes
- Environmental benefits
- Spending and priorities of the program

Pricing Units

DEU's monthly customer bills are based on the number of dekatherms, abbreviated "DTH" on the bill, of gas used during the month. DEU proposes to sell blocks of RNG, with each block equaling just one therm or one tenth (1/10) of a DTH. At DEU's proposed price of \$4 per block, RNG will cost an additional \$40 per DTH. This is considerably higher than the average price the Company charged for natural gas in 2018 of \$7.45 per DTH (or \$9.23 per DTH if all fees and taxes are included).⁸ The commodity-only cost of gas is even lower with the Company's March 2019 Pass-Thru filing (Docket No. 19-057-04) projecting the cost to be \$3.29 per DTH. Because RNG green attributes are being purchased for the program, the \$40 per DTH for RNG would be an adder on the bill and charged in addition to the regular charges per DTH for gas consumption as outlined above.

The Office asserts that without careful communication, messaging, marketing, etc., the customer may be confused and/or be misled regarding the quantity and cost of RNG being purchased. First, the Office questions the use of the term "block" because it implies the customer is purchasing multiple units of RNG when a block is only one therm which is actually one tenth of the normal unit of consumption (a DTH). Second, pricing RNG based on a therm unit may confuse the customer when trying to understand how the cost of RNG compares to the cost of conventional natural gas. As stated earlier in this memo, subscribing to just one block per month equates to a customer using RNG for 1.5% of his gas consumption which should be made clear to the customer. The Office believes that the Commission must ensure that these facts are properly messaged to the customer in solicitation, registration and in the ongoing program. If transparency cannot be ensured and maintained, then the Commission should reject this new program request.

Green Attributes

As discussed above, DEU has stated that it will not buy the physical gas from an RNG production facility but will buy RNG green attributes instead. The intent of the Company to use green attributes instead of physical gas for this program must be made clear up front to customers or otherwise some customers may feel that they have been misled. Messaging to customers on RNG green attributes should also include:

- How the Company will ensure and verify that the green attributes are valid and retired.

⁸ DEU's response to OCS data request 1.03.

- How the green attributes will achieve the environmental benefits claimed by the Company for this program.
- Clear language in its tariff that green attributes instead of physical gas will be used for this program.

Environmental Benefits

The Company's application states that capturing and efficiently burning RNG can be good for Utah's air.⁹ This statement refers to the situation where methane is captured at a landfill and then flared, instead of collected and then burned for conventional processes. In this situation the environmental benefits may accrue at a location which is different than where the customer buying the RNG is located. Another environmental benefit of RNG that the Company plans to advertise to potential customers is the reduction in greenhouse gases from the capture of methane.¹⁰ In this situation, the environmental benefits are global rather than just Utah based. As these two examples illustrate, if the Company's messaging on the environmental benefits of RNG is not careful and clearly stated, customers may be misinformed if they are choosing RNG for certain environmental reasons – e.g. helping clean the air in the Salt Lake Valley during winter inversions.

Program Spending and Priorities

The Company's proposal provides estimates for the program administrative costs, estimates for the likely cost of procuring green attributes to cover the subscribed blocks, and indicates that any surplus funds from the program will fund qualifying initiatives as described earlier in these comments. The Office believes that the Company should inform potential customers up front what percentage of their RNG monthly subscription costs the Company expects to go towards qualifying initiatives. In addition, the Company should be required to provide RNG subscribers an annual report, which we describe in more detail below.

Marketing Recommendations

The Office recommends that the Company follow an approach similar to the RNG program in Vermont. (See footnote 6 above listing the relevant sections of Vermont Gas' RNG Program Manual). Specifically, the Office recommends that the Company provide each participating customer a "welcome letter", similar to the one used by Vermont and attached to these comments.¹¹ In order to ensure that the program is rolled out in a way that does not create up front confusion, the Office further recommends that the Commission require the Company to work with the Office and the Division of Public Utilities (Division) in its development of marketing materials.

⁹ Direct Testimony of Travis. S. Willey, page 8.

¹⁰ May 1, 2019 Technical Conference, slide 23 and response to OCS data request 1.07.

¹¹ Also see Vermont RNG Program Manual, Exhibit 5.2.

Program Design

In addition to the above concerns about potentially confusing information related to how the program would be marketed to customers, the Office also has some concerns about areas of the proposed program design:

- Qualifying Initiatives
- Purchasing RNG within two years of a customer's contribution
- Setting the price at \$4 per therm when the RFP for RNG is not yet completed

Qualifying Initiatives

It is not clear to the Office that it would be appropriate to include qualifying initiatives at this time. Based on initial information provided by the Company, the cost of RNG and program administration appears to be high enough to comprise all or nearly all of the funds to be collected from projected subscribers. Thus, it is unclear whether or when any qualifying initiatives would be pursued. The Office recommended above that the Company should be very clear and transparent in communicating to customers what percentage of program revenues would be expected to go toward qualifying initiatives. If the percentage is close to zero, then the Commission should consider whether it is appropriate to include such initiatives at this time. If qualifying initiatives were to be included, the Commission should require much more information about the process for the selection of such projects both in this filing and potentially in the tariff language. Absent additional information, this part of the program should be denied. The Company would retain the ability to file for a tariff amendment at some future date when the program is better defined and the economics make it more likely for funding of qualifying initiatives.

Purchasing RNG Within Two Years

The Company's proposed RNG Program tariff states: "The Company will purchase RNG within two years of a customer's contribution." The Office believes that a two year delay in purchasing RNG green attributes is excessive. The Office recommends matching as close as possible (if not in advance) the Company's purchase of RNG to the time customers contribute to the program.

Pricing RNG at \$4 per Therm

In the May 1, 2019 technical conference, the Company stated that it had issued an RFP for RNG green attributes. In the technical conference, the Company described how it had based its estimate of \$4 per therm for RNG on the value of RNG when used as transportation fuel in California.¹² The Office recommends that the Company supplement its filing with an updated price per therm based on the results of its RNG RFP.

Reporting Requirements

In order to ensure transparency of operations throughout the life of this program, the Commission should also require the Company to report annually on the program both to the Commission and to its subscribing customers. The Office recommends that the Company mail a hard copy of the report to subscribers and also provide a link to the Company's website where the report can be found. The content should include the following:

¹² May 1, 2019 Technical Conference, slide 9.

- Total subscribed amounts of RNG and total purchases.
- An overview of how RNG program funds have been spent – in particular amounts and percentages spent for RNG, for administrative costs and for qualifying initiatives.
- Detailed descriptions of any qualifying initiatives pursued.
- A report on the verification and tracking process, including updates on any formal and more widely available programs as they emerge.
- Forecasts, if available, on RNG pricing.
- Any other details that the Commission determines to be necessary.

Recommendations

This proposed renewable energy program is voluntary and designed not to shift costs to non-participating ratepayers. The Office generally supports this type of program as long the messaging for the program is transparent and easy to understand for the potential participant. However, the Office has some concerns with the proposed program's transparency as described above. Therefore, the Office cannot support this new program at this time unless the Commission requires the Company to take the following steps to ensure program transparency and efficacy:

- Work with the Office and the Division on developing marketing materials.
- Remove the confusion between blocks, therms and dekatherms in the pricing of RNG. Because RNG could be four or five times more costly than conventional natural gas, clearly explain the pricing differential between RNG and conventional natural gas.
- Clearly explain that green attributes are being purchased and describe how green attributes affect claimed environmental benefits.
- Clearly explain the potential environmental benefits of RNG, distinguishing between local, regional, state and/or global benefits.
- Either remove the qualifying initiatives from the program or provide significant additional information regarding the process and criteria for selection of qualifying initiatives. Such information should include specific tariff changes to clearly explain the program to customers.
- If qualifying initiatives are pursued, provide information up front on the expected funding amount for qualified initiatives and report to customers annually on how RNG funds have been spent.
- Purchase RNG green attributes within a reasonable time from when customer's contributions are made – timeframe to be determined by the Commission.
- Revise the cost per therm of RNG based on the actual results of the Company's RFP as soon as practicable to allow the Office, the Division and others to comment on the proposed price per block within this docket.
- File an annual report that contains the items listed above.

CC: Chris Parker, Utah Division of Public Utilities
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Service List