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**VIA ELECTRONIC FILING**

Steven V. King, Executive Director & Secretary  
Washington Utilities & Transportation Commission  
1300 South Evergreen Park Drive, SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

Re: **Docket UG-140525: NW Natural's Comments in the WUTC's Investigation on Compressed Natural Gas for Fueling Natural Gas Powered Vehicles**

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), appreciates the opportunity to provide answers to the questions the Washington Utilities and Transportation Commission ("Commission") provided in its Notice of Opportunity to File Written Comments, dated April 10, 2014. Below are the Commission's questions followed by the Company's responses:

1. What are the benefits to Washington State of widespread availability of compressed natural gas services for transportation?

Response

CNG as a transportation fuel offers many environmental, economic, national security, and safety benefits compared to gasoline or diesel. Compared to petroleum fuels, CNG can reduce emissions of the primary greenhouse gas pollutant, carbon dioxide, by 20-30 percent. CNG can also reduce pollutants that cause smog and respiratory health issues—it can reduce nitrogen oxides by 75-90 percent, carbon monoxide by 70-90 percent, and also reduces sulfur oxides and particulate matter pollution.<sup>1</sup> Taken together, these pollution reductions can improve public health in Washington, while helping to reduce greenhouse gas emissions in the State.

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<sup>1</sup> Natural Gas Vehicles for America, [http://www.ngvc.org/about\\_ngv/index.html](http://www.ngvc.org/about_ngv/index.html); see also Columbia Willamette Clean Cities Coalition, *Oregon Natural Gas Transportation Fuel: Information Paper*, p.15 (Aug. 2013) (*hereinafter*: Clean Cities).

In addition to being good for the environment, CNG also offers economic benefits, generally costing significantly less than gasoline.<sup>2</sup> CNG also offers both national security and safety benefits. By replacing foreign oil with a domestic resource like natural gas, we can move our country closer to energy independence.<sup>3</sup> And finally, CNG can be safer in the case of an accident than gasoline or diesel. Because it is a gas that rises and disperses rapidly in the event of a leak, and because it has a very narrow ignition range in air, a CNG vehicle will normally not catch fire in an accident, as sometimes happens in accidents involving gasoline powered vehicles.

**2. What are the benefits to utility ratepayers if the Commission approves a utility tariff for gas compression service, and if so, what are those ratepayer benefits?**

Response

In addition to the benefits outlined in the response above to question number 1, the sale of compressed natural gas benefits all ratepayers through increasing throughput over a utility's system. Because increased gas volume sales results in fixed system costs being spread across greater load, this reduces the existing customers' contribution of costs toward the system.

We also believe customers benefit by having the option to choose CNG service that provides them the protections granted with regulatory oversight. The CNG vehicle fueling market has not fully developed to date in Washington, and utility involvement could help customers become more comfortable with this fuel source and help facilitate the development of infrastructure and CNG vehicle usage in the state.

If a regulated service option is available, a customer may directly benefit from it through taking that service, which may represent a service that is otherwise difficult to find. For instance, in Oregon, NW Natural recently received approval of a tariff that allows it to install and maintain compression facilities on customers' property to facilitate the customers' desire to fuel vehicles with natural gas. Because the utility is able to finance the investment (with a recovery of those costs over a period of time), this offer helps a customer overcome a portion of first costs needed in transitioning to using CNG vehicles, which is already somewhat capital intensive due to engine conversions or new vehicles that may be necessary.

**3. What are the risks to ratepayers, if any?**

Response

The risks to rate payers associated with the sale of compressed natural gas are not substantially different from those associated with any other regulated service. The regulatory process should carefully assign cost recovery to customers in an appropriate manner based either on cost causation, or regulatory or legislative authority to assign cost recovery more broadly.

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<sup>2</sup> Clean Cities at p.14; Compressed Natural Gas Fact Sheet available at [http://www.driveclean.ca.gov/Search\\_and\\_Explore/Technologies\\_and\\_Fuel\\_Types/Compressed\\_Natural\\_Gas.php](http://www.driveclean.ca.gov/Search_and_Explore/Technologies_and_Fuel_Types/Compressed_Natural_Gas.php)

<sup>3</sup> See Abundant CNG, at <http://www.cngnow.com/what-is-cng/abundant/Pages/information.aspx>

**4. Is the existing gas compression market potentially competitive? If so, how is the market benefited or harmed if a regulated utility provides service through its tariff?**

Response

The natural gas vehicle market is still in an early stage. Nationally, only 0.0004 percent of the vehicles on the road are fueled by CNG—which translates to just 112,000 CNG vehicles<sup>4</sup> out of a total 250 million vehicles in the U.S.<sup>5</sup> And conversion rates continue to be very low, with only 0.001 percent of U.S. gasoline consumption being displaced by CNG consumption each year.<sup>6</sup> A majority of states have fewer than 12 CNG stations in the entire state.<sup>7</sup> Indeed, the lack of fueling stations helps explain why there are so few CNG vehicles on the road, despite the fact that natural gas currently costs from \$1.50 to \$2.00 less per gasoline gallon equivalent than a gallon of gasoline.<sup>8</sup> The market for CNG varies significantly by state, with a few states consuming most of the CNG, and several states consuming none at all. Overall, this demonstrates that the competitive private market is not well developed.

Some states encourage CNG market development through investment tax credits, fuel tax rebates, transportation tax credits, clean air regulations, utility rebates, cost recovery, alternative fuel standards, and low-interest financing. The data suggests that allowing natural gas utility participation may aid in the development of the CNG market. For instance, the eleven states that allow utilities to participate in the development of a CNG market now account for over 80 percent of national CNG use.<sup>9</sup> Notably, the National Association of Regulatory Utility Commissioners (NARUC) adopted a resolution in November 2012 calling for utility company programs to promote the development of the alternative fuel vehicle market.<sup>10</sup> Consequently, the Clean Cities Coalition has called for “natural gas utility involvement” as one of the strategies needed to accelerate CNG transportation.<sup>11</sup>

NW Natural believes regulated utility involvement can only help the market to develop.

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<sup>4</sup> U.S. Department of Energy Alternatives Fuels Data Center, available at [http://www.afdc.energy.gov/vehicles/natural\\_gas.html](http://www.afdc.energy.gov/vehicles/natural_gas.html)

<sup>5</sup> U.S. Bureau of Transportation Statistics, available at [http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national\\_transportation\\_statistics/html/table\\_01\\_1\\_1.html](http://www.rita.dot.gov/bts/sites/rita.dot.gov/bts/files/publications/national_transportation_statistics/html/table_01_1_1.html)

<sup>6</sup> The U.S. consumes about 134 billion gallons of gasoline each year, and about 200 million gasoline equivalent gallons of CNG. See EIA FAQs at <http://www.eia.gov/tools/faqs/faq.cfm?id=23&t=10>

<sup>7</sup> U.S. DOE Alternative Fuels Data Center, at [http://www.afdc.energy.gov/fuels/stations\\_counts.html](http://www.afdc.energy.gov/fuels/stations_counts.html)

<sup>8</sup> *Id.*

<sup>9</sup> Clean Cities at 15, citing U.S Energy Information Administration (2013), Alternative Fuel Vehicle Data.

<sup>10</sup> National Association of Regulated Utility Commissioners (NARUC) Resolution EL-1/ERE-2/GS-1 on *Expanding the Alternative Fuel Vehicle Market Development and Deployment* (Adopted Nov. 14, 2012). The eleven states with utility participation are: Arizona, California, Colorado, Georgia, Nebraska, New Jersey, New Mexico, Nevada, New York, Oklahoma, Texas.

<sup>11</sup> Clean Cities at 37.

**5. What would be the advantages or disadvantages to the market if a utility provides gas compression service as an unregulated subsidiary buying its gas from its regulated operation via an affiliate transaction?**

Response

NW Natural does not believe that there are advantages to offering CNG service only through an unregulated utility affiliate. The cost separation aspects of such an arrangement can also be reflected under a regulated model, and NW Natural believes that customers are interested in receiving gas compression services through a regulated utility, which provides them a certain level of predictability and enforcement that may not otherwise be available in the market. To the extent customers are interested in purchasing compression equipment from a non-regulated entity, they also clearly have that option available.

**6. What constraints exist in developing NGV infrastructure – both nationwide and in Washington?**

Response

We believe the main constraint in the development of the CNG refueling market is the up-front costs of converting fleet and installing compression facilities. Private companies are generally not installing infrastructure. And without infrastructure, fleet owners are understandably reluctant, if not financially unable, to invest in CNG fueled vehicles.

**7. What are the appropriate private sector, utility and commission roles in fostering the economic development and the expansion of the necessary infrastructure?**

Response

NW Natural believes that all three stakeholders described above play important roles in fostering the economic development and expansion of necessary CNG infrastructure. Because LDCs have the expertise, personnel and certification necessary to foster the development of CNG refueling infrastructure, and because many customers value and can benefit from a regulated utility offering, NW Natural believes that utilities play an important role. Additionally, the Commission plays an important role in authorizing and overseeing the utilities' provision of CNG related services. The private sector is an important player in the developing market as well, and enjoys the ability to offer a range of services at varying prices and under various terms that may not be available in the regulated utility sector.

The Company appreciates the opportunity to provide comments in this docket and looks forward to participating in the workshop scheduled April 25, 2014.

Thank you.

Sincerely,

*/s/ Mark R. Thompson*

Mark R. Thompson