



Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

April 17, 2014

VIA COMMISSION WEB PORTAL (WWW.UTC.WA.GOV/E-FILING)

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, Washington 98504-7250

Re: Docket UG-140525: Comments of Puget Sound Energy, Inc. on Procedural and Policy Issues Arising from the Provision of Compressed Natural Gas for Fueling Natural Gas Powered Vehicles from Gas Utilities Regulated by the Washington Utilities and Transportation Commission

Dear Mr. King:

Puget Sound Energy, Inc. (“PSE”) appreciates the opportunity to provide comments on procedural and policy issues arising from the provision of compressed natural gas for fueling natural gas powered vehicles from gas utilities regulated by the Washington Utilities and Transportation Commission (the “Commission”). In the Notice of Opportunity to File Written Comments, dated April 10, 2014, the Commission encouraged stakeholders to submit written comments on the issues identified below:

1. What are the benefits to Washington State of widespread availability of compressed natural gas services for transportation?
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?
3. What are the risks to ratepayers, if any?
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?
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?

6. What constraints exist in developing NGV infrastructure – both nationwide and in Washington?
7. What are the appropriate private sector, utility and commission roles in fostering the economic development and the expansion of the necessary infrastructure?

PSE respectfully submits the following comments on the issues identified above in the Notice of Opportunity to File Written Comments.

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

Engrossed Substitute Senate Bill 6440, which Governor Inslee signed into law on April 3, 2014, expressly identifies numerous benefits to Washington State of widespread availability of compressed natural gas services for transportation:

The legislature further finds that the construction and operation of a natural gas liquefaction plant and compressed natural gas refueling stations as well as the ongoing use of compressed and liquefied natural gas will lead to positive job creation, economic development, environmental benefits, and lower fuel costs.

Engrossed Substitute Senate Bill 6440, section 101. Widespread natural gas services will provide a network that supports natural gas use in transportation in Washington State.

Of the myriad benefits identified by the legislature, PSE focuses its comments on the last two, environmental benefits and lower fuel costs. Reductions in emissions will improve air quality and reduce greenhouse gas emissions, the cause of climate impacts. Reductions in fuel cost will reduce transportation costs, which will reduce prices for consumers.

Reduced Emissions

Natural gas vehicles are required to meet the same emissions standards as gasoline or diesel vehicles. Natural gas burns very cleanly in comparison to gasoline or diesel vehicles, so natural gas vehicles can easily meet these standards without the need to add significant equipment and additives to treat the exhaust. In addition, lifecycle greenhouse gas emissions are lower from natural gas vehicles than from gasoline or

diesel vehicles. A 2011 study on a low carbon fuel standard commissioned by the Washington Department of Ecology determined that the lifecycle greenhouse gas emissions from compressed natural gas used as a vehicle fuel were 25% lower than gasoline and 24% lower than ultra-low sulfur diesel.¹

Reduced Fuel Cost

As of January 2014, the cost of a gallon of gasoline on the U.S. West Coast averaged \$3.62 per gallon. A gasoline gallon equivalent² of compressed natural gas was \$2.33, 36% less than gasoline.³ In the same period, the cost of a gallon of diesel fuel on the US West Coast averaged \$4.02, with a diesel gallon equivalent⁴ of compressed natural gas averaging \$3.60, 35% less than diesel.⁵

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?

Utility tariff schedules for natural gas compression provide financial and non-financial benefits to both participating customers and non-participating customers.

Tariff Schedules Provide Consistency and Clarity for Customers, PSE and the Commission

The Commission has expressly stated in the Sixth Supplemental Order in Docket UG-920840 that the existence of a vehicle fuel tariff schedule would not bar any customer from taking gas under any other schedule for use as a fuel in its own vehicles. This Sixth Supplemental Order clearly contemplates that customers may purchase natural gas for use as a vehicle fuel from a gas company under an applicable schedule.

Further, PSE may sell gas to its customers under an existing schedule at higher than normal pressures pursuant to PSE Gas Rule 18:

Gas is normally supplied by [PSE] at low pressure. The standard pressure of gas provided by [PSE] is .22 PSIG at the outlet of the meter. Higher pressure service may be supplied where available at

¹ Jennifer Pont & Jeff Rosenfeld, *A Low Carbon Fuel Standard: Informing the Decision* (Feb. 2011), available at http://www.ecy.wa.gov/climatechange/docs/fuelstandards_finalreport_02182011.pdf.

² A gasoline gallon equivalent is an amount of fuel with the energy equivalence of one gallon of gasoline.

³ U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report* at page 5 (Table 5) (Jan, 2014), available at http://www.afdc.energy.gov/uploads/publication/alternative_fuel_price_report_january_2014.pdf (the "January Clean Cities Report").

⁴ A diesel gallon equivalent is an amount of fuel with the energy equivalence of one gallon of diesel.

⁵ January Clean Cities Report at page 4 (Table 3).

the option of [PSE] and by special agreement. The special agreement may require the Customer to pay all costs relating to providing higher pressure service. In some cases, higher pressure may be supplied but not guaranteed.

Thus, PSE may already provide a CNG service to customers under Gas Rule 18, provided that PSE offers such services pursuant to a special agreement and the customer pays all costs relating to the provision of higher pressure service.

PSE has proposed a tariff schedule (now currently withdrawn) and will propose an almost identical tariff schedule that would achieve what PSE may already accomplish pursuant to Commission precedent and Gas Rule 18—offer CNG service on a case-by-case basis. Formalizing such services through the filing of a tariff schedule provides certain advantages over special agreements because (i) PSE may develop and provide service pursuant to a *pro forma* agreement under such tariff schedule and (ii) the adoption of the tariff schedule and *pro forma* agreement saves both PSE and the Commission the time associated with the filing and review of special agreements. Therefore, the tariff schedule that PSE will propose does not represent a marked departure from—but instead seeks to make more efficient—those services that PSE may already provide pursuant to existing arrangement.

PSE's Proposed Service Mitigates Conversion Costs for Customers and Simplifies Contracting

The first main benefit to participating customers is allowing these customers to spread the cost of compression equipment over time, allowing these customers to use their capital to fund vehicle replacements or conversions, a significant cost for fleet operations. Should the participating customer select a volumetric option for billing, this would also allow the customer to align their cost with their actual CNG use, instead of having to pay a higher cost in the initial years of their fleet conversion, when their CNG use is below average.

The second benefit to participating customers is to have the option to work with a single experienced entity for providing compressed natural gas, including supply, delivery, and compression, reducing the need for multiple contracts and lessening the burden of managing contracts and suppliers.

Regulated Offerings by Utilities Provide Regulatory Protections

By providing CNG service under the regulation of the Commission, customers have the benefit of the Commission reviewing proposed rates and contracts to ensure that

they are “fair, just, and reasonable”. Customers also have a clear approved mechanism to engage in discussion of what is “fair, just, and reasonable”, even after a contract is in place. While a regulated service may not necessarily have the same contractual and pricing flexibility as a non-regulated offering, it does have the benefit of oversight and transparency.

All Customers and Citizens Receive Benefits Through Lower Fuel Costs and Emissions

As discussed in the response to Question 1, lower fuel cost and lower emissions are benefits of converting transportation to natural gas. While the lower fuel cost would be directly realized by the customer converting to compressed natural gas, this would theoretically be passed through pricing to have lower costs for their customers. The lower emissions would benefit all customers and citizens, even those who do not convert to natural gas.

Customers Using Compressed Natural Gas for Transportation Will Provide a Financial Contribution to Other Customers

The question is often raised as to whether utility regulated services should provide financial benefit to non-participating customers. The standard to consider is whether the costs and benefits of regulated services are fairly allocated and do not burden non-participating customers. See *WUTC v. Wash. Natural Gas Co.*, Docket UG-940034, Fifth Supplemental Order at page 23 (1995) (finding that Schedule 50 CNG service met its incremental costs, thereby ensuring that the schedule required no subsidy by other customers). This is generally true of all utility rate-making and should apply to services such as PSE’s proposed Schedule 54.

Increased use of natural gas for transportation as a whole, which would be assisted by PSE’s proposed Schedule 54, provides benefits to all customers through the increased utilization of the fixed utility system, mitigating fixed costs for all customers.

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

Customers converting their fleets to compressed natural gas bear risks in vendor and vehicle selection comparable with procuring any additional capital equipment.

The capital investment for a compressed natural gas station, typically one- to three-million dollars, is fairly small in light of utility capital investment as a whole. Much as with any utility capital investment, there is a relatively small risk of that the customers being served by that investment fail to adequately use it. Much as it mitigates

financial risk for all customers through customer credit and deposits, the small risk of financial impacts to all customers through the failure of a very few has been mitigated in PSE's filing in several ways. First, PSE requires prospective customers to submit a schedule of planned vehicle conversions and compressed natural gas usage to ensure that the prospective customer has a reasonable plan for compressed natural gas usage. Second, PSE has the option to require credit support from prospective customers. Third, much of the equipment can be salvaged and used on another site or sold.

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?**

The gas compression market in Washington is competitive and would benefit from utility participation

While the compressed natural gas market in Washington is still small, customers do have choices and options for the provision of compressed natural gas in Washington, with two entities, Clean Energy and Clean n' Green currently offering compressed natural gas as a retail service, open to the public. In addition, different consultants, equipment suppliers, and contractors have constructed compressed natural gas stations in Washington for both public access and for private users. Currently, only a few entities offer complete design, procurement, construction, ownership, and maintenance services such as proposed by PSE.

The gas compression market in Washington would benefit from a regulated utility offering a "turn-key" service. Currently, there are no locally based companies that provide this service. Providing additional options and choice into the market will give customers additional options, a benefit to the market.

Potentially competitive markets have not been harmed by the participation of utilities

The compression market in Washington would not be harmed by the entry of a utility offering a regulated service, provided that it was an option for customers, not a requirement to use the utility service, and that the service did not burden non-participating customers. Optional regulated services offered by the utility provide customers with additional choices. Indeed, PSE had already offered CNG service in its service territory under Schedule 50 from 1995-2008 without issue. In fact, this Commission, in 1995, rejected Commission's Staff's objections, stating that it

does not believe that [WNG's] offering of CNG is necessarily inimical to [WNG], to its ratepayers, to the public, or to potential competition or competitors in the CNG market.

WUTC v. Wash. Natural Gas Co., Docket UG-940034, Fifth Supplemental Order at page 23 (1995). The Commission specifically found that Schedule 50 CNG service met its incremental costs, thereby ensuring that the schedule required no subsidy by other customers. Notably, the Commission held that WNG

should have the opportunity, especially considering the statutory provisions, to offer CNG at rates that do not harm other customers. We accept the [WNG's] contention that it earnestly seeks other vendors' participation in creating and serving a market and do not believe that the proposed rate will bar other vendors from the market.

WUTC v. Wash. Natural Gas Co., Docket UG-940034, Fifth Supplemental Order at page 23 *Id.* PSE withdrew Schedule 50 in 2008 in light of waning customer interest as natural gas spot prices substantially increased, reaching highs of about \$13 per MMBtu in the summer of 2008.

The Commission re-affirmed PSE's ability to provide CNG service in 2012. On February 28, 2011, the Pierce Transit CNG fueling facility in Lakewood, Washington, suffered a failure that would impact Pierce Transit's service to its customers. On March 22, 2012, PSE filed a revision to the WN U-2 Tariff with the Commission in Docket UG-110442 to submit Schedule 50 (Emergency Compressed Natural Gas (CNG) Service) for vehicle fuel on short-term, emergency situations. Under that new Schedule 50, PSE offered firm sales service on an emergency basis so that Pierce Transit could fuel its buses at nearby PSE facilities at a comparable market price. The Commission approved PSE's request for the new Schedule 50 and subsequently amended the temporary service until June 1, 2012, to allow Pierce Transit sufficient time to complete repairs at the Pierce Transit CNG fueling in Lakewood, Washington. In other states in the US, both utilities and third-party providers offer compressed natural gas services. For example, in California, compressed natural gas is and has been offered to customers from stations owned by PG&E (rate GNGV-2), Southern California Gas Company (rate GNGV), Clean Energy, Trillium, Clean n' Green, and other providers. California represents the largest number of compressed natural gas stations in any state in the United States and shows that multiple providers, including regulated utilities, can operate in the same market without hindering the market. In an analogous situation, infrastructure for electric vehicles, the Washington Legislature already considered the role of utilities and non-utilities. In SHB1571, codified as RCW 80.28.320, the Legislature determined that third-

party providers should not be subject to regulation by the Commission, and that regulated utilities could offer electric vehicle charging services as a regulated service, subject to Commission approval.

Finally, whether or not utilities provide a regulated compressed natural gas service is only a small factor in overall market development. As cited by the Natural Gas Vehicle Fuel Providers in their draft comments on Advice Letter 2013-16, “Market development will be strongly influenced by a variety of factors, not simply the availability of infrastructure. A variety of factors beyond this Commission’s jurisdiction are equally or more important...”

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?

As it relates to the natural gas compression service specifically, end prices for customers may be higher if an unregulated subsidiary were to provide the service. The unregulated subsidiary would not have the Commission oversight as to “fair, just, and reasonable” costs to customers and could charge an unregulated price.

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

There are several important constraints in the natural gas vehicle markets overall, which would apply nationally and in Washington.

First, there are relatively few natural gas engine options as compared to diesel or gasoline. This means that fleets do not have the full range of options to which they are accustomed when they procure vehicles.

Second, availability of fueling infrastructure is a significant barrier for fleets. Fleets need fueling infrastructure that fits well with their operations, as fueling is a secondary activity to delivery people or goods. A robust network of both publicly available fueling stations and private fueling stations is necessary to provide fleets natural gas fueling options that complement their operations.

Third, public knowledge and experience with natural gas as a vehicle fuel is still growing in the United States. This makes using natural gas an “unknown” for many people, leading to hesitation to use natural gas as a vehicle fuel. Participation by both utilities and non-utilities to increase knowledge of fleets and the general public is necessary to lessen this barrier.

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

Economic development has a broad definition that includes increasing the number of jobs and tax base, and also improving quality of life, the standard of living, and regional competitiveness for quality workers, jobs, and investments. Because economic development is in the public interest as a whole, the private sector, utility, and Commission all have a role to promote it.

The private sector brings new businesses, jobs, and tax revenues to the region, as well as helping to promote the region and contribute to its economic, public, and environmental health.

Utilities have an important role in providing services that support the growth of both the public and private sector, while supporting federal, state, and local policies. These services should be valued by customers, safe, reliable and fairly priced. In the case of energy utilities, services include providing the infrastructure, the energy itself, programs that support responsible use of energy, and knowledge on energy and infrastructure.

The Commission's role is in ensuring that the services provided by entities under its jurisdiction are supportive of and consistent with federal, state, and local policies and fair and reasonable in their pricing. This ensures that the services provided by regulated utilities are in the public interest.

PSE already offers several approved optional programs which provide a benefit to and are valued by customers and all citizens and have appropriate roles for non-utilities, utilities, and the Commission. One example of where all three groups, the private sector, utilities, and the Commission play a role today is in optional energy conservation programs. PSE will often contract with businesses not regulated by the Commission for helping to provide electricity and natural gas savings, such as lighting contractors, mechanical contractors, and technology companies. PSE provides these services to customers under stated tariff schedules and programs, which are reviewed for their reasonableness by the Commission. A second example is PSE's street lighting service. In this program, customers have the option of PSE providing their streetlights under a rate approved by the Commission. PSE uses private non-utility entities to provide materials, installation, and maintenance services.

PSE appreciates the opportunity to provide the above comments to the issues identified above in the Notice of Opportunity to File Written Comments. PSE looks forward to discussing

PSE Comments
April 17, 2014
Page 10

these issues and providing additional feedback at the workshop scheduled for Friday, April 25, 2014.

Please contact Mr. Eric Englert at (425) 456-2312 or Mr. Benjamin Farrow at (425) 456-2541 for additional information about this filing.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Johnson", with a long horizontal flourish extending to the right.

Ken Johnson
Director, State Regulatory Affairs