U-240013
Received
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Feb 23, 2024

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February 23, 2024

Jeff Killip
Executive Director and Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RE: **U-240013, IRA and IIJA Cascade Natural Gas Corporation Comments**

Dear Director Killip,

Cascade Natural Gas ("Cascade" or "Company") submits the following comments in response to the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to File Written Comments ("Notice"), issued January 18, 2024, in Docket U-240013.

Comments

Cascade appreciates the opportunity to participate in this workshop focused on the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA). Below, the Company offers responses to the Commission's questions.

1) What is the utility's current evaluation process for IRA/IIJA opportunities?

Cascade has engaged various Company departments in reviewing IRA/IIJA sections for potential opportunities and partnerships, and the Company continues to evaluate potential opportunities. Company departments reviewing aspects of the IRA/IIJA include, but are not limited to, Business Development, Energy Efficiency, Environmental, Tax and Compliance, Finance, and the Officer Team.

a. Who in the utility is responsible?

No one person or department within Cascade is appointed to maintain responsibility for evaluating the IRA/IIJA. As mentioned above in response to Question 1, review has involved multiple departments throughout the Company.

2) Recent resources and draft IRS guidance have been provided (although still in the comment period); does the company believe there is adequate guidance to move forward?

Although the IRS and other federal agencies have provided guidance, it is possible additional guidance may be needed prior to project initiation. For instance, in late 2023, the IRS issued a notice of proposed rulemaking on tax credit qualification under sections 48 and 45V of the IRA, in particular for biofuels project development related to Section 48 – ITC – Definition of Qualified Biogas Property, which included significant restrictions on use of the tax credit. On February 16, the IRS published a correction to the agency's notice of proposed rulemaking regarding the use of the tax credit allowed for equipment installed to provide pipeline quality natural gas, stating, *"A correction is needed to clarify that gas upgrading equipment that is necessary to concentrate the gas from qualified biogas property into the appropriate mixture for injection into a pipeline through removal of other gases such as carbon dioxide, nitrogen, or oxygen, would be energy property if it is an integral part of an energy property as defined in proposed §1.48-9(f)(3)."* Cascade is still reviewing the corrected proposed language and agrees the initial intent of the IRA Section 48 tax credit was for funding the additional equipment necessary to process biogas into pipeline quality natural gas for injection into natural gas pipelines and systems.

Similarly, the IRS has proposed restrictions on the use of Section 45V tax credits for clean hydrogen projects and believes the limitations proposed could severely limit qualified projects, subsequently slowing advancement in achieving cost-effective hydrogen technology. In particular, the IRS has proposed restrictions on the use of renewable natural gas ("RNG") feedstocks that would qualify for the tax credit by proposing the use of a Greenhouse gases Regulated Emissions and Energy use Technologies (GREET®) model that limits feedstock evaluation to landfill gas or any fugitive methane feedstock for RNG. The IRS 45V Credit should remain flexible to support advancements in hydrogen technologies, allowing all RNG feedstocks to produce hydrogen to ensure hydrogen projects and technologies advance to further GHG emissions reductions and not be restrictive in what pathways qualify. Cascade is providing comments to the IRS through the Company's trade organization membership.

Also, the IRS has proposed to narrow the use of Section 45 tax credits to hydrogen projects that are temporally and incrementally matched with renewable generation, meaning new renewable projects would be required to be installed for hydrogen projects and the renewable generation would have to match hydrogen production on an hourly basis. The time to install new renewable generation facilities and associated high voltage transmission to support the new renewable facilities will most likely disqualify projects from the tax credits. There is also a geographical proximity required for the electrolysis process and the renewable generation facilities. It may not be feasible to co-locate the electrolysis process with renewables as well as support the end-use or electric generation facility that would be using the hydrogen. These proposed limitations are expected to limit hydrogen advancement. Cascade is participating with its trade organizations in submitting comments to the IRS on the proposals.

3) What resources are you currently utilizing or relying on?

Cascade is currently relying on internal Company department review of IRA/IIJA opportunities and engagement with trade organization for interpretation and understanding of potential opportunities for the natural gas distribution system. The Company also networks with colleagues at other natural gas local distribution companies that may be exploring IRA/IIJA opportunities.

4) What opportunities are you currently pursuing?

Cascade is currently pursuing a landfill gas RNG production project at the Deschutes County Knott Landfill near Bend, Oregon, which could qualify for IRA Section 48 tax credits. Third-party producers own and operate several other RNG projects that are or will be connecting to Cascade's distribution system that may also be utilizing these tax credits. Cascade continues to evaluate other IRA/IIJA opportunities that could advance energy efficiency and conservation programs and the distribution of alternative fuels.

5) How does your utility intend to maximize the benefits of the IRA/IIJA for its customers and system?

Cascade has assessed and continues to assess the feasibility of using IRA/IIJA funding to decarbonize Washington operations. The Company has identified and assessed funding opportunities including IRA Section 48 tax credits for RNG, Section 45V tax credits for clean hydrogen, and the Energy Infrastructure Reinvestment ("EIR") loan program. For each funding stream, Cascade has reviewed criteria, past awardees, and partnerships to assess the likelihood of Cascade's receiving funding. As most IRA/IIJA funding opportunities have only recently become active (the EIR announced its first funding round in December 2023), examples of past awardees are limited. Finally, Cascade conducts cost-benefit analyses including the impact of received funding on potential decarbonization projects considered for advancement.

6) Are you collaborating with other utilities (in WA or national) or organizations?

As mentioned in response to question 3, Cascade has been engaging with the Company's trade organizations and other natural gas local distribution companies to understand the opportunities provided in the IRA/IIIJA. Cascade is also monitoring partnership opportunities with state, tribal, and local governments. As an example, Cascade has commented to the Oregon Department of Environmental Quality and Oregon Department of Energy in the agency's Climate Pollution Reduction Grant process for emissions reduction opportunities to support and approve for natural gas distribution customers.

7) How/Are you building these opportunities into the 2025 Integrated Resource Plan (IRP) or next Clean Energy Implementation Plan (CEIP)?

Cascade has consistently considered IRA/IIJA opportunities in the IRP development process. Cascade's 2023 IRPs mention the potential for Cascade to "participate or partner with other organizations in the regional clean hydrogen programs" under the IIJA but cautions that most funding opportunities appear to be directed to communities, not utilities.

Cascade has identified a few key energy efficiency incentives in the IRA in the 2023 Oregon IRP that it will also review for Washington. The Home Energy Performance-Based, Whole House Rebate program that awards grants to state energy offices to develop and implement a Home Owner Managing Energy Savings (HOMES) rebate program. The HOMES rebate program will allow homeowners to utilize rebates from this program to upgrade and improve the efficiency of their homes. Other aspects of the IRA that may impact Cascade include:

- An extended residential tax credit for qualified energy efficiency home improvements;
- Tax provisions that gas utilities or industrial customers may use to reduce GHG emissions;

- A new tax credit for the qualified production of clean hydrogen, and the extension and modification of credit for carbon oxide sequestration; and
- A High-Efficiency Electric Home Rebate program that awards grants to state energy offices ($4.275 Billion) and Indian Tribes ($225 million) to develop and implement a high-efficiency electric home rebate program that may impact end-use fuel switching.

As the IRA was passed just prior to 2023 IRP publications and additional guidance was yet to be developed, Cascade included limited analysis in its 2023 IRP and will include analysis in future IRPs. As Cascade prepares for the 2025 IRP, the Company has identified 50 Bipartisan Infrastructure Law Grants and 28 Inflation Reduction Act Tax Credits/Grants that may have an impact to Cascade. Several of these Credits/Grants would indirectly impact Cascade, making it difficult to quantify those impacts. Cascade will continue to communicate its approach to IRA/IIJA funding and engagement with other utilities, trade associations, and state/local government in its upcoming 2025 IRP.

8) Have you considered how these opportunities can help offset utility customers costs embedded in rates for energy justice and reducing energy burden/insecurity?

Both the IRA and IIJA offer funding to improve the energy efficiency of homes and buildings through programs such as the Weatherization Assistance Program (WAP) and the previously mentioned HOMES rebate program. Application of these incentives within Cascade service territory could offset the costs incurred for the Company's energy efficiency programs. Any reduction in program costs reduces the amount of money the Company seeks to recover from its customers. All customers receive this benefit but low-income and vulnerable customers, faced with high energy burdens, are more apt to experience any reduction in their bills as meaningful to their households' financial health.

Besides the direct reduction in program costs, any state or federal investment in energy efficiency could be a means of reducing all customers' bills by forestalling a utility's investment in the next therm of gas or the next pipeline upgrade.

In addition, IRA Section 48 tax credits incentivize a utility's investment in RNG facilities, which could increase RNG supply, aid in meeting the Washington Climate Commitment Act (CCA) emissions reduction targets, and improve local environmental health near projects by capturing and using methane that otherwise would have escaped into the atmosphere. If these RNG investments reduce CCA compliance costs and improve environmental conditions, similar to the investments in energy efficiency, they will bring a measure of energy justice to vulnerable populations.

9) What barriers remain to pursuing/successfully obtaining these opportunities?

Most funding opportunities are geared toward clean energy advancement in the electric sector with limited near term decarbonization project opportunities applying directly to the natural gas distribution system. Although natural gas utilities have some direct opportunities, , the application for funding is costly and the award process is very competitive. In many cases, the application process has cost risks associated with it. Project applications require significant cost outlay with no guarantee of funding to advance a project. Cascade believes in many cases there may be a slim chance of the utility being awarded funding due to the highly competitive process. However, partnership opportunities and engagement with those awarded funding are expected to offer the most potential for funding opportunities for natural gas utilities and customers. Cascade continues to evaluate these opportunities.

10) Does the utility believe the Energy Infrastructure Reinvestment (EIR) loan program is a viable option? Please be prepared to provide the rationale for your response.

The EIR (Section 1706 of the DOEs Clean Energy Financing Program) is specifically targeted towards projects that "retool, repower, repurpose, or replace Energy Infrastructure (facilities used for electric generation or transmission, or facilities used for fossil fuel-related production, processing, and delivery) that has ceased operations; or enable operating Energy Infrastructure to avoid, reduce, utilize, or sequester air pollutants or emissions of greenhouse gases. EIR projects are not required to employ innovative technology," (which comes with a whole other set of specific requirements). To determine if the program is a viable option, it certainly could be to a gas utility if: 1) a DOE-issued loan is deemed worth pursuing, and 2) the gas utility has a project with either an asset that is no longer in operation or one where emissions can demonstrably be avoided, reduced, utilized, or sequestered.

However, the EIR program would only be attractive to a natural gas energy provider as a loan program if the utility is not able to secure debt financing at a more attractive rate. Utilities would not typically pursue this type of funding since they usually have access to other financing for projects and investments.

The EIR program project list may not seem like the best match for natural gas utility project pursuits. For instance, the suggested projects included in the EIR are not directly aligned with opportunities for natural gas infrastructure. However, natural gas infrastructure does fall under the definition cited above *("enable operating Energy Infrastructure to avoid, reduce, utilize, or sequester air pollutants or emissions of greenhouse gases "*) and is in scope for the EIR program. For those projects, potential projects could include reducing fugitive emissions at compressor stations, replacing plastic pipeline on the distribution system, and improving methane monitoring at city gates and regulator stations. These are a few measures in natural gas systems that will result in GHG emissions reductions. [1]

11) Do you believe the utilities can claim savings that result from federal rebates?

Cascade will investigate this question with its regional partners, trade organizations, and its advisory groups.

12) How should utilities treat federal rebates and tax credits in cost-effectiveness calculations?

Cascade will investigate this question with its regional partners, trade organizations, and its advisory groups.

[1] Loan Programs Office, *Program Guidance for Title 17 Clean Energy Financing* Program, February 28, 2026. Available at https://www.energy.gov/lpo/articles/program-guidance-title-17-clean-energy-program#page=1

13) **Some of the federal incentives focus on fuel-switching. How do utilities account for these savings when it comes to the EIA targets?**

In the 2023 IRP, Cascade assumed a 30 percent, six-year production tax credit for the production of green hydrogen with construction beginning before 2026. This credit was a $3 nominal credit for projects in place between 2022-2024, moving to a $2 nominal credit for projects after 2024, which is then adjusted for inflation. It was modeled by taking the expected price of hydrogen and then subtracting the credit based on the time the credit was taken. Cascade then took that price of hydrogen and used it in its least-cost modeling in PLEXOS.

Cascade's IRP addresses the IRA with respect to incentives towards RNG development projects, noting that these projects could benefit Cascade and its customers. It also notes that "Cascade will continue to evaluate the IRA for potential opportunities in developing RNG projects, as well as other elements that may impact natural gas distribution." Cascade recognizes the IRA/IIJA programs intend achievements in natural gas savings, including potential fuel-switching at end-use customers. Guidance is still needed on IRA/IIJA project qualification, as well as an understanding of the real outcome and success of IRA/IIJA projects, to account for fuel-switching potential of end-use customers. Cascade is not aware of region-specific studies estimating IRA/IIJA fuel-switching potential.

Cascade appreciates the opportunity to comment in this docket. If you have any questions, please direct them to me at (208) 377-6015.

Sincerely,

/s/ Lori A. Blattner

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