

Staff Briefing Papers

Meeting Date	July 26, 2019	Agenda Item 2**
Company	CenterPoint Energy Minnesota Gas (CenterPoint Energy)	
Docket No.	G-008/M-18-547	
	In the Matter of a Petition by CenterPoint Energy to Introduce a Renewable Natural Gas Pilot Program	
Issues	Should the Commission approve CenterPoint Energy's (CPE's) Petition to implement a five-year Renewable Energy Gas (RNG) pilot program?	
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 Relevant Documents	Date
CenterPoint Energy Minnesota Gas - Petition	August 23, 2018
City of Minneapolis - Comments	October 15, 2018
Partnership on Waste and Energy - Comments	October 18, 2018
Center for Resource Solutions - Comments	December 14, 2018

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

 Relevant Documents	Date
Energy Vision - Comments	December 17, 2018
Bioeconomy Coalition of Minnesota - Comments	December 21, 2018
Coalition for Renewable Natural Gas - Comments	December 21, 2018
Fresh Energy, Minnesota Center for Environmental Advocacy Sierra Club (FMS) - Comments	January 8, 2019
Office of Attorney General (OAG) - Comments	January 8, 2019
Department of Commerce - Comments (Trade Secret)	January 9, 2019
Coalition for Renewable Natural Gas Reply - Comments	February 12, 2019
CenterPoint Energy Minnesota Gas - Reply Comments	March 1, 2019
Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club (FMS) - Reply Comments	March 4, 2019
CenterPoint Energy Minnesota - Proposed Tariff, Marketing, and Enrollment Materials	March 25, 2019
Mississippi Watershed Management Organization - Comments	April 5, 2019
Office of Attorney General - Response to Reply Comments	April 8, 2019
Department of Commerce - Request for Acceptance of Late-Filed Response Comments	April 10, 2019
Department of Commerce - Response to Reply Comments	April 10, 2019
American Biogas Council - Comments	April 18, 2019
CenterPoint Energy Minnesota - Response to Reply Comments	April 18, 2019
Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club (FMS) - Letter of Clarification	May 14, 2019

Table of Contents

I.	Statement of the Issues.....	1
II.	Introduction.....	1
III.	Background	2
IV.	CPE Petition to implement a five-year Renewable Energy Gas (RNG) pilot program	2
	A. Customer Enrollment and Billing.....	3
	B. Customer Commitment and RNG Purchase Amount Cancellation	4
	C. RNG Pilot Charge.....	5
	D. Tracking and Reporting	9
V.	Parties' Comments	11
	A. Parties and Stakeholders Supporting CPE's Petition	11
	B. City of Minneapolis	11
	C. Fresh Energy, Minnesota Center for Environmental Advocacy and the Sierra Club (FMS)	12
	D. The OAG	17
	E. The Department.....	19
	F. CPE Response to Response	24
VI.	Decision Alternatives	27

I. Statement of the Issues

Should the Commission approve CenterPoint Energy's (CPE's) Petition to implement a five-year Renewable Natural Gas (RNG) pilot program?

II. Introduction

On August 23, 2018, CenterPoint Energy Minnesota Gas, (CenterPoint Energy, CPE, or the Company) submitted to the Minnesota Public Utilities Commission (the Commission) a Petition to Introduce a Five-Year Renewable Natural Gas (RNG) Pilot Program (Pilot). In its Petition, CPE described the proposed RNG Pilot program as a voluntary green tariff offering that allows customers to purchase all or a portion of their natural gas from RNG sources.¹ According to the Company, all Minnesota CPE customers receiving sales service and not in arrears on payments owed to CPE, will be eligible to participate in the RNG Pilot program.²

CPE described RNG as methane produced from any of a number of biomass sources and processed to remove impurities in order to meet pipeline quality standards, transported via existing natural gas pipelines and may be used for any end use for which conventional natural gas is normally used. The Company stated further that RNG is typically produced by processing biogas from an existing waste stream, such as animal manure, wastewater treatment plants, food processor waste, and landfills. According to CPE, greenhouse gas (GHG) reductions associated with RNG represents a significant (40 percent or more) carbon emissions reduction depending on the source and production of RNG.³

CPE noted that RNG is significantly more expensive than conventional natural gas and that markets for RNG for use by natural gas distribution utilities, are underdeveloped in comparison to renewable electricity markets.⁴

CPE indicated in its petition that it has no knowledge of any existing policies at the federal or state level that are specific to the promotion of RNG use in residential, commercial/industrial areas of the US economy. However, the company noted that there are credit programs for the use of RNG as a vehicle fuel. CPE also noted that there are no comparable environmental certification standards for non-vehicle-fuel similar to certification provided by the Midwest Renewable Energy Tracking System (MRETS) for renewable electricity.⁵

¹ CenterPoint Energy Minnesota Gas Petition to introduce a five-year Renewable Natural Gas Pilot Program (CPE Petition), p. 1.

² *Id.*, p. 5.

³ *Id.*, p. 8.

⁴ *Id.*, p. 6.

⁵ *Id.*, p. 10.

III. Background

On August 23, 2018, CPE filed its Petition. Various parties filed Comments from September, 2018 to April, 2019.

Parties and stakeholders supporting CPE's Petition in Comments were Partnership on Waste and Energy, Energy Vision, Bioeconomy Coalition of Minnesota, Coalition for Renewable Natural Gas, the Center for Resource Solutions, Mississippi Watershed Management Organization, and American Biogas Council. The City of Minneapolis also supported CPE's Petition with some conditions.

Parties opposing and expressing concern over CPE's Petition were Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club (FMS), the Minnesota Office of Attorney General – Residential Utilities and Antitrust Division (OAG) and the Minnesota Department of Commerce, Division of Energy Resources (Department).

On March 1, 2019, CPE modified its proposed RNG Pilot program to address some of the concerns raised by FMS, the OAG, and the Department in Comments. In April, 2019, FMS, the OAG and the Department all filed Responses to CPE's Reply Comments and all three parties continued to oppose CPE's modified RNG Pilot.

On April 18, 2019, CPE responded to the OAG and Department's Response Comments. CPE continued to request that the Commission approve the proposed Pilot with the modifications discussed below.

IV. CPE Petition to implement a five-year Renewable Energy Gas (RNG) pilot program

CPE provided a description of its proposed RNG Pilot in its August 23, 2018 Petition and made modifications to its Petition in its Reply Comments filed on March 1, 2019 in response to the Comments filed by FMS, the OAG and the Department.⁶

The Company requested that the Pilot operate for an initial term of five years and during that time, if new policies or legislation emerge to encourage the development of the RNG industry in Minnesota, CPE stated it may petition the Commission to recover Pilot costs as a ratepayer expense. Similarly, if under-recovered program costs become unreasonable or if Pilot participation does not materialize as expected, CPE stated it may stop Pilot enrollment and seek to terminate the program before the end of the five-year pilot period.⁷

⁶ *Id.*, p. 3.

⁷ CPE Reply Comments, p. 11.

The Company also proposed to add a small amount of RNG to CPE's general gas portfolio in support of the pilot offering, approve the proposed program design and authorize CPE to collect additional revenues for the proposed program. CPE also requested to defer certain marketing and administrative expenses until the conclusion of the pilot, at which point the Company would propose a plan for recovery of the deferred expenses.⁸

In Reply Comments, CPE modified its proposal so that nonparticipating customers would not bear the risk for any program costs. The Company withdrew its request for a shareholder incentive and also for deferred accounting for program costs.⁹

CPE stated that its modifications to its proposed Pilot shift all cost recovery risk away from nonparticipating ratepayers, and onto participating customers and the Company's shareholders. The Company indicated that it would bear any costs that are not recovered from participating customers, including marketing and administrative costs not recovered through program fees, originally proposed to be deferred for recovery in future rate cases, and the commodity costs for RNG, originally proposed to be included in the Purchased Gas Adjustment ("PGA") mechanism.¹⁰

While CPE stated it was committed to bear any costs not recovered from participating customers, it explained that "if RNG is used for general (non-Pilot) supply, the Company will charge customers the non-RNG weighted average cost of gas ("WACOG") for each RNG Dth used."¹¹

The Company stated it would provide resources on its website to inform customers about RNG and how their RNG Purchase Amounts will affect their bills. According to CPE, Customer service representatives will be trained to assist customers with questions about the Pilot. In addition, CPE stated that the Company may request prospective adjustments to program design as it gains experience with the offering.¹²

A. Customer Enrollment and Billing

In its Petition, CPE proposed an initial four-month enrollment period to take place before the Company sets a final Pilot Charge and begins providing RNG to its Pilot customers. During this initial enrollment period, CPE stated it will provide enrolling customers with an estimated per therm Pilot Charge based on updated indicative pricing from RNG suppliers. After the Company sets final prices based on actual procurement costs, the Company stated it will notify enrolled

⁸ CPE Petition, p. 3.

⁹ CPE Reply Comments, p. 4.

¹⁰ *Id.*, p. 11.

¹¹ *Id.*, fn. 34.

¹² CPE Petition, p. 14.

customers of the final price and provide them with an opportunity to adjust or cancel their selected RNG Purchase Amount.¹³

Because the price for RNG is higher than the price for conventional natural gas, CPE stated it was concerned that offering RNG as a percentage of usage or number of therms might cause customers to select higher payment obligations than intended. Therefore, CPE proposed that customers enrolling in the Pilot be required to provide their desired maximum RNG purchase in dollars per month (Purchase Amount). The Company concluded that asking customers to provide a desired/maximum RNG purchase in dollars was preferable because it provides customers with cost certainty and transparency about the commitment they are choosing to make. CPE also proposed that the minimum Purchase Amount be one dollar per month, and that Purchase Amounts be in whole dollar increments. CPE explained that RNG delivered through the program will be subject to the Company's delivery charge as applicable for the customer's rate class. Franchise fees and sales taxes will be applied as appropriate.¹⁴

B. Customer Commitment and RNG Purchase Amount Cancellation

CPE stated that new participants may sign up for the Pilot at any time, subject to availability. The Company plans to enter into longer-term contracts for RNG supply to reduce overall program costs. CPE stated the Pilot will require customers to commit to their RNG Purchase Amount for a period of time (Commitment Period), except for customers that enroll during the initial enrollment period. The Company stated that residential customers will be required to commit to their selected Purchase Amount for twelve months following enrollment and Commercial and Industrial customers will be required to commit for the remainder of the program year in which they subscribed and the following two program years (for a maximum of three years).¹⁵

CPE stated that Purchase Amounts will be effective in the customer's next billing cycle for customers who enroll at least 15 days before the start of the next billing cycle. CPE also proposed that customers will be permitted to increase their RNG Purchase Amounts at any time, before or after expiration of the Commitment Period, subject to RNG availability. CPE stated further that if a customer increases the Purchase Amount prior to the expiration of the Commitment Period, the customer will be committed to the increased RNG Purchase Amount for the duration of the Commitment Period, but the customer's Commitment Period will not be extended.¹⁶

¹³ *Id.*, pp. 15-16.

¹⁴ *Id.*, pp. 13-14.

¹⁵ *Id.*, pp. 14-15.

¹⁶ *Id.*, p. 15.

CPE proposed to cancel a customer's Pilot subscription if the customer misses two or more monthly bill payments.¹⁷ The Company stated also that residential customers that have been enrolled for longer than the Commitment Period will be allowed to cancel or reduce their Purchase Amounts at any time, with changes appearing on bills that the customer receives 30 days after the customer requests a change. In addition, CPE proposed that Commercial and Industrial customers that wish to discontinue or reduce their subscription will be permitted to do so at the beginning of the next program year. Finally, CPE proposed that customers that fully cancel their Purchase Amount and then re-enroll will be required to commit to their new Purchase Amount for another twelve-month or two-program-year Commitment Period, as applicable.¹⁸

In response to concerns from Parties, CPE explained that the proposed pilot was not meant to penalize customers for choices made to advance environmental objectives, and CPE clarified that, in the event customers face hardships after enrollment, they should be allowed to opt out of the program. Therefore, the Company modified its proposal so that residential customers can subscribe to the program on a month-to-month basis, or choose to un-enroll from the Pilot upon their next billing cycle. Because of the longer-term commitments necessary to procure supply for larger customers, the Company proposed that Commercial and Industrial customers commit to a one-year term.¹⁹

C. RNG Pilot Charge

CPE explained that RNG Pilot participants will pay an extra fee to purchase a portion or all of their gas from RNG sources. CPE stated in its Petition that this fee, or Pilot Charge, will consist of components that reflect the following costs: RNG commodity price, administrative and marketing costs, and a shareholder incentive. CPE's proposed RNG Pilot would allow adjustments to the Pilot charge on an annual basis.²⁰

The Company stated it will provide notice to customers within 30 days of any changes to the price of RNG. If the Company requests to modify the per therm price of RNG, CPE stated that the price will change on September 15, subject to refund. In the event of a RNG rate change, CPE stated it will attach an updated tariff sheet and a proposed customer notification for the Commission's review.²¹

¹⁷ CPE March 25, 2019 Attachment 3: Revised Draft Tariff Pages, Proposed Tariff, Proposed Original Page 12.a.

¹⁸ CPE Petition, p. 15.

¹⁹ CPE Reply Comment, p. 11.

²⁰ CPE Petition, pp. 11-12.

²¹ *Id.*, p. 12.

1. RNG Commodity Price

CPE stated the Pilot Charge will depend on the final RNG Commodity Price and the RNG Commodity price will represent, at least, 90 percent of the customer's total Pilot Charge.²² In its Petition, CPE acknowledged that markets for the purchase and sale of RNG, for non-transportation uses, are underdeveloped.²³ The Company stated further that it plans to meet demand for RNG by contracting with gas suppliers, who will obtain RNG directly or indirectly from producers and CPE stated it will follow its normal natural gas supply procurement processes to obtain RNG.²⁴

In its Petition, CPE stated that it anticipates that most or even all of the RNG for the program will come from producers outside of Minnesota. CPE claimed in its Petition that interconnection directly with producers raises operational and other challenges and the Company was not prepared to offer standard interconnection terms that could be incorporated into a tariff.²⁵ After criticism from other Parties, CPE offered in Reply Comments to work to develop an interconnection process through which the Company can receive and transport locally-sourced RNG. CPE assured that these efforts were currently underway and stated it hopes to file a proposal for an interconnection program for Commission approval in the next few months.²⁶

CPE also stated in its Petition that it will attempt to match customer purchases with RNG supplied to its system. To the extent that the Company fails to provide supply to meet customer demand, CPE stated it will refund participating customers for any shortage proportionately to their total purchase during the time period of shortage. To mitigate the potential for RNG supply not meeting customer demand, CPE stated that it expects to maintain a modest surplus of supply during most of the Pilot's operation in order to facilitate potential fluctuations in customer demand. CPE stated it will use any surplus RNG in its general gas portfolio and recover additional commodity charges through its general gas costs.²⁷

According to CPE, the price of RNG is driven largely by the price for credits in vehicle fuel compliance markets, and there has been variation in the RNG price estimates that the Company has been provided by gas suppliers. CPE stated that the RNG commodity price that the Company obtains may be strongly affected by the volumes of RNG that the Company is able to commit to and the length of commitments the Company is able to make. For these reasons, CPE proposed to conduct some initial enrollment and procurement before it sets the initial RNG price for its customers. Specifically, the Company proposed an initial four-month enrollment

²² *Id.*, p. 12.

²³ *Id.*, p. 10.

²⁴ *Id.*, p. 13.

²⁵ *Id.*

²⁶ CPE Reply Comments, p. 4.

²⁷ CPE Petition, p. 13.

period to take place before the Company sets a final Pilot Charge and begins providing RNG for its customers.²⁸

According to CPE, it has received indicative pricing from potential suppliers suggesting that \$3.50 per therm is a reasonable estimate for current RNG commodity prices and the Company used this figure in estimating the total Pilot Charge. CPE stated it does not plan to finalize the RNG Commodity Price until after it has obtained Commission approval for the Pilot proposal and completed some initial RNG procurement. Using a RNG commodity price of \$3.50 per therm, CPE estimated that the Pilot Charge would be no more than \$0.38889 per therm.²⁹

During the initial enrollment period, CPE stated it will provide enrolling customers with an estimated per therm Pilot Charge based on updated indicative pricing from RNG suppliers. Subsequently, based on customer enrollment during this preliminary period, the Company will procure RNG sufficient to meet expected demand. After CPE sets final prices based on actual procurement costs, the Company stated it will notify enrolled customers of the final price and provide them with an opportunity to adjust or cancel their selected RNG Purchase Amount. During the initial enrollment period, the Company will prominently state that prices are not final and that enrolling customers will have an opportunity to adjust or cancel their Purchase Amount after final prices are set and before they are charged.³⁰

In its Petition, CPE also proposed that customers will select a maximum RNG purchase amount in dollars, rather than selecting a number of therms of RNG use. CPE argued that this will prevent customers from being charged more for RNG than they agreed to be charged regardless of the final per-therm Pilot Charge.³¹

In addition to the surplus of RNG supply, CPE expects to accommodate fluctuations in Pilot enrollment and customer demand by purchasing a small amount of RNG for its general portfolio. CPE proposed to recover the costs for this RNG from all customers through ordinary gas commodity charges. CPE explained that the cost of RNG may be reduced if it can purchase approximately 2,500 Dth per month or more. Specifically, CPE requested in its Petition that Commission approve a small amount of RNG in its general gas supply and recover costs from all customers through the Purchase Gas Adjustment (PGA) Rider mechanism.³²

In response to criticisms and concerns from Parties over the impacts of the RNG Pilot on nonparticipating customers, CPE proposed in Reply Comments to modify its Pilot so that nonparticipating customers would not bear the risk for any program costs and the Company

²⁸ *Id.*, p. 15.

²⁹ *Id.*, p. 12.

³⁰ *Id.*, pp. 15-16.

³¹ *Id.*, p. 16.

³² *Id.*, pp. 1, 6, 16.

would instead bear any costs not recovered from participating customers. In footnote 34 on page 11 of CPE's Reply Comments, the Company stated:

The Company may satisfy general non-Pilot gas requirements with excess RNG purchased, but does not propose to include the full commodity cost of the RNG in the PGA. Instead, if RNG is used for general (non-Pilot) supply, the Company will charge [non-participating] customers the non-RNG weighted average cost of gas ("WACOG") for each RNG Dth used.

2. Administrative and Marketing Costs

CPE stated it will incur incremental one-time start-up costs prior to and during the first year of program implementation, including costs to develop a program website and costs to modify its billing system to accommodate the new customer option. CPE stated also that the benefits of incurring these one-time start-up costs are not limited to the first year of program operation and it is therefore appropriate to spread out recovery over the length of the pilot program. CPE estimated it will incur approximately \$390,000 in marketing and administrative costs before and during the first year of program operation and approximately \$236,000 annually thereafter in continuing administrative and marketing costs.³³

Finally, CPE stated in its Petition that to the extent that revenues are insufficient to cover marketing and administrative expenses, the Company sought to defer those expenses until the conclusion of the Pilot, at which point it would propose a plan for recovery of remaining marketing and administrative expenses. CPE stated it anticipated that it will not fully recover marketing and administrative costs from Pilot participants, particularly during the first few years of program operation. The Company projected that it would recover approximately \$40,000 from voluntary program participants for marketing and administrative costs during the first twelve months of program operation, building to approximately \$85,000 per year as the program matures.³⁴

In response to criticisms and concerns from Parties, CPE proposed in Reply Comments to modify its Pilot so that nonparticipating customers would not bear the risk for any program costs and the Company withdrew its request for any deferred accounting for the Pilot program costs.³⁵

3. Shareholder Incentive

The last component in the RNG price proposed by CPE was a shareholder incentive of \$0.10 per therm of RNG sold through the Pilot. CPE requested that the Commission approve the incentive

³³ CPE Petition, p. 12.

³⁴ *Id.*, pp. 20-21.

³⁵ CPE Reply Comments, p. 4.

because it aligns shareholder interest with Minnesota’s policies and goals related to renewable energy, and does so in a way that is consistent with both the policy and the mechanisms used to encourage energy efficiency. CPE stated that the incentive will be retained by shareholders and tracked separately from other revenues.³⁶

In response to criticisms and concerns from Parties, CPE proposed in Reply Comments to modify its Pilot so that nonparticipating customers would not bear the risk for any program costs and the Company withdrew its request for a shareholder incentive.³⁷

D. Tracking and Reporting

In its Petition, CPE stated it will establish procedures to verify the authenticity of RNG purchases. According to CPE, it was informed by large gas suppliers that there are processes developed to obtain verification from producers of RNG. CPE stated that RNG suppliers must provide documentation of the authenticity of RNG that CPE purchases and that RNG suppliers must implement appropriate procedures to ensure renewable credits are sold exclusively to CPE along with the underlying gas.³⁸

CPE agreed with the concerns expressed by Parties on the importance of developing tracking and certification systems to ensure that the RNG purchased by the Company is authentic and sold only to the Company. Therefore, CPE stated it is participating in efforts to establish third-party tracking and verification systems, working with both the Center for Resource Solutions (CRS) and the Midwest Renewable Energy Tracking System (MRETS), and hopes that these systems will be available within the first year of the Pilot. CPE stated it will also consider engaging an auditor to assess the program, particularly if it appears that credible third-party verification is not available during the early stages of the Pilot’s operation.³⁹

The Company stated it will limit its purchases to new sources of RNG and it “will ensure that it can document authentic and eligible RNG supply for all RNG sold through the Pilot within each program year.”

Regardless of the verification and tracking methodologies used, CPE committed to verifying the renewable claims for all supply used in its Pilot in its Annual Program Evaluations, which will include:⁴⁰

³⁶ CPE Petition, pp. 19-20.

³⁷ CPE Reply Comments, p. 4.

³⁸ CPE Petition, p. 17.

³⁹ CPE Reply Comments, p. 9.

⁴⁰ *Id.*, pp. 9-10.

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- 1) Confirmation of the renewable fuel feedstock;
 - 2) Confirmation of the renewable fuel production process;
 - 3) Review of fuel flow measurement and quality monitoring process and equipment;
 - 4) Review of contracts and affidavits governing the transfer of the RNG from the original source to the end user; and
 - 5) Review of evidence confirming the existence of a physical path (common carrier pipeline) for RNG transfer and distribution to end user.

In addition, CPE “will require suppliers to provide information that will allow the Company to estimate the GHG impact of the Pilot.”⁴¹ In Reply Comments, CPE stated that it would attempt to estimate the GHG impacts of the program by working with RNG suppliers. CPE proposed to include these GHG impact estimates in its annual Pilot Evaluation reports, as well as describe the method it has used to quantify GHG emissions effect.⁴²

In addition, CPE proposed to file a report on the Pilot annually on September 15 that will cover a program year from July 1 to June 30. CPE proposed that the annual program report will include at least the following items:⁴³

- An accounting of the balance of Pilot payments received and expenses incurred in the program year;
- Statistics on Pilot participation in terms of number of customers and Dths sold;
- A description of any mismatch between verified RNG supply and Pilot purchases;
- A description of RNG supplied in the general portfolio and expenses incurred for general portfolio RNG; and
- A description of any substantial changes in marketing approach or customer outreach.

CPE also stated that “the annual program report will include any requests that the Company has for program modifications, including requests to modify the per therm price of RNG sold through the Pilot.”⁴⁴

In response to criticism’s from other parties over communications with customers and program transparency, CPE reiterated that the program’s annual report will track program participation, expense and revenues. CPE also clarified that only incremental costs (those costs not included in base rates) will be allocated to the Pilot program and separate accounts will be used to track incremental Pilot expenses.⁴⁵

⁴¹ *Id.*, p. 10.

⁴² *Id.*, p. 12.

⁴³ CPE Petition, pp. 17-18.

⁴⁴ *Id.*, p. 18.

⁴⁵ CPE Reply Comments, p. 11.

V. Parties' Comments

A. Parties and Stakeholders Supporting CPE's Petition

The following parties and stakeholders submitted comments and letters recommending the Commission approve CPE's RNG pilot program.

- Partnership on Waste and Energy (Joint powers board including Hennepin County, Ramsey/Washington County Recycling & Energy Board);
- Energy Vision (Organization promoting research and use of RNG made from organic waste, among other things);
- Bioeconomy Coalition of Minnesota (Coalition of industry, forestry, agriculture, government, utility, and NGOs, priority of anaerobic digestions and RNG);
- Coalition for Renewable Natural Gas (Members represent many sectors promoting RNG, including producers);
- Center for Resource Solutions (Nonprofit organization that creates policy and market solutions to advance sustainable energy);
- Mississippi Watershed Management Organization (Joint powers local government unit whose member communities include Columbia Heights, Fridley, Hilltop, Lauderdale, Minneapolis, the Minneapolis Park & Recreation Board, St. Anthony Village and Saint Paul); and
- American Biogas Council (National trade association representing the biogas industry in the U.S.)

B. City of Minneapolis

The City of Minneapolis supported CPE's proposed pilot project and offered the following recommendations to the Commission to maximize understanding of the actual benefits of RNG and its impacts on ratepayers.⁴⁶

1. Require CPE to produce an initial report three years into the pilot and a final report at the end of the pilot that identify and define environmental and renewable attributes of the RNG;
2. Require CPE to provide an estimate of maximum technical supply capacity and associated price. According to the City, this estimate would allow stakeholders and the Commission to understand the potential scalability of RNG, which would inform future offerings;

⁴⁶ City of Minneapolis Comments

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3. Require CPE to contract with a third-party research organization to identify and document the environmental benefits and attributes of RNG based upon the specific contracted supplier ultimately selected by CPE;
 4. Require CPE to work with Parties on the creation of a transparent tracking system, similar to renewable electricity credits (RECs) registered in the MRETS and Green-e systems;
 5. CPE should thoroughly examine the impact of cost recovery of RNG that is not purchased by the Pilot program participants.

C. Fresh Energy, Minnesota Center for Environmental Advocacy and the Sierra Club (FMS)

Fresh Energy, Minnesota Center for Environmental Advocacy, and the Sierra Club shared several concerns about CPE's Petition and did not recommend approval of CPE's petition as filed and modified.

FMS stated that while capturing biogas from agricultural and municipal waste streams and landfills is an important strategy to draw down GHG emissions, the manner in which this biogas is utilized has important implications for the decarbonization trajectories of the building, transportation, and industrial sectors of the economy. In evaluating CPE's pilot program proposal, FMS urged the Commission to carefully consider how to utilize biogas in order to maximize the scale and pace of decarbonization efforts across all economic sectors in Minnesota.⁴⁷

In particular, FMS's concerns over CPE's RNG pilot were related to RNG Tracking systems, RNG market growth and the RNG pilot as a decarbonization strategy.

1. RNG Tracking Systems

According to FMS, Minnesota lacks a policy framework to evaluate and verify the carbon intensity of RNG. FMS stated that proceeding with an RNG pilot program in the absence of environmental tracking and verification policies is a concern, because the net impact on GHG emissions associated with RNG varies by feedstock-type and production process. FMS argued that the CPE pilot is even more concerning because it has proposed to purchase its RNG supply on the national market, which makes the lack of established documentation and verification of environmental attributes even more problematic.⁴⁸

FMS noted that the domestic RNG market today is driven exclusively by vehicle fuels, either through the Environmental Protection Agency's Renewable Fuel Standard (RFS) or California's

⁴⁷ Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, pp. 1-2

⁴⁸ Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments, p. 3.

Low Carbon Fuel Standard (LCFS). Under these policy frameworks, FMS stated that credit values, either Renewable Identification Number (RIN) credits or LCFS credits, are determined based on the feedstock-type and production process of the renewable fuel. According to FMS, these crediting systems attempt to evaluate the net GHG emissions associated with each batch of renewable fuel. For the RFS, FMS explained that approved renewable fuels must conform to specific “fuel pathways” that describe their feedstock, production process, and fuel type as well as a required reduction in GHG relative to a fossil fuel for which the renewable fuel will be substituted. For the LCFS, FMS explained that renewable fuels are parsed by “carbon intensity” values, or the sum of the GHG emitted throughout each stage of a fuel's production and use, expressed as the amount of life cycle GHG emissions per unit of fuel energy.⁴⁹

According to FMS, the net GHG emissions impact of CPE’s proposed pilot program will be difficult to parse and will not directly affect Minnesota’s GHG emissions budget because carbon intensity metrics and/or environmental attributes associated with RNG for end-use in buildings do not yet exist and it would likely take several years at a minimum to get a program in place. Further, FMS stated that the carbon intensity metrics and/or environmental attributes to be ascribed to RNG for end-use in buildings will likely require oversight from both the Commission and the Pollution Control Agency, since there is no fuel pathway for RNG for end-use in buildings in the RFS and the LCFS is administered in California. Therefore, FMS argued that Minnesota will not formally benefit from GHG reductions associated with CPE’s proposed five-year pilot program.⁵⁰

In the absence of crediting and carbon accounting policy frameworks specific to RNG for end-use in buildings, FMS argued that it will be significantly more challenging for CPE to verify the authenticity of the RNG it purchases for its pilot program and it will be nearly impossible to formally validate the associated net GHG emissions impact.⁵¹

FMS warned further that implementing new verification and tracking systems for RNG for end-use buildings will require trouble shooting and time to work out inevitable procedural issues. FMS urged the appropriate allocation of resources to robustly implement verification systems in order to avoid incidents of credit fraud and inaccurate emissions accounting.⁵²

2. Local (in state) RNG Production Market Growth

According to FMS, significant considerations around project financing will be required to support local production of RNG in the current market environment. As proposed, FMS argued

⁴⁹ *Id.*, pp. 3-4.

⁵⁰ *Id.*, p. 5.

⁵¹ *Id.*, p. 4.

⁵² Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, p. 2.

that CPE's pilot program will not grow Minnesota markets or confer economic benefits to local businesses.⁵³

FMS stated the proposed pilot includes no perceptible benefits to Minnesota businesses in the short-term and only limited potential benefits in the long-term, which will require significant capital investment to realize. According to FMS, interconnecting local producers of RNG requires significant capital investment, including the cost of constructing pipelines to move the RNG from the point of production to the point of injection into the local natural gas pipeline network, compressor stations, and monitoring systems to ensure that RNG continues to meet pipeline injection standards.⁵⁴

Additionally, FMS stated that Minnesota will not directly benefit from the diversion of waste streams for use as renewable natural gas feedstock and any water quality improvement, reduction in air pollution, or odor avoidance associated with diverted waste streams, because CPE has proposed to source the RNG supply for its pilot program from producers located out of state.⁵⁵

FMS also argued that the market growth of RNG is not contingent on the CPE pilot program. FMS stated that because CPE has not proposed to source RNG within Minnesota for its pilot, it is unclear how the growth of the RNG market can be linked to the fate of the Company's pilot program. FMS stressed that CPE has made no commitment to source its post-pilot RNG supply locally.⁵⁶

FMS stated further that there is widespread interest in anaerobic digestion development in Minnesota and its ability to produce renewable energy in the form of biogas which can then be used to produce various forms of energy, including but certainly not limited to RNG. According to FMS, the production of RNG for transportation fuel is the primary market driver today. FMS stated that there is also interest and advocacy in compelling the Environmental Protection Agency to implement an existing program within the RFS that would allow electricity generated from renewable sources like biogas to generate credits. FMS stated that the implementation of this biogas-to-electricity pathway may further increase investment in and development of anaerobic digester facilities in Minnesota.⁵⁷

⁵³ Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments., p. 7.

⁵⁴ *Id.*

⁵⁵ *Id.*, p. 6.

⁵⁶ Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, p. 4.

⁵⁷ *Id.*, pp. 4-5.

3. RNG is Not a Scalable Decarbonization Strategy

FMS agreed with CPE on the importance of decarbonizing Minnesota's building sector. However, FMS stated that CPE's proposed pilot program is limited by the economics, scalability, and decarbonization potential of distributed RNG. FMS maintained that investing limited resources in whole-building electrification is the lowest cost, highest impact strategy to draw down GHG emissions in Minnesota's building sector.⁵⁸

FMS cautioned that the limited extent to which CPE's proposed pilot program will facilitate decarbonization should be acknowledged fully when weighing the cost to consumers and the limited GHG reduction potential.⁵⁹ FMS claimed that the available biomass feedstocks in the United States are not sufficient to fully supplant the use of natural gas with RNG. According to FMS, the American Gas Foundation has found that, if 100% of the Nation's available biomass feedstocks – crop residues, dedicated energy crops, landfill gas, forest and wood wastes, sludge from municipal water treatment, and animal (dairy cow, pig, and chicken) wastes – were utilized for RNG production, it would only be able to offset about 10% of the natural gas delivered to customers in 2015.⁶⁰ Thus, FMS argued that RNG will never be a scalable decarbonization strategy for natural gas systems in the building sector.⁶¹

FMS also argued that market growth for RNG may further incentivize the development of emerging technologies that synthesize methane gas, rather than harvest it from finite biomass waste streams.⁶² FMS explained that applying power-to-gas uses electricity to drive a chemical reaction to create methane where none existed before. While the utilization of biogas has the direct effect of drawing down emissions from diverted waste streams, FMS claimed that power-to-gas technology has no such impact and may use even more methane fuel than we use today. FMS stated further that the full carbon footprint of power-to-gas is as yet unknown and the technology remains cost prohibitive.⁶³

In addition, FMS claimed that while the development of a stronger RNG market for end-use in buildings may draw down methane emissions from waste streams and displace a finite volume of natural gas, it also risks slowing the pace of building electrification and the reduction of greenhouse gas emissions from Minnesota's building sector.⁶⁴

⁵⁸ *Id.*, p. 5.

⁵⁹ *Id.*, p. 2.

⁶⁰ Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments, p. 6.

⁶¹ Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, p. 2.

⁶² Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments, p. 8.

⁶³ Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, p. 2.

⁶⁴ Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments, p. 8.

FMS argued that further developing RNG markets for end-use in buildings relies on the continued investment in and consumption of natural gas fuels, even at the point when full market penetration is achieved for RNG. In addition, FMS stated that Minnesota has only reduced its GHG 12% relative to 2005 levels, missing the Next Generation Energy Act's goal of a 15% reduction by 2015. Moreover, FMS claimed that emissions from the residential sector in Minnesota have increased by about 0.9 million tons of carbon dioxide equivalent since 2005, rising 11% above the State's baseline in 2016. Therefore FMS argued that it is only with significant effort to decarbonize electricity end-use and generation that Minnesota will meet its 2025 and 2050 goals of 30% and 80% reductions, respectively.⁶⁵

FMS advised that while there is a role for biogas captured from diverted waste streams, the Commission and policymakers should consider how best to harness this low carbon fuel in a way that does not rely on interstate pipeline infrastructure or potentially compromise important GHG reductions to be gained in the building sector through the electrification of end-uses.⁶⁶

FMS stated that there are multiple strategies for achieving building sector decarbonization. FMS advocated for the utilization of biogas that has been captured from diverted waste streams in a manner that maximizes the decarbonization potential across the agriculture, waste, building, transportation, and industrial sectors in Minnesota. According to FMS, renewable electricity that powers electric vehicles and/or provides dispatchable load are two such applications. FMS stated that additional strategies include the utilization of small volumes of RNG for industrial processes, and district energy systems powered by biogas produced from local waste streams that are digested onsite.⁶⁷

According to FMS, while every strategy will increase costs to society in the short term, each strategy differs by the rate and magnitude at which GHG mitigation will be achieved. FMS claimed the electrification strategy requires substantial energy efficiency retrofits for existing building stock, enhanced energy efficiency standards for new construction, and the implementation of new air- or ground-source heating technology, all of which will require considerable investment to be accomplished to scale. According to FMS, a RNG pathway will displace finite volumes of fossil natural gas in existing distribution systems, but is very expensive and lacks the capacity to scale. FMS warned that adopting these strategies simultaneously risks driving up costs and ultimately slowing the pace of decarbonization in the building sector.⁶⁸

⁶⁵ *Id.*, p. 9.

⁶⁶ *Id.*, p. 10.

⁶⁷ Fresh Energy Minnesota Center for Environmental Advocacy and Sierra Club Reply Comments, p. 5.

⁶⁸ *Id.*, pp. 2-3.

In addition, FMS noted that while natural gas commodity prices may change in unpredictable ways in the future, building electrification limits consumer exposure to natural gas price volatility. For these reasons, FMS maintained that purchasing finite but costly volumes of RNG for end-use in buildings must not come at the expense of investing in the transition to electric heating technologies. FMS argued further that limited financial resources would be better invested in building electrification incentives, rather than in costly renewable natural gas pilots of undetermined GHG reduction benefit.⁶⁹

Finally, FMS claimed that the capital costs of generating renewable electricity are lower than producing RNG, because biogas does not need to be upgraded to the standard of pipeline grade natural gas nor does it require gas pipeline interconnection infrastructure. FMS stated that renewable biogas electricity generation would maximize the capture of greenhouse gas emissions from waste feedstocks and minimize the carbon footprint of utilizing biogas fuels. FMS emphasized that onsite generation creates a tighter loop between biogas production and electricity generation and could provide an important additional source of renewable, dispatchable electricity.⁷⁰

D. The OAG

In its initial comments, the OAG recommended that the Commission deny CPE's request for a pilot program for the following reasons:

- The RNG Pilot would not result in just and reasonable rates because the cost of RNG is approximately ten-times higher than conventional natural gas and because of the inclusion of deferred accounting for marketing and administrative costs and a shareholder financial incentive;⁷¹
- If customers want to invest in environmentally-friendly efforts, there are more effective ways to do so than by paying \$3.50 per therm of RNG;⁷²
- The RNG Pilot unnecessarily shifts an unreasonable amount of risk onto non-participating ratepayers;⁷³
- It is unnecessary to shift this risk onto ratepayers because there is no mandate for RNG or an RNG tariff;⁷⁴

⁶⁹ Fresh Energy, Minnesota Center for Environmental Advocacy and Sierra Club Comments, pp.9-10.

⁷⁰ *Id.*, p. 10.

⁷¹ Office of Attorney General Comments, pp. 6-12, 12-17,

⁷² *Id.*, p. 8.

⁷³ *Id.*, pp. 12-17.

⁷⁴ *Id.*, pp. 17-19.

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- The extent of ratepayer demand for such a program is likely overstated.⁷⁵
 - The RNG Pilot would not be a reasonable manner to accomplish the state's conservation and renewable energy goals;⁷⁶ and
 - There are no established methods to track, value, and retire "credits" generated by RNG for use in the manner proposed by CPE.⁷⁷

However, if the Commission finds that CPE's RNG proposal would result in just and reasonable rates despite the numerous, serious concerns listed above, the OAG recommended that the Commission require the following modifications to the program before implementation:⁷⁸

- Modify the program so that potential participants elect an amount of RNG per month to purchase as opposed to the proposed monthly dollar commitment.
- Require CPE to work with the OAG and others on written/publishable communication materials to provide potential participants with a comprehensive up front description of the costs of the RNG program and the impact of the program on their bills and on the amount of conventional natural gas they would be offsetting.
- Prohibit any RNG-related cost recovery from non-participant ratepayers.
- Require CPE to delay implementation until enrollment has reached levels that would allow the program to operate without reliance upon non-participant funding.
- Deny CPE's request for deferred accounting.
- Cap the marketing and administrative costs of the program and require that all marketing and administrative costs be recovered from participants.
- Require CPE to allow ratepayers to exit the program within 90 days of receiving the first bill under the RNG tariff and clearly inform new participants of this opportunity.

In its Reply Comments, as discussed above, CPE proposed to modify its Pilot so that non-participating customers do not bear the risk for any program costs. Specifically, CPE withdrew its request for a shareholder incentive and it no longer requested deferred accounting for program costs. Additionally, CPE changed its original proposal to include the full commodity cost of excess RNG purchased in the PGA. Instead, CPE proposed that if RNG is used for general (non-Pilot) supply, CPE will charge customers the non-RNG weighted average cost of gas

⁷⁵ *Id.*, pp. 19-21

⁷⁶ *Id.*, p. 5.

⁷⁷ *Id.*, p. 19.

⁷⁸ *Id.*, pp. 21-24.

("WACOG") for each RNG dekatherm (Dth) used. Also as discussed above, CPE modified its proposal regarding customer term commitments.

In Response Comments, the OAG stated that it "continues to believe that approval of the RNG Pilot, even with modifications, would not result in just and reasonable rates and the Commission should thus deny the pilot."⁷⁹

The OAG further stated:⁸⁰

The Company's modifications were responsive to some of the significant concerns held by the OAG and other stakeholders, but the underlying cost of the program and its flat-fee rate design still prevent the resulting rate from being just and reasonable.

...

...While the OAG appreciates CenterPoint's efforts to remove non-participant harm and a shareholder incentive from the proposal, these changes to [sic] not alter the underlying cost of RNG, today, in Minnesota. Until fundamental changes to the nationwide RNG market occur, it is not in the public interest for the Commission to approve such an unreasonably costly program.

E. The Department

The Department noted that CPE's proposed changes to the pilot program in its Reply Comments, were helpful in minimizing impacts on non-participating customers. However, the Department indicated that there were still important questions about the program that need to be resolved before it can move forward, such as charging ratepayers for environmental attributes that cannot be used for non-transportation purposes, the potential future involvement of CPE's affiliate, and the important policy question of whether Minnesota should establish its own system of credits for RNG used for non-transportation purposes.⁸¹

The Department remained concerned that CPE had not shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG, particularly when CPE's proposed end uses of the RNG Pilot would not qualify for these environmental attributes or credits.⁸²

The Department was concerned that CPE had not identified the basis upon which its RNG supplier would charge CPE more for environmental attributes associated with non-vehicle-fuel-

⁷⁹ Office of Attorney General Response to Reply Comments, p. 1.

⁸⁰ *Id.*, p. 2.

⁸¹ Department Response Comments, p. 2.

⁸² *Id.*, p. 13.

use RNG, given that there is not a non-vehicle-fuel-use credit market or tracking system for non-vehicle-fuel-use of RNG.⁸³

Specifically, the Department stated that, given that only the RNG purchased and used as vehicle fuel is eligible for the LCFS and RIN credits, and there is no credit program or tracking system in place to form the basis for the value of renewable attributes of non-vehicle-use RNG, it is unclear whether any RNG contract entered into for the purposes of the proposed Pilot would be at a reasonable price. The Department noted that the intent of traditional green pricing programs is to support the growth of renewable energy, and thus require that the renewable energy developed for the purposes of the program is in addition to what the market would otherwise produce. Therefore, the Department argued that without a credit or tracking system for RNG used for the purposes of the Pilot, it does not appear that the Pilot could be considered a “voluntary green tariff” if the environmental attributes are not specifically identified or defined in terms of value or tracked for purposes of determining additionality.⁸⁴

While CPE proposed procedures to track and report RNG it purchases, the Department stated that tracking in isolation of the RNG market as a whole or on a regional basis (similar to MRETS) would not be adequate to ensure that the Pilot results in an expansion of the RNG market. The Department stated that an adequate mechanism must ensure that the RNG is not double-counted and should also be developed in a manner similar to the establishment of MRETS in light of the provisions in Minnesota Statute §216B.169.⁸⁵

The Department stated that the following modifications proposed by CPE in its Reply Comments would improve its proposal:

- CPE’s proposal to assign the premium cost of excess RNG supply shifts the unfavorable RNG gas cost risks away from non-participant customers and reasonably resolves the Department’s issue concerning the use of the Purchased Gas Adjustment mechanism.⁸⁶

However, in addition to the annual reporting that CPE proposed, the Department recommended that CPE also include in its annual PGA report filing a schedule of the RNG supply included in the Company’s general gas portfolio. The Department stated that such a schedule should report, by month, the quantity and the WACOG price applied to the RNG included in the general portfolio during the PGA reporting period and also disclose any quantity adjustments to the RNG supply previously reported.⁸⁷

⁸³ Department Comments, p. 7.

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ Department Response Comments, p. 25.

⁸⁷ *Id.*, p. 5.

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- CPE's proposal to withdraw its deferred accounting request for unrecovered administrative and marketing (A&M) costs and to allocate any unrecovered A&M costs on a current basis to its shareholders is reasonable.⁸⁸

However, the Department stated that until the Company resets its other tariffed base rates in a general rate case proceeding, where internal resource costs can be clearly identified and apportioned among the various programs and their rates, the Department recommended that the Program Charge rate (the component rate of the Pilot Charge designated to A&M costs) be limited to the recovery of incremental external costs.⁸⁹

The Department also believes the following to be reasonable:

- CPE's withdrawal of its request to include a shareholder return.⁹⁰
- The Company's proposed accounting for the RNG Pilot as modified.⁹¹
- CPE's Matching Period and refund approach to remedy RNG supply shortfalls; and CPE's assignment to shareholders the ownership of excess RNG environmental attribute, to the extent the cost risk for any excess RNG supply attributes continue to be borne by the shareholders.⁹²
- CPE's inclusion of a more in-depth comparison of the Company's proposal to other utilities' existing RNG programs currently in operation.⁹³
- The 5-year pilot term and the proposed RNG Program Year period (July 1 – June 30).⁹⁴
- The proposed September 15 filing date for CPE's Annual Pilot Program evaluation and report, nor does the Department at this time oppose CPE's approach to allow a revised annual RNG Pilot rate change to go into effect, subject to refund, on the date of the annual Pilot report and evaluation filing. However, the Department recommended some additional information be added to CPE's drafted program tracker (included as Attachment B to CPE's Petition, as detailed in Section J of the Department's Response Comments.)⁹⁵

Despite the Department's agreement with many of the proposed changes in the RNG Pilot presented in CPE's Reply Comments, the Department concluded that CPE's proposed Pilot

⁸⁸ *Id.*, p. 25.

⁸⁹ *Id.*, p. 7.

⁹⁰ *Id.*, p. 25.

⁹¹ *Id.*

⁹² *Id.*, p. 26.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.*

requires further development before moving forward. The Department believes that CPE's proposed Pilot (as modified) is premature for the following reasons:⁹⁶

1. The lack of a credit system for non-vehicle-use RNG;
2. The lack of any policies, either at the state or federal level, to promote RNG use in the residential, commercial, or industrial sectors that could lead to a credit system for non-vehicle-use RNG, as acknowledged by the Company;
3. CPE has not shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG, particularly when CPE's proposed end uses of the RNG Pilot would not qualify for these environmental attributes or credits; and
4. CenterPoint has not adequately addressed any potential arrangement or relationship with its affiliate, once this affiliated entity is certified by the EPA.

As a result, the Department recommended denial of the Company's Petition as filed and as modified by the Company.

In addition, the Department recommended that the Commission require CPE to host a workshop to explore the use of RNG for non-transportation uses. The Department stated that such a workshop should include other governmental entities having expertise in this area (e.g. the Minnesota Pollution Control Agency, Minnesota Department of Agriculture), and should address various issues, such as information about potential sources of RNG in Minnesota, how production and use of RNG could be tracked, how double-counting would be prevented.⁹⁷

Finally, the Department noted that CPE has a compressed natural gas (CNG) fueling station in Burnsville, Minnesota and uses natural gas as a vehicle fuel for its fleet. In its Comments, the Department requested that CPE discuss the realized and potential credit awards and benefits that have been or may be granted to it, or any of its affiliates, in prior, current and future years, from the use of natural gas as vehicle fuel issued from its Minnesota located CNG fueling station.⁹⁸

In Response to CPE's Reply Comments, which stated it does not purchase RNG for its CNG fueling station and has no plans to begin purchasing RNG for its fueling station at this time, the Department stated that, while CPE's Minnesota fleet fuel use may be outside of its proposed RNG Pilot, it would be helpful for CPE to provide more information about potential operational savings opportunities. Therefore, the Department advised that further exploration of CPE's CNG

⁹⁶ *Id.*, p. 25.

⁹⁷ *Id.*, pp. 24-25.

⁹⁸ *Id.*, p.9

fleet and fuel source may be appropriate to discuss within CPE's forthcoming general rate case filing and in any future applicable filings if its affiliate becomes an approved RIN generator.⁹⁹

Therefore, the Department recommended that CPE should include a discussion and analysis in its forthcoming general rate case filing, and in any future filings involving RNG, on: (1) the net benefit potential for use of RNG with environmental attributes in its CNG-fueled fleet, (2) any further developments of CPE affiliate's pursuit as a RIN generator¹⁰⁰, (3) how the affiliate, as an approved RIN generator, may benefit from CPE's proposal and serve CPE in future, (4) what costs should be allocated to its affiliate, and (5) whether its affiliate, as an approved RIN generator, would be expected to serve CPE in future should the utility begin to use RNG in its fleet vehicles.¹⁰¹

The Department also recommended the following for any future RNG proposal:¹⁰²

- CenterPoint should include an additional schedule to be filed in its Annual Purchased Gas Adjustment True-Up filing that reports information relevant to the RNG supply included in the general gas portfolio, as detailed in Section B of the Department's Response Comments.
- CPE should limit the Program Charge rate (the component rate of the Pilot Charge designated to A&M costs) to the recovery of incremental external costs.
- CPE should explain how it will address RNG Supply price changes that diverge from the proposed year-long Pilot Charge tariffed rate, to ensure that ratepayers participating in the pilot are charged rates that reflect what the Company pays for the RNG supply.
- CPE should correct its draft marketing materials and revise its proposed tariff language.

⁹⁹ *Id.*, p. 9

¹⁰⁰ *Id.*, pp. 8-9, and fn 24. Available credits for RNG transportation use are granted by the state of California (Low Carbon Fuel Standard or "LCFS") and by the federal Renewable Fuel Standard²⁴ (which issues Renewable Identification Numbers, or "RINs"). The federal RFS requires a certain volume of renewable fuel to replace or reduce the quantity of petroleum-based transportation fuel, heating oil, or jet fuel used in the U.S. each year. Refineries and fuel suppliers attain compliance by either blending quantities of renewable fuel in transportation fuel supply or obtaining enough RINs to meet mandated obligations.

¹⁰¹ *Id.*, p. 26.

¹⁰² *Id.*, p. 26-27,

F. CPE Response to Response

CPE requested that the Commission approve the proposed Pilot with the modifications discussed.

1. Whether the RNG rate is reasonable

In response to the Department's concern that the price of RNG was not reasonable, CPE stated that the Department misunderstands the environmental "attributes" and "credits" associated with RNG. According to CPE, the environmental "attributes" of RNG are the qualities of the natural gas molecule that make it "renewable" and the environmental "credits" are the monetized attributes of the natural gas molecule, which are sold for value within the natural gas market.¹⁰³

CPE explained that to purchase RNG supply for the Pilot, it will have to participate in the market and the market price of RNG will be based on the highest market price available to the RNG producer, which will include the price of the monetized credit; i.e., the LCFS and RFS increase the market price of RNG. Therefore, CPE argued, it is necessary for customers who wish to purchase RNG to pay a higher price for the environmental attributes of RNG, relative to the price of conventional natural gas, even though the RNG sold through the Pilot does not qualify for credits.¹⁰⁴

In response to the OAG's argument that because RNG is quite expensive relative to the price of conventional natural gas, the Commission's statutory requirement to set just and reasonable rates prevents it from allowing CPE to offer the Pilot, CPE stated that because the modified program design will not result in any additional costs for non-participating customers, and participation in the Pilot is voluntary, the OAG's argument is not sound and should be dismissed.¹⁰⁵

2. Tracking and Verification

CPE stated that it believes it will be able to verify that the RNG it purchases for the Pilot (1) comes from a renewable source; and (2) has been sold only to the Company. CPE assured that it will be able to adequately complete both these essential tasks on its own.¹⁰⁶

Although CPE agreed that external third-party verification and tracking would be useful for ensuring consumer confidence in the RNG Pilot and allowing for a more robust market for trading and selling of the renewable attributes for uses other than LCFS

¹⁰³ CenterPoint Energy Minnesota Response to Reply Comments, pp. 2-3.

¹⁰⁴ *Id.*, p. 3.

¹⁰⁵ *Id.*, p. 5.

¹⁰⁶ *Id.*

and/or RFS compliance, CPE stated that external tracking and verification are not essential for this Pilot.¹⁰⁷

CPE stated that the Center for Resource Solutions (CRS) and Midwest Renewable Energy Tracking System (MRETS) may launch RNG verification and tracking systems before the Pilot is launched, and, if not, CPE, CRS and MRETS may be better able to develop systems for this new type of voluntary market after the Pilot has provided some initial lessons.¹⁰⁸

3. Miscellaneous Issues

a. PGA and Pilot Evaluation Reports

CPE stated that it has no objection to including the additional information recommended by the Department in its annual PGA filings and Pilot Evaluations.¹⁰⁹

b. Administration and Marketing Cost Recovery

In response to the Department's recommendation that the Program Charge rate designated to administrative and marketing costs be limited to the recovery of incremental external costs, CPE stated that it has no objection to limiting what is included in its Pilot Charge for administrative and marketing costs to external A&M costs until apportionment of internal resource costs is vetted in a rate case proceeding.¹¹⁰

c. Affiliate Interests

In response to the Department's recommendations that the Commission direct CPE to include additional information related to CPE's unregulated affiliate CenterPoint Energy Services, Inc. (CES) in its forthcoming rate case filing and in any future filings involving RNG transactions or services, CPE clarified that RIN generators are certified by the EPA on a path-by-path basis. CPE explained further that a RIN-generator could be certified to generate RINs for the use of RNG from a particular landfill at a particular fueling station, for example, but would not be able to generate RINs for any other RNG source or fueling station without further EPA certification. Therefore, CPE wished to assure the Commission that CES will not be able to generate RINs related to the Company's fueling station or in relation to the Pilot program without specifically applying for that EPA authorization.¹¹¹

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*, pp. 4-5.

¹⁰⁹ *Id.*, p. 5.

¹¹⁰ *Id.*

¹¹¹ *Id.*, p. 7.

CPE stated that if it were to work with CES to generate RINs in relation to the Pilot or its CNG fueling station, it would comply with the applicable Commission rules on affiliate transactions. CPE stated further that it has no plans at this time to work with any RIN-generator to create RINs in relation to the Pilot or its CNG fueling station, and it does not have access to the plans of its unregulated affiliate that have no relationship to any regulated utility action.¹¹²

d. Proposed Marketing and Webpage Materials

In response to the Department's recommendation that CPE's marketing and web materials correct a noted inconsistency in the price to heat water with RNG, CPE explained it estimated the price of all home water heating with RNG to be \$58/month, based on a \$38.89/Dth Pilot Charge and average residential usage data from the U.S. Energy Information Administration.

CPE estimated the price of water heating for only shower usage to be approximately \$19/month, using the \$38.89 Pilot Charge and the State of Minnesota Conservation Improvement Program Technical Reference Manual published by the Department of Commerce.

Regardless, CPE assured that the marketing materials filed by the Company on March 25, 2019, were meant only to illustrate the Company's planned marketing approach and final marketing materials will reflect the actual Pilot Charge to be determined through the RFP process and may show different household uses.¹¹³

e. Proposed Tariffs

CPE stated that it has no objection to the tariff changes recommended by the Department.¹¹⁴

f. New Policies, Legislation and Pilot

CPE agreed to work with the Department to determine how new policies or legislation would affect the proposed Pilot.¹¹⁵

g. Proposed workshop

CPE stated that while it has no objection to hosting a workshop on proposed non-transportation uses of RNG, it disagreed that a workshop is necessary before Pilot approval.

¹¹² *Id.*

¹¹³

¹¹⁴ *Id.*, p. 9.

¹¹⁵ *Id.*

CPE stated that approval of the Pilot program will allow Minnesota to continue to grow the RNG momentum that is underway.¹¹⁶

VI. Decision Alternatives

- A. Approve CPE's modified five-year RNG Pilot program as proposed by CPE in its March 1, 2019 Reply Comments. [CPE, Partnership on Waste and Energy, Energy Vision, Bio economy Coalition of Minnesota, Coalition for Renewable Natural Gas, The Center for Resource Solutions, Mississippi Watershed Management Organization, and American Biogas Council.] Or
- B. Deny CPE's five-year RNG Pilot program, both as filed and as modified by the Company. [Department, OAG, Fresh Energy, Minnesota Center for Environmental Advocacy, Sierra Club (FMS)] Or
- C. Approve CPE's March 1, 2019 modified five-year RNG Pilot program with one or more of the following additional modifications and requirements.

OAG recommended modifications:

- 1. Modify the program so that potential participants elect an amount of RNG per month to purchase as opposed to the proposed monthly dollar commitment. [OAG]
- 2. Require CPE to work with the OAG and others on a communication plan that provides potential participants with a comprehensive up front description of the costs of the RNG program, the impact of the program on their bills, and the amount of conventional natural gas they would be offsetting. [OAG]

Department recommended modifications:

- 3. Require that the administrative and marketing (A&M) costs included in the Pilot Charge be limited to the recovery of incremental external A&M costs. [Department]
- 4. Require CPE to include an additional schedule in its Annual Purchased Gas Adjustment True-Up filing that reports information relevant to the RNG supply included in the Company's general gas portfolio, as described in detail in Section B of the Department's April 9, 2019 Response Comments. [Department]
- 5. Require CPE to revise its tariff language as discussed in Section K.2 (page 23) of the Department's April 9, 2019 Response Comments. [Department]

¹¹⁶ *Id.*, p. 6.

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6. Require CPE to provide additional information in its program tracker report as described in Section J of the Department's April 9, 2019 Response Comments. [Department]

City of Minneapolis recommended modifications:

7. Require CPE to produce an initial report three years into the pilot and a final report at the end of the pilot that identify and define environmental and renewable attributes of the RNG. [City of Minneapolis]
 8. Require CPE to provide an estimate of maximum technical supply capacity and associated price. [City of Minneapolis]
 9. Require CPE to contract with a third-party research organization to identify and document the environmental benefits and attributes of RNG based upon the specific contracted supplier ultimately selected by CPE. [City of Minneapolis]
 10. Require CPE to work with Parties on the creation of a transparent tracking system, similar to renewable electricity credits (RECs) registered in the MRETs and Green-e systems. [City of Minneapolis]
 11. Require CPE to thoroughly examine the impact of cost recovery of RNG that is not purchased by pilot program participants. [City of Minneapolis]
- D. Require CPE to host a workshop to explore the use of RNG for non-transportation uses. [Department]
 - E. Require CPE to include a discussion and analysis in its forthcoming general rate case filing, and in any future filings involving RNG, on: (1) the net benefit potential for use of RNG with environmental attributes in its CNG-fueled fleet, (2) any further developments of CPE affiliate's pursuit as a RIN generator, (3) how the affiliate, as an approved RIN generator, may benefit from CPE's proposal and serve CPE in the future, (4) what costs should be allocated to its affiliate, and (5) whether its affiliate, as an approved RIN generator, would be expected to serve CPE in future should the utility begin to use RNG in its fleet vehicles. [Department]