

B-Engrossed
Senate Bill 98

Ordered by the Senate June 11
Including Senate Amendments dated March 19 and June 11

Printed pursuant to Senate Interim Rule 213.28 by order of the President of the Senate in conformance with pre-session filing rules, indicating neither advocacy nor opposition on the part of the President (at the request of Senate Interim Committee on Environment and Natural Resources)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

Requires Public Utility Commission to adopt by rule large renewable natural gas program and small renewable natural gas program.

Requires commission to adopt rules no later than July 31, 2020.

Takes effect on 91st day following adjournment sine die.

A BILL FOR AN ACT

1
2 Relating to renewable natural gas; and prescribing an effective date.

3 **Be It Enacted by the People of the State of Oregon:**

4 **SECTION 1. Sections 2 to 6 of this 2019 Act are added to and made a part of ORS chapter**
5 **757.**

6 **SECTION 2. (1) The Legislative Assembly finds and declares that:**

7 (a) **Renewable natural gas provides benefits to natural gas utility customers and to the**
8 **public; and**

9 (b) **The development of renewable natural gas resources should be encouraged to support**
10 **a smooth transition to a low carbon energy economy in Oregon.**

11 (2) **The Legislative Assembly therefore declares that:**

12 (a) **Natural gas utilities can reduce emissions from the direct use of natural gas by pro-**
13 **curring renewable natural gas and investing in renewable natural gas infrastructure;**

14 (b) **Regulatory guidelines for the procurement of renewable natural gas and investments**
15 **in renewable natural gas infrastructure should enable the procurements and investments**
16 **while also protecting Oregon consumers; and**

17 (c) **Renewable natural gas should be included in the broader set of low carbon resources**
18 **that may leverage the natural gas system to reduce greenhouse gas emissions.**

19 **SECTION 3. As used in sections 2 to 6 of this 2019 Act:**

20 (1) **"Biogas" means a mixture of carbon dioxide and hydrocarbons, primarily methane**
21 **gas, released from the biological decomposition of organic materials.**

22 (2) **"Biomass" has the meaning given that term in ORS 315.141.**

23 (3) **"Large natural gas utility" means a natural gas utility with 200,000 or more customer**
24 **accounts in Oregon.**

25 (4) **"Natural gas utility" means a public utility providing natural gas service to custom-**
26 **ers.**

NOTE: Matter in **boldfaced** type in an amended section is new; matter *[italic and bracketed]* is existing law to be omitted. New sections are in **boldfaced** type.

1 (5)(a) “Qualified investment” means any capital investment in renewable natural gas
2 infrastructure incurred by a natural gas utility for the purpose of providing natural gas
3 service under a renewable natural gas program described in section 5 or 6 of this 2019 Act.

4 (b) “Qualified investment” does not mean an investment in a biogas production project
5 by:

6 (A) A single livestock operation that produces more than 250 standard cubic feet of
7 biogas per minute; or

8 (B) A single biogas source that produces more than 1,000 standard cubic feet of biogas
9 per minute.

10 (6) “Renewable energy sources” means hydroelectric, geothermal, solar photovoltaic,
11 wind, tidal, wave, biomass or biogas energy sources.

12 (7) “Renewable natural gas” means any of the following products processed to meet
13 pipeline quality standards or transportation fuel grade requirements:

14 (a) Biogas that is upgraded to meet natural gas pipeline quality standards such that it
15 may blend with, or substitute for, geologic natural gas;

16 (b) Hydrogen gas derived from renewable energy sources; or

17 (c) Methane gas derived from any combination of:

18 (A) Biogas;

19 (B) Hydrogen gas or carbon oxides derived from renewable energy sources; or

20 (C) Waste carbon dioxide.

21 (8) “Renewable natural gas infrastructure” means all equipment and facilities for the
22 production, processing, pipeline interconnection and distribution of renewable natural gas to
23 be furnished to Oregon customers.

24 (9) “Small natural gas utility” means a natural gas utility with fewer than 200,000 cus-
25 tomer accounts in Oregon.

26 **SECTION 4.** (1) The Public Utility Commission shall adopt by rule a large renewable na-
27 tural gas program for large natural gas utilities pursuant to the provisions of section 5 of
28 this 2019 Act.

29 (2) The commission shall adopt by rule a small renewable natural gas program for small
30 natural gas utilities pursuant to section 6 of this 2019 Act.

31 (3) Rules adopted by the commission under this section shall include:

32 (a) Rules for reporting requirements under the large renewable natural gas program and
33 the small renewable natural gas program; and

34 (b) Rules for establishing a process for natural gas utilities to fully recover prudently
35 incurred costs associated with the large renewable natural gas program and the small
36 renewable natural gas program.

37 (4) Rules adopted by the commission under this section may not prohibit an affiliated
38 interest of a small natural gas utility or of a large natural gas utility from making a capital
39 investment in a biogas production project if the affiliated interest, as defined in ORS 757.015,
40 is not a public utility.

41 **SECTION 5.** (1) A large natural gas utility that participates in the large renewable na-
42 tural gas program adopted by rule by the Public Utility Commission under section 4 (1) of
43 this 2019 Act may make qualified investments and procure renewable natural gas from third
44 parties to meet the following portfolio targets for the percentage of gas purchased by the
45 large natural gas utility for distribution to retail natural gas customers in Oregon that is

1 **renewable natural gas:**

2 (a) In each of the calendar years 2020 through 2024, five percent may be renewable na-
3 tural gas;

4 (b) In each of the calendar years 2025 through 2029, 10 percent may be renewable natural
5 gas;

6 (c) In each of the calendar years 2030 through 2034, 15 percent may be renewable natural
7 gas;

8 (d) In each of the calendar years 2035 through 2039, 20 percent may be renewable natural
9 gas;

10 (e) In each of the calendar years 2040 through 2044, 25 percent may be renewable natural
11 gas; and

12 (f) In each of the calendar years 2045 through 2050, 30 percent may be renewable natural
13 gas.

14 (2) The commission shall adopt ratemaking mechanisms that ensure the recovery of all
15 prudently incurred costs that contribute to the large natural gas utility's meeting the tar-
16 gets set forth in subsection (1) of this section. Pursuant to the ratemaking mechanisms
17 adopted under this subsection:

18 (a) Qualified investments and operating costs associated with qualified investments that
19 contribute to the large natural gas utility meeting the targets set forth in subsection (1) of
20 this section may be recovered by means of an automatic adjustment clause, as defined in
21 ORS 757.210.

22 (b) Costs of procurement of renewable natural gas from third parties that contribute to
23 the large natural gas utility meeting the targets set forth in subsection (1) of this section
24 may be recovered by means of an automatic adjustment clause, as defined in ORS 757.210,
25 or another recovery mechanism authorized by rule.

26 (3) When a large natural gas utility makes a qualified investment in the production of
27 renewable natural gas, the costs associated with the qualified investment shall include the
28 cost of capital established by the commission in the large natural gas utility's most recent
29 general rate case.

30 (4) Before making a qualified investment in biogas production that is upstream of condi-
31 tioning equipment, pipeline interconnection or gas cleaning, a large natural gas utility shall
32 engage in a competitive bidding process.

33 (5) If the large natural gas utility's total incremental annual cost to meet the targets of
34 the large renewable natural gas program exceeds five percent of the large natural gas
35 utility's total revenue requirement for an individual year, the large natural gas utility may
36 no longer be authorized to make additional qualified investments under the large renewable
37 natural gas program for that year without approval from the commission.

38 (6) The total incremental annual cost to meet the targets of the large renewable natural
39 gas program must account for:

40 (a) Any value received by a large natural gas utility upon any resale of renewable natural
41 gas, including any environmental credits that the renewable natural gas producer chooses
42 to include with the sale of the renewable natural gas to the large natural gas utility; and

43 (b) Any savings achieved through avoidance of conventional gas purchases or develop-
44 ment, such as avoided pipeline costs or carbon costs.

45 **SECTION 6.** (1) Upon a filing by a small natural gas utility to participate in the small

1 renewable natural gas program adopted by rule by the Public Utility Commission under sec-
2 tion 4 (2) of this 2019 Act, the commission shall establish a rate cap limiting the small na-
3 tural gas utility's costs of procuring renewable natural gas from third parties and qualified
4 investments in renewable natural gas infrastructure. The rate cap must be expressed as a
5 percentage of the small natural gas utility's total revenue requirement as approved by the
6 commission in the public utility's most recent general rate case. For the purposes of estab-
7 lishing a rate cap under this subsection, the commission shall account for:

8 (a) Any value received by the small natural gas utility upon any resale of renewable na-
9 tural gas, including any environmental credits that the renewable natural gas producer
10 chooses to include with the sale of renewable natural gas to the small natural gas utility;
11 and

12 (b) Any savings achieved through avoidance of conventional gas purchases or develop-
13 ment, such as avoided pipeline costs or carbon costs.

14 (2)(a) A filing by a small natural gas utility under subsection (1) of this section must in-
15 clude, but need not be limited to:

16 (A) A proposal to procure a total volume of renewable natural gas over a specific period;
17 and

18 (B) Identification of the qualified investments that the small natural gas utility may
19 make in renewable natural gas infrastructure.

20 (b) A small natural gas utility may from time to time revise the filing submitted to the
21 commission under this section.

22 (3) Any prudently incurred costs incurred by a small natural gas utility pursuant to a
23 filing submitted under this section may be recovered by means of an automatic adjustment
24 clause, as defined in ORS 757.210.

25 (4) When a small natural gas utility makes a qualified investment in the production of
26 renewable natural gas, the costs associated with that qualified investment shall include the
27 cost of capital established by the commission in the small natural gas utility's most recent
28 general rate case.

29 **SECTION 7.** The Public Utility Commission shall adopt rules pursuant to sections 4 to 6
30 of this 2019 Act no later than July 31, 2020.

31 **SECTION 8.** This 2019 Act takes effect on the 91st day after the date on which the 2019
32 regular session of the Eightieth Legislative Assembly adjourns sine die.
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