

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

In the Matter of a Petition by CenterPoint  
Energy to Introduce a Renewable Natural Gas  
Pilot Program

ISSUE DATE: August 29, 2019

DOCKET NO. G-008/M-18-547

ORDER DENYING PETITION  
WITHOUT PREJUDICE

**PROCEDURAL HISTORY**

On August 23, 2018, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company), filed a petition to introduce a five-year renewable natural gas pilot program (the Petition).

By February 12, 2019, the following parties submitted comments on the Petition:

- Bioeconomy Coalition of Minnesota
- Center for Resource Solutions
- City of Minneapolis
- Coalition for Renewable Natural Gas
- Department of Commerce, Division of Energy Resources (the Department)
- Energy Vision
- Fresh Energy, Minnesota Center for Environmental Advocacy, and Sierra Club
- Office of the Attorney General, Residential Utilities and Antitrust Division (OAG)
- Partnership on Waste and Energy<sup>1</sup>

On March 1, 2019, CenterPoint submitted reply comments proposing modifications to its pilot in response to comments.

On March 12, 2019, the Commission issued a notice requesting comments on CenterPoint's proposed modifications.

On March 25, 2019, CenterPoint submitted draft marketing materials and revised draft tariff pages for the pilot program.

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<sup>1</sup> The Partnership on Waste and Energy is a joint powers board including Hennepin County and the Ramsey/Washington Recycling and Energy Board.

On March 29, 2019, the Commission issued a notice requesting comment on CenterPoint's March 25 filing.

By May 14, 2019, the following parties submitted reply comments:

- American Biogas Council
- CenterPoint
- The Department
- Fresh Energy, Minnesota Center for Environmental Advocacy, and Sierra Club
- Mississippi Watershed Management Organization
- OAG

On July 26, 2019, the Commission met to consider the Petition.

## FINDINGS AND CONCLUSIONS

### I. Introduction

Renewable natural gas (RNG), also known as biomethane, is typically derived from organic waste from a landfill, livestock operation, or wastewater treatment plant. The organic material at these facilities, such as food waste, manure, or wastewater sludge, can be processed through an anaerobic digester to produce biogas, which is a mixture of methane, carbon dioxide, moisture, and other impurities.<sup>2</sup> To produce RNG, the biogas is refined to remove those impurities until the methane meets pipeline-quality standards. The RNG can then be transported through the interstate pipeline system and substituted for conventional natural gas.

RNG emits 50–100% less greenhouse gasses than conventional natural gas, depending upon the source of feedstock and the production process. For example, RNG produced from landfill gas is 44% less carbon-intensive than conventional natural gas, and RNG produced from wastewater sludge is 77% less carbon-intensive than conventional natural gas.<sup>3</sup> Production of RNG from food and livestock waste is considered net carbon negative because it avoids methane emissions that occur when the waste is simply left to decompose.<sup>4</sup> It is estimated that there is enough biomass feedstock in the United States to replace 10% of conventional natural gas consumption with RNG.

RNG has been used primarily to satisfy California's Low-Carbon Fuels Standard (LCFS) and the federal Renewable Fuel Standard (RFS). The LCFS sets limits on carbon emissions from vehicle fuels sold in the state, while the RFS requires a certain volume of renewable fuels to replace

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<sup>2</sup> Anaerobic digestion also occurs naturally at landfills when bacteria break down organic waste and emit biogas, which can be collected and refined into RNG.

<sup>3</sup> Rebecca Gasper and Tim Searchinger, *The Production and Use of Renewable Natural Gas as a Climate Strategy in the United States*, at 18, World Resources Institute (April 2018), <https://www.wri.org/publication/renewable-natural-gas>.

<sup>4</sup> *Id.* When methane is emitted directly into the atmosphere, it is a highly potent greenhouse gas. When methane is burned, such as through the consumption of RNG, it emits carbon dioxide, a less potent greenhouse gas.

conventional vehicle fuels sold in the U.S. Both systems issue credits to renewable fuels, including RNG, that can be used for compliance with the standard. Both systems also verify that each unit of RNG was produced with the environmental attributes claimed and track credits to ensure purchasers that the credit has been sold only to them. The life-cycle greenhouse gas emissions of each source of RNG are taken into account for purposes of compliance and affect the monetary value of the resulting credit under the LCFS.<sup>5</sup>

## II. The Proposed Pilot

CenterPoint's Petition requests approval of a five-year pilot program that would offer customers the option of offsetting a portion of their natural gas consumption with RNG for an additional charge. The proposed pilot would be among the first green tariffs for RNG in the country.<sup>6</sup>

The price that CenterPoint would charge to participating customers would include the cost of the RNG and a program charge consisting of administrative and marketing costs for the proposed pilot.<sup>7</sup> At least 90% of the total monthly pilot charge to the customer would comprise the RNG commodity price,<sup>8</sup> with the program charge making up at most 10% of the total monthly charge. In reply comments, the Company stated that only incremental administrative and marketing costs (those costs not included in base rates) would be allocated to the pilot program. Participating customers would indicate the maximum dollars per month that they wish to pay for the program; residential customers could exit the program at any time, while commercial and industrial customers would need to commit to a one-year program term.<sup>9</sup>

CenterPoint explained that it would contract with gas suppliers to obtain RNG from producers outside of Minnesota; the Company indicated that there were "operational and other challenges" of sourcing directly from producers in Minnesota that precluded a local contract prior to implementation of the proposed pilot. In reply comments, the Company stated that it is developing a tariff that would specify how producers of RNG in Minnesota could interconnect to CenterPoint's system in order to access local and national RNG markets, including CenterPoint's proposed pilot.

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<sup>5</sup> *Id.* at 9–10 ("RNG from dairy manure and food and green waste have the lowest carbon intensity values of any low-carbon fuel under the [LCFS] and therefore can generate the highest credit values.")

<sup>6</sup> Green tariffs allow consumers to designate that all or a portion of their energy consumption come from renewable sources. The utility purchases the renewable energy and passes through any additional costs to the participants. The Vermont Public Utility Commission and the Michigan Public Service Commission have recently approved similar RNG green tariffs.

<sup>7</sup> CenterPoint initially proposed a shareholder incentive of \$0.10 per therm of RNG sold through the proposed pilot, requested deferred accounting for any administrative and marketing costs not collected through the program charge, and proposed to charge all customers to include a small amount of RNG in its general gas supply. In response to stakeholder comments, CenterPoint modified the pilot to remove these proposals.

<sup>8</sup> CenterPoint estimated that RNG for the proposed pilot would cost approximately \$3.50/therm.

<sup>9</sup> CenterPoint initially proposed requiring a one-year commitment from residential customers and a minimum two-year commitment from commercial and industrial customers, but the Company withdrew that proposal following stakeholder comments.

The Petition discussed how CenterPoint proposes to track and verify its purchases to ensure that the RNG purchased for the pilot was produced as represented by the seller and that the environmental attributes are claimed only by the Company:

The Company will establish procedures to verify the authenticity of the RNG it purchases. Based on conversations with gas suppliers, large gas suppliers already have processes developed to obtain attestations or other verification from producers of RNG. The Company will require suppliers to provide documentation of the authenticity of RNG that CenterPoint Energy purchases and implement appropriate procedures to ensure that any renewable credits or attributes are sold exclusively to CenterPoint Energy along with the underlying gas. The Company will also limit its purchases to new sources of RNG.<sup>10</sup>

In reply comments, CenterPoint indicated that it is working with the Center for Resources Solutions and the Midwest Renewable Energy Tracking System to develop third-party tracking and verification systems for RNG.

### **III. Parties' Comments**

#### **A. Supporters of the Petition**

The following parties submitted comments recommending approval of the Petition: City of Minneapolis; Bioeconomy Coalition of Minnesota; Center for Resources Solutions; Coalition for Renewable Natural Gas; Energy Vision; Partnership on Waste and Energy; American Biogas Council; and Mississippi Watershed Management Organization.

Supporters advocated for the proposed pilot as a way to raise awareness of RNG as a clean energy alternative and create opportunities for future local RNG markets. Supporters argued that by increasing demand for RNG, the proposed pilot would improve access to financing and reliable revenue streams for potential RNG producers. This would benefit potential producers and the public by expanding the beneficial use of waste from landfills and livestock operations, and it could spur investment in technology to improve the RNG production. Supporters analogized the current status of RNG to the early days of the wind and solar energy industries when policy initiatives encouraged development of these energy alternatives, eventually leading to better technology and lower costs.

Some supporters emphasized the importance of defining the environmental and renewable attributes of any RNG purchased for the proposed pilot and encouraged CenterPoint to carefully examine the pilot's potential impacts on non-participants. Other supporters maintained that existing tracking and verification systems would be sufficient to authenticate and certify the RNG used for the pilot.

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<sup>10</sup> Petition, at 17.

## **B. Opponents of the Petition**

The following parties submitted comments recommending denial of the Petition: the Department; OAG; and Fresh Energy, Minnesota Center for Environmental Advocacy, and Sierra Club. The main criticisms included the cost of the proposed pilot and the lack of well-developed verification and tracking systems for non-vehicle uses of RNG.<sup>11</sup>

Opponents noted that RNG is roughly ten times more expensive than conventional natural gas and questioned how the Company would determine a reasonable price for RNG used for non-vehicle purposes. Opponents also argued that CenterPoint's reliance on RNG from outside Minnesota would mean that the proposed pilot would not benefit Minnesota RNG producers nor help divert local waste streams. Some opponents doubted whether RNG could ever represent a large enough portion of CenterPoint's gas-supply portfolio to make an impact, considering its high price and small potential supply. Opponents also compared the proposed pilot to RNG programs in Michigan and Vermont to critique CenterPoint's anticipated administrative and marketing costs.

Opponents stressed the importance of robust tracking and verification of all RNG purchased for the proposed pilot, including assessment of the carbon footprint of the purchased gas. Opponents explained that verifying RNG's authenticity can be difficult and argued that CenterPoint had not provided sufficient information about its plans for tracking and verifying its RNG purchases for the pilot. Opponents noted that it may be difficult to develop a tracking and verification system for non-vehicle RNG without policy mandates similar to renewable portfolio standards for electricity.

Finally, the Department raised questions about CenterPoint's use of compressed natural gas to power portions of its vehicle fleet and a CenterPoint affiliate's potential participation in the federal RFS. Opponents argued that more coordination with stakeholders was needed to address the issues with the proposed pilot and recommended further modifications if the Commission approves the proposed pilot.

## **IV. Commission Action**

The Commission appreciates CenterPoint's efforts to explore RNG's potential to meet customer demand for more sustainable options. However, there remain many unanswered questions about the proposed pilot, including how the RNG will be tracked and verified, whether local sources of RNG can be utilized, and how the scale of the program could grow beyond the pilot level. Thus, the Commission will deny the Petition without prejudice, for the reasons outlined below.

A transparent and rigorous tracking and verification system is critical to the success of any green tariff. The variety of sources for RNG make verification and tracking particularly important for the proposed pilot. Participants in the proposed pilot must know that the RNG purchased on their behalf is authentic, that the carbon intensity of the RNG has been accurately calculated, and that the environmental attributes have not been double-counted; only then can the participants be confident that their investment in the program has a positive environmental impact and is worth the higher cost. The Petition does not provide sufficient information about how CenterPoint

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<sup>11</sup> As explained in Section II above, CenterPoint made several changes in response to comments critiquing the proposed pilot.

would track and verify its RNG purchases for the proposed pilot, nor how it will calculate the carbon intensity of the RNG. The Commission encourages the Company to continue working with stakeholders to develop tracking and verification systems for non-vehicle RNG.

The Commission agrees with the Company that a key potential benefit of RNG is the repurposing of waste from landfills, livestock operations, wastewater treatment, and other facilities. If these businesses become RNG producers, they may benefit through access to additional revenue and avoided waste-disposal costs. Local communities may also benefit through increased economic activity and reduced waste. One consideration for future RNG pilot programs is whether local producers could supply RNG for the pilot. The Commission looks forward to CenterPoint's interconnection tariff as a possible step to allow for Minnesota-produced RNG.

In general, the purpose of a pilot program is to test a new idea on a small scale in order to learn of any potential drawbacks or pitfalls in a relatively low-risk manner. In other words, utilities undertake pilots with a view to a larger-scale application. Thus, any future RNG pilot proposal from the Company should include a discussion of how the pilot could be scaled up to have a larger impact.

The Commission supports facilitating Minnesota-produced RNG and encourages CenterPoint to work with stakeholders to address the issues discussed above to further the development of a modified pilot program.

## ORDER

1. The Commission denies without prejudice the Company's petition to introduce a renewable natural gas pilot program, but encourages the Company to continue working with stakeholders to address the issues described above to further the development of a modified pilot program.
2. This order shall become effective immediately.

BY ORDER OF THE COMMISSION



Daniel P. Wolf  
Executive Secretary

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