

HF239 - 0 - Natural Gas Innovation Act

Chief Author: **Zack Stephenson**  
 Committee: **Climate And Energy Finance And Policy**  
 Date Completed: **2/23/2021 9:08:53 PM**  
 Lead Agency: **Public Utilities Commission**  
 Other Agencies:  
     Commerce Dept

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
<b>Commerce Dept</b>	-	-	-	-	-	-
<b>General Fund</b>	-	-	-	-	-	-
<b>Public Utilities Commission</b>	-	-	-	-	-	-
<b>General Fund</b>	-	-	-	-	-	-
<b>State Total</b>						
<b>General Fund</b>	-	-	-	-	-	-
	<b>Total</b>	-	-	-	-	-
	<b>Biennial Total</b>			-		-

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
	FY2021	FY2022	FY2023	FY2024	FY2025	
Commerce Dept	-	-	-	-	-	
General Fund	-	1.5	1.5	1.5	1.5	
Public Utilities Commission	-	-	-	-	-	
General Fund	-	1	1	.5	.5	
	<b>Total</b>	-	<b>2.5</b>	<b>2.5</b>	<b>2</b>	<b>2</b>

**Lead LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>	<b>Biennium</b>			<b>Biennium</b>	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
Commerce Dept	-	-	-	-	-
General Fund	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
General Fund	-	-	-	-	-
<b>Total</b>	-	-	-	-	-
<b>Biennial Total</b>			-		-
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>					
Commerce Dept	-	-	-	-	-
General Fund	-	189	189	189	189
Public Utilities Commission	-	-	-	-	-
General Fund	-	112	112	56	56
<b>Total</b>	-	<b>301</b>	<b>301</b>	<b>245</b>	<b>245</b>
<b>Biennial Total</b>			<b>602</b>		<b>490</b>
<b>2 - Revenues, Transfers In*</b>					
Commerce Dept	-	-	-	-	-
General Fund	-	189	189	189	189
Public Utilities Commission	-	-	-	-	-
General Fund	-	112	112	56	56
<b>Total</b>	-	<b>301</b>	<b>301</b>	<b>245</b>	<b>245</b>
<b>Biennial Total</b>			<b>602</b>		<b>490</b>

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State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
<b>Local Fiscal Impact</b>		
		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-
<b>Biennial Total</b>			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	1	1	.5	.5
<b>Total</b>	-	1	1	.5	.5

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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**State Cost (Savings) Calculation Details**

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\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		Biennium			Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025	
General Fund	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-
<b>Biennial Total</b>			-			-
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund	-	112	112	56	56	
<b>Total</b>	-	<b>112</b>	<b>112</b>	<b>56</b>	<b>56</b>	
<b>Biennial Total</b>			<b>224</b>			<b>112</b>
<b>2 - Revenues, Transfers In*</b>						
General Fund	-	112	112	56	56	
<b>Total</b>	-	<b>112</b>	<b>112</b>	<b>56</b>	<b>56</b>	
<b>Biennial Total</b>			<b>224</b>			<b>112</b>

**Bill Description**

HF 239-0, Natural Gas Innovation Act, adds all new language to Minnesota Statutes, Chapter 216B. The bill allows natural gas public utilities to file innovation plans with the Public Utilities Commission (PUC). The plans are to advance the state's renewable energy and greenhouse gas reduction goals established in sections 216C.05 and 216H.02.

Section 1 is the title, "Natural Gas Innovation Act."

Section 2 contains the rest of the language of the Act, "natural gas utility innovation plans."

Subd. 1: **Definitions**, Establishes definitions for terms used in the bill, including that "Innovative resource" means biogas, renewable natural gas, power-to-hydrogen, power-to-ammonia, carbon capture and utilization, strategic electrification, district energy systems, and energy efficiency.

Subd. 2: **Innovation Plans:**

- Requires the plans to include the total greenhouse gas emissions the natural gas utility expects to reduce or avoid, and estimates of how emissions from use of the innovative resources compare to total emissions from natural gas use by its customers in 2005.
- The PUC must approve, modify, or deny the plan within 12 months of the date it is filed.
- The PUC is prohibited from approving an innovation plan unless it makes a number of specific findings, including that the plan promotes the use of renewable energy resources and reduces or avoids greenhouse gas emissions; the innovative resources have a lower lifecycle greenhouse gas intensity than conventional geologic natural gas; reasonable systems are used to track and verify the environmental attributes of the innovative resources, and the costs expected to be incurred are reasonable compared to other innovative resources the utility could deploy.
- Prudently incurred costs are recoverable either via the utility's purchased gas adjustment, in the next general rate case, or via annual adjustments.
- Utilities must file annual reports with the PUC and may propose modifications to pilot programs in the plan. In evaluating the annual report, the PUC may require that pilot and permanent programs be continued, modified, or discontinued, and require a new or modified plan to account for changed circumstances.

- Once a utility has filed a plan, it must file a new innovative plan at least every 5 years, or more frequently if the PUC so directs.

Subd. 3: **Limitations on utility customer costs.** The PUC may not approve annual recovery of incremental costs for innovative resources in excess of 5 percent of the natural gas utility's total annual revenue requirement, as determined in the natural gas utility's most recent general rate case, plus up to an additional 2.5 percent annually for the purchase of renewable natural gas produced from (1) food waste diverted from a landfill by an organics recycling program; (2) community wastewater treatment; or (3) an organic mixture including at least 15 percent sustainably harvested native prairie grasses. Excludes transportation customers for bearing any costs.

Subd. 4: **Innovative resources procured outside of an innovation plan.** Provides that without filing an innovation plan, natural gas utilities may propose, and the PUC may approve, cost recovery for a PUC-approved green tariff program or innovative resources procured at a cost within 5% of average index prices for conventional natural gas. An approved green-tariff program must include provisions to ensure reasonable systems are used to track and verify the environmental attributes of innovative resources included in the program.

Subd. 5, 6, and 7 set out specific programs that must be in the first plan filed by a natural gas utility with at least 800,000 customer: **Thermal energy leadership challenge, Innovative resources for very high-heat industrial processes and Electric cold climate air-source heat pumps**, respectively.

### **Assumptions**

Natural gas utilities are not required, and do not currently, file innovation plans with the PUC. Therefore, there is no existing process for handling such plans, and many of the substantive issues will be new to the PUC and the stakeholders who participate in PUC dockets.

There are five investor-owned natural gas utilities in Minnesota that would be eligible to file innovation plans. The PUC assumes that CenterPoint Energy (CPE) would be the first utility to file, given that they have been actively pursuing this bill and previously filed a pilot renewable natural gas program with the PUC (which was rejected, but without prejudice to refiling with additional information and plans). CPE is the only natural gas utility with more than 800,000 customers, so would be the only utility required to file the specific programs under subdivisions 5, 6, and 7.

Five percent of CPE's revenue requirement in its most recent rate case, the cap on incremental cost under this bill, would be approximately \$45 million. When the additional two and one half percent that is also allowed for certain additional types of programs are added to that, the total annual cap is approximately \$64.5. Because of the potential for an impact on customer rates, the PUC expects significant interest from stakeholders in plan proceedings before the Commission under this bill.

The PUC assumes that at least 3 of the 4 remaining natural gas utilities will file plans in the next two years after the PUC acts on CPE's plan.

Given the issues of first impression and 12-month time period for a proceeding, the PUC will need additional analyst staff to implement the bill. The PUC assumes that it will need 1 FTE rates analyst 3 for FY22 and FY23 to establish procedures for processing and reviewing these dockets. The CPE filing, which we expect first in FY22, will be the most complex, given the size of the utility and that certain parts of the bill apply only to CPE. The PUC will need 0.5 FTE on an on-going basis to review the filings from other utilities, review the required annual reports, and to review the new filings that will be made at least every five years.

Current bill language does not appropriate funds to the Commission. If the additional funds were to be appropriated, the funds would be recovered through an assessment on CPE and/or any other utility who files a plan.

### **Expenditure and/or Revenue Formula**

Salary	FY22	FY23	FY24	FY25
Rates Analyst 3	70,929	70,929	35,465	35,465
Fringe	21,279	21,279	10,639	10,639
Employee Costs	19,368	19,368	9,684	9,684
TOTAL Cost	111,576	111,576	55,788	55,788

**Long-Term Fiscal Considerations**

These costs are ongoing.

**Local Fiscal Impact**

N/A

**References/Sources**

N/A

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**HF239 - 0 - Natural Gas Innovation Act**

Chief Author: **Zack Stephenson**  
 Committee: **Climate And Energy Finance And Policy**  
 Date Completed: **2/23/2021 9:08:53 PM**  
 Agency: **Commerce Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
<b>Local Fiscal Impact</b>		
		X

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State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-
<b>Biennial Total</b>			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	1.5	1.5	1.5	1.5
<b>Total</b>	-	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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**State Cost (Savings) Calculation Details**

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\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		Biennium			Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
General Fund		-	-	-	-	-
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund		-	189	189	189	189
<b>Total</b>		-	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Biennial Total</b>				<b>378</b>		<b>378</b>
<b>2 - Revenues, Transfers In*</b>						
General Fund		-	189	189	189	189
<b>Total</b>		-	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Biennial Total</b>				<b>378</b>		<b>378</b>

**Bill Description**

HF239-0, also known as the Natural Gas Innovation Act, proposes the following by establishing a new section of statute:

Section 1:

Establishes the title and effective date of the codified legislation.

Section 2 [216B.2427] Natural Gas Utility Innovation Plans:

Subdivision 1 establishes definitions for eligible technologies and incremental cost terms under a natural gas utility innovation plan.

Subdivision 2 establishes the criteria that must be included in a plan that is filed with the Commission; including inclusion of resources that meet state goals for greenhouse gas emission reduction targets, expected and estimated emissions reductions from the plan, inclusion of any pilot program proposals or existing pilots, a cost-effectiveness evaluation of resources included in the plan, inclusion of a third-party analysis for avoided emissions, a proposal for lifecycle greenhouse gas accounting methodology, use of different types of agricultural or waste products, descriptions of local job impacts, etc. Additionally, this subdivision includes criteria for Commission approval. These conditions require the Commission to make a finding that a plan promotes renewable energy resources, reasonable systems are used to track and verify performance, costs incurred in pursuit of the plan are reasonable, greenhouse gas emission estimates are expected to contribute to state policy goals, cost recovery limitations, and reporting requirements. This subdivision also allows a utility file innovation plans at any time after the effective date and requires that they are filed no less often than every 5 years.

Subdivision 3 establishes limitations on utility customer costs including caps on plan expenditures for innovative resources and an additional allowance for resources specifically using agricultural or waste products. There is an exemption provided for all transportation customers of the utility.

Subdivision 4 allows for the utility to acquire innovative resources outside of an innovation plan if the acquisition meets certain conditions. This subdivision allows for the Commission to approve cost recovery for a resource that is part of a green-tariff program or that falls under 5% of market prices.

Subdivisions 5, 6 and 7 include specific pilot programs that are required to be included in the first utility innovation plans for a utility that has more than 800,000 customers. These pilots include a thermal energy leadership program, an innovative resources for industrial processes program, and a program for cold climate air source heat-pump programs.



**Assumptions**

The Department assumes that all rate-regulated natural gas utilities can file natural gas utility innovation plans. There are five natural gas utilities that would potentially file plans. Additionally, the Department assumes these utilities would file plans at least every five years per the requirements of the proposed language. A utility must file an innovation plan every five years but may choose to file more often. The Department, through its existing function representing the public interest before the Public Utilities Commission, would perform economic and rates analysis in accordance with the proposed language for each of the innovation plans on an ongoing basis. Additionally, the Department would perform its analytic duties and represent the public interest proceedings related to resource purchases and cost recovery petitions that occur outside of the innovation plans as allowed under subdivision 4. Finally, there are additional analytical requirements for a utility that has more than 800,000 customers that would file the pilot programs under subdivisions 5, 6 and 7. The Department assumes this work will be ongoing in nature.

To meet the requirements of the proposed language and based on the above assumptions, the Department assumes it will need 1.5 FTE high level (public utilities rate analyst 4) to execute these duties. The analysis that be required will include evaluating assumptions about emissions reductions, reasonableness of costs, impacts to ratepayers, verification of performance, review of reporting requirements, cost and benefits evaluations of pilot programs, and financial analysis associated with future cost recovery petitions as a result of the innovation plans.

**Expenditure and/or Revenue Formula**

1.5 (PURA 4) FTE on an ongoing basis. The revenue needed to support this fiscal impact will be assessed back to the utilities through existing assessment mechanisms. It is general fund neutral.

			FY22	FY23	FY24
Salary			114,413	114,413	114,413
Fringe			34,324	34,324	34,324
Other Personnel Related Costs			39,777	39,777	39,777
			188,513	188,513	188,513

**Long-Term Fiscal Considerations**

These costs are ongoing.

**Local Fiscal Impact**

**References/Sources**

**Agency Contact:**

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