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Senate

State of Minnesota

S.F. No. 421 – Natural Gas Innovation Act (The First Engrossment)

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Section 1. Citation. Provides a title for the act to be known as the Natural Gas Innovation Act**.**

Section 2. Natural Gas Utility Innovation Plans.

Subdivision 1. Definitions. Provides definitions for terms including "innovative resource," "biogas," "carbon capture and utilization," "carbon-free resource," "district energy," "energy efficiency," "lifecycle greenhouse gas emissions," "natural gas utility," "power-to-ammonia," "power-to-hydrogen," "renewable natural gas," "renewable gaseous fuel," "strategic electronification," and "total increment cost."

Subdivision 2. Innovation plans. Paragraph (a) allows a natural gas utility to file an innovation plan with the Public Utilities Commission (PUC). Requires an innovation plan to include the recommended innovative resources the utility plans to implement to advance the state's renewable energy and greenhouse gas reduction goals. Lists other elements that must be included in a natural gas utility's recommended innovation plan.

Paragraph (b) requires a natural gas utility to provide forecasted total incremental costs and lifecycle greenhouse gas emissions for the specified sets of pilots.

Paragraph (c) provides considerations for the commission when making their determination about approval of an innovation plan.

Paragraph (d) provides that the utility bears the burden to prove actual total incremental costs to implement the innovation plan were reasonable. Provides how prudently incurred costs incurred pursuant to an approved plan and prudently incurred costs in obtaining the third-party analysis may be recovered.

Paragraph (e) requires the PUC to establish cost-effectiveness objectives upon approval of a utility's innovation plan.

Paragraph (f) requires a utility to submit annual reports to the PUC regarding the work completed by the utility pursuant to an approved innovation plan. Allows a utility to propose modifications to pilot programs in the annual report.

Paragraph (g) specifies that an innovation plan is in effect for five years. Requires a utility to file a new innovation plan within four years.

Paragraph (h) allows a utility to file an alternative resource plan after the section becomes effective.

Paragraph (i) provides what must be included in an analysis or estimate of lifecycle greenhouse gas emissions reductions, avoidance, or intensity for purposes of the section and the commission's lifecycle carbon accounting framework and cost-benefit test for innovative resources.

Subdivision 3. Limitations on utility customer costs. Provides the limitations on what a natural gas utility may recover for annual total incremental costs under an innovation plan. **Paragraph (a)** specifies what is allowed for recovery in the first innovation plan submitted by a natural gas utility. **Paragraphs (b)** and **(c)** lay out what is allowed in subsequent innovation plans with regard to recovery of annual total incremental costs as follows:

Initial innovation plan: the lesser of 1.75% of the utility's gross operating revenues from service provided in the state at the time of plan filing or $20 per nonexempt customer based on the proposed annual total incremental costs for each year of the plan divided by the total number of nonexempt utility customers. Allows the PUC to approve an additional annual recovery up to the lesser of an additional .75% or $5 per customer for the purchase of certain renewable natural gas (produced from food waste diverted from a landfill, wastewater treatment, or an organic mixture).

Subsequent innovation plans: the lesser of 2.75% of the utility's gross operating revenues from service provided in the state at the time of plan filing or $35 per nonexempt customer based on the proposed annual total incremental costs for each year of the plan divided by the total number of nonexempt utility customers. Allows the PUC to approve an additional annual recovery up to the lesser of an additional .75% or $10 per customer for the purchase of certain renewable natural gas (produced from food waste diverted from a landfill, wastewater treatment, or an organic mixture).

Subsequent innovation plans to paragraph (b): the lesser of 4% of the utility's gross operating revenues from service provided in the state at the time of plan filing or $50 per nonexempt customer based on the proposed annual total incremental costs for each year of the plan divided by the total number of nonexempt utility customers. Allows the PUC to approve an additional annual recovery up to the lesser of an additional 1.5% or $20 per customer for the purchase of certain renewable natural gas (produced from food waste diverted from a landfill, wastewater treatment, or an organic mixture).

Paragraph (d) exempts large customer facilities that are exempt from utility's conservation improvement program from the utility's innovation plan offerings and bearing any cost for implementation of an innovation plan, unless the facility chooses to be included.

Paragraph (e) allows a natural gas utility to include spending and investments annually up to ten percent of the proposed total incremental costs related to innovative plan pilots.

Subdivision 4. Innovative resources procured outside of an innovation plan. Allows a natural gas utility to propose and the PUC to approve, without filing an innovation plan, cost recovery for innovative resources acquired to satisfy a commission-approved green tariff program and certain utility expenditures for innovative resources.

Subdivision 5. Thermal energy leadership challenge. Requires the first innovation plan filed by a natural gas utility with more than 800,000 customers to include a pilot thermal energy leadership challenge for small- and medium-sized businesses.

Subdivision 6. Innovative resources for very high-heat industrial processes. Requires the first innovation plan filed by a natural gas utility with more than 800,000 customers to include a pilot program that will provide innovative resources for hard-to-electrify industrial processes.

Subdivision 7. Electric cold climate air-source heat pumps. Requires the first innovation plan filed by a natural gas utility with more than 800,000 customers to include a pilot program that facilitates deep energy retrofits and the installation of residential cold-climate electric air-source heat pumps.

Section 3. Public Utilities Commission Lifecycle Carbon Accounting Framework and Cost-Benefit Test for Innovative Resources. Requires the PUC by June 1, 2022, to issue by order (1) a general framework for carbon accounting for innovative resources according to their lifecycle greenhouse gas intensities; and (2) a cost-benefit analytic framework to compare the cost-effectiveness of innovative resources and innovation plans. Allows the PUC to update the frameworks as necessary.

Sec. 4. Effective date. Provides an effective date for sections 1 and 3 as the day following final enactment and for section an effective date of June 1, 2022.