

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 27, 2019**

REGULAR X CONSENT _____ EFFECTIVE DATE August 28, 2019

DATE: August 14, 2019

TO: Public Utility Commission

FROM: Rose Anderson

THROUGH: Jason Eisdorfer and JP Batmale **SIGNED**

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: Request to launch investigation into the use of NW Natural's Renewable Natural Gas evaluation methodology.

STAFF RECOMMENDATION:

The Commission should open an investigation into the appropriate methodology for determining the cost-effectiveness of Renewable Natural Gas (RNG) resources for NW Natural customers.

DISCUSSION:

Issue

Whether the Commission should open an investigation into the appropriate methodology for determining the cost-effectiveness of Renewable Natural Gas (RNG) resources for NW Natural (NWN or Company) customers.

Applicable Rule or Law

Under ORS 756.515(1), the Commission may open an investigation when it "believes that any rate may be unreasonable or unjustly discriminatory, or that any service is unsafe or inadequate, or is not afforded, or that an investigation of any matter relating to any public utility or telecommunications utility or other person shall be made, or relating to any person to determine if such person is subject to the commission's regulatory jurisdiction."

In the acknowledgement order for NW Natural's 2018 IRP, Docket LC 71, Order No. 19-073, the Commission acknowledged a revised action item that included NW Natural's participation in "an investigation into the use of the Company's proposed methodology to evaluate renewable natural gas (RNG) cost effectiveness."

Analysis

Background

In NW Natural's 2018 Integrated Resource Plan (IRP), the Company requested acknowledgement of its methodology for determining the cost-effectiveness of bringing RNG resources to customers. The methodology, described in Appendix H to the 2018 IRP, utilized an avoided cost methodology to assess the ratepayer costs and benefits of NWN-owned RNG projects and third-party RNG contracts.

Staff's final comments recommended launching an investigation into the use of the proposed methodology, rather than acknowledging the RNG methodology through the IRP process. An investigation would provide opportunity for discussion, evaluation, and collaboration that would not have been possible in the IRP's limited timeframe. In Order No. 19-073, the Commission adopted Staff's recommendations as follows:

Staff Recommendation No. 15

- (a) As part of an RNG investigation, Staff recommends NWN provide modeling inputs, outputs, and other relevant workpapers to parties in the investigation docket at least 30 days before signing any RNG contract or initiating any RNG project.
- (b) NW Natural will participate in an investigation into the use of the Company's proposed methodology to evaluate renewable natural gas (RNG) cost effectiveness. Until the investigation is complete, NW Natural will procure RNG deemed cost-effective through the methodology in revised Appendix H, up to a 4.5 million therm annual limit on total delivery, for up to ten years (up to 45 million therms in total). The investigation will review the appropriate process for procuring cost-effective RNG resources that do not align with the timeline of acknowledgement in an IRP as well as review the 4.5 million therm annual limit on cost-effective RNG procurement. If NW Natural seeks to procure additional cost-effective RNG before the conclusion of the investigation, it will seek acknowledgment in an IRP update. If the investigation results in the 4.5 million therm annual limit being adjusted or eliminated, or in other

changes, the Commission may direct NW Natural to file an update to reflect its findings.

This investigation is an opportunity to more carefully vet the modeling process and assumptions used in the proposed methodology, and to arrive at clear directions for whether/how the Company should use it to procure any additional cost-effective RNG outside of the IRP process, after reaching the current 45 million therm limit. The investigation should also consider any interactions between NWN's RNG evaluation methodology and Senate Bill 98 (SB 98), which was signed by the Governor in 2019. SB 98 requires the Commission to adopt rules for participating natural gas companies to meet annual RNG targets, as long as incremental costs remain beneath a five percent cost cap.

Next Steps

Staff will work with NW Natural and stakeholders to develop a scope and timeline for the investigation and report to the Commission in a public meeting memo by September 24, 2019.

Conclusion

The Commission adopted Staff's recommendation to launch an investigation into NWN's RNG evaluation methodology in Order No. 19-073. Staff requests the opening of this investigation docket to begin the conversation about NWN's RNG evaluation methodology and whether/how it should be used to procure additional RNG outside of the IRP process.

PROPOSED COMMISSION MOTION:

Open an investigation into the appropriate methodology for determining the cost-effectiveness of Renewable Natural Gas (RNG) resources for NW Natural customers.