

August 14, 2020

## VIA ELECTRONIC FILING

Public Utility Commission of Oregon  
Attention: Filing Center  
201 High Street SE, Suite 100  
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Salem, Oregon 97308-1088

### **Re: UM 2030—Investigation Into the Use of Northwest Natural's Renewable Natural Gas Evaluation Methodology—Phase Two Reply Comments**

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith its reply comments to Parties' Phase Two comments filed August 3, 2020, in docket UM 2030. This docket provides an opportunity for stakeholders to examine NW Natural's methodology for evaluating renewable natural gas (RNG) opportunities that was included by the Company as Appendix H in its 2018 Integrated Resource Plan (IRP). Phase Two of this docket provides stakeholders the opportunity to review NW Natural's methodology as applied to a real RNG project.

NW Natural appreciates the Phase Two comments received from Public Utility Commission of Oregon Staff (Staff) and the Alliance of Western Energy Consumers (AWEC) and looks forward to continuing our work with all Parties to deliver renewable natural gas into the gas system for the benefit of customers. Below are NW Natural's reply to comments received from Staff and AWEC:

#### Phase Two Reply Comments - Staff:

Staff found NW Natural's workpapers demonstrate that the methodology used is generally reasonable and fit for the purpose of evaluating an RNG project, subject to continuing review of input accuracy. Staff's one comment asked NW Natural to confirm that the weighted average cost of capital (WACC) from the most recent general rate case is used as an input for the discount rate in the model.

#### NW Natural Response:

The Company's RNG project cost of service model, as submitted for review in this docket, intends to calculate the annual levelized resource cost and present value of revenue requirement (PVRR) using a discount rate equal to the real inflation adjusted after-tax marginal weighted average cost of capital (WACC) rate as approved in the Company's most recent Oregon and Washington general rate cases. Application of the WACC for

resource cost evaluations is given per Guideline 1 specified in Order No. 07-002. For RNG projects that serve both states, this discount rate is further weighted using a state allocation factor based on firm sales volumes. This treatment is consistent with the discount rate used for resource evaluation in the Company's IRP. In reviewing the model in response to this request, the Company did realize that its PVRR calculation referenced cells that produced a result slightly inconsistent with this approach. This error has been corrected to ensure consistency of approach.

#### Phase Two Reply Comments - AWEC:

AWEC supports the use of the RNG Methodology but noted that it does not evaluate the many different deal structures available for a particular project. Rather it is intended to compare a project to traditional gas supply. In addition, AWEC questions the need and purpose of acknowledging the methodology to determine if a project is in the best interest of customers and structured in a fair and balanced way. AWEC goes on to suggest that each RNG project should be evaluated on a case-by-case manner, although acknowledging that this could lead to lost cost-effective RNG procurement opportunities for customers. In such cases, AWEC suggests the Company move forward with projects and wait for a later prudence review.

#### NW Natural Response:

NW Natural agrees with AWEC that there are many different structures under which acquisition of RNG could occur. The Company will always endeavor to obtain the most optimal terms and conditions for its customers. In situations where NW Natural is responding to an RNG project's request for bids, NW Natural is generally unable to dictate the bid process or ownership structure. Likewise, in negotiations, there is a certain give-and-take that is inherent in each transaction.

When the Company issues a request for proposals for RNG, as it did on July 22, 2020, there is more flexibility in what the Company can ask from suppliers. However, if the terms and conditions required by NW Natural are too restrictive, there will be a paucity of responses. Flexibility in negotiations is key in both cases. Additionally, structures evolve as a project is better understood and parties become more specific about the needs they have or the needs of their financial backers. It's very common that an initial structure is very different from the final structure reflected in definitive agreements.

NW Natural finds that Commission acknowledgment of its RNG evaluation methodology would provide a consistent framework to assist Staff and stakeholders in reviewing the Company's RNG projects. The Commission has previously approved methodology/calculation frameworks for a number of reasons. For example, calculating avoided costs for Qualifying Facilities has been the subject of multiple dockets and the IRP guidelines have directions on methods to use in the development of long-term plans. The Company notes that Commission approval of a methodology is not pre-authorization; indeed, the determination of prudence is always subject to Commission approval.

In addition, approval of a methodology will demonstrate the Commission believes this is an appropriate way to value RNG, given what is known now. Similar to methods associated with qualifying facility avoided costs, evaluating energy efficiency, and other methods as approved by the Commission it will show that the appropriate factors are being considered, and evaluated. As such, NW Natural recommends approval of the methodology to evaluate RNG resources.

Lastly, OAR 860-150-0200 requires NW Natural to perform a cost-effectiveness calculation for RNG it acquires. Thus, having this methodology acknowledged by the Commission is not only consistent with OAR 860-150-0200(1)(a), but also will ensure that NW Natural can perform the cost-effectiveness calculation without presenting each RNG project on a case-by-case basis in the IRP process. As AWEC states, having each project go through the IRP process “is too slow and may lead to lost cost-effective RNG procurement opportunities for NW Natural’s customers.”

NW Natural appreciates the review and comments from Staff and stakeholders and also the opportunity to provide these reply comments.

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Sincerely,

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