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March 16, 2020

VIA ELECTRONIC FILING

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

Re: UM 2030—Investigation Into the Use of Northwest Natural's Renewable Natural Gas Evaluation Methodology—Reply Comments to Phase One (Revised Appendix H in NWN's 2018 IRP)

Northwest Natural Gas Company, dba NW Natural (Company), files herewith its reply comments to Parties' Phase One comments filed February 18, 2020, related to Appendix H of NW Natural's 2018 Integrated Resource Plan (IRP). Appendix H is NW Natural's methodology for evaluating renewable natural gas opportunities.

NW Natural appreciates the Phase One comments received from Public Utility Commission of Oregon (Commission) 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. Below are NW Natural's reply comments to Staff and then AWEC:

NW Natural response comments to Staff:

NW Natural would like to thank staff for their continued engagement and collaborative work with NW Natural and other stakeholders through this investigation. In their comments, Staff raises an exception to NWN's approach to modeling the benefits associated with renewable natural gas (RNG), specifically, the distribution value with on-system resources. In their comments Staff notes:

> *"Staff does not take issue with the possible benefit of an on-system RNG resource which might inject gas on the correct side of a bottleneck, on the peak hour, and thus support pressurization, which might delay or avoid system reinforcement projects. However, Staff is not convinced that, separate from this circumstance, there is a distribution system capacity cost benefit to RNG. A unit of conventional gas saved due to energy efficiency is not consumed and thus does not tax the gas distribution system. However, this logic (and benefit) fails to hold for RNG: a unit of RNG may displace a unit of conventional gas, but it is still consumed, and thus does*

> *tax the gas distribution system. Staff acknowledges this dynamic is different from that of the gas transportation system, where an on-system RNG resource does avoid the need to tax the gas transportation system with some units of gas, thus rendering avoided associated transportation costs."*

NW Natural recognizes Staff's concern, but disagrees with the premise that valuing benefits associated with RNG is inherently different to valuing energy efficiency. The key distinction regarding distribution system capacity costs is *where* there is a constraint, any of the options to help relieve that constraint – be they traditional pipeline related options or non-pipeline solutions like demand response (GeoDR), energy efficiency targeting peak loads (GeoTEE), or on-system supply like RNG (GeoRNG) – must *either* reduce *peak* load or increase the ability of the system to deliver on peak *in the constrained area*. For instance, when energy efficiency reduces *peak* load within a constrained area – and only when it reduces *peak* load in the constrained area – does it avoid near term distribution system costs. The gas that would have been consumed during peak periods, but was saved via energy efficiency, is now left in the pipeline to serve *peak* requirements for other customers in the constrained area. Similarly, additional gas (in this case RNG) injected onto the system within the same area also serves this capacity need. In this sense there is real value to the distribution system for having on-system pressure support from RNG projects in the same manner as other distributed resources, such as demand side management programs.

In fact, peak savings from energy efficiency in some areas avoid vastly different near-term costs than peak savings from energy efficiency in other areas, and this is also true for RNG injections directly onto the distribution system and other distribution capacity resources as well. From a practical perspective, calculating site-specific distribution system avoided costs are challenging and bring up larger questions about fairness and equity across customers. In reality, the distribution system value via avoided costs provided from energy efficiency is different for nearly every customer NW Natural serves. Larger homes that consume more gas would have a higher avoided distribution capacity value and homes in non-constrained areas would have no near-term avoided distribution capacity value.[1]

However, over the long term, peak savings from energy efficiency, demand response and system support from on-system supply resources from all areas of the distribution system are likely to avoid distribution system capacity investments. In order to calculate site-specific avoided distribution capacity costs to be applied to any distribution system capacity resource would require understanding the counterfactual. In other words, what system reinforcement projects would be needed, when they would be needed, and how much they would cost over a 20-30-year planning horizon would be required to make this site-specific avoided cost estimate. Forecasting this counterfactual is very difficult to achieve with a

[1] There are still other components of avoided costs (e.g., avoided commodity costs) that would be applied to customers in non-constrained areas.

reasonable degree of certainty and would lead to outcomes that many would consider unfair (for example different energy efficiency incentives for customers across the state).

Presumably this is the reason energy efficiency cost-effectiveness evaluation uses a statewide average for these avoided distribution system costs to evaluate energy efficiency programs. NW Natural believes this approach makes sense for energy efficiency and that applying IRP Guideline 1(a) is also appropriate, meaning a statewide average for distribution system costs avoided should be applied to all distribution system capacity resources, including other non-energy efficiency and non-pipeline solutions, such as on-system RNG.

NW Natural reply comments to AWEC:

NW Natural thanks AWEC for the feedback and comments in regards to the revised Appendix H and for their continued involvement in UM 2030. It is the intention of the revised Appendix H methodology to evaluate resources based on the "all-in" costs of delivering gas to customers accounting for any benefits on-system resources would provide.

AWEC has stated the following concerns:

> *"While AWEC supports having a framework or methodology to evaluate RNG resources, this should not be confused with pre-approval of a project or an assumption that a project is prudent just because the methodology was used to evaluate the project."*

NW Natural recognizes AWEC's concern about preapproval and understands that all projects, RNG or otherwise, are subject to prudence review. NW Natural appreciates the feedback from AWEC and our understanding of prudency aligns with AWEC's comments.

Additionally, AWEC raised concerns about future all-in costs:

> *"AWEC agrees with NW Natural that considering only the commodity costs of different resources is too limiting, and consideration of the "all in" costs is more appropriate. But the "all in" costs should be limited to current costs and not forecasted or assumed future costs. AWEC supports the frequency of updates to the evaluation methodology NW Natural proposes."*

It is unclear specifically what AWEC would consider forecasted or assumed costs; NW Natural looks forward to working with AWEC to understand its concerns. The Company believes it is necessary and commonplace to use forecasts when making decisions on resources that will be recovered in customer rates in future years. For example, if a tax had recently been adopted that would increase the price of natural gas by $1/MMBtu starting in 2022, NW Natural believes it appropriate to include this tax in resource evaluation for years

2022 and beyond in its planning. While it is not usually the case that future conditions are known with certainty as in this example, the idea is that future expectations should be included in resource evaluation. This applies to uncertain markets and policies, and is the reason the use of forecasts is standard for evaluating resources in IRPs. For example, NW Natural uses a gas price forecast when evaluating long term resources decisions. The forecast of expected gas prices is trending upward from current gas prices. NW Natural does not think using current prices would be appropriate for evaluation of a long-term resource. Additionally, IRP Guideline 8 (a) states:

> *"The utility should construct a base-case scenario to reflect what it considers to be the most likely regulatory compliance future for carbon dioxide (CO2), nitrogen oxides, sulfur oxides, and mercury emissions. The utility also should develop several compliance scenarios ranging from the present CO2 regulatory level to the upper reaches of credible proposals by governing entities."*[2]

This guidance requires NW Natural to assess and forecast the utilities best estimate of compliance costs going into the future, even though no compliance cost currently exists. The methodology and assumptions for forecasting the various costs are presented through the IRP process for stakeholders to provide comments and feedback. These assumptions are the basis of the IRP Action Plan that is acknowledged by the Commission, and as such should be used in evaluating all resources, including RNG.

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Sincerely,

/s/ Rebecca T. Brown

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[2] See Order No.07-047