



250 SW Taylor Street
Portland, OR 97204

503-226-4211
nwnatural.com

August 30, 2023

VIA ELECTRONIC FILING

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

**Re: UG 462 – NW Natural’s Renewable Natural Gas Adjustment Mechanism –
Dakota City; Joint Testimony in Support of Comprehensive Stipulation**

Northwest Natural Gas Company, dba NW Natural, encloses for filing the Joint Testimony of NW Natural, Public Utility Commission of Oregon Staff, Oregon Citizens' Utility Board, and the Alliance of Western Energy Consumers in support of the comprehensive stipulation for the above-mentioned proceeding.

Please note, the Joint Testimony contains confidential information that represents business sensitive, non-public information under General Protective Order No. 23-063.

Please address correspondence on this matter to me with copies to the following:

eFiling
Rates & Regulatory Affairs
NW Natural
250 SW Taylor Street
Portland, Oregon 97204
Phone: (503) 610-7330
Fax: (503) 220-2579
eFiling@nwnatural.com

If you have any questions, please contact me.

Sincerely,

/s/ Ryan Sigurdson

Ryan Sigurdson
Regulatory Attorney (OSB #201722)
NW Natural

Enclosure

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 462

Joint Testimony in Support of Comprehensive Stipulation

Stipulating Parties: Northwest Natural Gas Company d/b/a NW Natural,
Public Utility Commission of Oregon Staff, the Oregon Citizens' Utility
Board, and the Alliance of Western Energy Consumers

NWN-STAFF-CUB-AWEC EXHIBIT 100

**Joint Testimony of Anna Chittum, Ted Drennan, William Gehrke,
and Bradley G. Mullins**

REDACTED

August 30, 2023

TABLE OF CONTENTS

I. Introduction and Summary 1

II. Terms of Stipulation 6

 a) Prudence 6

 b) Cost Sharing 8

 c) Rate Spread..... 10

 d) Tax..... 12

 e) Workshops..... 13

 f) Conditions Regarding NW Natural’s Dakota City Affiliates 14

III. Stipulating Parties’ Support for Stipulation 17

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Who is sponsoring this testimony?**

3 A. This testimony is sponsored jointly by NW Natural Gas Company d/b/a NW Natural
4 (NW Natural or Company), Staff of the Public Utility Commission of Oregon (Staff),
5 the Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy
6 Consumers (AWEC) (collectively, the Stipulating Parties).

7 **Q. Please provide your names, positions, and qualifications.**

8 A. My name is Anna Chittum. I am the Director of Renewable Resources at NW
9 Natural. My qualifications are provided in Exhibit NW Natural/100.

10 My name is Ted Drennan. I am testifying on behalf of Staff. I am an Energy
11 Policy Analyst employed in the Utility Strategy and Integration Division of the Public
12 Utility Commission of Oregon. My qualifications are provided in Exhibit Staff/101.

13 My name is William Gehrke, and I am a Senior Economist for CUB. My
14 qualifications are provided in Exhibit CUB/101.

15 My name is Bradley G. Mullins. I am testifying on behalf of AWEC. I am a
16 Consultant for MW Analytics, an independent consulting firm representing utility
17 customers before state public utility commissions in the Northwest and
18 Intermountain West. My qualifications were provided in Exhibit AWEC/101.

19 **Q. What is the purpose of this Joint Testimony?**

20 A. The purpose of this testimony is to describe and to support the stipulation
21 (Stipulation) reached among the Stipulating Parties regarding NW Natural's
22 application to recover the costs of the Dakota City RNG project under its tariff;

1 specifically Schedule 198, Renewable Natural Gas Adjustment Mechanism. The
2 Stipulation resolves all issues in this docket.

3 **II. BACKGROUND**

4 **Q. Please briefly describe the Dakota City RNG project.**

5 A. The Dakota City RNG project is located adjacent to a Tyson Fresh Meats beef
6 packaging plant in Dakota City, Nebraska. The approximately \$12.5 million project
7 was originally planned pursuant to SB 98 (ORS 757.390-ORS 757.398), which
8 enables natural gas utilities to acquire RNG on behalf of sales customers. While
9 NW Natural will apply project's output towards the SB 98 acquisition targets, it will
10 also be used for purposes of meeting the compliance obligations of Oregon's
11 Climate Protection Program (CPP).¹ Under the CPP, NW Natural must reduce
12 greenhouse gas ("GHG") emissions associated with its sales customers' and
13 transport customers' use of natural gas.

14 **Q. Please summarize the activities in this docket to date.**

15 A. On February 28, 2023, NW Natural filed an application, supported by written
16 testimony, seeking to recover the costs of the Dakota City RNG project under
17 Schedule 198, Renewable Natural Gas Adjustment Mechanism, of its tariff.
18 Schedule 198 is an automatic adjustment clause that is designed to recover the
19 revenue requirement associated with the Company's prudently incurred RNG
20 investments in the Dakota City RNG project. Staff, CUB, and AWEC filed Opening
21 Testimony on May 25, 2023 raising various issues with respect to the Dakota City

¹ OAR Ch. 340, Div. 271.

1 RNG project. NW Natural filed its Reply Testimony on June 26, 2023 responding
2 to those issue. Finally, Staff, CUB, and AWEC filed Rebuttal and Cross-Answering
3 testimony on July 31, 2023.

4 **Q. Did the Stipulating Parties engage in settlement discussions throughout this**
5 **docket?**

6 A. Yes. The Stipulating Parties engaged in numerous settlement conferences,
7 including meeting on June 5, July 17, July 19, July 20, August 4, and August 7,
8 2023. During these settlement discussions, the Stipulating Parties were able to
9 enter into the Stipulation, resolving all issues in this docket. In addition, the
10 Stipulating Parties agreed to recommend approval of the Company's application
11 in a related docket, involving an affiliated interest transaction between Dakota City
12 Energy, LLC and NW Natural (Docket UI 490) subject to the conditions included in
13 Attachment 3 to the Stipulation.

14 **Q. Please briefly describe the affiliated interest transaction.**

15 A. On June 5, 2023, NW Natural filed an RNG sales agreement between NW Natural
16 and its affiliated subsidiary, Dakota City Renewable Energy, LLC. As described in
17 NW Natural's initial application in that docket, this RNG sales agreement is one
18 part of the overall structure of the Dakota City RNG project.²

² See *In the Matter of Northwest Natural Gas Co., dba NW Natural, Requesting Approval of an Affiliated Interest Agreement with Dakota City Renewables, LLC, Application for Approval of an Affiliated Interest Transaction*, Docket UI 490, Application (June 5, 2023), available at: <https://edocs.puc.state.or.us/efdocs/HAA/haa173221.pdf>. See also UG 462, NW Natural/100, Chittum/32-33, describing why it pursued this sort of structure instead of developing the project directly through the utility.

1 **Q. Do the Stipulating Parties agree that the affiliated interest transaction in**
2 **Docket UI 490 is fair and reasonable and not contrary to the public interest**
3 **consistent with ORS 757.495?**

4 A. In light of the conditions in the Stipulation, and the conditions of approval in
5 Attachment 3 that together, address cost sharing, tax treatment, and the
6 relationship between NW Natural and its affiliates—among other things—the
7 Stipulating Parties agree that the affiliated interest transaction in Docket UI 490 is
8 fair and reasonable and not contrary to the public interest consistent with ORS
9 757.495. The Stipulating Parties, however, did not enter into a separate stipulation
10 for Docket UI 490 because that docket is not a contested case.

11 **Q. Please provide an overview of the Stipulation.**

12 A. The Stipulation resolves all issues in this docket. Based on the conditions in the
13 Stipulation, the Stipulating Parties agree that NW Natural's Dakota City RNG
14 project is a prudent investment under SB 98 (ORS 757.390-398). As a prudent
15 investment, the Company may recover the costs of its investment per the terms of
16 Schedule 198, Renewable Natural Gas Adjustment Mechanism and the
17 Stipulation.

18 The Stipulating Parties agree to resolve a number of issues in the
19 Stipulation. The first issue is the prudence of the Dakota RNG project. Subject to
20 Schedule 198 and the terms of the Stipulation, the Stipulating Parties agree that
21 the project is prudent and may be recovered in rates.

22 The second issue addresses cost sharing. The Stipulating Parties agree
23 that NW Natural may only recover 75 percent of its costs above a pre-defined

1 benchmark. The benchmark reflects the average price per RTC of the two lowest
2 bids from NW Natural's 2021 RFP that meet certain criteria. The Stipulating
3 Parties do not agree on a methodology for setting a benchmark, but agree the
4 amount set in the Stipulation is reasonable. The benchmark is also indexed to
5 reflect Dakota City's higher revenue requirement in earlier years that will be
6 reduced over time due to depreciation.

7 Third, the Stipulating Parties agree to a rate spread on an equal cents per-
8 therm basis but acknowledge that any party may argue that the Commission
9 should reevaluate rate spread associated with CPP compliance in NW Natural's
10 next general rate case, including the rate spread for the Dakota City RNG project.
11 Fourth, NW Natural will include Investment Tax Credits (ITCs) generated by the
12 Dakota City RNG project in rates, as a reduction to income tax expense, on a
13 straight-line basis over a five-year period, even if a portion of the ITC is allocated
14 to an LLC member other than NW Natural for income tax purposes. Fifth, NW
15 Natural will hold workshops concerning RNG project risk modeling and resource
16 evaluation. NW Natural will also hold a workshop on Lexington RNG project cost
17 sharing.

18 Finally, the Stipulating Parties agreed to recommend approval of the UI
19 490 application subject to the conditions listed in Attachment 3 regarding the
20 involvement of NW Natural's affiliates (Dakota City Renewable Energy, LLC and
21 NW Natural RNG Holding Company, LLC) in the Dakota City RNG project.

1 **Q. Do the Stipulating Parties agree on all the reasons for coming to agreement**
2 **on the terms of the Stipulation?**

3 A. No. The Stipulating Parties do not necessarily have the same reasons for agreeing
4 to resolve each of the issues included in the Stipulation. However, the Stipulating
5 Parties believe that collectively, all the agreed-upon resolutions represent a
6 reasonable settlement of the issues in the Stipulation, and that the Stipulation is in
7 the public interest and will result in rates that are fair, just, and reasonable, and
8 consistent with the standard in ORS 756.040.

9 **II. TERMS OF STIPULATION**

10 **a) Prudence**

11 **Q. Please summarize the parties' positions in testimony concerning the**
12 **prudence of the Dakota City RNG project.**

13 A. In its Direct Testimony and Reply Testimony, NW Natural presented information
14 concerning the prudence of the Dakota City RNG project.³ In response to concerns
15 raised by the Stipulating Parties, NW Natural also provided more detailed
16 information in its Reply Testimony concerning its RNG procurement process and
17 the evaluation that led to the selection of the Dakota City RNG project.⁴

18 AWEC recommended that the Commission find that the Dakota City RNG
19 project is prudent, subject to certain protections for customers, noting that RNG is
20 currently one of the only viable options for complying with the CPP.⁵ AWEC further

³ See *generally* NW Natural/100, Chittum; NW Natural/300, Chittum/6-27.

⁴ NW Natural/300, Chittum/27-37

⁵ AWEC/200, Mullins/1-2.

1 commented that the Dakota City project could be found prudent either under
2 Senate Bill 98 or the CPP, but recommended that the CPP be the basis for the any
3 prudence finding because it is mandatory.⁶

4 CUB did not specifically comment on prudence in its Rebuttal and Cross-
5 Answering Testimony, but CUB had noted in its Opening Testimony that the
6 Company's decision to invest in Dakota City was a reasonable action.⁷ CUB also
7 proposed a shaped cost cap and cost-sharing in connection with the Dakota City
8 facility.⁸

9 In its Opening Testimony, Staff indicated it did not have enough information
10 to make a prudence determination, and in its Rebuttal Testimony, Staff did not
11 support a prudence determination due to concerns about the Company's ability to
12 accurately forecast production, the risk evaluation for Dakota City, the decision to
13 invest in a facility rather than an offtake agreement, and the variability of production
14 driving variability in the price customers will pay per RTC.⁹ However, Staff also
15 provided an alternative recommendation that in the event the Commission
16 determines that the project is prudent, that it should be approved subject to a
17 shaped cost cap and cost-sharing to insulate customers from risks associated with
18 the project.¹⁰

⁶ AWEC/200, Mullins/3-4.

⁷ CUB/100, Gehrke/2-3.

⁸ CUB/200, Gehrke/3-4.

⁹ Staff/100, Drennan/3, 32-34; Staff/200, Drennan/3, 10-21.

¹⁰ Staff/200, Drennan/21-24.

1 **Q. Please describe the Stipulating Parties' agreement regarding the prudence**
2 **issue for the Dakota City RNG project.**

3 A. The Stipulating Parties agree in Paragraph 1 of the Stipulation that the investment
4 in the Dakota City RNG project is prudent and may be recovered in Schedule 198,
5 Renewable Natural Gas Adjustment Mechanism, in accordance with the terms of
6 that schedule and the other terms of the Stipulation, including the indexed cost cap
7 and cost sharing.

8 **b) Cost Sharing**

9 **Q. Please summarize the parties' positions in testimony concerning cost**
10 **sharing.**

11 A. As stated above, NW Natural presented substantial information in its Direct
12 Testimony regarding the prudence of the Dakota City RNG project and argued that
13 it should recover the costs of the project.¹¹ In Reply Testimony, the Company
14 opposed cost sharing proposed by AWEC in its Opening Testimony, arguing that
15 the Dakota City RNG project compared very favorably to other RNG resources.¹²

16 To mitigate production risk, AWEC argued for a cost sharing mechanism
17 that is similar to the cost sharing mechanism adopted for NW Natural's Lexington
18 RNG project.¹³ The cost sharing for Lexington is based on the average of two
19 lowest RFP results that the Company received at the time on a per-RTC basis.¹⁴

¹¹ NW Natural/100, Chittum/11-62.

¹² NW Natural/300, Chittum/16-17 (responding to AWEC/100, Mullins/6).

¹³ AWEC/200, Mullins/4-5.

¹⁴ *Id.*

1 NW Natural would only be able to recover 75 percent of the costs that exceed the
2 benchmark.¹⁵

3 In Rebuttal Testimony, CUB agreed with AWEC that a cost sharing
4 mechanism was necessary.¹⁶ Its proposed mechanism would also allow NW
5 Natural to recover 75 percent of the costs that exceeded its benchmark.¹⁷ CUB's
6 proposed benchmark was set at the Company's proposed revenue requirement
7 for Dakota City on a per-RTC basis and was indexed to reflect the expected per-
8 RTC cost each year.¹⁸

9 Staff proposed cost sharing that was set at \$12/RTC, which reflects a recent
10 NW Natural RNG purchase.¹⁹ Similar to CUB's approach, the cap was indexed to
11 reflect the expected RTC cost per year.²⁰ Unlike CUB and AWEC, however, NW
12 Natural would only be permitted to recover 50 percent of the costs that exceeded
13 the indexed benchmark.²¹

14 **Q. Please describe the cost sharing mechanism in the Stipulation.**

15 A. The cost sharing provision in Paragraph 2 of the Stipulation sets a pre-defined
16 benchmark. While the benchmark was based on a compromise position amongst
17 the parties, it generally reflects the average of the two lowest bids in NW Natural's
18 2021 RFP. The 2021 RFP occurred during the same time period as NW Natural's

¹⁵ *Id.*

¹⁶ CUB/200, Gehrke/2.

¹⁷ *Id.* at 3.

¹⁸ *Id.* at 3-4.

¹⁹ Staff/200, Drennan/21.

²⁰ *Id.* at 23-24.

²¹ *Id.* at 22.

1 evaluation of the Dakota City RNG project, although it excludes any RFP bids that:
2 1) the Company ultimately acquired, 2) did not meet all requirements under ORS
3 757.390-398 and OAR Chapter 860, Division 150, or 3) did not have a carbon
4 intensity lower than conventional natural gas. While all Stipulating Parties agree
5 this benchmark amount is appropriate, they may not agree on this specific
6 methodology for setting the benchmark.

7 The Stipulating Parties agree to a benchmark that is **[BEGIN**
8 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**. The benchmark is
9 indexed to reflect the fact that the Dakota City RNG project's higher revenue
10 requirement in earlier years will be reduced over time due to depreciation, as
11 shown in Attachment 1 to the Stipulation. NW Natural may only recover 75 percent
12 of the costs that exceeds the indexed benchmark in any given year. NW Natural
13 will absorb the remaining 25 percent of Dakota City RNG project costs above the
14 annual indexed benchmark and will not seek to recover any amount of that 25
15 percent from customers in any other proceeding.

16 **c) Rate Spread**

17 **Q. Please summarize the parties' positions in testimony concerning rate**
18 **spread.**

19 **A.** In Direct Testimony, NW Natural proposed allocating the costs of the Dakota City
20 RNG project to all non-storage customers on an equal cents per-therm basis.²²
21 CUB and Staff agreed with this approach.²³

²² NW Natural/200, Bourdo-Walker/6.

²³ CUB/200, Gehrke/5; Staff/200, Drennan/28-29.

1 In Opening Testimony, AWEC proposed allocating costs to each rate class
2 based on the actual CPP compliance obligations generated by that class.²⁴ The
3 other Stipulating Parties disagreed with AWEC’s proposal, arguing that an equal
4 cents per-therm allocation was preferable for several different reasons, including
5 rate stability and simplicity.²⁵ Although AWEC disagreed with these positions, it
6 was willing to withdraw its proposal for purposes of this docket so that the rate
7 spread could be fully evaluated in the context of NW Natural’s next full general rate
8 case, where a holistic view of customer class cost responsibly could be
9 undertaken.²⁶

10 **Q. Please describe the rate spread agreed to in the Stipulation.**

11 A. Per the Stipulation, the costs of the Dakota City RNG project will be allocated to
12 all non-storage customers on an equal cents per-therm basis. However, any party
13 is free to argue that the Commission should reevaluate the rate spread associated
14 with CPP compliance in NW Natural’s next general rate case, including the rate
15 spread of the Dakota City RNG project.

16 ///

17 ///

18 ///

19 ///

20 ///

²⁴ AWEC/100, Mullins/10-14.

²⁵ NW Natural/400/Bourdo-Walker/2; CUB/200, Gehrke/5; Staff/200, Drennan/28-30.

²⁶ AWEC/200, Mullins/2.

1 **d) Tax**

2 **Q. Please summarize the parties' positions in testimony on tax issues.**

3 A. NW Natural proposed to amortize the ITCs over the expected life of the project.²⁷
4 Customers would receive the benefit of the ITCs that are allocated to NW Natural.²⁸

5 AWEC argued that the ITCs be included in revenue requirement on a non-
6 normalized basis and that customers be held harmless for any ITCs allocated to
7 Dakota City RNG project's co-owner, BioCross, LLC.²⁹ Staff supported AWEC's
8 position.³⁰

9 In response, NW Natural argued: 1) that these ITCs were not available
10 when the Company made the decision to pursue the project, 2) that BioCross, LLC
11 put significant time and effort into Dakota City, and 3) that BioCross, LLC would
12 only receive an allocation of ITC benefits if there were **[BEGIN CONFIDENTIAL]**

13 [REDACTED]
14 [REDACTED] **[END CONFIDENTIAL].**³¹

15 **Q. Please describe the tax provisions of the Stipulation.**

16 A. The tax provisions of the Stipulation concern the ITCs that Dakota City RNG is
17 expected to generate due to the Inflation Reduction Act. The Stipulating Parties
18 agree that these ITCs, net of the foregone tax depreciation associated with the
19 ITCs, will be included in rates as a reduction to income tax expense. The ITCs will

²⁷ NW Natural/400, Bourdo-Walker/9.
²⁸ *Id.* at 12-14.
²⁹ AWEC/100, Mullins/6-10.
³⁰ Staff/200, Drennan/26-28.
³¹ NW Natural/400, Bourdo-Walker/9-14.

1 be amortized straight-line over a five-year period, beginning with the effective date
2 of rates for Dakota City. For purposes of settlement, and in consideration of the
3 accelerated amortization schedule and the hold harmless language related to ITCs
4 potentially allocated to BioCross, LLC, the unamortized ITC balance will not be
5 given rate base treatment. Notwithstanding, all of the ITCs generated by Dakota
6 City Renewable Energy LLC will be included in determining the revenue
7 requirement notwithstanding that some portion of the ITCs may be allocated to
8 LLC members other than NW Natural for income tax purposes.

9 **e) Workshops**

10 **Q. Please describe the workshops to be conducted under the terms of the**
11 **Stipulation.**

12 A. The Stipulating Parties agreed to two workshops dedicated to RNG. The first
13 workshop will cover RNG project risk modeling which identifies the Company's
14 current and future methodology. The second workshop will cover resource
15 evaluation. All parties in NW Natural's recent Integrated Resource Plan docket
16 (LC 79) will be invited and NW Natural must provide draft agendas four weeks in
17 advance, with presentations and underlying data circulated to Staff, the LC 79
18 parties and any other interested parties that have notified the Company they plan
19 to attend, by the Company two weeks before a workshop. Both workshops must
20 be completed prior to the end of calendar year 2023.

1 **Q. Did the Stipulating Parties agree to an additional workshop concerning the**
2 **cost sharing condition of the Lexington RNG project?**

3 A. Yes. The Stipulating Parties agreed to a workshop concerning the cost sharing
4 condition of the Lexington RNG project. Parties may review the performance of
5 the Lexington RNG project cost sharing mechanism and discuss whether the
6 mechanism is working as intended or if the mechanism should be changed. No
7 such changes, however, have been agreed to at this time, nor will any
8 recommendations for changes necessarily result from the workshop.

9 **f) Conditions Regarding NW Natural's Dakota City Affiliates**

10 **Q. Please summarize the parties' positions in testimony concerning the**
11 **conditions regarding NW Natural's Dakota City affiliates.**

12 A. To ensure regulatory oversight of NW Natural's Dakota City affiliates, Staff
13 proposed all but one of the conditions ultimately agreed to in the Stipulation.³²
14 These conditions were modeled on the same conditions to which the Stipulating
15 Parties agreed for the Lexington RNG project. AWEC included a similar list of
16 conditions in its comments on NW Natural's affiliated interest transaction in Docket
17 UI 490, but added a condition that held customers harmless for any ITCs allocated
18 to the co-owners of the Dakota City RNG project (see Tax subsection above).³³
19 CUB did not sponsor testimony on this issue.

³² Staff/200, Drennan/31-36.

³³ *In the Matter of Northwest Natural Gas Company, dba NW Natural, Request for Approval of Affiliated Interest Agreement with Dakota City Renewables, LLC*, Comments of AWEC, Docket UI 490, at Attachment A; available at: <https://edocs.puc.state.or.us/efdocs/HAC/ui490hac142620.pdf>.

1 In Reply Testimony, NW Natural stated that it was willing to discuss the
2 conditions and expressed its hope that the Stipulating Parties could reach mutual
3 agreement on this issue.³⁴

4 **Q. Please summarize how the Stipulating Parties addressed this issue.**

5 A. The Stipulating Parties agreed to recommend that the affiliated interest transaction
6 submitted for approval in UI 490 is fair and reasonable and not contrary to the
7 public interest, based on these settlement terms and the conditions of approval in
8 Attachment 3. The conditions listed in Attachment 3 of the Stipulation fall into five
9 main categories.

10 The first category ensures that Dakota City Renewable Energy, LLC and
11 NW Natural RNG Holding Company are subject to regulatory oversight of potential
12 environmental risks in the same manner as NW Natural.

13 Similarly, the second category ensures that Dakota City Renewable Energy,
14 LLC and NW Natural RNG Holding Company are both subject to regulatory
15 oversight regarding other general risks, in the same manner as NW Natural.

16 The third category establishes regulatory controls that, among other things,
17 require Commission approval before Dakota City Renewable Energy, LLC can
18 engage in certain financial transactions.

19 The fourth category includes a number of information sharing conditions that
20 require NW Natural to respond to requests for information related to the
21 construction and operation of the Dakota City biogas facility in the possession of

³⁴ NW Natural/300, Chittum/41.

1 NW Natural RNG Holding Company, LLC and Dakota City Renewable Energy,
2 LLC, in the same manner as NW Natural.

3 Finally, the fifth category includes two tax provisions. The first tax provision
4 requires NW Natural to notify all interested parties if partnership allocations of
5 income tax losses from Dakota City Renewable Energy, LLC to NW Natural RNG
6 Holding Company LLC are limited/reduced on an annual basis compared to
7 traditional utility ownership. If this occurs, NW Natural will provide a plan for
8 addressing it and the parties are free to propose adjustments in rates. The second
9 tax provision requires NW Natural hold ratepayers harmless if any ITCs are
10 allocated to co-owners of the Dakota City RNG project, as explained in the Tax
11 subsection above.

12 **Q. With the exception of the production risk/cost sharing issue, do the**
13 **conditions in Attachment 3 mirror the conditions approved for the Lexington**
14 **project by the Commission in UI 451?**

15 A. Largely, yes. The ITC tax provision was not included in the Lexington UI docket
16 because that project entered service prior to the establishment of such credits.

17 **Q. At the August 22, 2023 Public Meeting, a question was posed to Staff**
18 **regarding customer exposure in the event of plant closure or other major**
19 **disruptions to the fresh meats facility given recent changes to other meat**
20 **processing facilities in the news recently. Is this issue addressed with the**
21 **Stipulation?**

22 A. Yes. The per unit basis of the benchmark included in this Stipulation protects
23 against major shifts in production at Tyson's Dakota City site by ensuring sharing

1 occurs based on the cost per RTC. The project processes RNG from raw biogas
2 and if supply is stopped, then it will stop producing RNG and RTCs.³⁵ In addition,
3 as outlined in the Company's opening testimony, Tyson has made a \$237 million
4 reinvestment at the facility in the last decade, demonstrating the commitment to
5 keeping the site operational.³⁶ Should the Dakota City project stop producing
6 RTCs, the royalties and cash distributions to the project partners would be stopped
7 as well, aligning incentives with ratepayers.³⁷ Lastly, the annual nature of the AAC
8 would allow the Commission and stakeholders to assess costs for recovery in a
9 timely manner following any major disruptions.

10 **III. STIPULATING PARTIES' SUPPORT FOR STIPULATION**

11 **Q. Why do the Stipulating Parties support the Stipulation?**

12 A. The Stipulating Parties support the Stipulation because it represents a reasonable
13 compromise that settles all issues in this proceeding. The Stipulating Parties
14 believe the Stipulation furthers the public interest and will result in fair, just, and
15 reasonable rates consistent with ORS 756.040.

16 **Q. Please summarize your recommendation to the Commission.**

17 A. The Stipulating Parties recommend that the Commission approve this Stipulation
18 in its entirety.

³⁵ NW Natural/100, Chittum/61, line 12 and 13.

³⁶ *Id.* at 61-62

³⁷ *Id.* at 61-62

1 **Q. Ms. Chittum, why does NW Natural believe the Stipulation is reasonable?**

2 A. The Stipulation, taken as a whole, represents a reasonable compromise that
3 resolves all of the issues in this docket. The Company continues to be pleased
4 with its decision to invest in the Dakota City RNG project. At the time of its
5 investment decision, it was the least cost, least risk actionable RNG resource.³⁸
6 While production estimates have fluctuated due to the lingering effects of COVID-
7 19, initial production has been promising and the project was on-time and on-
8 budget.³⁹ We believe Dakota City will be a resource that will benefit our customers
9 for decades to come. The Company believes that it appropriately modeled risk
10 and carefully considered potential risks and benefits in its evaluation of potential
11 RNG investments that ultimately led to the selection of Dakota City. NW Natural
12 nonetheless recognizes that the Stipulating Parties raised concerns on both these
13 issues, and as a result, the Company agreed to the provisions in the Stipulation.

14 NW Natural is looking forward to the workshops to address Stipulating
15 Parties' concerns regarding how it selects resources and evaluates risk. It is
16 critical that NW Natural and our stakeholders have a common understanding of
17 how NW Natural will be evaluating compliance and decarbonization resources in
18 light of the Company's current compliance obligations under the CPP. As a
19 covered entity under the CPP, NW Natural is currently in its first three-year
20 compliance period. Even if NW Natural maximizes use of Community Climate
21 Investments ("CCIs") in its compliance pathway, NW Natural will still need

³⁸ NW Natural/100, Chittum/12; NW Natural/300, Chittum/3-4.

³⁹ NW Natural/300, Chittum/3-4.

1 decarbonized resources, such as RNG, in the near-term at a rapid pace to meet
2 the compliance obligations of the CPP. Accordingly, the regulatory framework for
3 RNG resources should be reexamined given the mandatory nature of the CPP.
4 NW Natural looks forward to exploring these issues around the evolving risk to the
5 Company and our customers in the context of mandatory compliance in a future
6 ratemaking proceeding.

7 **Q. Mr. Drennan, why does Staff believe the Stipulation is reasonable?**

8 A. Staff supports the Stipulation because it is a reasonable resolution of the issues
9 that, overall, results in a fair outcome for NW Natural and its customers. Staff's
10 concerns with the Dakota City project to date have revolved around ratepayer
11 protections, the riskiness of the project, and the uncertainty surrounding the
12 ongoing performance of RNG technologies. These concerns manifested, in part,
13 in issues identified in the modeling and selection process. These concerns were
14 not limited to the current docket, but also of concern for Staff in NW Natural's
15 Integrated Resource Plan, Docket LC 79, as well. Absent a least cost, least risk
16 strategy for the acquisition of RNG and other emissions reduction technologies,
17 the Company relied on a project selection model that has evolved substantially
18 from the one presented in UM 2030, and Staff finds some of the results are
19 counter-intuitive. Staff's concerns are mitigated by the package of customer
20 protections provided in this Stipulation and Staff believes the Company's
21 willingness to re-evaluate the project selection methodology including multiple
22 workshops under the terms of this Stipulation could help alleviate Staff's concerns
23 going forward.

1 Staff had raised concerns with the production risk modeling, and the
2 structure of the project itself which results in the potential for shifting the risk of
3 poor production and overall uncertainty about the long-term operations of the RNG
4 facility from the utility to ratepayers. Staff supports the use of a benchmark
5 calculated on a per-therm basis, along with a sharing mechanism that ensures NW
6 Natural will absorb some of the costs of any poor performance to address Staff's
7 concerns ratepayer protection and it adds a performance incentive for NW Natural.
8 Further, the sharing mechanism will better align NW Natural and ratepayer
9 interests in lowering production costs.

10 Staff supports the Stipulation because it provides other ratepayer
11 protections including the hold-harmless provision in the Stipulation related to
12 potential Investment Tax Credits (ITCs). This will allow ratepayers to receive any
13 benefits of the ITCs which is appropriate as it is the ratepayers who are contributing
14 the capital for the project.

15 Setting a benchmark that is indexed allows for some balance between the
16 Company's interests and ratepayers. A project such as Dakota City has a higher
17 revenue requirement in the first years of operation, going down over time as the
18 assets are depreciated. The Stipulating Parties have agreed to an indexed sharing
19 mechanism, which Staff believes fairly addresses this issue by allowing for higher
20 benchmark numbers in the initial years, falling over time.

21 The Dakota City facility will provide NW Natural customers with access to a
22 source of RNG for the term of the agreement, at a time of market uncertainty,

1 helping to decarbonize a portion of the natural gas sold to its customers. This in
2 turn will help to meet the Company's CPP requirements.

3 Given the ratepayer protections included in the Stipulation, Staff believes
4 this Stipulation is in the public interest and recommends the Commission approve
5 the Stipulation.

6 **Q. Mr. Gehrke, why does CUB believe the Stipulation is reasonable?**

7 A. CUB believes this Stipulation is in the public interest. CUB's primary interest in
8 this proceeding is ensuring that NW Natural was complying with CPP in a least
9 cost least risk manner, including ensuring that projects such as Dakota City RNG
10 meet the needs of the CPP's binding mandates in a manner that benefits
11 customers. CUB is concerned about the risk associated with renewable natural
12 gas projects, particularly production risk. With the negotiated conditions in this
13 stipulation, CUB supports the stipulation because of the robust risk sharing
14 conditions, which protect customers. CUB recommends that the Commission
15 approve the Stipulation as a reasonable compromise of the issue relevant to this
16 case.

17 **Q. Mr. Mullins, why does AWEC believe the Stipulation is reasonable?**

18 A. While the Dakota City RNG project was originally planned under SB 98, RNG is
19 currently one of the primary tools for CPP compliance. The Dakota City RNG
20 project will be used for CPP compliance, and with the conditions included in the
21 Stipulation, AWEC believes the Dakota City RNG project is a prudent means of
22 complying with the CPP and should be approved by the Commission.

1 Based on its review of NW Natural's filing and through the discovery
2 process, AWEC was most concerned with the production levels of the Dakota City
3 RNG project compared to projections, the allocation of the ITC, cost sharing
4 between NW Natural and its customers, and the rate spread for the Dakota City
5 RNG project. NW Natural updated production estimates in its Reply Testimony,⁴⁰
6 explaining that the production from the Dakota City RNG project has been
7 favorable in its first few months of operations, and parties were able to come to
8 agreement on satisfactory conditions surrounding the allocation of ITCs and cost
9 sharing. To be clear, RNG development projects are expensive relative to
10 traditional natural gas and can be risky without built-in customer protections,
11 particularly in the early years of a facilities' useful life. In the long-run, AWEC is
12 hopeful that the Dakota City RNG project will be a cost-effective means of
13 complying with the CPP, and with customer sharing provisions contained in the
14 Stipulation, rate payers are assured some protections if it is not. Overall, the
15 Stipulations is fair and reasonable and contains adequate ratepayer protections.

16 Notwithstanding, the cumulative effects of CPP compliance costs are
17 having major impacts on large customer rates. Certain customers' rates are
18 expected to more than double in this next PGA cycle, and AWEC is concerned
19 with the impacts on Oregon's Energy Intensive Trade Exposed industry. Further,
20 AWEC continues to be concerned with the rate spread for CPP compliance costs,
21 particularly because energy intensive customers are paying margin rates that are

⁴⁰ NW Natural/300, Chittum/4-5.

1 well above their cost of service. Such issues, however, are best addressed in the
2 context of a general rate case, and for that reason, AWEC was willing to withdraw
3 its rate spread proposal, with the objective of limiting the number of controversial
4 issues in the proceeding. Although the Stipulation does not incorporate all of the
5 issues AWEC addressed in testimony, it does incorporate many of AWEC
6 positions, and the parties agreed that AWEC can raise the issue of rate spread for
7 the Dakota City RNG project in NW Natural's next rate case. AWEC believes the
8 Stipulation is in the public interest and recommends the Commission approve the
9 Stipulation.

10 **Q. Does this conclude your testimony?**

11 **A. Yes.**



CERTIFICATE OF SERVICE

I hereby certify that on August 30, 2023, I have served by electronic mail the foregoing confidential sections of the JOINT TESTIMONY IN SUPPORT OF COMPREHENSIVE STIPULATION in docket UG 462 to those on the service list who have signed General Protective Order No. 23-063.

UG 462

WILLIAM GEHRKE (C)
OREGON CITIZENS' UTILITY
BOARD
will@oregoncub.org

MICHAEL GOETZ (C)
OREGON CITIZENS' UTILITY
BOARD
mike@oregoncub.org

CHAD M. STOKES (C)
CABLE HUSTON LLP
cstokes@cablehuston.com

BRADLEY MULLINS (C)
MW ANALYTICS, ENERGY & UTILITIES
brmullins@nwanalytics.com

TED DRENNAN (C)
PUBLIC UTILITY COMMISSION
ted.drennan@puc.oregon.gov

JOHANNA RIEMENSCHNEIDER (C)
OREGON DEPARTMENT OF JUSTICE
johanna.riemenscheider@doj.state.or.us

RYAN SIGURDSON (C)
NW NATURAL
ryan.sigurdson@nwnatural.com

DATED August 30, 2023, Troutdale, OR.

/s/ Erica Lee-Pella

Erica Lee-Pella
Rates & Regulatory Affairs, NW Natural