

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

Docket No. ADV 1502

In the Matter of

NW NATURAL GAS COMPANY,

Advice No. 23-04, Schedule 400 Smart Energy
Program, Renewable Gas Option.

OPUC Staff Comments

The Public Utility Commission of Oregon Staff (Staff) offers these comments on Northwest Natural's (NW Natural or the Company) Advice No. 23-04/Docket No. ADV 1502, updating the Company's Schedule 400 Smart Energy Program.

Background

On May 10, 2023, NW Natural filed Advice No. 23-04/Docket No. ADV 1502, proposing several updates to the Company's Smart Energy Program and Schedule 400. The Company proposes to add renewable natural gas (RNG) as a mitigation resource to the Company's Smart Energy Program, update residential pricing, and lower the threshold limit from 100,000 to 50,000 therms for the commercial customer class.

While Staff supports the Company's proposed program design and implementation strategy updates, Staff recognizes this advice filing asks the Commission to confront several policy questions surrounding RNG and voluntary programs that are larger than the Smart Energy Program.

Program Design and Implementation Strategy

Staff reviewed NW Natural's proposed changes to Schedule 400 and the Smart Energy Program and found that the programmatic changes are reasonable for several reasons.

First, after reviewing the provided workpapers regarding pricing and overhead spending, Staff finds that the pricing updates and the allocation of funds between marketing and

administration and purchase of mitigation resources are reasonable for the voluntary program. Second, Staff finds the classification of commercial class customers is reasonable due to the small number of additional customers and the large sum of RTCs purchased by the Company.

Third, Staff believes the programmatic changes are reasonable due to the Smart Energy Program's successful implementation of mixing RNG in its mitigation resources in Washington state since March 2022. Lastly, Staff received several comments from customers indicating that customers find the supply mix change desirable. Therefore, Staff supports the Company's proposed program design and implementation strategy updates.

While Staff generally supports the Company's proposed changes, Staff will continue to review NW Natural's customer transition and communication plan. Upon first review, the Company's communication plan looks adequate. However, Staff would like to ensure the Company remains transparent with its customers. Staff proposes that NW Natural continues to provide its marketing materials for Staff and stakeholders to review.

Staff is also working with the Company to better understand if there are tools in place to ensure that the local distribution company (LDC) purchasing the natural gas from the Wasatch Project, or any other company is not making claims to the RTCs or renewable properties.

Policy Questions Impacting This Docket

This advice filing asks the Commission to confront several policy questions, including the use of RTCs in voluntary programs for Climate Protection Plan (CPP) compliance and NW Natural's RNG acquisition across different uses.

CPP Compliance in Voluntary Programs

As the deadlines for CPP compliance requirements near and overall emissions reductions increase, the Commission will confront questions regarding the eligibility of clean energy from utility's voluntary programs like the Smart Energy Program to meet compliance obligations for greenhouse gas emission reductions and other statutory requirements.

NW Natural proposes to utilize the RTCs procured for Smart Energy Program to meet a portion of the Company's CPP compliance requirements. NW Natural is not, however, proposing to utilize the procured RTCs for Oregon Senate Bill 98. Staff believes that this raises an important question about actions that utilities can use for CPP compliance. The Oregon Department of Environmental Quality (DEQ) is responsible for determining whether programs like the Smart Energy Program count towards CPP compliance. In discussions with DEQ Staff and review of CPP policies, Staff believes that the CPP does not prohibit the use of voluntary RTCs for CPP compliance as long as the RTCs otherwise conform to the CPP eligibility requirements. Staff is interested in exploring the potential benefits of using voluntary demand to help carry the burden of CPP compliance on all customers, but Staff wants to ensure that cost-of-service customers are not made worse off through the Company's allocation of RNG projects between different uses.

Staff also is concerned that program participants will not understand that they will not be receiving RNG above and beyond the Company's compliance resources and believes that it is important for use of this program for compliance purposes to be communicated properly with customers. Customers enrolled in the Smart Energy program are paying for their greenhouse gas emissions to be mitigated, which directly coincides with NW Natural's responsibility to reduce in-use customers emissions under the CPP. Staff wants to ensure NW Natural maintains full transparency and customer understanding by periodically reviewing NW Natural's communications and marketing plans.

While the overall impact of utilizing RTCs procured for the Smart Energy Program towards CPP compliance is quite small due to the size of the program and the Company's projected mix, Staff would like NW Natural to respond in reply comments on how the use of RTCs generated by the Wasatch Project to comply with CPP impacts the Company's decision to offer the program.

RNG Project Allocation

As NW Natural's integration and usage of RNG continues to increase, the Commission will need to examine NW Natural's strategy for identifying RNG projects and allocation of selected projects between different users.

To mix RNG as a mitigation resource in the Smart Energy Program, NW Natural proposes to utilize a lump-sum of RTCs the Company purchased from the Wasatch Project. NW Natural stated that the Wasatch Project was determined during initial negotiations to be the least-cost RNG resource for immediate delivery to customers.

When Staff asked about the Company's decision not to select its Dakota City and Lexington projects for the Smart Energy Program, NW Natural stated the projects were not selected due to timing, costs, and overall risks to customers. While evaluating the options, NW Natural discovered that both Dakota City and Lexington would be cheaper than Wasatch on an average cost of RTC and risk-adjusted incremental cost basis. NW Natural also selected the Wasatch Project because the Lexington and Dakota City Projects are both development projects, so risks associated with capital costs and operating costs would have been more substantial.

While Staff finds that selecting Wasatch Recovery for the Smart Energy Project is reasonable and was already determined so in Washington, Staff wants to highlight the potential for NW Natural to bias shareholders over customers in its strategy for identifying RNG projects and allocating selected projects between different uses.

NW Natural stated that the Company did not select the Lexington and Dakota City Projects in part because are both development projects with increased risks. However, both the Lexington and Dakota City Projects will receive a return on investment from cost-of-service customers now in rate-base, whereas the Company will not receive such a return for the purchase of RTCs from Wasatch.

On June 6, 2023, the Commission held a Special Public Meeting Work Session in Docket No. LC 79, to discuss potential acknowledgement of NW Natural's Integrated Resource Plan (IRP), where the Commission shared similar concerns as Staff. At this Work Session, the Commission discussed their frustration with NW Natural's investment-heavy approach to identifying RNG projects despite near-term rate impacts. Particularly, the Commission found that the Company is not properly optimizing RNG projects with the Company's entire portfolio of resources, stating that while the Company's proposed procurement of RNG resources might be least-risk, the investment-heavy, rate-based proposal sits awkwardly with the immense customer cost-pressure. The Commission also discussed the Company's lack of available insight to its RNG procurement decisions and overall business model. Staff understands that there are a lot of factors driving the Company's decision to acquire resources for different uses and that the Company is working hard to evolve its RNG acquisition strategy. However, Staff wants to ensure that voluntary demand is leveraged to support the acquisition of resources that are less cost competitive for all customers and that the ability to rate base projects is not the driving factor in allocation between voluntary and compliance actions.

Conclusion

Staff is not making an explicit recommendation in this docket on the viability of voluntary programs for CPP or other regulatory compliance, nor on NW Natural's RNG project allocation strategy, but reserves the right for further discussion in NW Natural's IRP and other compliance policy dockets. The Smart Energy Program is a relatively small amount of RTCs, and Staff believes it is reasonable to move forward with the program changes and discuss the policy questions in future dockets.

This concludes Staff's comments.

Dated at Salem, Oregon this 14th of July, 2023

Charles Lockwood

Charles Lockwood
Utility Analyst
Utility Strategy and Integration Division