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July 21, 2023

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

Re: Advice No. 23-04/ADV 1502—NW Natural Reply Comments

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), provides the following comments in response to those filed by the Public Utility Commission of Oregon (Commission) Staff on July 14, 2023.

NW Natural thanks Staff for their thoughtful consideration of the Company's filing and their support of the proposed Smart Energy program design updates at this time, while reserving the important policy issues of Climate Protection Plan (CPP) compliance in voluntary programs and renewable natural gas (RNG) project allocations to be further discussed in future dockets. We look forward to addressing these policy issues with Staff and stakeholders to better inform our compliance strategies.

<u>Response to Staff Comments</u>
The following is provided in response to Staff Comments organized in the same manner as their written comments.

<u>Program Design and Implementation Strategy</u>
As mentioned above, NW Natural appreciates Staff's support of the Company's proposed updates to the Smart Energy program. The Company also appreciates the 18 commercial and municipal entities and eight individuals that provided letters of support for the Smart Energy program. Since 2008, Smart Energy has served as an innovative voluntary carbon offset program that has funded over 1.9 million metric tons of emissions reductions through customer participation that includes over 13 percent of Oregon residential customers.

In their comments, Staff proposed that NW Natural continues to provide its Smart Energy marketing materials for Staff and stakeholders to review. The Company supports this proposal and suggests that this review be accomplished through semi-annual meetings to review current marketing materials. NW Natural believes meetings would be the most efficient manner to share and review marketing materials and is more preferable than adding a reporting requirement. However, if a report is the preferred method, NW Natural suggests adding a sunset date for the reporting that would include revisiting the continued need for reporting after the sunset date.

Staff also points out their work to better understand that other entities cannot make claims to the renewable thermal certificates (RTCs) or renewable properties of the Wasatch Project that is the initial source of the RTCs for the Smart Energy program. In response, NW Natural notes that an entity cannot make claims to the environmental properties and/or RTCs of the Wasatch project unless it owns the RTCs as evidenced in the Midwest Renewable Energy Tracking System (M-RETS). Indeed, NW Natural already has in its possession, via its Smart Energy M-RETS account, all 30,000 of the RTCs from the Wasatch project.

Furthermore, carbon accounting best practices verify that carbon emissions reduction associated with the same environmental attribute can be used to address emissions from different entities as long as the scopes are distinct. The Smart Energy voluntary program would effectively address our customers' Scope 1 emissions and be part of NW Natural's strategy to address Scope 3 emissions. For additional information on this topic, please see NW Natural's response to CUB information request #2, which is enclosed as Attachment 1.

<u>CPP Compliance in Voluntary Programs</u>

Staff's comments request NW Natural respond to whether the ability to use RTCs for CPP compliance had any bearing on adding RTCs as a mitigation resource to the Smart Energy program. In response, NW Natural has had an interest in adding a voluntary RNG program for customers since RNG became a viable decarbonization opportunity for our customers. While the Company was developing its strategy to offer a voluntary RNG program and its eventual decision to leverage the existing Smart Energy platform to do so, the CPP rules were just being finalized and understood. With our current understanding of the CPP, adding RNG sources that are eligible for CPP compliance to the Smart Energy program is an obvious choice for NW Natural and our customers.

In their comments, Staff also emphasizes the importance of transparency in Smart Energy communications with participants regarding the direct, and not incremental, impact of Smart Energy RNG on the Company's CPP compliance. As mentioned above, we support clear and transparent communications with our customers and have proposed semi-annual meetings to provide and review Smart Energy marketing materials.

Finally, Staff also raises the policy issue of holding cost-of-service customers neutral while considering NW Natural's allocation of RNG projects between different uses. NW Natural agrees this policy issue of the allocation of renewable projects among voluntary renewable programs, climate compliance obligations and all customers is one that impacts not only NW Natural, but other utilities and their voluntary programs. These policy questions are best addressed in a broader docket where all impacted parties can participate and provide the necessary input and experience to discuss and develop consistent policy. NW Natural notes that the Portfolio Options Committee (POC) – established under OAR 860-038-0005(2) and active for nearly 20 years before pausing meetings starting in 2020 – or a group using a similar framework could be an effective forum and means to address these policy issues of utilities' use of renewable resources in conjunction with voluntary renewable programs.[1] We also note that the POC could be another option for the review of Smart Energy marketing materials.

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[1] Commission Order No. 20-063 in docket UM 1020 approved the pause of POC meetings.

RNG Project Allocation
In the "RNG Project Allocation" section of their comments, Staff highlights the need to examine the Company's strategy for identifying future RNG projects and allocation of selected projects between different uses, emphasizing their view that there is a potential for NW Natural to bias shareholders over customers in its strategy. Staff reasons that the Wasatch project RTCs were selected over the Dakota City and Lexington projects, which are both investment projects that will receive rate base treatment. NW Natural clarifies that the selection of the Wasatch project RTCs for the Smart Energy program resulted from an unexpected opportunity from the seller BP, whom we were negotiating with to purchase RTCs for delivery to Oregon customers under SB 98 leading up to the filing of the 2021-2022 Purchased Gas Adjustment (PGA) filing. The 30,000 RTCs from the Wasatch project were offered to NW Natural just as the definitive agreement was being finalized, which occurred after the PGA was filed and just as the Smart Energy program was being updated for Washington. Please see the enclosed response to Staff information request #1, included as Attachment 2, for more detail on the selection of the Wasatch project for the Smart Energy program.

Staff acknowledges that there are many factors driving NW Natural's need for and strategy to acquire renewable resources and expresses their view that voluntary demand should be leveraged to support the acquisition of resource that are less cost competitive for all customers. The Company agrees and emphasizes that leveraging the demand of the Smart Energy program to help enable RNG projects that may not otherwise happen is part of the intent of the proposed changes to the Smart Energy program.

NW Natural welcomes further discussion of RNG project allocation strategy in future integrated resource plan (IRP) and policy dockets and agrees with Staff's recommendation to move forward with the Smart Energy updates now and discuss the policy questions in future dockets.

Staff's concern that the ability to rate base projects is not the driving factor in allocating RNG projects between voluntary and compliance actions is well taken. In response, NW Natural agrees that RNG procurement for the Smart Energy program should be consistent with and align with the procurement and allocation methodology established in current and future dockets.

Conclusion
NW Natural appreciates the opportunity to provide these reply comments and encourages the Commission to approve the changes to the Smart Energy program as proposed by the Company and supported by Staff.

We are pleased to offer a voluntary RNG program through our long-standing and successful Smart Energy program, providing an efficient and effective means for program participants to use RNG to reduce the impact of their emissions and help all customers meet the requirements of the CPP.

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

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Sincerely,

/s/ Natasha Siores

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Attachments

NW Natural®

Rates & Regulatory Affairs

ADV 1502 Schedule 400 Smart Energy Program
Renewable Natural Gas Option Advice No. 23-04

Data Request Response

Request No.: ADV 1502 CUB DR 2

CUB's understanding of voluntary clean energy programs is that the renewable certificates belong to the customer, not the utility. In its filing NWN says that "NW Natural will also ensure that RNG purchases for the Smart Energy program have the necessary documentation to comply with state reporting and CPP requirements."
Will NWN be using RNG from Smart Energy voluntary customers to comply with the Climate Protection Program?
If so, will the customer who purchases the RNG get credit for it? For example could that customer get a credit to offset some of their share of the system compliance costs? Please explain how NWN plans to track and allocate the compliance benefits associated with the voluntary RNG purchases made by customers.

Response:

It is important to note that in understanding voluntary clean energy programs that participant attribution and renewable certificate attribution/ownership is defined specific to each voluntary clean energy program. The regulatory context in which a program is offered also has bearing on program design.

In Oregon the carbon regulation structure under which NW Natural's customer deliveries are covered, the Climate Protection Program (CPP), is unique. The utility is the point of regulation for carbon emissions associated with all customer energy delivery. The compliance responsibility for all customers, including participants in the voluntary program, rests with the utility. Ownership is not relevant to molecules contributing to compliance.

NW Natural will purchase, track and allocate RNG purchases within the voluntary program using a Smart Energy program dedicated M-Rets registry account on behalf of participating customers. This is consistent with the legacy Smart Energy program, in which offsets are retired on behalf of customers. Compliance with the CPP will involve a portfolio of decarbonizing measures and instruments. Customers who participate in the program will not receive a direct one for one compliance discount for the portion of renewable natural gas included in the voluntary product. All customers will benefit from the additional RNG purchases that will mitigate a portion of carbon emission reductions.

Commonly accepted GHG Accounting standards[1] support NWN's view that the voluntary program is additional to the carbon cap under the Climate Protection Program (CPP). Customers who use the voluntary program to reduce their onsite (Scope 1) emissions do not preclude NWN from utilizing the same environmental attributes to reduce emissions resulting from the use of its product (Scope 3).

Science Based Targets initiative (SBTi) clearly explains that the same emission reductions will necessarily be claimed by scope 1 and scope 3 emitters for the same reduction activity, i.e. NWN and customers are expected to make overlapping claims Scope 1 and Scope 3 emitters necessarily report on the same carbon emissions according to existing GHG Protocol (GHGP) guidance.

Carbon accounting best practices verify that carbon emissions reduction associated with the same environmental attribute can be used to address emissions from different entities as long as the scopes are distinct. The voluntary program would effectively address our customers' Scope 1 emissions and be part of NWN's strategy to address Scope 3 emissions. This approach has recently been supported by CPUC in its 2020 ruling on SoCal Gas's green tariff.[2]

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[1] https://sciencebasedtargets.org/resources/files/SBT_Value_Chain_Report-1.pdf, https://ghgprotocol.org/guidance-0

[2] https://www.socalgas.com/sites/default/files/Joint%20Motion%20for%20Approval%20of%20Settlement%20-%204-13-20%20Final.pdf. Note that in California certain large customers are the point of regulation for the cap-and-trade program. In such a circumstance, double counting concerns can arise (i.e., it is necessary to establish whether the utility or the customer can claim the RNG for compliance with California's cap-and-trade program). The cited order addresses this concern in Attachment A, page 3. This double counting issue does not exist in Oregon, however, because the utility is the point of regulation under the CPP.

NW Natural

Rates & Regulatory Affairs
ADV 1502
Schedule 400-Smart Energy Program Renewable Natural Gas Option Advice No. 23-04
Data Request Response

Request No.: ADV 1502 OPUC IR 1

01.Please explain how the Company identified the Wasatch Resource Recovery Project as the appropriate project for a voluntary project and other projects as appropriate for serving all customers with RNG (for example the Lexington Project and Dakota City Projects). a. Please explain how the Company determined that this project should be used for a voluntary program as opposed to SB 98 or CPP purposes?
b. Please explain how the costs and risks of this project differ from the RNG projects procured to serve all customers in Oregon, such as the Lexington and Dakota RNG Projects and provide any workpapers supporting this explanation in an excel format.

Response:

1.a. The Wasatch[1] project is being used for SB 98 and CPP purposes, as well as an additional volume for Smart Energy. We expect the RTCs delivered within the Smart Energy Program will be used for compliance under the CPP.

NW Natural was negotiating with BP to purchase RTCs from the Wasatch project for delivery to Oregon customers under SB 98 leading up to the filing of the 2021 – 2022 PGA. In April 2021, the Company determined that Wasatch was the least cost RNG resource available for immediate delivery to customers, and later signed an agreement to purchase the RTCs from Wasatch in Dec. 2021 after some administrative delay by BP.

Throughout 2021 our discussions with BP were to purchase 200 RTCs/day from the project, and thus assumed 200 RTCs/day in our 2021 – 2022 PGA. After the PGA was filed, but before we signed the definitive agreement, BP offered us an additional one-time purchase of 30,000 RTCs from the project. We knew the Smart Energy program was being updated for Washington, and would be updated for Oregon, and that the program was looking for low-cost RTCs to use as supply. We discussed this resource opportunity with the Smart Energy program, and they agreed that this looked like the least-cost RNG resource available for them to use in the Smart Energy program. The

[1] It may be helpful to know that this project was first called “SEV” in some earlier materials, reflecting the name of the broker we were working with, Sustainable Energy Ventures. It has been referred to more recently as both “Wasatch,” reflecting the location, and “BP,” reflecting our contractual counterparty.

resource fit within the parameters of the voluntary program’s resource procurement policies.

b. The decision to pursue the Lexington project for Oregon customers was made in November 2020, before the Wasatch project was considered, and the Dakota City project was not ready for decision in April 2021, when we made our decision to pursue Wasatch. So these projects were not compared with one another. Additionally, our evaluation methodology was evolving throughout this period, so we made comparative decisions across our current potential portfolios using different metrics for each of the projects.

At decision-making, the projects looked like this:

	Risk-Adjusted Incremental Cost, Time of Decision	**Average RTC Cost, Time of Decision**
Dakota City	$5.76/mmbtu	
Lexington		$9/RTC
Wasatch	$8.86/mmbtu	$12/RTC

Lexington and Dakota City were both development projects, so risks associated with capital costs and operating costs, for instance, would have been more substantial. The contract for Wasatch was a fixed-price contract, so there was no cost risk embedded in the contract. The Wasatch contract requires the project to deliver us all RNG produced, but there is no minimum contract amount. Our counterparty analysis found that the risk associated with BP was low.