

ITEM NO. RA1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 8, 2023**

REGULAR X **CONSENT** **EFFECTIVE DATE** August 9, 2023

DATE: August 1, 2023

TO: Public Utility Commission

FROM: Charles Lockwood

THROUGH: Caroline Moore **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. ADV 1502/Advice No. 23-04A)
Updates Schedule 400, Smart Energy Program to include RNG.

STAFF RECOMMENDATION:

Approve Northwest Natural Gas Company's (NW Natural or Company) Advice No. 23-04A to update Schedule 400, the Company's Smart Energy Program (Program).

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve NW Natural's proposed revisions to include renewable natural gas (RNG) as a mitigation resource, update pricing for the program, and lower the threshold limit from 100,000 to 50,000 therms for the commercial customer class the Company's Smart Energy Program, with an effective date of August 9, 2023.

Applicable Rule

ORS 757.205 requires public utilities to file schedules showing all rates, tolls, and charges for service that have been established and are in force at the time. Pursuant to ORS 757.210, the Commission may approve tariff changes if they are deemed to be fair, just, and reasonable.

Filings that propose any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the change. ORS 757.220; OAR 860-022-0015.

Natural gas utilities may file a rate schedule under which a retail natural gas customer may elect to pay a special rate for a quantity of renewable natural gas equivalent to all or a portion of that customer's natural gas usage, consistent with the filing requirements under Oregon statute and any other applicable requirements specified by the Commission in rule or order. OAR 860-150-0005(3).

Analysis

Background

NW Natural's Smart Energy Program is a voluntary program that enables customers to mitigate greenhouse gas emissions associated with their natural gas use through the purchase of carbon offsets. NW Natural currently also runs the Smart Energy Program in Washington state, where the Company utilizes RNG and carbon offsets to mitigate greenhouse gas emissions, as proposed in this docket.

On May 9, 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 thermal certificates (RTCs) from RNG resources to the mitigation resource mix, update residential pricing to reflect the price of the RTCs, and lower the threshold limit from 100,000 to 50,000 therms for the more customizable commercial customer class offering.

On June 8, 2023, Staff held a workshop followed by a written comment opportunity. Staff provided written comments in support of the voluntary program design changes and flagged broader policy issues related to the Company's filing. A wide range of stakeholders also provided comments including joint comments from the Green Energy Institute of Lewis and Clark Law School (the Green Energy Institute) and Climate Solutions, various municipal entities throughout the state, interested NW Natural customers, including both residential and commercial, and the Company. NW Natural submitted reply comments addressing the questions and concepts in Staff's comments.

Northwest Natural's Proposed Changes

In Advice No. 23-04/Docket No. ADV 1502, NW Natural proposes several modifications to Schedule 400. First, NW Natural proposes to add RNG to the supply mix of the Smart Energy program. The proposal to add RNG as a mitigation resource mirrors NW Natural's Smart Energy Program in Washington and would utilize RTCs for RNG generated by Wasatch Resource Recovery (Wasatch Project) through 2024 to supply a

portion of the resources pooled to meet both Oregon and Washington Smart Energy customer demand. The Company stated that the RTCs from the Wasatch Project will cover one to four percent of program demand, depending on the overall participation level. The Company states that providing this quantity of RNG will lessen the cost impact of adding RNG for participants.

Second, NW Natural proposes to increase the cost of the Smart Energy Program for residential customers to reflect the addition of these RTCs, while continuing to offer negotiated price pursuant to the execution of a written contract for commercial and industrial customers. These changes are summarized in Figure 1. The Company will adjust the mix of RNG and carbon offsets as needed to control costs due to RNG market conditions. Therefore, participants will gain price certainty.

Figure 1. Summary of proposed Schedule 400 changes¹

Residential	Current Offering	Proposed Offering
Fixed Rate	\$5.50 per bill	\$8.00 per bill
Volumetric Rate	\$0.10486 per therm	\$0.15246 per therm
Mitigation Resources	Carbon offsets	A mix of RNG and carbon offsets, with target of 4% RNG. The percentage of RNG included in the mix may vary but must be at least 1%.
Commercial/Industrial	Current Offering	Proposed Offering
Fixed Rate or Bilateral Contract	Fixed Rate of customer's choosing but not less than \$10 per bill	Fixed Rate of customer's choosing but not less than \$10 per bill
Mitigation Resources	Carbon offsets	Commercial - A mix of RNG and carbon offsets

NW Natural proposes to stop offering the carbon offset only product and pricing to new enrollments starting January 1, 2024. The Company will reach out to current participants allowing those customers currently enrolled in the Smart Energy Program to opt into the RNG option.

Lastly, NW Natural proposes to lower the commercial class threshold limit from 100,000 to 50,000 therms to allow participation for additional customers that have requested more flexibility to participate in the Smart Energy program through a negotiated price under a written contract. This change will allow approximately three percent of commercial class customers to be eligible for the Smart Energy Program.

¹ See NW Natural Advice No. 23-04 Schedule 400 Smart Energy Program, Docket No. ADV 1502, NW Natural Initial Application at 2 (May 9, 2023).

Staff Review

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. Staff finds that the slight price increase to the program due to the introduction of RNG is 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. This change will allow approximately three percent of commercial class customers to be newly eligible for the Smart Energy Program, and NW Natural has shown the necessary amount of RTCs to satisfy this projected increase.

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.

Policy Questions Impacting This Docket

The Company's proposed program changes implicate two policy questions: the use of RTCs in voluntary programs for Climate Protection Plan (CPP) compliance and NW Natural's RNG acquisition across different uses. Parties have also raised interesting questions about process and engagement.

Use of Smart Energy RTCs for CPP Compliance

First, NW Natural proposes to utilize the RTCs procured for Smart Energy Program to meet a portion of the Company's CPP compliance requirements. 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

RTCs used for programs like the Smart Energy Program can contribute to 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 if 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 believes that issue is broader than the scope of these voluntary program changes. The Commission can approve the Smart Energy program changes and address the use of these RTCs for CPP compliance when they come up in a more appropriate CPP compliance venue.

In terms of this advice filing, it will be critical for program participants to understand that they may not be receiving RNG above and beyond what the Company will acquire for compliance resources. It is important for NW Natural to properly communicate with customers about its intention to use the Smart Energy Program RTCs toward CPP compliance if the RTCs are eligible. Periodic review of NW Natural's communications and marketing plans can mitigate this concern.

In NW Natural's Reply Comments, the Company states it had an interest in adding RNG as a mitigation resource since RNG became a viable decarbonization opportunity and it would propose these changes to Smart Energy regardless of whether the RTCs can contribute to CPP compliance.² In the Company's Reply Comments, NW Natural supported the review of its marketing materials by Staff and stakeholders through a semi-annual review meeting. Staff has scheduled two upcoming meetings with NW Natural to discuss their communication and marketing materials, with the first scheduled for August 22, 2023, to review NW Natural's materials if the addition of RNG is approved, and the second scheduled for February 27, 2024, to review updated materials corresponding to the launch of new resource mix.

The Green Energy Institute and Climate Solutions expressed concerns regarding the intersection of this with DEQ's 2023 Climate Rulemaking. They indicate that DEQ is currently considering proposals to narrow the scope of resources eligible to contribute toward CPP compliance and that,

[...]there could be unintended consequences if the OPUC decides to move forward with allowing RNG and RTCs purchased for CPP compliance to be included in this voluntary Smart Energy Program, especially before any potential geographical restrictions are further hammered out at DEQ. We hope the Commission will understand these dynamics and decide to hold

² See NW Natural Advice No. 23-04 Schedule 400 Smart Energy Program, Docket No. ADV 1502, Northwest Natural Reply Comments at 2 (July 21, 2023).

off on deciding whether RNG and RTCs should be included in NW Natural's Smart Energy Program for the time being.³

The Green Energy Institute and Climate Solutions have therefore asked that the Commission denies or postpones a decision until the conclusion of the rulemaking.

Staff appreciates this context but continues to support the Commission's approval of this advice filing. The Commission is not deciding in this docket on whether RTCs procured for the Smart Energy Program can contribute to CPP compliance. The Commission is deciding whether the Company can make these RTCs, which are already approved for use for Smart Energy customers in Washington, available to Smart Energy customers in Oregon as well. Staff believes that the use of these RTCs for CPP compliance will be the subject of future discussion in more appropriate venues with all utilities and stakeholders, but Staff does not believe this determination is necessary to approve this advice filing's proposed changes.

NW Natural's RNG Acquisition Strategy

Second, the allocation of RNG to voluntary products highlights the importance of ongoing discussions about NW Natural's strategy for identifying RNG projects and allocation of selected projects between different uses.

While Wasatch Recovery was already approved for the Smart Energy program in Washington, questions about voluntary uses further highlight the importance of developing a least cost, least risk strategy for acquiring supply, demand, and alternative CPP compliance resources that considers near-term and long-term risks. Staff believes that the Company's decisions to allocate RNG between voluntary and general uses should be part of these discussions so that customers' interests stay at the forefront of those decisions.

In NW Natural's Reply Comments, the Company recognizes this docket raises policy questions regarding how it allocates the costs, benefits, and risks of RNG projects among its voluntary programs, cost-of-service customers, and the Company's own climate compliance obligations. NW Natural believes these policy questions impact other utilities as well and recommends addressing these issues in a broader docket. 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.

³ See NW Natural Advice No. 23-04 Schedule 400 Smart Energy Program, Docket No. ADV 1502, Climate Solutions and GEI's Comments at 3 (July 27, 2023).

Staff is committed to continuing discussion of this important topic in NW Natural's IRP, other compliance policy dockets, and ongoing Smart Energy oversight.

Procedural Issues

The Green Energy Institute and Climate Solutions expressed concern regarding the Commission's notification of interested stakeholders for this docket. Staff appreciates the issue of visibility and outreach being raised and will work with the Administrative Hearings Division to identify near-term improvements.

In NW Natural's Reply Comments, the Company mentioned a consumer advisory group, like the Portfolio Options Committee (POC), could help vet program changes and serve as an effective forum to address larger policy issues. Staff will keep this in mind as it considers procedural and engagement opportunities.

Conclusion

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. Staff appreciates the Company's efforts to enhance its voluntary offerings and 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. Staff will discuss these topics in NW Natural's IRP, other compliance policy dockets, and ongoing Smart Energy oversight.

PROPOSED COMMISSION MOTION:

Approve NW Natural's proposed updates to Schedule 400, the Smart Energy Program, as described in Advice No. 23-04A, effective on and after August 9, 2023.