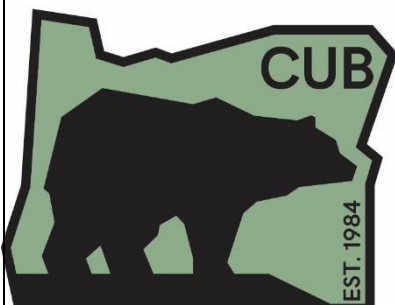


**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
LC 79**

In the Matter of)	
)	COMMENTS OF THE
NORTHWEST NATURAL GAS)	OREGON CITIZENS' UTILITY
COMPANY, dba NW NATURAL,)	BOARD ON STAFF'S FINAL
)	COMMENTS AND
2022 Integrated Resource Plan.)	RECOMMENDATIONS
_____)	

**COMMENTS OF THE
OREGON CITIZENS' UTILITY BOARD**

May 5, 2023



I. Introduction

CUB applauds the Staff of the Public Utility Commission of Oregon (Staff) for the level of detail contained in their Final Comments and Recommendations in this proceeding. Staff conducted a comprehensive review of NW Natural's (NWN or the Company) Integrated Resource Plan (IRP), brought in Synapse as an outside consultant to review the plan, and made dozens of detailed recommendations.

CUB will cover several topics in response to Staff's Final Comments and NWN's Updated IRP filing:

1. Cost to Customers
2. Renewable Natural Gas
3. NWN's Preferred Portfolio
4. NWN's Long-term Climate Protection Program (CPP) Compliance plan
5. Action Plan
6. Staff Recommendations

II. Discussion

1. Cost to Customers

One of CUB's significant, overriding concerns is the cost to customers of the various Action Items, particularly the cost of renewable natural gas (RNG). NWN's IRP includes some information on rate impacts, but CUB is concerned that it significantly underestimates the costs associated with implementing the IRP. The Company models the average annual payment from residential customers for each Scenario in Chapter 7, but CUB believes that these forecasts significantly under-forecast the true rate impacts associated with the levels of RNG procurement included in the IRP. In this section, CUB recommends that the Commission require NWN in its IRP Update to provide customer cost projections for the next 10 years that take into account the impact of ratebasing investments in RNG.

RNG on the market is expensive. Staff shows that the cost of RNG as a commodity in the market is selling at \$30-\$35/MMBtu when sold for transportation fuel, and between \$20 and \$25 when sold to utilities.¹ This is well above NWN's projection of \$14/MMBtu for Tranche 1 and \$19 for Tranche 2.^{2,3} But Staff recognizes that if NWN relies on utility developed RNG, it will result in prices that are closer to the production cost than to the market rate.⁴ In other words, in order to procure RNG at cost, NWN will have to invest and build RNG facilities. These

¹ LC 79, Staff Final Comments at 58.

² See LC 79, Staff Final Comments at 59.

³ CUB will refer to the bundled price of RNG in these comments, which includes the gas and the Renewable Thermal Certificate.

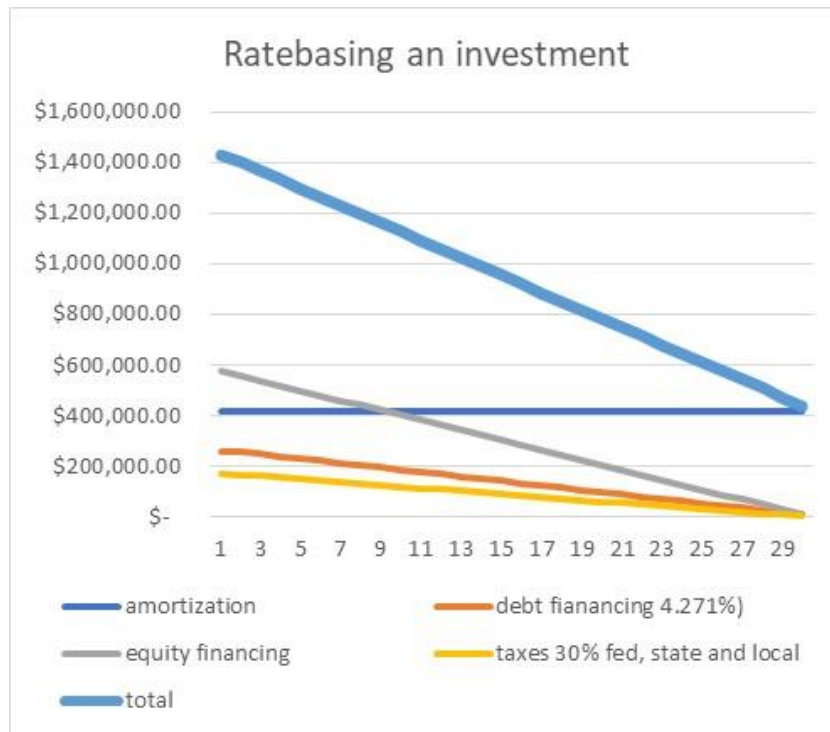
⁴ See LC 79, Staff Final Comments, page 59.

facilities will come into rates as rate-based assets, which increases the overall cost that end-use customers will pay.

Rate-making Implications. What Staff did not discuss is that, while Company-financed RNG facilities may bring down the cost of RNG by allowing customers to receive it “at cost” over the life of the investment, they will actually significantly increase customer costs in the early years because rate base is front loaded.

The chart below shows how ratebasing front loads cost recovery and therefore increases costs to customers sharply in early years. It represents a \$12.5 million investment with a 30-year useful life. The total cost in the first year is \$1.4 million and the annual cost declines to \$438,000 in the final year. It should be noted that this only represents the capital investment, not the ongoing O&M costs. The cost to customers for the capital investment is 3 times higher when it is first put into rates, than it is when the asset nears the end of its useful life.

Figure 1



For most utility investments, such as the investment in pipes, the assets comprising the utility’s rate base are a mixture of capital equipment at various stages of their useful life. Therefore, while some investments are new with above average costs, some investments are older with below average costs. In the case of RNG, there are no investments on NWN’s system that are near the end of their useful life. There are no investments that are even near the midpoint in their useful lives. NWN’s RNG costs are all new. In the above chart, the total annual cost of the asset examined is greater than the average cost until the 16th year of the 30-year investment. Since the

CPP goal of a 50% reduction in emissions by 2035⁵ is only 12 years away, all utility-developed rate-based RNG acquired to meet the 2035 goal *will be above the average (levelized) cost of the investment*.

This example is for a project that is approximately the size of NWN's recent Dakota City project, which NWN says will cost \$12.5 million and will meet 0.14% of load.⁶ If NWN wants to meet the 10% RNG goal established in SB 98 for the years 2025-2029, it will have to build 71 additional similar-sized projects, assuming NWN's load does not keep growing. The capital costs alone from these projects will add about \$100 million to rates *in the first year alone*. The costs of ratebasing RNG projects will be significant.

Additionally, this is an especially important consideration given the risk of long-term investments in the gas system despite its uncertain future in the face of emissions regulations. As CUB discussed in prior comments, if a subset of customers leaves the gas system, then the fixed costs of rate-based assets will remain with a shrinking pool of remaining gas customers. If this occurs within a context of extensive utility RNG development, then gas customers would pay both the higher front-loaded costs of rate-based RNG in early years and higher fixed costs per fewer customers on the gas system in later years.

Levelized Costs. Traditionally, in IRPs we do not look at actual revenue requirement to determine a least cost, least risk portfolio. Instead, we look at the levelized cost of resources. This makes sense because we generally do not distinguish between a utility financed project whose revenue requirement will be front-loaded reflecting rate base treatment, and contracted resources, whose contracts are more likely to reflect levelized costs.

While NWN forecasts the cost of RNG to be \$14 or \$19/MMBtu, this does not reflect the near-term revenue requirement associated with a utility-owned resource. Staff's Final Comments show that the expected least cost way to acquire RNG is to invest and ratebase RNG projects.⁷ However, the price forecasts used in NWN's IRP do not reflect the front-loaded cost associated with rate-based resources. If cost-effective RNG requires ratebased resources as described in Staff's comments, then the cost to customers will be significantly more than what is described in either NWN's or Staff's filings.

CUB generally agrees that long-term planning requires using levelized costs which enables a fair comparison between utility-built resources and contracted resources. But doing so can obscure the price impact of near-term resource decisions. Given the substantial costs associated with RNG procurement, it is essential to understand the resource's true cost to customers, particularly when there are lower cost CCI available to meet the Oregon Department of Environmental Quality's (DEQ) CPP rules.

CUB Recommendation 1: CUB recommends that the Commission require NWN in its IRP Update to provide customer cost projections for the next 10 years that consider the impact of ratebasing investments in RNG.

⁵ See OAR 340-271-8100(4).

⁶ See UG 462, NW Natural/100/Chittum/Page 11, lines 9-13.

⁷ See LC 79, Staff Final Comments, page 59.

2. Renewable Natural Gas

CUB agrees with Staff that the Commission should reject NWN’s proposed RNG acquisition detailed in its IRP.⁸

NWN Overstates SB 98 targets. SB 98 sets voluntary targets of 5% RNG for 2020-2024 period, 10% for 2025- 2029, 15% for 2030-2034, 20% for 2035-2039, 25% for 2040-2044 and 30% for 2045-2050.”⁹ However, NWN overstates the SB 98 RNG targets in its IRP modeling. SB 98 establishes 5-year periods wherein large gas utilities **may** voluntarily procure up to a certain percentage of RNG despite the higher cost of RNG.¹⁰ Next year brings us to the end of the 2020-2024 period wherein 5% of the gas purchased by the gas utility for distribution to retail customers may be RNG.¹¹ Yet in NWN IRP workpapers, the Company falsely claims the SB 98 target for 2024 is 8%.¹² In 2025, SB 98 and NWN’s workpaper both set a goal of 10%, but for the remainder of the 2026-2029 period, wherein the SB 98 target remains at 10%, NWN’s RNG goal rises beyond 10%.¹³ In its IRP modeling, the Company appears to be reading language into SB 98 that does not exist in order to overinvest in RNG beyond what is allowed in SB 98.

The following graph illustrates the disparity between the SB 98 actual targets and the NWN SB 98 targets presented in this IRP. Essentially, for each 5-year period, NWN’s IRP targets meet the SB 98 target in the first year and exceed it in the following 4 years, resulting in over-procurement of expensive RNG in 4 out of every 5 years. Furthermore SB 98’s actual target stops at 30% in 2050, but NWN’s IRP SB 98 target increases to 35%.

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⁸ See LC 79 – Staff’s Final Comments at 10.

⁹ SB 98, Section 5(1)(a).

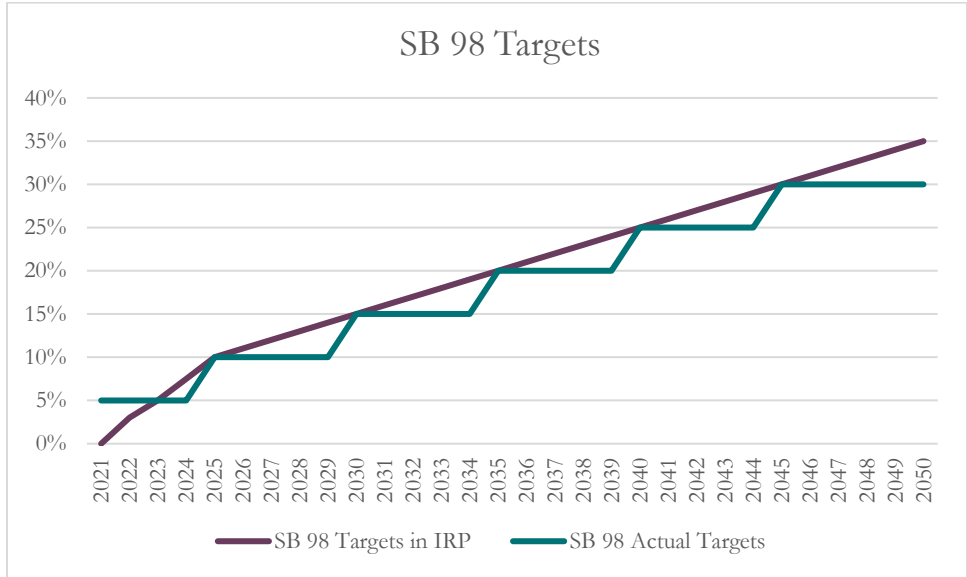
¹⁰ SB 98, Section 5, (emphasis added).

¹¹ SB 98, Section 5(1)(a).

¹² See LC 79, NWN workpaper 2022 IRP Scenario Results, Tab Notes and Scenario Inputs.

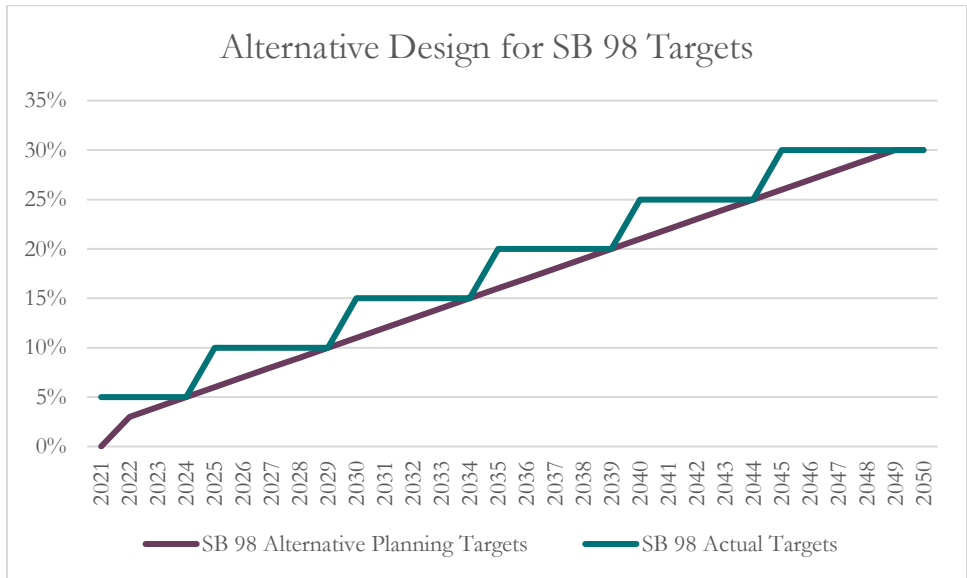
¹³ SB 98, Section 5(1)(b) and LC 79, NWN workpaper 2022 IRP Scenario Results, Tab Notes and Scenario Inputs.

Figure 2



NWN may argue that oversupplying RNG is necessary 4 out of every 5 years in order for it to meet the non-mandatory targets in the 5th year, but this ignores the fact that the target in the 5th year, like all of the targets, are not mandatory. RNG is expensive. It adds costs to customer bills. NWN could have designed its SB 98 targets so it is below the voluntary target in four of every 5 years but meets the target in the 5th year. In this alternative, in each 5-year period, NWN would be building towards the voluntary target. In addition, under this approach, the Company would not overshoot the target after 2045. The following figure details this approach.

Figure 3



While an IRP is not a proceeding to determine prudence, it is unclear to CUB how it is prudent for NWN to oversupply customers with expensive RNG beyond what is allowed (not required) for in SB 98 and beyond what is necessary to comply with the CPP's emission limits.

SB 98 and Community Climate Investments. Staff's comments are clear that, without even considering the additional cost of ratebasing RNG, Community Climate Investments (CCI) are a more cost-effective way to meet the requirements of the CPP.¹⁴ CUB agrees.

Unfortunately, NWN opposes maximizing its purchase of CCIs to lower the cost to customers, arguing that under SB 98, they are allowed to voluntarily acquire gas up to the targets. CUB is concerned with NWN's position for the following reasons.

- While SB 98 allows a large gas utility to make this kind of investment, it is not required, so NWN is not compelled to do so and certainly is not compelled to acquire RNG in excess of the targets. NWN is still beholden to least cost, least risk principles and must operate its IRP and the resources that it procures within that framework.
- When SB 98 was passed, the CPP did not exist. It is a new, more stringent and binding climate regulation than SB 98's voluntary approach. CUB believes that NWN's focus should be less on the older voluntary approach and instead focus on how to prudently manage meeting the CPP targets. Complying with CPP should drive the level of RNG procurement and determine how much (if any at all) should be procured within a least cost, least risk compliance pathway. The Commission appears to share CUB's thoughts on this issue:

SB 98 is a legislatively approved but voluntary RNG procurement target, while the CPP is a comprehensive, mandatory greenhouse gas emissions cap and reduction regime adopted by administrative rule. Under the requirements of the CPP, any emissions reduction measure the utility takes, which may include RNG procurement, will necessarily be in service of CPP requirements. At the same time, the magnitude of the CPP's emissions reduction requirements and potential customer rate impacts require us to apply a high level of scrutiny to whether the utility is pursuing the least cost, least risk portfolio of emission reduction measures. It is possible that a prudent strategy may include RNG, but this will depend on the costs and risks relative to alternatives. We are concerned about the potential incentive created by the availability of an [automatic adjustment clause] to skew the company's analysis of costs and risks of alternative CPP compliance measures towards RNG projects. Specifically, we are concerned about the potential for RNG to be automatically eligible for more favorable cost recovery up to the SB 98 spending limits without a demonstration that RNG at that level is least cost, least risk relative to other CPP compliance portfolio configurations.¹⁵

¹⁴ See LC 79, Staff's Final Comments, page 8.

¹⁵ OPUC Order No. 22-388 at 81.

- While a forward-looking IRP is not the place for a prudency determination, a utility should still strive to plan prudently. Meeting the SB 98 targets may not be the most prudent way to comply with the CPP.
- Gas utilities, unlike electricity utilities, generally do not produce the commodity they sell – they buy gas on the wholesale market and pass through the cost to customers. Shareholders earn a return on the infrastructure used to deliver gas, but not the commodity itself. NWN has long desired to ratebase a part of its gas supply, which would provide an investment opportunity for shareholders on the commodity itself. In 2011, NWN requested Commission approval of an investment in gas production in partnership with Encana that would produce about 10% of the annual gas needs of its customers through a ratebased asset.¹⁶ NWN then adopted a hedging guideline that would allow it to ratebase 25% of its gas supply.¹⁷ This arrangement had negative consequences for gas customers. The Encana project underproduced, producing gas at a cost that was above the cost of the wholesale market. The Company has not made additional investments in the commodity until its recent RNG investments, while the original Encana deal is still producing only about 3% of NWN’s gas supply in 2022.¹⁸
- Like NWN, CUB served on the Rulemaking Advisory Committee for the promulgation of the CPP. CCIs are supposed to reduce emissions and provide benefits to low income and underserved communities. The primary example used during the Committee’s discussions was supporting heat pump deployment in low-income homes. NWN’s lack of support for CCIs may be tied to its opposition to electrification. Regardless of the Company’s motives, it has an obligation to pursue CCIs as a least cost/least risk pathway to comply with the CPP. Failure to do so in favor of other, more expensive resources like RNG places significant regulatory risk on the Company’s shareholders.

These incentives may be leading NWN away from approaching this issue based on what is in the best interests of customers. The Company appears to favor CPP compliance pathways that shift a great deal of cost and risk onto customers while benefiting its shareholders. CUB recommends that the Commission scrutinize NWN’s plans to comply with the CPP and insist that its compliance pathway conforms to least cost/least risk planning guidelines.

SB 98 Cost Cap. In order to protect customers from the excessive RNG costs, SB 98 included a cost cap:

If the large natural gas utility’s total incremental annual cost to meet the targets of the large renewable natural gas program exceeds five percent of the large natural gas utility’s total revenue requirement for an individual year, the large natural gas utility may no

¹⁶ See UG 204, NWN/100/Miller/2 line 21.

¹⁷ See LC 60, NWN 2014 Integrated Resource Plan, Chapter 3 – Supply Side Resources, p. 3.41

¹⁸ NWN 2022 FERC Form 2.

longer be authorized to make additional qualified investments under the large renewable natural gas program for that year without approval from the commission.¹⁹

The cost cap as designed by the legislature set the ceiling for the total incremental annual cost for an individual year, but the PUC rules to implement the law are, like the IRP, based on the levelized cost.²⁰ But as discussed, the levelized cost does not accurately represent the costs that customers incur in an individual year. The Commission could reconsider the SB 98 rules and reset the cost cap to reflect actual annual costs, which would reflect the front-loading of ratebase costs. This modification would result in a more realistic reflection of potential costs to customers, reducing the amount of RNG that can be procured and increasing the purchase of cost-effective CCIs. However, the Commission has broad discretion to regulate in the public interest, and as such, the Commission has the flexibility to determine that further RNG acquisition should not be pursued independently from the cost cap. Nothing in SB 98 prevents the Commission from doing so.

CUB Recommendation 2: Through non-acknowledgement, the Commission should reject NWN's proposed RNG acquisition detailed in its IRP. It is not the least cost, least risk path to comply with the CPP and it is not consistent with SB 98, because it overshoots the voluntary targets set forth in the law. Such a non-acknowledgement does not mean that NWN cannot make RNG investments, but NWN will have to show that such investments are a prudent path to meeting regulatory requirements. According to the Commission, this should include a thorough demonstration that these resources are part of a least cost, least risk CPP compliance pathway.²¹

3. NWN's Preferred Portfolio

On March 27, 2023, NWN updated its IRP and the Company now explicitly adopts the average of 500 Monte Carlo stochastic simulations as the long-term preferred portfolio. There are several problems with this approach:

- A preferred portfolio based on the average Monte Carlo simulations reflecting all nine scenarios is largely determined by the scenarios that are selected. For example, the preferred portfolio in this IRP would be different if the Company had included one more scenario that included electrification as a strategy to reduce emissions. Or if it included a scenario that assumed new technological innovations in the production of RNG or hydrogen. Or if it included a scenario that limited hydrogen to 5% of load. If the Commission were to acknowledge that averaging across scenarios is a reasonable way to choose a preferred portfolio, then in the future, the choosing of scenarios to include in modeling will become much more contentious. Rather than using scenarios to inform the plan as to how different variables affect the least cost/least risk analysis, parties will advocate scenarios based on how they believe it will affect the average of everything. Choices will be made based on the expected outcome that they have on the average. If you want more electrification, have more scenarios that include it. If you want less

¹⁹ ORS 757.396(5).

²⁰ OPUC Order No. 20-227 at 11.

²¹ *Supra*, note 15.

electrification, have fewer scenarios that include it. If you want more load growth, include more scenarios that include robust load growth. If you want to restrict load growth, include fewer scenarios that have significant load growth. NWN is influencing the outcome of its preferred portfolio by limiting consideration to portfolios that it wishes to see in the future—those that will benefit its shareholders.

- Scenario 4 examines the effects of a moratorium on new customer hook-ups. By averaging the Monte Carlo runs from all 9 scenarios, this scenario represents 1/9th of the preferred portfolio. Eugene is less than 10% of the size of the Portland Metro area and likely represents less than 10% of NWN’s service territory. A Eugene-sized ban on new gas hook-ups would therefore seem consistent with NWN’s **Preferred** Portfolio. But NWN is doing all it can to stop the Eugene ordinance, including working with its allies in the gas industry to fund a \$4 million campaign to stop the ordinance.²²
- More importantly, what does it mean to have a preferred portfolio that is an average of everything? It contains some resource actions that the Company supports, such as investments in RNG and hydrogen, and some elements that the company is actively opposing, such as electrification. As stated in the Synapse analysis, electrification “is the most important planning alternative to renewable natural gas” to achieve decarbonization.²³ But NWN doesn’t model electrification as a resource option – it only considers it as a policy that could be imposed on the Company – a policy that the Company opposes. The Company’s opposition is well-documented:
 - When CUB proposed eliminating the line extension allowance in NWN’s last rate case, NWN stated that the PUC should not even entertain the discussion because it could signal that the PUC had pre-decided a diminished role for gas utilities which could impair the Company’s financial health.²⁴
 - When CUB proposed a similar policy through the legislature, NWN declared that it was a “de facto gas ban.”²⁵ This was not true. It was a lie. Eliminating the incentive provided to new customers to hook up to the gas system does not ban the use of gas – it does not ban the expansion of the gas network either. It simply limits how much current customers pay for that expansion.
 - NWN has spent the last few years fighting attempts by the City of Eugene to implement its Climate Action Plan: 1) requiring emissions reduction as part of franchise agreement; and 2) restricting the expansion of the gas network to new homes through a new ordinance. NWN, with the support of the national gas industry plans to spend \$4,000,000 to fight the Eugene ordinance.²⁶

²² *A fight brewing in Oregon could decide how we heat our homes and cook*, Washington Post, April 21, 2023 available at <https://www.washingtonpost.com/climate-environment/2023/04/21/natural-gas-industry-oregon-ban/>.

²³ See LC 79, Synapse Energy Economics, Review of Northwest Natural Gas 2022 Integrated Resource Plan – Final Report, page i.

²⁴ See UG 435, Exhibit 1700/Heating-Bracken/Page 8.

²⁵ See Attachment A.

²⁶ *A fight brewing in Oregon could decide how we heat our homes and cook*, Washington Post, April 21, 2023 available at <https://www.washingtonpost.com/climate-environment/2023/04/21/natural-gas-industry-oregon-ban/>.

- The Company refuses to plan to purchase the maximum amount of CCIs that are available under the DEQ rules, even though this is a lower cost path to CCP compliance.

CUB does not understand how the average of everything can be the “preferred” portfolio that leads to a least cost, list risk optimized portfolio for customers. The average includes load growth and RNG, but the average also includes electrification which the Company is fighting to prevent from happening on many fronts. What does it mean for a utility to be actively trying to undermine elements of what it claims is its preferred portfolio?

CUB Recommendation 3: The Commission should reject NWN’s averaging approach to developing a preferred portfolio. NWN should be directed in future IRPs and IRP updates to identify a preferred portfolio representing the least cost/least risk path to serving its customers.

4. Compliance Plan/Portfolios

CUB agrees with Staff and Synapse that NWN has not shown that it has a reasonable CPP compliance pathway. CUB discussed this in our Opening Comments and our concern has only grown since then. The Company’s assumptions about the cost of RNG, about the cost and availability of hydrogen, about the cost, availability and emissions associated with synthetic gas, and about the cost and adoption of gas heat pumps are all highly questionable. In addition, CUB agrees with Synapse that NWN’s IRP is biased towards load growth and fails to consider electrification as a resource option and alternative to RNG.²⁷

There is one additional element that is missing from NWN’s analysis of its various compliance portfolios – a recognition that each compliance portfolio contains a different set of trade-offs in how it allocates its emissions budget. Once the CPP emissions baseline was established by DEQ, the amount of allowable annual emissions from NWN’s system became fixed. Continuing to add new residential customers based on historic levels, as contained in the reference case and most of the scenarios, means there are fewer emissions available for transport customers and existing residential and commercial customers. A plan that includes more electrification increases the emissions that are allowable from transport customers and other customers who cannot electrify as easily as homeowners, if they electrify at all. NWN has a fixed budget for emissions and every portfolio represents a different allocation of this budget. Yet, NWN’s IRP is missing any description of how the portfolio allocates the Company’s emissions budget. NWN’s IRP update should include tables that show the allocation of the emission budget between classes of existing customers and classes of new customers. For example, what is the emissions limit in a given year, and how is allocated to new residential customers, existing residential customers, new transport customers, existing transport customers, new commercial customers and existing commercial customers. This table would help parties evaluate the trade-offs in each portfolio, in each allocation of the fixed budget.

CUB Recommendation 4: The Commission should not acknowledge NWN’s plan to comply with the CPP.

²⁷ See LC 79, Synapse Energy Economics, Review of Northwest Natural Gas 2022 Integrated Resource Plan – Final Report, page i.

CUB Recommendation 5: The Commission should require NWN to show how each portfolio in its IRP allocates the fixed emissions budget set by the CPP.

5. Action Plan

The Action Plan creates a very real dilemma. NWN has not shown a reasonable path forward for complying with the CPP. Its assumptions about the cost and availability of alternative fuels such as RNG and hydrogen are questionable. Its inclusion of cheap and unlimited synthetic methane in all scenarios is unsupported. Its assumptions about load growth undermine the portfolios. Its unwillingness to consider electrification as a resource option limits its ability to project a least cost, least risk plan.

Because of the long useful lives of most of the new gas investment contained in the Action Plan, the lack of a long-term reasonable compliance plan makes it impossible to say that these are prudent reasonable investments.

At the same time, there are investments that need to be made. Allowing service to existing customers to degrade because the Company is unable to identify a compliance path for future emissions regulation is not fair to current customers who rely on NWN to provide space heating. Some elements of the Action Plan, such as Mist Recall, have reasonable costs and help serve current customers, today. But what about the future? Traditionally, once these investments are identified as prudent, customers are on the hook for those costs, even costs that will be recovered 30-50 years from today. Without a reasonable compliance plan that identifies the load served and the capacity needs of the customer base well into the future, it is not possible to say that these investments will be needed in 30-50 years. Indeed, many may become fully or partially stranded.

Staff proposes requiring that the Company's portfolio modeling consider non-renewal of unneeded expiring firm capacity contracts and the retirement of other capacity resources as appropriate.²⁸ CUB appreciates Staff's proposal as a way to offer some protection against over investing in capacity resources today, but CUB thinks the Staff's proposal does not go far enough to protect customers. If these new investments are deemed prudent and included in rates, customers will be on the hook for them for decades. If demand on the system shrinks and the Company has too many capacity resources, customers are only protected to the degree that there are properly sized expiring resources or resources that are eligible for retirement.

CUB recommends that the Commission consider acknowledging the investments that Staff supports as reasonable in the short/medium term (5-10 years) while explicitly recognizing that there is not a long term CPP compliance plan that demonstrates that these resources will be necessary in the longer term. CUB believes the Commission should be clear in this proceeding there would not be a long-term assumption of prudence for projects that are procured without first establishing a reasonable compliance plan. If the Company goes forward with an investment, the burden should be on the Company to demonstrate the prudence of the investment over the long term. The long-term risk associated with these investments should not be assigned

²⁸ See LC 79, Staff Final Comments, page 66.

to customers through acknowledgement in this IRP. Only when/if the Company can show that these investments are reasonable in the long run, can the long-term economic risk associated with these investments be assigned to customers.

CUB notes that our review of the Portland Cold Box was limited to the economics of it as a capacity resource. The environmental risks associated with the investment, including the potential regulatory compliance costs that could result from DEQ's Fuel Tank Seismic Stability rulemaking and ODOE's Fuel Security Plan are not something CUB has examined, but should be considered in any acknowledgement or prudence review of the investment.

CUB Recommendation 6: For investments such as Mist Recall and the Forest Grove Feeder that are needed for reliability and capacity during the action plan, the Commission should acknowledge these as reasonable in the short/medium term but recognize that there has not been a demonstration of long-term need. Without such a determination, the long-term risk of these investments should not be assigned to customers.

6. Staff Recommendations

Staff list 43 recommendations relating to the Action Plan, the distribution system, the long-term plan, and other elements of the IRP. Staff's analysis of the IRP was in-depth and was significant and was augmented by Synapse's report on the IRP. CUB applauds the details of Staff's analysis and generally supports Staff's recommendations in addition to the specific recommendations we make here.

III. Conclusion

This is the first NWN IRP since the CPP was developed. Much of the focus of this IRP review has been on the issues related to complying with the CPP. CUB appreciates the difficult task that is ahead for NWN—a company whose business model is buying fossil fuels on the wholesale market and selling that fossil fuel to retail customers. But decarbonization is not a choice, it is a necessity, recognized by the State of Oregon and its citizens. Based on CUB's review of the IRP, CUB has the following recommendations:

CUB Recommendation 1: CUB recommends that the Commission require NWN in its IRP Update to provide customer cost projections for the next 10 years that take into account the impact of rate-basing investments in RNG.

CUB Recommendation 2: Through non-acknowledgement, the Commission should reject NWN's proposed RNG acquisition detailed in this IRP. It is not the least cost, least risk path to comply with the CPP and it is not consistent with SB 98, because it overshoots the non-binding targets set forth in the law. Such a non-acknowledgement does not mean that NWN cannot make RNG investments, but NWN will have to show that such investments are a prudent path to meeting regulatory requirements. According to the Commission, this should include a thorough demonstration that these resources are part of a least cost, least risk CPP compliance pathway.²⁹

²⁹ *Supra*, note 15.

CUB Recommendation 3: The Commission should reject NWN’s averaging approach to developing a preferred portfolio. NWN should be directed in future IRPs and IRP updates to identify a preferred portfolio representing the least cost/least risk path to serving its customers.

CUB Recommendation 4: The Commission should not acknowledge NWN’s plan to comply with the CPP.

CUB Recommendation 5: The Commission should require NWN to show how each portfolio in its IRP allocates the fixed emissions budget set by the CPP.

CUB Recommendation 6: For investments such as Mist Recall and the Forest Grove Feeder that are needed for reliability and capacity during the action plan, the Commission should acknowledge these as reasonable in the short/medium term but recognize that there has not been a demonstration of long-term need. Without such a determination, the long-term risk of these investments should not be assigned to customers.

Dated this 5th day of May, 2023.

Respectfully submitted,

/s/ Bob Jenks

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Cc: Amanda Hess <amanda@nwpublicaffairs.com>

Subject: Response to CUB/Climate Solutions Presentation on HB 3152

LC 79 - CUB Comments

Attachment A, p. 1

CAUTION: This email originated from outside the Legislature. Use caution clicking any links or attachments.

[REDACTED],

I wanted to follow up on the HB 3152 hearing. Unfortunately, there was not time during the hearing to dig into many of the assertions made by CUB and Climate Solutions during their two presentations. I wanted to provide a bit more information and correction some of the misinformation in the presentation.

CUB and Climate Solutions testimony about line extension allowances are factually inaccurate.

At the outset, it is important to understand the regulatory framework for serving utility customers. The Oregon Public Utility Commission ("Commission") oversees all aspects of the service by utilities, including billing rates, customer connection economics (line extension allowances), and the prudence of any asset used to provide service. The Commission also determines what is a fair rate of return for the assets that provide utility service to customers.

CUB and Climate Solutions argue that the regulated connection economics represent a subsidy from existing ratepayers to new customers. This is not accurate. Gas and electric utilities evaluate the addition of new customers by comparing the incremental revenue from a new customer to the incremental investment cost of the facilities to connect them, inclusive of the utility's fair rate of return. Fundamentally, it is a financial transaction between the utility and its customer. If the incremental revenues do not exceed the incremental cost, then the new customer will be required to pay for the difference. **This methodology, which is commonly accepted, is specifically designed to prevent subsidies.** This methodology must be reviewed and approved by the Commission to ensure fairness to all customers.

Climate Solutions and CUB identified an amount of \$61 million in rates related to line extension allowances provided over time. We have requested their underlying workpapers to better understand their calculation, but only received them this morning (March 17th). We will follow up after we have a chance to review the workpapers. Our understanding is that the amount is somehow related to all of our investments in system expansion to add new customers, over many decades, that has not been fully depreciated. It is not a simple exercise to derive this amount, *but it's also not necessary to do at all*. As described above, line extension allowances are designed to prevent subsidies by ensuring that investments for new customers are prudent and economic. Each customer will pay their share of revenues to justify the allowance. And by adding new customers, utilities can spread other fixed costs across a larger customer base, which helps keep costs down for all of our customers.

Although Climate Solutions and CUB claim the bill is not a gas ban, we believe it is a *de facto* gas ban because it drives uneconomic outcomes. Eliminating the line extension allowance is akin to a consumer paying all cash for a new car, and then receiving a monthly bill from the dealership. It's simply not a fair deal for the customer. Existing customers also lose in in this scenario because there will be less new customers to share in the recovery of costs. In this way, a ban on line extension allowances actually create a rare "lose-lose" scenario for prospective and existing customers. Finally, the electric utilities have already announced their intention to stick with Colstrip until 2030, and that means customers that would otherwise be served by natural gas and RNG will be served by coal for even longer than expected. To the extent the electric utilities are shouldering the gas utility's load, that will only make it more challenging for them to meet their decarbonization targets.

NW Natural always strives to responsibly add customers to our system, using Commission approved methodologies that require fairness to all customers. This bill would upset that balance, create uneconomic market signals to Oregon homebuyers, and likely have no meaningful impact to meet the state's decarbonization goals.

Finally, the notion that the price of RNG is fixed in time and will never come down is also not accurate. The federal government started subsidizing wind and solar way back in 1992. It took the better part of two decades for the wind and solar markets to start to mature. Some of the reasons for that market maturity are that (a) technology improved and manufacturing of equipment got cheaper, and (b) demand steadily increased as more and more utilities were required to procure renewable energy (think back to the mid-aughts and Oregon's nation-leading RPS). That demand ramped up dramatically over the last decade, technology continued to improve and the prices of wind and solar continued to drop as supply ramped up to meet demand. The same thing is very likely to happen to both the RNG and renewable hydrogen markets. Demand across the country is increasing dramatically with each passing year as more and more gas utilities are subject to decarbonization requirements. For example, all gas utilities on the west coast, north east and parts of the Midwest are required to decarbonize. Many will do that with RNG and RH2, thus driving demand for the production. Additionally, the Inflation Reduction Act contains BILLIONS of dollars of incentives for

RNG and RH2 production. Some European renewable energy developers have already talked about reallocating their production to the United States because of these generous incentives. These incentives will lead to a huge increase in supply, which will meet the demand, thus reducing the overall price of RNG and RH2 over time.

Attachment A, p. 3

I'm happy to answer any questions you may have.

Have a great weekend.

Best,

Nels

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