

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2030

In the Matter of

PUBLIC UTILITY COMMISSION OF
OREGON,

Investigation Into the Use of Northwest
Natural's Renewable Natural Gas
Evaluation Methodology.

Staff's Phase Two Comments

In NW Natural's 2018 Integrated Resource Plan (IRP), the Company requested acknowledgement of its methodology for determining the cost-effectiveness of bringing renewable natural gas (RNG) resources to customers. The methodology, described in Appendix H to the 2018 IRP, utilized an avoided cost methodology to assess the ratepayer costs and benefits of RNG resources.

Staff's final IRP comments suggested revisions to Appendix H, and recommended launching an investigation into the use of the proposed methodology, rather than acknowledging the methodology through the IRP process. An investigation would provide opportunity for discussion, evaluation, and collaboration that would not have been possible in the IRP's timeframe.

Staff requested several changes to Appendix H including:

1. Updated greenhouse gas (GHG) policy expectations;
2. Use of a zero or low-price carbon price path beginning as late as 2030;
3. Updated inputs, assumptions and forecasts to methodology; and
4. Provide a detailed description of the SENDOUT RNG modeling process.

In Order No. 19-073, the Public Utility Commission of Oregon (Commission) adopted Staff's recommendation that the Company update and submit a Revised Appendix H, and participate in an investigation (UM 2030) into the use of the proposed methodology.

NW Natural is currently participating in UM 2030. The Company presented a Revised Appendix H at a Staff workshop on December 13, 2019, and subsequently submitted a Revised Appendix H on January 10, 2020. Both the presentation and the revised document contain elements that are responsive to Staff's requested changes. This began a Phase One approximately 30-day comment period in which stakeholders were asked to review the updated Appendix H and consider the question of whether this methodology is appropriate for determining the cost-effectiveness of RNG projects.

Phase One Summary

Staff submitted Phase One comments which found that:

- 1) In the Revised Appendix H the Company made updates to satisfy Staff requested changes number one through four.
- 2) Requested change number two was implemented in the Revised Appendix H as a change in *protocol documentation*, however the change in *practice* would only be evident in Phase Two review of work papers.
- 3) Requested change number four helped clarify that the RNG cost-effectiveness methodology is independent from SENDOUT software, thus underscoring the value of the Phase Two review of work papers actually demonstrating the RNG methodology and associated calculations, as applied to a proposed RNG project.
- 4) Staff also raised one area of concern regarding the question of whether the methodology is appropriate for determining the cost effectiveness of RNG projects: distribution system capacity cost.

AWEC submitted Phase One comments that support the use of “all-in” costs to evaluate RNG resources; caution that the acknowledgment of the methodology ought not be confused with project pre-approval or prudence review; note “all-in” costs should be limited to current costs and not forecasted or assumed future costs; and support bringing voluntary incremental RNG into the gas distribution system, while noting that pricing and policies developed in this and other dockets should not be designed to compete with other RNG markets.

NW Natural submitted Reply comments that addressed Staff’s comment on distribution system capacity cost, and also acknowledged and responded to AWEC’s comments. Thus Phase One drew to a close.

Phase Two Staff Comments

Phase Two of the investigation began on June 1, 2020, when NW Natural filed work papers demonstrating the Revised Appendix H methodology as applied to a real RNG project. Staff held a workshop on June 16, 2020, in which NW Natural reviewed these work papers and addressed questions with Staff and stakeholders that had signed the protective and modified protective orders for this docket.

Staff has subsequently reviewed the Phase Two work papers and offers the following comments:

Staff finds that the work papers demonstrate that the methodology is generally reasonable and fit for purpose, subject to continuing review of input accuracy. Staff expects that in future filings Staff will take every opportunity to review model inputs and calculations for accuracy and reasonableness.

Staff raises one question regarding the inputs and assumptions of the methodology: it is unclear whether NW Natural uses the weighted average cost of capital (WACC) from its most recent general rate case as a discount rate. IRP guidelines require use of the WACC for resource evaluation in the IRP, and so Staff believes it would be appropriate to use it in the RNG evaluation methodology as well, and requests confirmation if this is the case. If it is not the case, Staff requests explanation of the use of a different discount rate.

Staff also finds the work papers reflect Staff's requested changes pertaining to the revision of Appendix H. Staff notes that the Monte Carlo GHG Compliance Policy Paths included several price paths reflective of the Social Cost of Carbon per Washington State requirements, as well as the use of a zero-price carbon path.

Next Steps

Per Staff's Phase Two timeline update, filed on July 9, 2020, next steps are as follows:

August 3, 2020 – Deadline for all parties to submit Phase Two comments.

August 14, 2020 – NW Natural files Phase Two reply comments.

September 22, 2020 – Staff would like to present its recommendations regarding the methodology reviewed in this docket for Commission consideration at this September Public Meeting. Staff is open to presenting its recommendation at a later date, and can work with the Commission to find an appropriate Public Meeting date.

Dated at Salem, Oregon, this 3rd of August, 2020.



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