

CASE: UG 462
WITNESS: TED DRENNAN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

**Opening Testimony
Dakota City Renewable Natural Gas Project**

May 25, 2023

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Ted Drennan. I am an Energy Policy Analyst employed in the
3 Utility Strategy and Integration Division of the Public Utility Commission of
4 Oregon (OPUC). My business address is 201 High Street SE, Suite 100,
5 Salem, Oregon 97301.

6 **Q. Please describe your educational background and work experience.**

7 A. My witness qualification statement is found in Exhibit Staff/101.

8 **Q. What is the purpose of your testimony?**

9 A. In this testimony, I address Northwest Natural's (NW Natural, NWN, or
10 Company) request for rate recovery of its investment in the Dakota City
11 Renewable Natural Gas (RNG) project. I discuss the project, the resource
12 selection process, cost recovery, and analysis of the prudence of the Dakota
13 City RNG project.

14 The recommendations and findings contained in this testimony are
15 subject to change after review of testimony offered by other parties and further
16 analysis of the issues.

17 **Q. Did you prepare an exhibit for this docket?**

18 A. Yes. I prepared three additional exhibits:

- 19 • Exhibit Staff/Exhibit 102, consisting of the Company's responses to Staff
20 data request Nos. 7, 11, 13, 14, 22, 23, 25, 28, 27, and DR 7
21 Attachment 1.

- 1 • Confidential Staff/Exhibit 103 which contains the Company’s confidential
- 2 responses to Staff data requests 6 and 23 as well as confidential DR 11
- 3 Attachments 1 and 2.
- 4 • Confidential Staff/Exhibit 104 which contains an alternative way to select
- 5 a short list, and analytical support.

6 **Q. How is your testimony organized?**

7 A. My testimony is organized as follows:

8	Issue 1. Background and Summary of Recommendations	3
9	Issue 2. Dakota City Renewable Natural Gas (RNG) Project	9
10	Issue 3. Use of Scheudle 198	13
11	Issue 4. Selection Process.....	17
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ISSUE 1. BACKGROUND AND SUMMARY OF RECOMMENDATIONS**Q. Please summarize NW Natural's request in Docket No. UG 462.**

A. NW Natural requests cost recovery, through its Schedule 198, for its investment in the Dakota City RNG project, located adjacent to a Tyson Fresh Meats (Tyson) beef packing plant in Dakota City, Nebraska. The Company requests to recover the depreciation on Dakota City assets, cost of capital, income tax, and operating costs, and the revenue includes the distributions from Dakota City Renewable Energy LLC to NW Natural RNG Holding Company as the Class A shareholder and the sale of the physical RNG.

Q. Please summarize Staff's initial recommendations in this proceeding.

A. At this time, Staff's review is summarized below:

1. Prudence of investment: As discussed below, the Company has not yet demonstrated the Dakota City project was the least cost/least risk project available. As such, Staff cannot attest at this point to the prudence of the investment.
2. Use of an automatic adjustment clause (AAC): Staff believes use of the AAC here is similar to the use for NWN's Lexington Project and would support its use for Dakota City.
3. Consumer protections in AAC: Staff supports the modifications to the AAC adopted by the Commission in UG 435 but will likely recommend that any future RNG projects proposed for recovery through Schedule 198 be supported by IRP analysis and an acknowledged IRP action plan.

1 4. Consumer protections: The structure of this project includes the
2 formation of an affiliated interest. In Docket No. UI 451, the Commission
3 approved multiple safeguards to protect customers, Staff believes a
4 similar approach is warranted for the Dakota City Project.

5 **Q. What is the statutory framework for NWN's proposal to recover the**
6 **cost of investments in RNG projects?**

7 A. In 2019, Senate Bill (SB) 98 was signed into law. Requirements were
8 codified at ORS 757.390 to ORS 757.398. The legislature determined RNG
9 provides benefits to gas customers and the utility,¹ and development should
10 be encouraged,² however regulations addressing the procurement of RNG
11 and investments in RNG infrastructure should protect customers.³ Later the
12 commission adopted administrative rules to set requirements for RNG
13 programs under SB 98, which were included in the Oregon Administrative
14 Rules (OAR), Chapter 860, Division 150 following the rulemaking process in
15 AR 632.

16 SB 98 allows for a large natural gas utility to make prudent investments
17 in RNG projects, as well as purchase RNG from third parties. There are,
18 however, cost guardrails whereas the utility may not make additional
19 investments without Commission approval if the incremental costs (i.e. RNG

¹ See ORS 757.390(1)(a).

² Ibid at (1)(b).

³ Ibid at (2)(b).

1 costs in excess of costs for an equivalent amount of conventional gas)
2 exceed five percent of the utility's total revenue requirements.⁴

3 SB 98 also established voluntary RNG portfolio targets for large natural
4 gas utilities starting at five percent of Oregon sales load from 2020 to 2024
5 and gradually escalating to 30 percent from 2045 to 2050.

6 **Q. While SB 98 is voluntary, are there other requirements for the**
7 **Company to decarbonize?**

8 A. The Oregon Climate Protection Program (CPP) was developed following the
9 issuance of Executive Order 20-204. The Oregon Environmental Quality
10 Commission (EQC) is a five-member panel that serves as the Oregon
11 Department of Environmental Quality's (DEQ) policy and rulemaking board.
12 On December 16, the EQC voted to establish the CPP. These rules are
13 enshrined in Chapter 340, Division 271 of the Oregon Administrative Rules.
14 The DEQ administers the CPP, which is designed to reduce greenhouse gas
15 emissions as well as enhance public welfare, especially for environmental
16 justice communities⁵. The program establishes a cap on emissions for
17 covered entities with the cap declining annually.

18 **Q. Please describe the CPP requirements, as relevant here, in general**
19 **terms.**

20 A. The CPP requires covered fuel suppliers, of which NWN is one, to reduce
21 greenhouse gas emissions. There are multiple compliance options available

⁴ See ORS 860-150-0200(3).

⁵ See OAR 340-271-0010(3).

1 for compliance. These options include compliance instruments issued by the
2 DEQ, community climate investments, use of renewable fuels, and reduction
3 of use. Compliance is measured in three-year intervals, starting with the first
4 compliance period 2022-2024.

5 **Q. Can NW Natural use the Dakota City RNG project for compliance under**
6 **the CPP?**

7 A. Yes, NW Natural states that under the CPP, they are responsible for emissions
8 that result from its sales and transport customers.⁶ Procurement of RNG will
9 result in fewer emissions produced by Oregon customers via book-and-claim
10 accounting. Book-and-claim allows for the green attributes of a renewable
11 energy source to be separated from the energy itself and applied to uses
12 elsewhere. Similar to the use of renewable energy credits (RECs) on the
13 electric side for greening power, this approach allows for renewable thermal
14 credits to green the gas supply.

15 Additionally, in Order No. 22-388 the Commission noted the Lexington
16 project would be used for compliance stating:

17 Under the requirements of the CPP, any emissions reduction
18 measure the utility takes, which may include RNG procurement,
19 will necessarily be in service of CPP requirements.⁷

20 **Q. Has the Commission expressed concerns with the recovery of RNG**
21 **projects, given NW natural's CPP compliance requirements?**

⁶ NW Natural/100 Chittum/Page 5 lines 10-14.

⁷ Order 22-388 at 81.

1 A. Yes. In Order 22-388, the Commission also warned the Company about
2 potential pitfalls in the future, requiring time for critical analysis:

3 In adopting an AAC for future RNG projects, we caution
4 NW Natural to ensure that it has allowed enough time and
5 stakeholder engagement for a critical analysis and vetting of the
6 prudence of any RNG project proposed for recovery through the
7 AAC, including a demonstration of how the project fits into its
8 CPP compliance strategy.⁸

9 **Q. What is the regulatory background for NWN's proposed use of**
10 **Schedule 198 to recover costs of an RNG project of this type?**

11 A. The Dakota City Project is the second RNG investment that NWN has
12 proposed for cost recovery in Schedule 198. In Order No 22-388, the
13 Commission approved NWN's proposal to establish Schedule 198 to recover
14 the revenue requirement associated with prudently incurred qualified RNG
15 investments that contribute to it meeting its SB 98 RNG targets. The
16 Commission also approved the recovery of prudently incurred costs of the
17 Lexington project, which it claims is its first RNG investment under SB 98. The
18 Lexington Project is very similar to Dakota City in that the counter-parties are
19 the same, the structure of the transaction is the same, and both are located at
20 Tyson Meat facilities in Nebraska.

21 When the Commission approved Schedule 198 and the recovery of
22 prudent costs associated with the Lexington project, the Commission provided

⁸ Ibid at 82.

1 guidance for the use of Schedule 198 moving forward and the consumer
2 protections associated with the recovery of costs through this schedule. This
3 guidance includes:

- 4 • Allocating enough time and stakeholder engagement for a critical
5 analysis and vetting of the prudence of any RNG project proposed for
6 recovery through the AAC, and
- 7 • A demonstration of how the project fits into its CPP compliance
8 strategy.

9 Further, the Commission reserved discretion to insist on such analyses prior to
10 including any future RNG projects costs in the AAC.⁹

⁹ See Order No. 22-388 at page 82.

ISSUE 2. DAKOTA CITY RENEWABLE NATURAL GAS (RNG) PROJECT**Q. Please describe the NW Natural Dakota City RNG Project.**

A. NW Natural, in conjunction with Tyson in Dakota City, Nebraska, proposes to take RNG output from a waste product digester, and, with use of pressure swing adsorption technology from Greenlane Renewables, bring that gas up to interstate pipeline standards. By injection in an interstate pipeline, the Company will retain the associated renewable thermal credits (RTCs) for use in meeting its SB 98 RNG targets, while the gas will be marketed by Symmetry Energy on the MidAmerican system. These RTCs will be retired in the Midwest Renewable Energy Tracking System (M-RETS). Under this approach, the Company retains the environmental credits without needing to track the transport of the RNG injected in the national pipeline system all the way to Oregon.

Q. Is NW Natural developing and operating this project on its own?

A. No. In addition to Tyson and Symmetry Energy, NW Natural is working with others to develop and operate this project including:

- BioCarbN, environmental infrastructure project developer and operator;
- Cross River Infrastructure Partners LLC (Cross River), a sustainable infrastructure business involved in project development;
- Greenlane Renewables, provides biogas upgrading technology, i.e. pressure swing adsorption; and
- Miron, contractor providing engineering, procurement, and construction (EPC).

1 Additionally, MidAmerican Energy Company will build the interconnection
2 for the gas to flow on the MidAmerican system, with Symmetry Energy
3 responsible for marketing the brown gas.

4 **Q. Are these reasonable partners with reasonable counterparty risk?**

5 A. The partners selected by NW Natural appear to represent reasonable
6 counterparty risks. The Company has history with the companies, having
7 worked with them on the Lexington RNG project. The two larger firms, Tyson
8 Foods and MidAmerican Energy Company are rated BBB+ and A by Standard
9 and Poor's, respectively.

10 **Q. Has the Company developed safeguards to minimize counterparty risk?**

11 A. At this point, it appears there are protections in place. The Company has
12 contracts in place that align incentives for the partners. These agreements are
13 designed to incent RNG production with all parties benefitting the more RNG
14 that is produced. The protections and incentive alignment structures include:

- 15 • Forming an affiliate to limit liability risk.
- 16 • NW Natural maintains oversight over major business decisions of
17 Dakota City affiliate.
- 18 • BioCross LLC receives revenue from the amount of RNG the project
19 produces, aligning RNG production incentives.
- 20 • **[Begin Confidential]** [REDACTED]
- 21 [REDACTED] **[End Confidential]**.
- 22 • **[Begin Confidential]** [REDACTED]
- 23 [REDACTED] **[End**

1 **Confidential].**

2 • **[Begin Confidential]** [REDACTED]
3 [REDACTED] **[End Confidential].**

4 • **[Begin Confidential]** [REDACTED]
5 [REDACTED] **[End Confidential].**

- 6 • Monthly operational reports.
- 7 • Immediate notification of issues.

8 Staff notes that the Company has yet to file or get approval for the affiliate
9 interest transaction with the Commission and Staff will address any concerns
10 or proposed amendments to the structure in that docket.

11 **Q. Are there other consumer protection safeguards Staff would like to see?**

12 A. As mentioned above, in UI 451 there were multiple protection mechanisms;
13 Order No. 22-211 addresses the conditions.

- 14 1. Cost-sharing Mechanism: Protects NWN customers in the event the facility
15 underperforms.
- 16 2. Environmental Risks including contamination of the site:
 - 17 a. Reports of environmental liabilities in excess of \$100,000 to be
18 reported to the Commission within ten days
 - 19 b. Safety standards at the Lexington facility comparable to NWN
20 standards.
 - 21 c. Documentation required to prove project was prudently constructed
22 and managed
 - 23 d. Summaries of in-force liability insurance coverage
 - 24 e. Observe corporate formalities between the Company and affiliate(s)
25 including but not limited to prohibiting commingling of assets,
26 maintaining separate books and records, and maintaining sufficient
27 capitalization
- 28 3. Other Risks
 - 29 a. Report to the Commission, any event that materially impacts the
30 operations and cost structure of the project within 10 days.
 - 31 b. Commission approval needed prior to extending the agreement.
 - 32 c. Prudence review for future amortization requests

- 1 d. All costs must be auditable.
- 2 e. Account for personnel time for the Lexington project following NWN's
- 3 policies and practices for NWN capital project accounting.
- 4 f. Notification and plan to address limited/reduced partnership
- 5 allocations of income tax losses on an annual basis compared to
- 6 traditional utility ownership.
- 7 4. Regulatory Controls
- 8 a. Host of provisions designed to ring-fence Lexington Renewable
- 9 Energy, LLC
- 10 b. NWN will report any debt obligation or liability as guarantor, endorser,
- 11 surety, or otherwise undertaken by BioCross LLC (a) within 10 days
- 12 to the Commission.
- 13 c. If conditions adopted from another jurisdiction the Commission will re-
- 14 open and re-issue the Order approving these conditions.
- 15 d. Headquarters for Northwest Natural RNG Holding Company, LLC will
- 16 be in the state of Oregon.
- 17 e. Venue for all disputes will be Oregon.
- 18 5. Access to information
- 19 a. NWN will have ability to access records related to construction of the
- 20 facility
- 21 b. Managing board members of the affiliate will be made available to
- 22 appear before the Commission

23 **Q. Is Staff proposing to add similar requirements at this point?**

- 24 A. No, not at this point. Staff believes these protections are appropriate for
- 25 Dakota City as they were for Lexington project and will suggest such
- 26 protections. Staff is continuing to work on the appropriate consumer
- 27 protections based on overall prudence determination.

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ISSUE 3. USE OF SCHEDULE 198

Q. Please provide a summary of Schedule 198.

A. Schedule 198 is an AAC approved by the Commission in Order No. 22-388 that provides annual cost recovery for the Company of costs associated with RNG infrastructure. The AAC was originally proposed to recover the costs associated with the Lexington RNG project in UG 435 and has been contemplated as a recovery mechanism for future RNG projects in excess of \$5 million. In approving the schedule, the Commission implemented some guardrails around the cost recovery process, including an earnings test for particular costs and limiting the addition of RNG project costs to rates to November 1 of each year.¹⁰

Q. Did the Commission support the use of Schedule 198 for future RNG projects in Order No. 22-388?

A. The Commission acknowledged that the AAC could be used for future RNG project costs, but notes that the appropriateness of the use of the AAC should be carefully considered. In particular, the Commission notes that the complex and holistic nature of CPP compliance planning might not be adequately considered in a single-issue ratemaking mechanism like Schedule 198.¹¹ When considering RNG projects through the lens of SB 98, only applicable RNG projects need to be considered, but when examining how an RNG project helps a utility meet CPP compliance, a myriad of options with different cost

¹⁰ Commission Order No. 22-388 page 82.

¹¹ *Id.* page 81.

1 implications must be considered. The Commission states:

2 [T]he magnitude of the CPP's emissions reduction requirements
3 and potential customer rate impacts require us to apply a high
4 level of scrutiny to whether the utility is pursuing the least cost,
5 least risk portfolio of emission reduction measures. It is possible
6 that a prudent strategy may include RNG, but this will depend
7 on the costs and risks relative to alternatives.¹²

8 Further, as mentioned previously, the Commission requires a
9 demonstration of how the project fits in to the utility's CPP compliance strategy.

10 **Q. How does Staff view the Commission concerns for this filing?**

11 A. Like the Lexington project, the decision to pursue the Dakota City project was
12 made prior to the CPP formalization on December 16, 2021, and thus the
13 project resides in the gray area between SB 98 and CPP. Unlike Lexington, the
14 Company is currently in the process of seeking acknowledgement of its
15 2022 IRP, which incorporates many of the considerations of how RNG
16 procurement fits into overall CPP compliance. NW Natural states that its IRP
17 shows that "even under aggressive electrification scenarios, acquiring the RNG
18 necessary to meet [SB 98] targets would not be greater than the amount that
19 would likely be needed for compliance with the CPP and SB 98 in 2050."¹³
20 However, the Commission is yet to acknowledge the Company's IRP and Staff
21 is recommending non-acknowledgement of the Company's SB 98 RNG

¹² *Ibid.*

¹³ NW Natural/100, Chittum/Page 10, line 10.

1 acquisition in its final comments, stating that the acquisition of CCI is a
2 significantly less costly and risky method of complying with the CPP.

3 **Q. What is Staff's recommendation regarding the use of Schedule 198 for**
4 **Dakota City?**

5 A. Given the similarities in the timing, size, and transaction structure between
6 Lexington and Dakota City, Staff believes that it is reasonable to allow both
7 projects to utilize the same cost recovery mechanism. However, Staff believes
8 it would be difficult to recommend a similar approach for future RNG projects
9 without a Commission-acknowledged IRP action plan that clearly identifies an
10 RNG acquisition of a similar timing and size as a reasonable step in CPP
11 compliance. Staff also believes that the Company should provide more
12 evidence on the record in this and any future Schedule 198 RNG projects as to
13 how the project fits into the Company's overall CPP strategy.

14 **Q. Does Staff have any recommended changes to Schedule 198?**

15 A. No, given the guardrails put in place by the Commission in UG 435 and the
16 relative newness of the AAC, Staff does not have any recommended changes
17 at this time.

18 **Q. Does Staff believe it is reasonable to allow the Company to rate base**
19 **capital costs which are owned by an affiliate?**

20 A. Staff generally has concerns over the inclusion of capital expenditures of
21 affiliates in rate base because it results in customers paying for a project in
22 which they do not have direct ownership. NW Natural is yet to file for approval
23 of the affiliate transaction and Staff will examine the safeguards provided to

1 ratepayers further in that docket. However, NW Natural does note that because
2 the project was developed by another primary party, BioCross LLC (BioCross),
3 in order for both the utility and BioCross to have ownership interest in the
4 project, forming an affiliate was a reasonable and common solution. Second,
5 the affiliate does provide some liability protection to NW Natural customers by
6 minimizing potential losses due to unforeseen issues with the project. Further,
7 the structure of the AAC includes transparent and regular review of the costs
8 associated with this project. Finally, the Company is utilizing the same structure
9 and affiliate of the Lexington project, which the Commission previously deemed
10 reasonable, with the adoption of a number of specific conditions to address
11 customer protection. Because of this, Staff believes it is reasonable in this
12 circumstance to allow the Company to rate base capital costs owned by an
13 affiliate, if the affiliated transaction is approved.

1 **ISSUE 4. SELECTION PROCESS**

2 **Q. Does Staff believe the Dakota City Project was the least-cost least-risk**
3 **resource available to NW Natural?**

4 A. At this point, it is not clear. The Company's approach to determining the short-
5 list has several flaws. The workpapers appear to have calculation errors, and
6 the approach of using a **[BEGIN CONFIDENTIAL]** [REDACTED]
7 **[END CONFIDENTIAL]** is not sufficient to show the least-cost/ least-risk
8 resource was selected. Without further analysis demonstrating the short-list
9 selection was appropriate and there are no adverse impacts from the modeling
10 for the final resource selection, it is difficult to be confident the right resource
11 was selected.

12 Further, as discussed below, given the timing of the 2021 Request for
13 Proposal (RFP) and its overlap with the Dakota City project negotiations, it is
14 not clear that there was an actual competitive process to find the least-
15 cost/least-risk resource, raising potential build vs buy concerns, which the
16 Commission addressed for electric investor-owned utility (IOU) acquisitions,
17 but has not addressed for gas resource acquisitions.

18 **Q. Did NW Natural use a competitive process in selecting the Dakota City**
19 **RNG project?**

20 A. The Company made use of a (RFP) issued on July 8, 2021,¹⁴ with the
21 Company looking for counterparties that would, "sell a total or partial interest in
22 existing RNG projects, sell raw biogas, sell pipeline-quality RNG, enter into

¹⁴ See response to DR 7, Attachment 1.

1 feedstock supply agreements, as well as to develop new RNG projects.”¹⁵
2 These were broken into three categories: 1. Development Projects, 2.
3 Acquisition of existing assets, and 3. Off-take only projects. For the off-take
4 projects bidders could offer either the RNG with the associated renewable
5 thermal certificates (RTC) or just the RTC, i.e. bundled or unbundled products
6 respectively.

7 There was an opportunity for bidders to ask questions, with a deadline of
8 July 27, 2021. The responses were posted on the RFP website on August 2,
9 2021, for all bidders to review. Posting the responses ensured all bidders had
10 access to the same information; none were put at a competitive disadvantage.
11 Bids were due August 16, 2021, with bidders notified of their inclusion on the
12 short list on September 3, 2021. The Company received 27 offers from
13 18 bidders.¹⁶

14 **Q. Was the Dakota City project submitted as part of this RFP?**

15 A. No. As discussed in response to DR 25, the Company states that “Negotiations
16 were finalized for the Dakota City project throughout the summer and fall of
17 2021.” Further, in discussing agreements, the Company states regarding
18 agreements with partners, “Others that were specific to the Dakota City project
19 (e.g., the interconnect agreement with MidAmerican, the elements of the EPC
20 agreement specific to the use of Greenlane as a contractor) were reached
21 during the summer and fall of 2021.” Note, these negotiations appear to be

¹⁵ Ibid at page 4.

¹⁶ See NW Natural/100 Chittum/Page 16, lines 7-10.

1 occurring at the same time that the RFP was in process.

2 **Q. Was Dakota City included for short list evaluation?**

3 A. Not exactly. A short list was developed from the bids received. Bids on the
4 short list were then, “subjected to additional diligence, including meetings with
5 proposers to ask questions and further learn about project status, feedstock
6 source details, project partners, etc.”¹⁷ Following that, incremental costs for the
7 short-listed bids were calculated. These costs were compared to Dakota City
8 as well as other projects the Company was then evaluating.

9 **Q. How did the Company produce a short list of bids that were “subjected to
10 additional diligence”?**

11 A. The Company discussed their RFP process with Staff and stakeholders in a
12 meeting on May 3, 2023. Based on this discussion and data request
13 responses, Staff understands that offers were initially examined to ensure they
14 met basic requirements criteria. For those that met the threshold criteria, the
15 next step examined the average cost of the offers on a bundled price basis.
16 The intent was to compare bundled and unbundled products on an apples-to-
17 apples basis, with offers of unbundled RTCs, the Company added **[BEGIN**
18 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** to the average cost. The
19 adder represented an assumed brown gas cost¹⁸. The short list consisted of
20 projects that were at or below the average cost of all the projects.¹⁹

¹⁷ See NW Natural data response 11.

¹⁸ See NW Natural data response 22.

¹⁹ See NW Natural data response 28.

1 **Q. Are there any issues with the Company's approach to developing the**
2 **initial short list?**

3 A. Yes. In NW Natural's response to OPUC DR 11, Confidential attachment 1,
4 there are errors, both with the calculation and the overall approach, that impact
5 the resources selected for the short list.

6 The Company's response to OPUC DR 11 discusses the method to
7 separate bids as either on or off the short list.²⁰ There is a fundamental error in
8 the calculation of the average bundled price, with only a subset of bids included
9 in determining the average price as shown in Confidential DR 11 Attachment 1.
10 The average prices used to develop the short list was **[BEGIN**
11 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**, the correct average that
12 should have been used is **[BEGIN CONFIDENTIAL]** [REDACTED] **[END**
13 **CONFIDENTIAL]**. This error led to exclusion of a project that should have
14 been included: **[BEGIN CONFIDENTIAL]** [REDACTED]
15 [REDACTED] **[END CONFIDENTIAL]**, which
16 was excluded from the short list despite being below the average cost as
17 calculated by Staff.

18 **Q. Does Staff have additional concerns with the method used to develop**
19 **the short list?**

²⁰ From the Company's response to OPUC DR 11, "NW Natural then separated proposals into those above and below the average bundled price. The proposals at or below the average pricing moved on to the next step in the process. At that point, we considered a "short list" of 17 proposals as detailed in Confidential UG 462 OPUC DR 11 Attachment 1."

1 A. Yes. Using an average that does not account for [BEGIN CONFIDENTIAL]
2 [REDACTED] [END CONFIDENTIAL] raises the possibility of
3 excluding lower cost projects and including higher cost projects on the short
4 list. For instance, an offer of [BEGIN CONFIDENTIAL] [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED] [END CONFIDENTIAL], but NW Natural's 2021
9 evaluation ignored this in developing a short list. At this time, it is unclear
10 what [BEGIN CONFIDENTIAL] [REDACTED]
11 [REDACTED] [END CONFIDENTIAL] would have had on the short-list selection.
12 However, in general, the approach will favor [BEGIN CONFIDENTIAL] [REDACTED]
13 [REDACTED] [END CONFIDENTIAL].

1

Table 1: Method Comparison

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[BEGIN CONFIDENTIAL]

3

[END CONFIDENTIAL]

4

Another concern is with the use of [BEGIN CONFIDENTIAL] [REDACTED] [END

5

CONFIDENTIAL] as an adder for unbundled projects. [BEGIN

6

CONFIDENTIAL] [REDACTED]

7

[REDACTED]

8

[REDACTED]

9

[REDACTED] [END CONFIDENTIAL].

10

The RFP evaluation should be in line with approaches in the IRP, as it is on the

1 electric side. [BEGIN CONFIDENTIAL] [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED] [END CONFIDENTIAL].

8 Q. Did Staff analyze what projects would be on a short list based on [BEGIN
9 CONFIDENTIAL] [REDACTED]
10 [END CONFIDENTIAL]?

11 A. Yes. Staff's approach used the [BEGIN CONFIDENTIAL] [REDACTED]
12 [REDACTED]
13 [REDACTED] [END CONFIDENTIAL]. Staff calculated costs using the bid
14 pricing and volume data included in Confidential DR 23 Attachment 1. The
15 [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] for the
16 bids were calculated. Finally, duplicating NW Natural's approach, an average
17 cost was calculated, bids with costs above were excluded, bids below were
18 included. Final results of Staff's approach resulted in a short list with [BEGIN
19 CONFIDENTIAL] [REDACTED]
20 [REDACTED] [END CONFIDENTIAL].²¹

²⁰ See Confidential Exhibit 104.

²¹ [BEGIN CONFIDENTIAL] [REDACTED]
[REDACTED] [END CONFIDENTIAL]. See Staff Confidential Exhibit 104.

1 **Q. Do you have the same concerns with NW Natural's approach to**
2 **determining a short list going forward?**

3 A. It is unclear at this point. During the May 3 meeting the Company discussed
4 the evolution of their methodology over time. Responses to submitted data
5 requests could again offer more clarity, and an opportunity for a more detailed
6 response to this question.

7 **Q. Are there other concerns with NW Natural's resource selection?**

8 A. Yes. In reviewing NW Natural's IRP, specifically Appendix K from LC 79, it
9 appeared that the Company used cost-of-service models as inputs to its RNG
10 Workbook to determine the First Year Risk-Adjusted Levelized Incremental
11 Cost (FYRALIC) value that would be used to compare expected costs of RNG
12 resources, however, that does not appear to be the case. Appendix K states:

13 The Renewable Resources team uses the Cost-of-Service
14 model and the Incremental Cost model to determine whether
15 the RNG Resource could potentially yield a First Year Risk-
16 Adjusted Levelized Incremental Cost (FYRALIC) that would be
17 competitive with other RNG resources in the RNG Pipeline.

18 In the Company's response to OPUC DR 13 it states: "NW Natural developed a
19 single cost-of-service model shortly before its initial filing in this docket for
20 ratemaking purposes." Staff assumed the Company was performing a full
21 evaluation of bids received in line with the methodology discussed in their IRP.
22 That is, Staff assumed use of a cost-effectiveness calculation to rank bids, but
23 that is not the approach used by the Company initially. OAR 860-150-
24 0100(2)(b) calls for the utility to include "[t]he cost effectiveness calculation that
25 the utility will use to evaluate RNG resources, pursuant to OAR 860-150-0200."

1 It is not clear that the approach used by the Company to compile the short list
2 meets with this requirement.

3 **Q. Are there concerns with the RNG Workbook model submitted for the**
4 **Dakota City project?**

5 A. Yes. Similar to questions raised related to the short-term selection there
6 appear to be some issues with the model. For the Dakota City project NW
7 Natural will keep the RTCs and sell the brown gas. When asked which hub the
8 gas would be sold at, the Company responded²² with **[BEGIN**
9 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**. However, the
10 workbook submitted as confidential Exhibit 104 has **[BEGIN CONFIDENTIAL]**
11 [REDACTED] **[END CONFIDENTIAL]** selected. While this may not manifest as a
12 large error, this, combined with issues above, raise concerns with the validity of
13 the analysis supporting resource selection. That is, many minor errors could, in
14 totality, impact resource selection and not result in the least-cost, least-risk
15 resource acquisition. At this time, it is not clear that has happened here, but it
16 is a possibility.

17 **Q. Do you have other concerns with the NW Natural approach to**
18 **modeling?**

19 A. Yes. Several concerns were raised in NW Natural's latest IRP (LC 79).
20 Concerns ranged from the discussion of the RNG evaluation methodology in
21 Appendix K, issues with the approach to modeling risk, and overall correctness

²² See response to Confidential DR 6.

1 of models submitted. The Company has agreed to address some of these
2 going forward. From page 25 of their final reply comments:

3 NW Natural agrees to continue to better articulate its approach
4 to evaluating and securing RNG resources both within the RFP
5 process and outside of it, and to fully share that approach in
6 future IRPs.

7 In response to OPUC Staff Recommendation 20, the Company committed to
8 having a finalized internal policy related to RNG resource acquisition later this
9 year.²³

10 There are also potential issues with the risk-based approach the
11 Company uses. This approach relies on internal subject matter experts (SMEs)
12 to determine the level of risk with potential RNG acquisition. There are not
13 clearly defined rules for setting risk levels, leaving the potential for different
14 modelers to come up with different results. This methodology is also not easily
15 replicable. As an example, the Company “assessed the chance that Tyson 3
16 would stop producing raw biogas at Dakota City at **[BEGIN CONFIDENTIAL]**
17 **[REDACTED]** **[END CONFIDENTIAL]**.”²⁴ This equates to **[BEGIN**
18 **CONFIDENTIAL]** **[REDACTED]** **[END CONFIDENTIAL]** that Tyson
19 would stop producing biogas at Dakota City. The value seems impossibly
20 precise, and it is not clear that an independent evaluator would reach the same

²³ See NW Natural OPUC LC 79 Final Reply Comments at page 29. “Additionally, NW Natural will complete its internal policy related to RNG resource acquisitions in 2023 and can share it with stakeholders once complete and provide it as part of its Renewable Gas Evaluation Methodology in each IRP, in both cases with appropriate confidentiality protection.”

²⁴ See NW Natural/100 Chittum/Page 61 lines 4-6.

1 conclusion. Further, a change in the value from [BEGIN CONFIDENTIAL] ■

2 ■

3 ■ [END CONFIDENTIAL]. The analysis seems highly dependent on

4 the choice of risk for this, and potentially other variables, which may be

5 problematic. Staff continues to examine the model and may raise additional

6 concerns depending on other testimony and responses to data requests.

7 **Q. Did the Company incorporate non-price scoring in its resource**
8 **evaluation?**

9 A. It is not clear to Staff if non-price scoring was used, or that it had any impact
10 on the resource selection. In the Company's response to DR 27 they stated:

11 The evaluation criteria for the RFP proposals encompass five
12 characteristics, as outlined in Section C of the document.

13 Cost is the initial differentiator, and the remaining
14 characteristics are considered when comparing proposals
15 that are similar in cost.

16 Staff is continuing to examine this issue and may provide additional
17 comments.

18 **Q. Please discuss changes from the initial short list to resource submittal**
19 **in this docket.**

20 A. As part of an RFP, companies are looking for the least-cost/ least-risk
21 resource. The intent is to find the optimal projects with a short-list, winnowing
22 the bids, excluding high-cost or risky resources, and further evaluation of the
23 remaining resources. In NW Natural's response to OPUC DR 11, they provide

1 that “the incremental cost of the short-listed RFP proposals against Dakota City
2 as well as the other projects that we were currently evaluating (both offtakes
3 and development opportunities) at the time.” In response to OPUC DR 14, the
4 Company also provided the initial RNG Workbook when the Dakota City project
5 was determined to be actionable. Finally, there is a model provided as
6 Confidential NW Natural Exhibit 104. There is a minor discrepancy between the
7 values for FYRALIC from OPUC DR 11 Confidential Attachment 2 to the initial
8 RNG workbook provided in DR 14. However, [BEGIN CONFIDENTIAL] [REDACTED]
9 [REDACTED] [END CONFIDENTIAL] in the FYRALIC for the
10 Dakota City project from the initial projections on the short list [BEGIN
11 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] to the values submitted in
12 Exhibit 100 (page 19) and included in Confidential NW Natural Exhibit 104 at
13 [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]. Comparing the
14 production levels there is a [BEGIN CONFIDENTIAL] [REDACTED] [END
15 CONFIDENTIAL] between what was anticipated in the short list as compared
16 to the value in Confidential NW Natural Exhibit 104, [BEGIN CONFIDENTIAL]
17 [REDACTED] [END CONFIDENTIAL].

18 **Q. Are the changes in the Dakota City project evaluation from the initial**
19 **short list to the final Exhibit 104 troubling?**

20 A. Yes. As discussed above, there were [BEGIN CONFIDENTIAL] [REDACTED]
21 [END CONFIDENTIAL] changes in both the cost and the volumes expected for
22 the project from the short list to the final presented. It is not clear if NW Natural
23 reassessed their options, given the movements noted. Further, in examining

1 the short list with incremental costs provided in DR 11 Attachment 2, there

2 appear to be [BEGIN CONFIDENTIAL] [REDACTED]

3 [REDACTED]

4 [REDACTED] [END CONFIDENTIAL].

5 **Q. Does Staff have recommendations to improve the transparency of the**
6 **RNG resource acquisition process?**

7 A. Yes. The Company should move toward a more open process, with scoring
8 rules for both price and non-price factors set in place prior to receipt of bids.

9 The Company should set rules to direct scorers on how to account for risks

10 with the RNG workbook, similar to the approach for [BEGIN CONFIDENTIAL]

11 [REDACTED] [END CONFIDENTIAL]. These should be very specific,

12 enabling different SMEs to come up with similar results.

13 This is the type of approach seen in RFPs issued by Commission-
14 regulated electric utilities. Electric RFPs typically allow for both price and non-
15 price scoring. Non-price scoring may address items that are difficult to quantify
16 for pricing with objective criteria. The price and non-price scores are then
17 combined to select the short list. This approach has clear scoring rules that
18 established prior to scoring, is easily duplicated, and less dependent on
19 evaluators subjective approach.

20 Additionally, the Company should be prepared to reevaluate bids due to
21 passage of time, or large changes in fundamentals. As discussed above,
22 changes in the cost and volume of the Dakota City project appear [BEGIN

1 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**. A reassessment may
2 have been in order prior to proceeding with the project.

3 Staff also recommends the Company contact an Independent Evaluator
4 (IE) who could help establish a consistent system to accurately evaluate bids.
5 An IE could help establish guidelines to ensure fairness of any RFP and
6 resulting selection. The IE would also be able to attest to the fact that the
7 Company is not favoring self-owned projects as compared to offtake
8 agreements. The Commission has recognized that IOUs have an incentive to
9 build versus buy, with several dockets addressing this, albeit more geared
10 toward electricity. An IE-based approach could help ensure confidence in the
11 methodology and resulting RNG acquisition following an RFP.

ISSUE 5. COST RECOVERY

1
2 **Q. Please summarize the costs that NWN is proposing to recover for the**
3 **Dakota City project.**

4 A. NW Natural estimates that it will invest approximately \$12.5 million in the
5 Dakota City RNG project. The Company breaks the capital costs into costs
6 which fall under the engineering, procurement, and construction (EPC)
7 agreement and those that fall outside of the EPC agreement. The EPC costs
8 are comprised mostly of equipment necessary to separate the methane from
9 carbon dioxide, plant costs for earthwork, foundations, and interconnecting
10 process piping; construction; design; and engineering costs. The non-EPC
11 costs are generally fees for project development, management, contingency,
12 interconnection, and permitting/legal.

13 **Q. Does NW Natural propose to apply RNG costs across all customer**
14 **classes except storage, on an equal cents per therm basis?**

15 A. Yes. The Company proposes the same treatment for the Dakota City project as
16 was approved for the Lexington project in Order No. 23-046, which amended
17 Order No. 22-388.²⁵ Staff supports the proposed rate spread.

18 **Q. What is the impact of this filing for customer rates?**

19 A. The \$12.5 million proposed increase to revenue requirement spread on an
20 equal cents per therm basis would increase the bill of the average
21 residential customer by approximately \$0.12 per month.

²⁵ NW Natural/200 Bourdo-Walker/Page 8 lines 1-14.

1 **Q. Are the costs associated with the Dakota City project permissible**
2 **under SB 98?**

3 A. Yes. If prudently incurred, the project costs are within the SB 98 requirements,
4 not resulting in costs in excess of five percent of annual revenue requirements.
5 The incremental revenue requirement results in a .2 percent increase for a
6 typical residential customer.²⁶

7 **Q. Is an RNG project automatically prudent if the cost is below the**
8 **thresholds of SB 98 for total spend?**

9 A. No. The Company still needs to prudently manage investment choices, project
10 choice, costs, and make the best decisions it can to control cost and risk based
11 on what is known or knowable at the times of decisions regarding investments.

12 **Q. Is the Dakota City RNG project used and useful?**

13 A. The Dakota City project was scheduled to begin start-up operations in
14 March 2023 and fully commence service in April 2023.²⁷ If the plant is
15 operating it would be considered to be used and useful from a regulatory
16 standpoint. Staff would like the Company to verify that the plant is up and
17 operating consistent with the dates included in Exhibit 100.

18 **Q. How does Staff weigh in on the prudence of the Dakota City RNG project**
19 **at this time?**

20 A. Given some of the infirmities addressed above, and lack of information, it is
21 difficult to say the project is prudent at this point. It appears the initial short-list

²⁶ See NW Natural/200 Bourdo-Walker/page 9 lines 7-8.

²⁷ See NW Natural/100 Chittum/page 11 lines 8-9.

1 determination suffered from flaws. The evolution of costs and output between
2 the initial short list and what has been requested in this docket also raise
3 concerns.

4 **Q. Does Staff recommend any adjustments to the costs associated with**
5 **the Dakota City project?**

6 A. Staff is continuing to review this issue. The structure and costs are very similar
7 in nature to the costs associated with the Lexington project, which the
8 Commission has already deemed prudent. Staff has reviewed the costs and, at
9 this point, believe they comprise a reasonable estimate of the costs associated
10 with the project. However, as discussed above, the costs do not seem **[BEGIN**
11 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**
12 that resulted in the selection of the project, something that may have impacted
13 the Company's Lexington project as well. For Dakota City, it appears **[BEGIN**
14 **CONFIDENTIAL]** [REDACTED]
15 [REDACTED] **[END CONFIDENTIAL]**. Staff is
16 continuing to look into this issue.

17 NW Natural's calculations to develop an initial short list are **[BEGIN**
18 **CONFIDENTIAL]** [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED] **[END CONFIDENTIAL]**. Due to these reasons, Staff
23 believes the Company is yet to bear the burden of proof and at this point

1 cannot recommend that the project costs are prudent. Staff will continue to
2 evaluate the issues, review testimony of other stakeholders, and looks forward
3 to the Company providing further support in Reply Testimony.

4 **Q. Does this conclude your testimony?**

5 A. Yes.

CASE: UG 462
WITNESS: TED DRENNAN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualification Statement

May 25, 2023

WITNESS QUALIFICATION STATEMENT

NAME: Ted Drennan

EMPLOYER: Public Utility Commission of Oregon

TITLE: Energy Policy Analyst
Strategy and Integration

ADDRESS: 201 High St. SE Ste. 100
Salem, OR 97301-3612

EDUCATION: Bachelor of Science, Economics, University of Wyoming
Graduate Studies, Regulatory Economics, University of Wyoming

EXPERIENCE: I have over twenty years of experience in utility regulatory and economic evaluations. Currently I am employed at the Oregon Public Utility Commission (Commission), since November of 2021. Job responsibilities include working on multiple dockets, including Interconnection Modernization (UM 2111), Northwest Natural's 2022 IRP (LC 79), and PacifiCorp's Rate Case (UE 399) in addition to other work.

Prior work experience includes long-term planning at Portland General Electric (PGE), PacifiCorp, and NW Natural. While at PacifiCorp I managed the public input process for the 2015 IRP. I also filed testimony as an expert witness in UM 1600 addressing QF issues.

At PGE, responsibilities included work in long-term planning, the 2013 and 2019 IRPs, as well as procurement. I managed PGE's renewable RFP (UM 1613), and worked on the capacity and energy RFP (UM 1535). While at the Company I also participated in multiple dockets related to procurement, including UM 1182, UM 1276. I presented testimony as an expert witness for issues regarding costs of plant outage (UM 1234), Qualifying Facilities (UM 1129), partial requirements tariff (Joint testimony with OPUC Staff UE 158) and cost recovery (UE 180). Tariff work at PGE included developing tariffs dealing with partial-requirements customers (Schedule 75/76R), Standard rates for QFs (Schedule 201), Experimental time-of-use pricing (Schedule 87).

Other experienced includes consulting with work analysis of municipalization of electric system in California, impact of 2000 California market dysfunction on electric pricing the Pacific Northwest, planning issues for Louisiana Electric Power Authority, and a cost-of-service study for a water utility.

I have also presented testimony as an expert witness before the Iowa Utilities Board on a variety of telecommunications issues.

CASE: UG 462
WITNESS: TED DRENNAN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

**Exhibits in Support
Of Opening Testimony**

May 25, 2023



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 7

Please provide a copy of the 2021 RFP for RNG resources. (NW Natural/100 Chittum/12 line 2)

Response:

The 2021 RFP for RNG resources has been provided as Confidential UG 462 OPUC DR 7 Attachment 1.



NW Natural[®]

REQUEST FOR PROPOSAL #2021-01

Renewable Natural Gas Resources

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1 General Information

This Request for Proposal (“RFP”) is part of a significant effort by Northwest Natural Gas Company (NWN) (“NW Natural”) to decarbonize the product moving through our system. NW Natural is soliciting proposals from qualified firms to provide renewable natural gas (RNG) for delivery to our customers. This request for proposal is purposely broad in order to identify and evaluate various project types that will help us to meet our objectives.

For the latest information on the RFP and other procurement activities related to renewable resources, please check the [RNG page](#) on NW Natural’s website.

1.1 Introduction

Northwest Natural Gas Company (“NW Natural”), an Oregon-based local distribution company, is soliciting proposals from qualified firms wishing to form long-term partnerships to sell RNG to NW Natural for delivery to its residential and commercial customers. Awards may be made to multiple bidders offering proposals in accordance with the terms and conditions of this solicitation.

NW Natural is a wholly-owned subsidiary of Northwest Natural Holding Company (“NW Natural Holdings”), and has been serving customers in the Pacific Northwest for over 160 years. NW Natural has a longstanding commitment to providing energy safely and securely to its customers. As one of the first natural gas utilities in the nation to establish voluntary carbon reduction goals and champion policies that encourage RNG development, NW Natural is committed to supporting the growing RNG market and bringing these important low-carbon resources to its customers. As a market participant interested in long-term resource acquisition and maintaining the success of RNG projects, NW Natural is well-suited to partner with those also interested in operating RNG production facilities successfully and profitably for decades to come.

Our guiding principles embrace constructive relationships with stakeholders, superior customer service, and community involvement. We believe we are uniquely positioned to partner with RNG producers for the following reasons:

- We are local operators and long-term stewards of our utilities. We have a long history in the utility business, and are extremely proud of our track record and heritage. We invest in our systems and stakeholder relationships, and have established a long history of trust and credibility with the regulating bodies.
- We are industry leaders in customer satisfaction. Per J.D. Power’s annual independent study, this is the 17th time the company has scored in the top two in the West. NW Natural also scored in the top 10 in the nation among large gas utilities, which it has done for the past 18 years.
- We are actively engaged in the communities we serve. Our shareholders donate nearly \$1 million annually through our corporate philanthropy programs. These funds support over 150 local community and nonprofit groups. Furthermore, our employees give nearly 5,000 hours of their own time annually for hands-on work with these organizations.

1.2 NW Natural Background

NW Natural Holdings (NYSE: NWN), through its subsidiary, NW Natural, provides regulated natural gas distribution services to residential, commercial, and industrial customers in Oregon and Southwest Washington. NW Natural Holdings also has business interests in gas storage, water utilities, and other interests and activities. The company was founded in 1859 and is headquartered in Portland, Oregon. NW Natural Holdings has a market capitalization of approximately \$1.6 billion and an enterprise value of approximately \$2.8 billion. NW Natural has secured credit ratings of AA- and A2 by S&P and Moody's, respectively (senior secured long-debt rating) with a stable ratings outlook from both agencies.

Recent new state-level policies and regulatory rules now give natural gas utilities in the Pacific Northwest the ability to procure renewable gas resources for their customers. With its long history of operating as a forward-looking and progressive utility company, NW Natural looks forward to its next chapter, bringing these important decarbonized resources to its end-users throughout its service territory.

Regulatory Summary

In 2019 the Oregon legislature passed Senate Bill 98, which allows natural gas utilities to acquire RNG for delivery to their customers. This first-of-its-kind law in the nation establishes voluntary volumetric targets for procurement of RNG. By 2045, the law sets a target of 30% of all the gas delivered to NW Natural customers in Oregon be renewable. The rules implementing Senate Bill 98 are established and overseen by the Public Utility Commission of Oregon, including limits on total expenditures for RNG and the overall rate impact to customers.

In 2019 the Washington State legislature also passed a bill supporting RNG procurement. House Bill 1257 established the legal framework for natural gas utilities to acquire renewable resources for their customers.

These significant legislative changes have established the groundwork for utilities such as NW Natural to enter the RNG markets as long-term buyers and long-term partners, helping to grow and mature the RNG market in North America.

1.3 Objectives

NW Natural seeks to procure RNG resources for delivery to its customers. It seeks to provide these resources to all of its customers, and to do so with the least negative impact on customer costs. To do this, NW Natural desires to partner with those who are interested in establishing long-term relationships to sell a total or partial interest in existing RNG projects, sell raw biogas, sell pipeline-quality RNG, enter into feedstock supply agreements, as well as to develop new RNG projects. This RFP seeks RNG resources and/or associated environmental attributes from around the country and from a wide variety of feedstocks and sources, including renewable hydrogen resources.

Please note that NW Natural is not seeking renewable hydrogen to be injected into its system at this time; however, investments leading to Renewable Thermal Credit (RTC) generation or the RTCs themselves created throughout North America is of interest.

From responses to this RFP, NW Natural will develop a “short list” of projects it will elect to conduct additional diligence on. After such diligence, NW Natural may enter into definitive agreements with selected partners.

1.4 Document Components

This document is organized in the following manner:

Section 1 describes the relevant **Background** and outlines NW Natural’s objectives in partnering with other organizations to develop RNG projects.

Section 2 outlines the **Project Overview and Scope of Services** expected of the Bidder, and sets forth certain key defined terms.

Section 3 provides details on the **Bidder Instructions** in regards to submitting a response to the RFP including key dates, questions and communications, submission of the proposal as well as a description of the proposal selection process.

Section 4 provides information on the **Proposal Requirements** including format and required information.

The **appendix** outlines the requirements for **renewable natural gas quality standards** for RNG resources that will interconnect with NW Natural’s distribution system. Note that NW Natural does not require that acquired RNG resources be interconnected with its own system, and understands that any RNG resource will need to satisfy the interconnection requirements and quality standards of whichever pipeline the project is interconnected to.

2 Project Overview and Scope of Services

2.1 Definitions

<p>Environmental Attributes</p>	<p>“Environmental Attributes” means any and all environmental claims, credits, benefits, emissions reductions, offsets, and allowances attributable to the production of renewable natural gas and its avoided emission of pollutants. The environmental attributes of renewable natural gas include, but are not limited to, the avoided greenhouse gas emissions associated with the production, transport, and combustion of a quantity of renewable natural gas compared with the same quantity of geologic natural gas.</p> <p>“Environmental Attributes” do not include:</p> <ul style="list-style-type: none"> (a) The renewable natural gas itself or the energy content of that gas; (b) Any tax credits associated with the construction or operation of the renewable natural gas production facility, and any other financial incentives in the form
---------------------------------	--

	<p>of credits, reductions, or allowances associated with the production of renewable natural gas that are applicable to a state, provincial, or federal income taxation obligation;</p> <p>(c) Fuel- or feedstock-related subsidies or “tipping fees” that may be paid to the seller to accept certain fuels, or local subsidies received by the renewable natural gas production facility for the destruction of particular pre-existing pollutants or the promotion of local environmental benefits; or</p> <p>(d) Emission reduction credits encumbered or used by the renewable natural gas production facility for compliance with local, state, provincial, or federal operating and/or air quality permits.</p>
<p>Renewable Natural Gas or RNG</p>	<p>“Renewable Natural Gas” or “RNG” is gas that satisfies the definition of “renewable natural gas” or “renewable hydrogen” in either Oregon or Washington. The definitions have been set forth below for your convenience.</p> <p>Oregon definition per ORS 757.392(7):</p> <p>“Renewable natural gas” means any of the following products processed to meet pipeline quality standards or transportation fuel grade requirements:</p> <ul style="list-style-type: none"> (a) Biogas that is upgraded to meet natural gas pipeline quality standards such that it may blend with, or substitute for, geologic natural gas; (b) Hydrogen gas derived from renewable energy sources; or (c) Methane gas derived from any combination of: <ul style="list-style-type: none"> a. Biogas; b. Hydrogen gas or carbon oxides derived from renewable energy sources; or c. Waste carbon dioxide. <p>Washington definitions per RCW 54.04.190(6):</p> <p>"Renewable natural gas" means a gas consisting largely of methane and other hydrocarbons derived from the decomposition of organic material in landfills, wastewater treatment facilities, and anaerobic digesters.</p> <p>"Renewable hydrogen" means hydrogen produced using renewable resources both as the source for the hydrogen and the source for the energy input into the production process.</p>

Renewable Thermal Certificate (RTC)	“Renewable Thermal Certificate” means a unique representation of the Environmental Attributes associated with the production, transport, and use of one dekatherm of renewable natural gas.
Midwest Renewable Energy Tracking System (M-RETS)	The energy certificate system for tracking the purchase and sale of RTCs.

2.2 Scope of Services/Specification Overview

The scope of work will vary based on the type of opportunity category as defined in sections 2.3.1, 2.3.2, and 2.3.3. Respondents must select at least one of the following categories, but may present an opportunity from a given resource in two or more categories if applicable.

2.3 Opportunity Categories

2.3.1 Development Project

The Bidder may propose partnering with NW Natural to develop and construct RNG production facilities. This type of project may encompass methane capture technologies, upgrading and conditioning equipment and/or interconnect facilities. Projects that are partially constructed as well as undeveloped sites will be considered.

2.3.2 Acquisition of Existing Asset

The Bidder may propose that NW Natural purchase a total or partial membership interest in an existing RNG project.

2.3.3 Offtake-Only Project

The Bidder may propose one or a combination of both of the following services:

- Bidder would sell and deliver to NW Natural, and NW Natural would purchase and receive from Bidder, Renewable Natural Gas, as a bundled product consisting of *both* the Renewable Thermal Certificates as well as the gas commodity. NW Natural would enter into a gas purchase agreement with the Bidder and receive the Renewable Natural Gas at a specific location.
- The Bidder would sell and deliver to NW Natural, and NW Natural would purchase and receive from Bidder, all the Renewable Thermal Certificates from an RNG product. In this situation, the Bidder would separately sell or otherwise market the commodity natural gas.

2.4 Delivery Date

Delivery of the resource to NW Natural must commence no later than June 30, 2023.

3 Bidder Instructions

3.1 Point of Contact

All correspondence, including but not limited to, questions and submissions shall be directed to: renewables@nwnatural.com.

3.2 Request for Proposal Schedule

Date	Event
07/08/2021	Request for proposal issue date
07/27/2021	Questions due on RFP
08/02/2021	Question responses posted on website
08/16/2021	Proposal submissions due
09/03/2021	Initial notification to responders

3.3 Request for Proposal and Bid Procedures

3.3.1 Questions and Communications

For RFP issues and information requests, please direct your question(s) to the email address noted above.

3.3.2 Submission of Proposal

- Each Bidder shall submit its proposal adhering to the requirements outlined in this Section, 3.3, and in Section 4. Any qualifications, additions, or clarifications to the proposal response package shall be submitted by way of a separate document.
- Proposals shall be submitted via email to the above address with the subject line “RFP 2021-01 Submission”.
- Multiple proposals from a vendor will be permissible, however, each proposal must conform fully to the requirements for proposal submission. Each such proposal must be separately submitted and labeled as Proposal #1, Proposal #2, etc.
- Proposed projects with alternatives, such as contract length, pricing and volume combinations, should be treated as separate proposals.

3.3.3 Terms and Conditions of Submission

- Bidder shall comply with all state and federal laws in regards to formulation and submittal of proposals. Bidder should note that this is a competitive proposal situation, and that conferring with other Bidders about pricing or other specific details of a proposal may violate antitrust law and is prohibited.
- Bidder is deemed to have satisfied itself by submission of its proposal as to the correctness and sufficiency of the proposal to cover all requirements of this RFP.
- Bidder shall under no circumstances use NW Natural’s name or logos in advertising, marketing materials, printed matter, reference lists, or in any other way that could be construed as advertising (e.g., memo pads, tee shirts, binders, reference lists, etc.) without NW Natural’s prior written consent.
- Any non-public information provided by NW Natural in connection with this RFP is confidential and proprietary to NW Natural. Such materials are to be used solely for the purpose of responding to this RFP. By requesting further information or submitting a proposal, Bidder agrees not to disclose any such information to any third party without the prior written consent of NW Natural (which consent shall be conditioned upon the written agreement of the intended recipient to treat the same as confidential), except as may be required by law. NW Natural may request at any time that any or all NW Natural material be returned or destroyed.
- Notwithstanding any non-disclosure or confidentiality agreement by and between NW Natural (or any of its affiliates) and Bidder (or any of its affiliates), Bidder acknowledges and agrees that any information set forth in a proposal submitted by

Bidder may be subject to review by regulating bodies, including the Oregon Public Utility Commission, and Bidder hereby waives any objection it may have to NW Natural sharing such information and hereby waives any objection to such review.

3.3.4 Renewable Thermal Certificates Requirements

- If the proposed project entails the sale or transfer of RTCs, the RTCs that would be purchased by NW Natural must satisfy the requirements of the definition of Environmental Attributes required in Oregon per Section 2.1 above.
- By definition, the Renewable Thermal Certificates may not also be claimed by any other party, such as anyone selling the attributes into programs such as the California Low-Carbon Fuel Standard or the Oregon Clean Fuels Program. Additionally, the attributes cannot be claimed by any party also generating Renewable Identification Numbers (RINs) from the same gas for satisfaction of obligations within the Renewable Fuel Standard.
- NW Natural will only purchase RNG if the Environmental Attributes would satisfy all requirements for listing on the M-RETS system, and NW Natural may request further documentation in support of this criteria if a Bidder is invited to move on to the next stage of NW Natural's selection process. Winning Bidders will be responsible for ensuring that RTCs are established in M-RETS.

3.3.5 Errors or Omissions

A Bidder that discovers an error or omission in its proposal response package may withdraw that package and resubmit, provided that it does so before the deadline for submission of proposal responses.

3.3.6 Request for Proposal Response Withdrawal

A Bidder that wishes to withdraw their proposal response package may do so at any time by submitting notice to the email address noted in section 3.1.

3.4 Proposal Selection and Award Process

3.4.1 Proposal Evaluation

NW Natural will use a two-step evaluation process. First, NW Natural will evaluate and rank the proposal submitted by each Bidder against the proposals submitted by other Bidders in response to this RFP. The evaluation and ranking of the preliminary information will focus on conformance of each Bidder's submittal with the requirements of this RFP and the proposed pricing and other factors of each proposed project. Such evaluation and ranking shall be performed in a fair and consistent manner to arrive at a Short List.

Failure to meet the requirements of this RFP may result in the proposal being rejected. In the event that a Bidder's proposal does not meet all of the RFP requirements, NW Natural reserves the right to continue the evaluation of the non-conforming proposal and to select the proposals that provide the best opportunities for NW Natural to secure RNG resources in accordance with its strategy.

Second, once the Short List is compiled, Short-Listed Bidders will have the opportunity to submit a more detailed proposal. This will consist of supplying any clarifying information from the initial proposal as well as a series of supplemental questions provided by NW Natural. Each Short-Listed Bidder's detailed proposal will be evaluated against the other

Short-Listed Bidders' detailed proposals. All Short-Listed Bidders should be prepared to discuss their projects and be available for questions either via email or via phone after their detailed proposal is received by NW Natural.

After completion of the evaluation process, those proposals deemed to provide the greatest benefit to NW Natural's portfolio will be utilized to begin the negotiation process.

3.4.2 Proposal Scoring

Proposals will be rated based on the following criteria, among other criteria:

1. The overall cost of the project or product.
2. The ability to deliver the resource prior to June 30, 2023.
3. The experience and proven performance of the firm or team of firms making the proposal.
4. If operational, the project's performance history. If not yet operational, the project's expected performance and evidence of team's performance on similar projects.
5. The volume of RNG or RTCs available for purchase.
6. Feedstock type and carbon intensity, if known.
7. Proposed terms of the purchase contract, including duration and renewal options.
8. Other claims of environmental benefits or emissions reductions on other products of the project (e.g., RIN or LCFS credits generated by other volumes of RNG produced by the project).
9. Overall ability of the project to successfully deliver qualifying RNG within the terms of the contract.
10. Environmental benefits achieved or to be achieved by the project outside of the production of RNG or hydrogen itself.

3.4.3 Right to Reject Proposals and Negotiate Contract Terms

NW Natural has no obligation to reveal the basis for contract award or to provide any information to Bidders relative to the evaluation or decision-making process. All participating Bidders will be notified of proposal acceptance or rejection in accordance with the schedule outlined in section 3.2.

This is not a "low-bidder gets contract" bidding process. This is rather an RFP process in which NW Natural reserves all of its rights regarding the review and evaluation of proposals, selection of a firm, and award of a contract. NW Natural expressly reserves its rights to (a) select a firm and award a contract to that firm, with or without prior negotiations, (b) select one or more firms and then negotiate with them jointly or collectively before making an award decision, (c) select no firm and award no contract, with or without prior negotiations, (d) proceed with another RFP or other selection process, after selecting no firm or awarding no contract, and (e) waive and disregard any defects, irregularities, omissions, discrepancies, inconsistencies, lack of "responsiveness," absence of "responsibility" and any other shortcomings in or of any proposal. In exercising these rights, NW Natural also reserves the right to make its selection and award decisions based, in whole or in part, on any factors and considerations that it chooses in its discretion. This RFP gives rise to no contractual obligations, implied or otherwise. Bidder waives any right to claim damages of any nature

whatsoever based on the selection process, final selection, and any communications associated with the selection.

3.4.4 Awards and Final Offers

Awards may be granted to multiple Bidders. Should the Bidder and NW Natural jointly decide to move into the negotiation phase, NW Natural may request additional documentation to support Bidder's ability to satisfy the terms of its bid and NW Natural's requirements.

NW Natural expects that the legal terms of a bundled RNG purchase transaction would be documented in a NAESB Base Contract for Sale and Purchase of Natural Gas ("NAESB Base Contract"), and that transaction-specific details, such as volume, price, delivery location, quality specifications, and regulatory requirements related to Environmental Attributes, would be set forth in a transaction confirmation entered into pursuant to the NAESB Base Contract. The terms of an unbundled purchase of Renewable Thermal Certificates would be set forth in an agreement, containing legal terms that are standard for the purchase of Renewable Thermal Certificates or similar products, to be negotiated between the parties.

3.4.5 Notification of Intent to Award

As a courtesy, NW Natural will send a notification of award letter to responding Bidders upon the conclusion of the RFP process, and will inform all Bidders of their status.

4 Proposal Response Package Components

The proposal response package should be composed of the documents outlined below.

Please do not utilize zip files.

1. Cover Letter

Include an overview of your organization, rationale why you feel your organization is a good fit, and expected team composition including relevant team member summary bios or other data (2 pages maximum).

2. 2021 RFP Response Template – Proposal

Using the template provided by NW Natural, provide details about your proposed opportunity. See the instructions provided on the first tab. Please provide the file in Excel format.

3. Additional Information (optional)

Provide any information, outside of the required data, that you feel will aid NW Natural in making their selection.

4. 2021 RFP Response Template – Certification

Using the template provided by NW Natural, certify and sign your proposal. The file may be provided in Word or .PDF format.

Appendix - NW Natural Gas Company Renewable Natural Gas Specification

The local natural gas utility to which this project might interconnect is NW Natural, which has the following specification for the injection of renewable natural gas into its distribution system:

Gas Quality Specifications for Biomethane and Interconnect Facility Settings

Parameter	Value		Alarm Setting	Flare Setting	Re-instate
	Min	Max			
Methane %	97.3%		≤ 97.8%	< 97.3%	> 97.8%
Heating Value (BTU/Scf)	985	1115	≤ 990	< 985	> 990
Wobbe Number (BTU/Scf)	1290	1400			
Carbon Dioxide %		2.00%	≥ 1.8%	> 2%	< 1.8%
Nitrogen		2.00%	≥ 1.8%	> 2%	< 1.8%
Total Inerts + Oxygen %		2.70%	≥ 2.2%	> 2.7%	< 2.2%
Oxygen %		0.20%	≥ 0.18%	> 0.2%	< 0.18%
Hydrogen Sulfide (grain/100cf)		0.25	≥ 0.20	> 0.25	< 0.20
Total Sulfur (grain/100cf)		5.00	≥ 4.00	> 5.00	< 4.00
Siloxanes (grain/100cf)		0.019	≥ 0.015	> 0.019	< 0.015
Ammonia (grain/100cf)		5.00	≥ 4.00	> 5.00	< 4.00
Moisture (lb/MMcf)		7	≥ 4	> 7	< 4
Mercury		BDL	NA	Any	BDL
Temperature (°F)	35	120	≥ 115	> 120	< 115
Hydrocarbon Dew Point (°F)		15	≥ 10	> 15	< 10



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 11

Please provide any comparative summaries prepared for the offers discussed on NA Natural/100, Chittum/Page 16, lines 6-13.

Response:

Each 2021 RFP proposal was reviewed to verify it meets the general qualifications as stated in the RFP. If the proposal did not meet these qualifications, the evaluation did not continue to the next step. All but one of the 27 responses met the outlined criteria.

For each proposal that met the general qualifications outlined above, NW Natural then separated proposals into those above and below the average bundled price. The proposals at or below the average pricing moved on to the next step in the process. At that point, we considered a “short list” of 17 proposals as detailed in Confidential UG 462 OPUC DR 11 Attachment 1. These projects were then subjected to additional diligence, including meetings with proposers to ask questions and further learn about project status, feedstock source details, project partners, etc.

The incremental cost was calculated for the short-listed RFP proposals. When we evaluated Dakota City, we compared the incremental cost of the short-listed RFP proposals against Dakota City, as well as the other projects that we were currently evaluating (both offtakes and development opportunities) at the time. We constantly maintain a portfolio of available opportunities, to be able to assess how one resource compares to the others available to us. At the point in time we made the investment decision in Dakota City – November 2021 – the resources we knew about and had conducted initial diligence and incremental cost evaluations of are displayed in CONFIDENTIAL UG 462 OPUC DR 11 Attachment 2.



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 13

Please provide the Cost-of-Service model(s) for the Dakota City project, complete with formulae intact. Include the initial model, when the project was actionable, as well as any subsequent updates reflecting differing production level assumptions.

Response:

Please see Confidential UG 462 OPUC DR 13 Attachment 1. NW Natural developed a single cost-of-service model shortly before its initial filing in this docket for ratemaking purposes.



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 14

Please provide the initial RNG Workbook prepared when the Dakota City project was determined to be actionable.

Response:

Please see Confidential UG 462 OPUC DR 14 Attachment 1.



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 22

See NW Natural Response to OPUC DR 11.

- a. Please provide a narrative explanation for how the bundled prices for bids were calculated.
- b. Is this the same process NW Natural has used in past solicitations?
- c. Please provide the workpapers for these calculations.

Response:

- a. RFP responders were asked to indicate in their RFP response if their proposed opportunity was for a bundled or unbundled product. They were then required to provide expected volumes and pricing for each year of the proposed term of the agreement.

In regards to the initial evaluation, which compared the average bundled price of each proposal to the average of the bundled price for all proposals, the supplied price for a bundled product was averaged to arrive at the value used in the calculation while for an unbundled product, the dollar amount noted in Confidential UG 462 OPUC DR 23 Attachment 1 was added to the average supplied price used in the calculation to roughly account for the value of brown gas.

- b. For NW Natural's first RFP for renewable natural gas, in 2020, the same strategy for estimating a bundled price was used as outlined in item a.
- c. See Confidential UG 462 OPUC DR 23 Attachment 1 for the formulae used to estimate the bundled price for unbundled proposals to be used for evaluation purposes.



Rates & Regulatory Affairs
UG 462

Renewable Gas Adjustment Mechanism - Dakota City
Data Request Response

Request No.: UG 462 OPUC DR 23

In response to OPUC DR 11 NW Natural states, "The proposals at or below the average pricing moved on to the next step in the process. At that point, we considered a "short list" of 17 proposals as detailed in Confidential UG 462 OPUC DR 11 Attachment 1.

- a. Please provide the underlying file for Confidential UG 462 OPUC DR 11 Attachment 1, in native format, complete with formulae intact for the confidential attachment.
- b. Please provide an explanation for any projects above the average price that were included on the short list.
- c. Please provide an explanation for any projects lower than the average price that were excluded from the short list.
- d. Did the Company develop cost-of-service models for all of the short list projects? Please explain why not if the response is no.

[Start Confidential] [Redacted] [End Confidential]

Response:

- a. See Confidential UG 462 OPUC DR 23 Attachment 1. Please note that Confidential UG 462 OPUC DR 11 Attachment 1 includes all proposals and has incorrect data in the Below or Above Average column. Confidential UG 462 DR 23 Attachment 1 reflects the correct values.
- b. A total of six projects were included on the short list that had an average bundled price that was higher than the average. See Confidential UG 462 DR 23 Attachment 2.
- c. Not applicable.
- d. NW Natural prepared incremental cost models for all of the short-listed RFP proposals. These were de facto incremental cost models, because they integrated the total costs customers would be paying for the RNG resource using the inputs provided by RFP respondents. The incremental cost model is a cost-of-service model for offtake projects or, in the case of the development projects, the respondents provided offtake prices on a per-mmbtu basis and that was used in lieu of any detailed cost-of-service model, because we had no complete information on the capital and operating costs of the projects.

e. [Start Confidential] [Redacted] [End Confidential]

Confidential]



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 25

See NW Natural Response to OPUC DR 12 and NW Natural/100 Chittum/Page 17, lines 8-10.

- a. When were negotiations finalized for the Dakota City project?
- b. When was each agreement in principal reached for the Dakota City project?
- c. When was each draft agreement prepared for the Dakota City project?
- d. When was each agreement identified in response to c. above executed by NW Natural? If any agreement has not been executed, please identify that agreement.

Response:

- a. Negotiations were finalized for the Dakota City project throughout the summer and fall of 2021. There was not one specific day, because different agreements with different parties were being negotiated at different points. Broadly, the agreements were “pencils down” (i.e., we did not expect material changes to them) in early November 2021. Some agreements were already finalized earlier than that, but we were waiting until all the significant needed agreements were finalized. Additionally, some agreements were not fully finalized until December 2021. In these cases we may have had them mostly negotiated with minor items outstanding that were simply not resolved until after the investment decision was made.
- b. We do not have specific records of the exact date on which each agreement was reached in principle. Some agreements (e.g., the site license, the LLC agreement, the management services agreement) were largely already negotiated for the Lexington project, and so the key “principal” terms can be viewed to have been reached prior to the Lexington project investment decision. Others that were specific to the Dakota City project (e.g., the interconnect agreement with MidAmerican, the elements of the EPC agreement specific to the use of Greenlane as a contractor) were reached during the summer and fall of 2021.
- c. Draft agreements for Dakota City that were similar to those used in the Lexington project were essentially already drafted by the time the Lexington project was chosen for investment. We made some minor revisions to reflect the different location and details of the Dakota City project. Most of the Dakota City-specific agreements were drafted in October and November of 2021, though discussions around the interconnect and EPC agreement were occurring throughout the summer of 2021.

- d. Offtake Agreement – March 8, 2023
 - Amended and Restated LLC Operating Agreement – December 3, 2021 (between Biocarbn Cross River Biogas Dakota City LLC and NW Natural RNG Holding Company, LLC)
 - Management Services Agreement – December 3, 2021 (Biocarbn Dakota City Management, LLC and Dakota City Renewable Energy LLC)
 - Tyson Site License – November 24, 2021 (Tyson Fresh Meats, Inc. and Dakota City Renewable Energy LLC)
 - MidAmerican Transportation and Interconnect – December 2, 2021 (MidAmerican Energy Company and Dakota City Renewable Energy LLC)
 - Engineering, Procurement and Construction Agreement – November 19, 2021 (Miron Construction Co. Inc. and Dakota City Renewable Energy LLC)



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 27

Please see NW Natural Responses to OPUC DR 13 and 14, and LC 79 Appendix K. It is Staff's understanding the Cost-of-Service model in an input to the RNG Workbook calculations, from Appendix K:

The Renewable Resources team uses the Cost-of-Service model and the Incremental Cost model to determine whether the RNG Resource could potentially yield a First Year Risk-Adjusted Levelized Incremental Cost (FYRALIC) that would be competitive with other RNG resources in the RNG Pipeline.)

Data Response 13 states, "NW Natural developed a single cost-of-service model shortly before its initial filing in this docket for ratemaking purposes. While Data Response 14 provides an RNG Workbook prepared when the project was actionable.

- a. Please explain what assumptions were used in place of a Cost-of-Service model for the RNG Workbook when the project was determined to be actionable.
- b. Was the same process followed for all bids?
- c. Please provide a detailed step-by-step process for evaluating bids, from receipt, through final selection including which models are used at which points in the process.

Response:

a. The fundamental change was that we combined our cost of service model with the RNG Workbook, so now they are linked. The RNG Workbook that was used when the project was deemed actionable reflected the same cost of service modelling used internally, so we were able to integrate into the RNG Workbook a cost to customers reflecting the cost of debt, the return on equity, the operating costs, management services fees, etc. There was a revenue requirement calculation in the workbook that took the inputs of the project proforma and produced a revenue requirement view. It used the same types of assumptions as the updated cost of service model, but now these workbooks are better linked in a way they were not linked before.

b. No bids were proposed with detailed capital investment and operating expense information, so all bids were reviewed through the RNG Workbook with inputs that were the same as a cost-of-service model, because all the costs that would be experienced by customers were embedded into the RNG Workbook.

c. Prior to the issuance of the RFP, the proposal evaluation criteria were defined and captured in the 2021 RFP Evaluation Methodology document: See Confidential UG

462 OPUC DR 27 Attachment 1. The proposals were evaluated based on these criteria resulting in a final score.

Once the proposals were scored, the calculated incremental costs of the “short list” resources were compared to the incremental cost of other opportunities available outside of the RFP. Those proposals that compared favorably to these other opportunities were pursued further, while those that did not were closed.

The evaluation criteria for the RFP proposals encompass five characteristics, as outlined in Section C of the document. Cost is the initial differentiator, and the remaining characteristics are considered when comparing proposals that are similar in cost.



Rates & Regulatory Affairs

UG 462

Renewable Gas Adjustment Mechanism - Dakota City

Data Request Response

Request No.: UG 462 OPUC DR 28

Referencing the discussion between the Company, Staff, and stakeholders on May 3, please provide a narrative description of what changes have occurred in the RNG procurement and evaluation process, including, but not limited to, modeling processes since NW Natural's 2021 RNG RFP.

Response:

Since the 2021 RFP, NW Natural has updated its approach to evaluating responses to our annual RNG RFP by:

- No longer just adding a fixed cost to unbundled resources to compare them to bundled resources, but instead evaluating them as attributes-only deals in our incremental cost model or linking the brown gas portion to a specific index price if indicated in the bid.
- Running an incremental cost model for each resource prior to the development of the "short list"; this is in contrast to earlier efforts, where we first evaluated the average price of resources using the more "blunt force" approach of assuming a certain dollar/mmbtu for the physical gas if a resource was presented as unbundled, and then finding the average price of the responses and moving those that were at or below the average price to our short list, which was when we began to run incremental cost models on resources. We will now run an incremental cost model on every resource that is presented to us in response to the RFP.
- Requiring that resources deliver by the end of 2025 to be considered (this was in the most recent RFP; we may continue to ask that resources be able to deliver by the end of the 2nd year following each RFP).

CASE: UG 462
WITNESS: TED DRENNAN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

**STAFF EXHIBIT 103
Is
Confidential**

Protective Order: 23-063

**Exhibits in Support
Of Opening Testimony**

May 25, 2023

**PUBLIC UTILITY COMMISSION
OF
OREGON**

**STAFF EXHIBIT 104
Is
Confidential
Filed In
Electronic
Format**

Protective Order: 23-063

**Exhibits in Support
Of Opening Testimony**

May 25, 2023

CERTIFICATE OF SERVICE

UG 462

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 25th day of May, 2023 at Salem, Oregon

Kay Barnes

Kay Barnes
Public Utility Commission
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Salem, Oregon 97301-3612
Telephone: (971) 375-5079

UG 462 – Service List

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