

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2307

In the Matter of

CASCADE NATURAL GAS
CORPORATION,Renewable Natural Gas Program Petition as
Required per OAR 860-150-0400(1).

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at our December 10, 2024 Regular Public Meeting, to adopt Staff's recommendation in this matter. We recognize and share stakeholder concerns with cost implications and policy uncertainties, particularly with regard to how the Senate Bill (SB) 98 program will intersect with the Climate Protection Program (CPP). In approving Cascade Natural Gas Corporation's petition for a SB 98 RNG program, we reiterate that SB 98 projects remain subject to our prudence review, which will consider the management decision to proceed with a resource decision and requested cost allocation in light of other programs, whether in Oregon or other states, in effect. We anticipate a need to take a proactive approach to evaluation of SB 98 justifications relative to CPP compliance strategies. The Staff Report with the recommendation is attached as Appendix A.

Made, entered, and effective Dec 11 2024.

Megan W. Decker
Chair



Letha Tawney
Commissioner



Les Perkins
Commissioner



A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. RA3

PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: December 10, 2024

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: December 2, 2024

TO: Public Utility Commission

FROM: Eric Shierman

THROUGH: Caroline Moore, JP Batmale, and Kim Herb **SIGNED**

SUBJECT: CASCADE NATURAL GAS CORPORATION:
(Docket No. UM 2307)
Cascade RNG Program Petition.

STAFF RECOMMENDATION:

Approve Cascade Natural Gas Corporation's SB 98 petition, setting a rate cap of five percent.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve Cascade Natural Gas Corporation's (Cascade or the Company) participation in an SB 98 program for renewable natural gas (RNG) setting the rate cap at five percent of the Company's total revenue requirement, as approved by the Commission in the Cascade's most recent general rate case.

Applicable Rule or Law

Oregon Senate Bill (SB) 98 (2019), codified at ORS 757.390–ORS 757.398, established a programmatic means for acquisition of renewable natural gas by natural gas utilities and directed the Public Utility Commission to establish rules for renewable natural gas programs that enable procurements and investments while protecting Oregon consumers.

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The Commission's rules in Division 150 govern renewable natural gas programs for large natural gas utilities and for small natural gas utilities.

OAR 860-150-0400(1) Small gas companies are required to submit a petition to the Commission which provides the information required in ORS 757.398 and OAR 860-150-0400(1)(a)-(h).

ORS 757.398(1) requires the Commission to set a rate cap, expressed as a percentage of the small natural gas utility's total revenue requirement as approved by the commission in the public utility's most recent general rate case. In setting a rate cap the Commission considers the value received by the small natural gas utility upon any resale of renewable natural gas as well as savings achieved through avoidance of conventional gas purchases or development.

Analysis

Background

SB 98 provides gas companies a programmatic means of investing in RNG, providing a vehicle by which they can recover reasonable and prudent costs associated with the procurement of RNG and investments in RNG infrastructure, up to a legislated cost cap. The cost cap for large natural gas utilities is defined in statute as five percent, but the Commission is directed to establish the appropriate percentage for small natural gas utilities upon petition. Cascade is the first small gas company to file a petition for RNG procurement under this law.¹

Cascade filed its SB 98 petition during the review of the Company's 2023 Integrated Resource Plan (IRP). During that proceeding, Staff compared the facts in UM 2307 with the resource planning in LC 83. This led to Staff's conclusion that while there was no evidence that Cascade's RNG investments were unreasonable, especially in the context of Climate Protection Program requirements on gas utilities, they were too substantially completed for the Commission to acknowledge these resources. The Commission adopted Staff's recommendation in Order No. 24-158 to not acknowledge the RNG investments.²

During the public review of Cascade's last IRP, a court decision altered the basis for the utility's planned procurement of RNG. While the Commission never acknowledged Cascade's RNG investments, the policy environment informing the IRP's modeling of the need for procuring RNG rapidly changed just before Staff filed Final Comments. On December 19, 2023, the Oregon Court of Appeals found the Climate Protection

¹ See Docket No. UM 2307, Cascade, Petition, November 9, 2023, p 1.

² See Docket No. LC 83, PUC, Order No. 24-158, May 31, 2024, p 10.

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Program's (CPP) rules invalid on procedural grounds.³ This decision delayed the timing of Cascade's compliance with CPP emissions reductions. This delay undermined the least-cost justification for Cascade's magnitude and timing of RNG investments.

On November 21, 2024, the Environmental Quality Commission adopted rules to establish the Climate Protection Program 2024, with 2025 being the first year of the first compliance period (2025 – 2027). The CPP goes into effect in 2025 with the first compliance showing in 2027.⁴ While the reinstatement of these rules provides justification for the procurement of RNG as a least-cost resource option, SB 98 provides an additional policy consideration for investing in RNG.

Cascade's Petition

Cascade requests approval to procure RNG under SB 98 at a five percent rate cap. Cascade's initial filing proposed a ten percent cap. The Commission's approval of the petition will allow Cascade to use SB 98 as a justification to recover up to the budget cap in annual revenue requirement. The Company may use this justification in either a general rate case or seek cost recovery in an automatic adjustment clause for RNG plant justified under SB 98. RTCs will have the added option of recovery through the Purchased Gas Adjustment (PGA). Costs in excess of the cap can be brought forward for consideration in a general rate case or PGA filing and will be reviewed for prudence based on factors outside of the SB 98 policy framework.

After Staff presented a recommendation for a five percent cap at the public workshop on September 17, 2024, Cascade changed the requested cap from ten to five percent.⁵ Five percent of Cascade's total revenue requirement approved by the Commission in UG 390 is \$3.6 million.⁶

While Cascade's petition now seeks a limit of SB 98 RNG investment at five percent of revenue requirement, the Company's actual investment stands at 15.5 percent.⁷ Prudent recovery in rates for the rest of Cascade's RNG investment will require justification beyond SB 98.

Staff reviewed the Company's petition, which contains sufficiently detailed information on the following key issues:

³ Wozniacka, Gosia. *Oregon court strikes down state climate program, rules in favor of utilities, industry*, The Oregonian, December 20, 2023, p 1.

⁴ OAR 340-273-0440(2).

⁵ See Docket No. UM 2307, Cascade, Revised Petition, October 10, 2024, p 2.

⁶ See Docket No. UG 390, PUC, Order No. 21-001, January 6, 2021, Appendix C, p 12.

⁷ See Docket No. UM 2307, Cascade, Petition, February 6, 2024, p 5.

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1. Value associated with resale of renewable natural gas;
2. Savings achieved through avoidance of development or purchase; and
3. Cost Burden for customers.

Value Associated with RNG Resale

Because Cascade plans to purchase Renewable Thermal Credits (RTC) in addition to making capital expenditures on RNG plant, Cascade's petition provides market information of the observed costs of both. Staff used this information in LC 83 to document the Company's modeling in the 2023 IRP significantly underestimated the cost of RNG.⁸ However, because the cost of both plant and the market price of offsets are high, the costs Cascade presents in the Company's petition suggest Cascade would be able to recoup much of any excessive revenue requirement for surplus RNG capital carrying costs that Staff may oppose recovery of in a future general rate case. Cascade may instead recover these costs from the sale of RTCs as the higher cost of RNG allows for a relatively limited quantity of RNG therms to be procured under the SB 98 cost cap.

This is important because Cascade's actual procurement of RNG **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** the modeling evidence of what is required as a least-cost resource. In LC 83, Cascade's Plexos modeling selected the procurement of 11,950,471 therms for the first compliance period of the previous CPP.⁹ Cascade's petition shows planned procurement through 2026 of **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** therms.¹⁰ Without recovery of the premium cost of RNG in rates, concerns that these RNG costs impose serious financial risk to Cascade are mitigated by the expectation that the Company can meet much of this revenue requirement from the sale of RTCs.¹¹ Cascade's procurement of RNG plant is approximately **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]**

[END CONFIDENTIAL].

Savings

Cascade has a method of assessing the cost-effectiveness of RNG investments that takes into consideration avoided upstream and downstream costs. For example, RNG

⁸ See Docket No. LC 83, PUC Staff, Final Comments, December 22, 2023, p 4.

⁹ See Docket No. LC 83, PUC Staff, Final Comments, December 22, 2023, p 1.

¹⁰ See Docket No. UM 2307, Cascade, Petition, February 6, 2024, Table 1, p 1.

¹¹ RTC Recovery HI CONF ES.xlsx.

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production that is distributed in the Company's service territory can reduce transport costs. Cascade's filing shows that, taking this and other avoided costs into account,

[BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL].¹²

Cost Burden on Customers

Staff identified a guiding principle in approaching a recommendation for the Commission, noting that a large gas company's participation in SB 98 is set by law with a rate cap of five percent. Only small gas companies require Commission approval, which comes with a Commission decision on the size of the rate cap. Therefore, as a guiding principle, Staff considered the question: Why would the Commission treat a small gas company differently than a large gas company? Staff's understanding of the legislative intent is that the Commission might consider the impact of RNG costs from the perspective of the economy of scale as it pertains to the volume of gas procured by larger versus smaller gas companies.

Staff was unable to find a premise to support the conclusion that a higher percentage than five percent would be in the public interest. If, however, the small gas Company can be held to the five percent rate cap, then the legislative intent to allow this technological development by a large gas company should apply equally to a small gas company. In response to Staff's position on the size of the rate cap, Cascade now seeks a five percent cap, and no party requests the Commission approve something higher.

Alliance of Western Energy Consumers Opposition

The Alliance of Western Energy Consumers (AWEC) recommends the Commission deny Cascade's petition. AWEC sees the purpose of SB 98 as having been supplanted by the CPP. AWEC argues: "The purpose of SB 98 is to authorize gas utilities to procure RNG even when it is not the least-cost or least-risk option for customers."¹³ The CPP came after the passage of SB 98 imposing emissions requirements that can justify RNG investment as a least-cost investment. Therefore, AWEC argues, "approval of Cascade's SB 98 petition will frustrate the development and implementation of cost-effective compliance strategies for the 2025 CPP."¹⁴

Cascade filed comments in reply, arguing: "AWEC misses the intent of the application.

¹² See Docket No. UM 2307, Cascade, Petition, February 6, 2024, Table 6, p 7.

¹³ See Docket No. UM 2307, AWEC, Comments, November 8, 2024, p 1.

¹⁴ See Docket No. UM 2307, AWEC, Comments, November 8, 2024, p 2.

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The intent of the application is to preserve a possible avenue of recovery of renewable natural gas ('RNG') investments as the Oregon decarbonization landscape continues to evolve."¹⁵ Cascade's petition and the Commission's approval are required to secure SB 98 as an option.

Staff agrees with the Company, that a separate reason for RNG procurement does not have to mean the frustration of cost-effective strategies for decarbonization.

- The size of cost-effective RNG procurement in a CPP policy environment appears to be inherently larger than SB 98's budgeted level.
- RNG appears less expensive than other low greenhouse gas emitting gas options.
- Any risk of future uncertainty around the enforcement of the new CPP rules are partially mitigated with SB 98 as a backstop for Oregon's RNG policy.

Staff appreciates AWEC's observation of the redundancy of these two different policy reasons for a small gas company to invest in RNG. However, Staff does not see them as inherently in conflict.

Conclusion

Staff concludes Cascade's SB 98 petition should be approved, given that the Company agrees to the five percent rate cap. This lower cap allows Cascade to make qualified RNG investments within the small scale the Oregon Legislature intended. In an evolving decarbonization policy environment, SB 98 provides a path for gas companies to consider the decarbonization potential of prudent investments in RNG.

PROPOSED COMMISSION MOTION:

Approve Cascade Natural Gas Corporation's SB 98 petition, setting a rate cap of five percent.

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¹⁵ See Docket No. UM 2307, Cascade, Comments, November 18, 2024, p 1.