

Jennifer Gross
Tariff and Regulatory Compliance
Tel: 503.226-4211 ext. 3590
Fax: 503.721.2516
email: jennifer.gross@nwnatural.com



February 2, 2015

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
Post Office Box 1088
Salem, Oregon 97308-1088

Attn: Filing Center

Re: **LC 60:**
NW Natural's Final Comments regarding its 2014 Integrated Resource Plan

NW Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith its Final Comments on Staff's Final Comments filed January 15, 2015, in Docket No. LC 60, which is established for the review of NW Natural's 2014 Integrated Resource Plan ("IRP").

A Certificate of Service is attached certifying that a copy of this of this filing has been served to all parties to LC 60.

If you have any questions regarding this IRP, please contact me at (503) 226-4211, extension 3590.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Rates and Regulatory Affairs

enclosure

**Before the Public Utility Commission of Oregon
LC 60**

In the Matter of
NW Natural's
2014 Integrated Resource Plan

NW Natural's Final Comments

I. INTRODUCTION

Northwest Natural Gas, dba NW Natural (NW Natural or Company) files these Final Comments in response to the Public Utility Commission of Oregon Staff's (Staff) Final Comments on the Company's 2014 Integrated Resource Plan (IRP or Plan) submitted on January 15, 2015, in Docket No. LC 60.

NW Natural agrees with many of Staff's comments and recommendations, and again would like to express its appreciation for the comments and general spirit of collaboration. These comments address areas of general agreement as well as areas where NW Natural disagrees with Staff's recommendations.

II. THE ACTION PLAN

Newport LNG Refurbishment

Staff's Comments on Newport Refurbishment

Staff's comments set forth that Staff understands that each activity composing the Newport refurbishment project (Pretreatment System, Liquefaction, Control Room, etc.) is necessary for the refurbishment project to be useful when finished. Based on this understanding, Staff treats each activity of the project as part and parcel of the entire Newport Refurbishment project for the purpose of Staff determining when the project has commenced. Staff makes the analogy of a power generation facility project where the acknowledgment is made for the entire facility. Staff recommends that the refurbishment of Newport be removed from NW Natural's 2014 Action Plan.

NW Natural's Comments on Newport Refurbishment

NW Natural disagrees with Staff's recommendation that the Newport refurbishment project be removed from the Action Plan. The Commission explained its standard for acknowledgment in PacifiCorp's 2012 IRP, Docket No. LC 57. In that proceeding, PacifiCorp requested acknowledgement of retrofits to Hunter Unit 1 (Action Item 8b) where work on the project had already commenced. In Order No. 14-252 the Commission declined to acknowledge the Action Item, stating in part:

We agree with Staff that energy utilities that desire acknowledgment of an investment decision should request acknowledgment before the investment decision is made and before the required project is substantially completed. PacifiCorp has put us in a difficult position by requesting we acknowledge something for the first time that is already substantially complete. ***We will review these situations on a case-by-case basis to determine whether or not the project has progressed past a resource planning decision and into a project that is substantially complete.***¹

NW Natural contends that, under the standard articulated by the Commission, the Newport projects should be considered in this IRP because:

1. The resource planning decision is not substantially complete.
 - a. Some costs to date are better characterized as maintenance projects and separate from life-extending refurbishment.
 - b. Construction of the refurbishment projects has not begun and the Company is not contractually committed to construction.
2. The vast majority of refurbishment costs are yet to be incurred and most of the monies spent to date are not "sunk costs."

Staff's understanding "that all the activities that compose the Newport refurbishment project (Pretreatment System, Liquefaction, Control Room, etc.) are necessary for the refurbishment project to be useful when finished"² is incorrect. Additionally, Staff's analogy of a power generation facility is flawed because it improperly analogizes the Newport Refurbishment project as an entirely new facility that will be constructed and that a single part is useless without all other parts. In response to OPUC DR 113 NW

¹ Page 7 of Order No. 14-252 in Docket No. LC 57; emphasis added.

² Page 7 of Staff's Final Comments.

Natural details that some of the already completed activities are currently in service, providing a *de facto* demonstration that these activities are better characterized as maintenance projects that are distinctly different from life-extending—i.e., refurbishment—activities. These activities include the C-1 and C-2 compressor overhauls, which account for approximately 50% of the \$1.1 million in expenditures to date.³ NW Natural acknowledges it should not have included the C-1 and C-2 overhauls as part of an action item related to the Newport “refurbishment,” as compressor overhauls are activities which should be performed every few years and would have been performed even if the facility was planned to close in 2020 as was assumed in the alternatives analysis.

The additional expenditures to date do not commit the Company to completion of the life-extending activities. As detailed in NW Natural's response to OPUC DR 113, no contracts have been awarded for the construction and installation of the pretreatment system. As of January 30, 2015, the Company has spent less than 5% of the total budget for the refurbishment project and the remaining 95% of budget has not yet been contracted (i.e., committed). If the Commission does not acknowledge Action Item 2.1c, the Company could still choose to delay the project.

The refurbishment of Newport LNG remains a resource planning decision that deserves an acknowledgment decision based on the merits of the project.⁴ NW Natural requests acknowledgement of Action Item 2.1c as rewritten below:

Action Item 2.1c:

Proceed with the Newport Refurbishment project activities which will extend the operating life of the facility. This includes: construction and installation of the pretreatment system, liquefaction improvements, vaporization replacement, control building and system upgrades.

NW Natural believes the IRP clearly shows that (1) from an engineering and safety perspective, the Newport Refurbishment project is necessary at this time to keep the facility in the Company's firm resource stack and (2) there is no lower cost alternative in terms of cost and cost risk.

³ See Attachment 11 in NW Natural's response to OPUC DR 18.

⁴ NW Natural understands Staff's concern regarding the Company seeking acknowledgment of projects that have already commenced. NW Natural notes that, while this point is not included in the IRP guidelines, the Company will work with Staff on a going forward basis to better understand when Staff believes an investment decision has been made. NW Natural will in subsequent IRPs put a focus on increasing the clarity regarding which groupings of projects can and cannot be separated to be useful to customers.

Clark County Distribution System Projects

NW Natural proposed in its Reply Comments revising its Action Plan such that the Company is only seeking Commission acknowledgement of the Clark County distribution system projects that have not started. The Company reiterates that each project is a standalone project that addresses distribution issues in the Clark County service area. The Company proposed revising Action Item 2.1b as follows:

Complete those Clark County distribution projects included in Appendix 6 which have **not yet started** and which address, in part, Vancouver load center needs and have an estimated timing for completion within the next five years.⁵

NW Natural proposed this revision based in part on language in Staff's Initial Comments, which stated:

Staff continues to investigate the status of these projects and will work with the Company and stakeholders to amend the Action Plan, if appropriate. Potentially, [NW Natural] could define the individual project phases that exist and include only those phases that have not begun for consideration for Commission acknowledgement.⁶

Staff's Final Comments recommend that NW Natural's 119th Street project be removed from the Action Plan of the Company's 2014 IRP, as "construction of the 119th Street project has already commenced."^{7, 8} NW Natural notes that its proposed altering of this Action Item in its Reply Comments⁹ effectively removed the 119th Street project from Action Item 2.1b.

Staff's Final Comments continue:

⁵ Page 2 of NW Natural's Reply Comments; emphasis in the original.

⁶ Page 2 of Staff's Initial Comments.

⁷ Page 6 of Staff's Final Comments.

⁸ Staff, on page 5 of its Final Comments, mistakenly states that "the in-service date is 2017" for the five Clark County distribution system projects. NW Natural clarifies this point, as Appendix 6.1 of the 2014 IRP lists the anticipated construction timelines for each project, which vary as follows: 2014 for one project, 2015 for two projects, and 2017 for two projects. The Company expects each project to be in-service shortly after completion of its construction and likely in the same calendar year as its construction. See, in the 2014 IRP, Figure 7.4 on page 7.8 and page 7.13 ("...insufficient to serve current demand").

⁹ Page 2 of NW Natural's Reply Comments.

As for the other [four Clark County distribution system] projects, each project's capital cost does not exceed the Company-proposed threshold of \$10 million for distribution projects to be included in its IRP; on this premise, they should also be excluded from its Action Plan. The recommendation above [to exclude the 119th Street project as it has already commenced] is not based on the reasonableness of the need of the project, but rather, it is based on timing. Threshold levels of capital expenditures (i.e., Company-proposed threshold of \$10 million for distribution projects) have not been established. Staff recommends excluding this action item from the Company's Action Plan.¹⁰

Staff's changed position in its Final Comments presents NW Natural with an inherent dilemma. The 2014 IRP includes the Clark County distribution system projects based on the Commission's guidance¹¹ regarding inclusion of projects in an IRP;¹² i.e, NW Natural views inclusion of the Clark County projects as responsive to this guidance.

NW Natural notes that Staff is proposing removal of Action Item 2.1b because the project does not meet the Company's proposed \$10 million threshold for inclusion of distribution projects.¹³ However, Staff also points out that the \$10 million threshold has "not been established" by the Commission. The Company proposed the \$10 million threshold to avoid uncertainty regarding which projects should be included in future IRPs. NW Natural is concerned that, without a monetary limitation on the scope of distribution projects to be included in an IRP, the Company will needlessly include minor projects in the next IRP that the Commission and Stakeholders will be disinclined to analyze and review.

NW Natural requests Commission acknowledgement of Action Item 2.1b, as modified above and on page 2 of NW Natural's Reply Comments.

¹⁰ Page 6 of Staff's Final Comments; footnotes omitted.

¹¹ See, in Order No. 12-437 of Docket No. UG 221, page 18 and especially footnote 44 on page 17. See also pages 3 and 7 in Order No. 14-252 of Docket No. LC 57.

¹² See Action Item 2.1b on page 1.20; page 6.9, including "Key Findings;" page 7.13 and 7.27, including "Key Findings" on the latter page; and Appendix 6.

¹³ NW Natural proposes the use of two criteria for determining whether a given project will be included within an IRP. See page 6.1 of the 2014 IRP. However, NW Natural discusses here only the second criterion, as Staff bases its recommended exclusion on the second criteria.

South Salem Feeder

Staff's Comments on South Salem Feeder

Staff recommends that the Company pursue three courses of action and provide the results to the Commission prior to construction of the South Salem Feeder:

1. Conduct an RFP for interruptible/recall agreements with industrial customers in Salem;
2. Further investigate acceleration of DSM in Salem with Energy Trust; and
3. Update Salem load forecast

NW Natural's Comments on South Salem Feeder

The Company agrees with Staff's recommendation and requests acknowledgement of the action item as revised by Staff. Specifically, NW Natural agrees that the Company should explore interruptible/recall agreements before proceeding with the South Salem Feeder. NW Natural will also continue to monitor growth in the Salem load center and account for any changes in economic drivers which may delay the need for the project. See also NW Natural's related discussion in the Gas Requirements Forecast section.

NW Natural would, however, like to highlight one issue of concern related to this issue. As Staff noted in its comments, the assumptions used in the analysis of acceleration of DSM in conjunction with Energy Trust used broad state-level assumptions. NW Natural agrees that a more detailed look into the Salem area could conceivably show more resource potential. While the potential to delay South Salem Feeder with accelerated DSM may be technically possible, it is far from certain to be feasible or economic to attempt to do so. Because Energy Trust has no experience with acceleration of measures within a load center, its assumptions about market adoption and the costs of acceleration are not empirically derived (Energy Trust has not previously tried to accelerate DSM programs in a specific area) and therefore highly uncertain.

Gas Requirements Forecast

Staff's Final Comments regarding NW Natural's gas requirement forecast includes recommendations¹⁴ that relate to using the most current data available; using explanatory data covering longer time periods; and to consider developing load center

¹⁴ See pages 2 and 3 of Staff's Final Comments.

specific forecasts and, in the case of industrial, to consider forecasting at the customer level.

NW Natural generally agrees with Staff's comments on this topic and is committed to reexamining methodologies the Company uses in forecasting gas requirements in the next IRP. Issues requiring investigation and evaluation include (1) determining at what point in the IRP process the gas requirement forecast must be "locked down" in order to proceed with analysis of resource requirements; (2) data availability, especially with respect to 20-year forecasts of values for explanatory variables at the appropriate level of geographic disaggregation; and (3) the use of and methods by which to integrate near-term forecasts developed by the Company's subject matter experts.

NW Natural looks forward to engaging with Staff and other Stakeholders regarding the Company's gas requirements forecast and discussing this and related topics as part of the Technical Working Group process for the Company's next IRP.

III. DEMAND-SIDE RESOURCE AND AVOIDED COST DETERMINATION

Staff's Comments

Staff recommends that the Commission acknowledge NW Natural's new proposed Action Item, which replaces Action Items 3.2 and 5.6 and states:

Consistent with the methodology presented in Chapter 4, NW Natural will ensure Energy Trust has sufficient public purpose charge funding to acquire the therm savings identified and approved by the Energy Trust's Board of approximately 5.2 million therms in 2015 and 5.4 million therms in 2016.

Staff also recommends that the Commission acknowledge Action Item 3.1 which states:

3.1 Explore assessing a premium value to account for any natural gas price volatility hedging value associated with DSM energy savings.

Additional Staff comments included:

Staff is currently working with NWN and parties on development of this hedge value or premium value of energy efficiency. Staff supports NWN providing updated Energy Trust-generated DSM annual savings targets with the Company's Annual IRP Update because at that time the Energy Trust will be able to model the savings potential using the updated

resource potential and measure information, updated avoided costs, and any program changes due to the proposal in Docket No. UM 1622 to analyze the incentive cap. A placeholder hedge value may be in place at that time as well.¹⁵

NW Natural agrees with Staff's comments and the revision of the action plan as noted above and in Staff's Final Comments. NW Natural also looks forward to working with Staff in exploring assessing a premium value to account for any natural gas price volatility hedging value associated with DSM energy savings and engaging others through the Technical Working Group meetings as the Company updates avoided costs for its next IRP.

IV. HEDGING

Staff's Final Comments on the merits of the Company's proposal to increase the share of its long-term hedges from 10% up to 25% of customers' expected gas needs does not respond to the Company's Reply Comments. Rather, Staff's Final Comments merely restate its Initial Comments that NW Natural's hedging strategy "has resulted in substantial losses for its customers for the period 2009 to 2014." The Company provided a detailed response about how this narrow and price-centric manner of evaluating a hedging program is problematic in its Reply Comments and will not repeat those comments here. However, NW Natural reiterates that when a hedging program is compared to what would have happened if the Company only relied on volatile spot markets to serve the needs of its customers, it should be expected that some time periods will show hedging to be more expensive than buying spot and some periods will show hedging to be less expensive than buying spot. As the Company showed in responses to Staff data requests, this basic result of a hedging program over long periods of time holds for NW Natural's hedging program, which for the period 2000 to 2008 resulted in "substantial gains" for its customers.

With respect to Staff's recommendation to bifurcate the IRP proceeding to allow more time to analyze NW Natural's hedging policy, NW Natural filed a motion with the Commission on January 30, 2015 requesting that the Commission bifurcate the IRP docket for this purpose. Specifically, NW Natural proposed a procedural process within Docket LC 60 for the specific purpose of reviewing the Company's hedging policy for hedges longer than three years, or, in the alternative, to open a new LC Docket that could serve as an IRP update in which the Company will seek acknowledgment of its long-term hedging policy. Through this filing, NW Natural addressed Staff's concerns by

¹⁵ Page 10 of Staff's Final Comments.

suggesting a proposed procedural process that will provide the parties to this proceeding a longer timeframe and a greater opportunity to engage in discovery and provide written comments relating to NW Natural's long-term hedging policy. NW Natural expects the bifurcated docket to be collaborative and looks forward to engaging with parties to thoroughly investigate, identify issues of concern, and come to a mutually satisfactory resolution regarding NW Natural's hedging policy.

V. SUPPLY-SIDE RESOURCES

Staff states that NW Natural's IRP inadequately recognizes Guideline 13. In particular, Staff states that NW Natural inadequately recognized Guideline 13(a), which states:

An electric utility should, in its IRP: Identify its proposed acquisition strategy for each resource in its action plan.

Staff interprets this guideline as applicable to natural gas utilities and to be interpreted as follows:

- The IRP is to provide sufficient detail to allow Staff and participants to do a thorough review of the purchasing, hedging and risk management plans, policies and strategies; and
- The IRP, not the PGA, is the correct proceeding for vetting resource acquisition decisions, including the decision process. The PGA is the proceeding where the result of the vetted resources acquisition decisions and process is reviewed.”¹⁶

Staff recommended that “the Commission reinforce...Staff's view of the Guideline 13 requirement in its Order on this IRP.”¹⁷

Staff fails to explain why a guideline expressly directed at electric utilities should apply to natural gas utilities. Commission Order No. 07-002 provides that only subpart b of Guideline 13 applies to natural gas utilities. It reads:

¹⁶ Page 18 of Staff's Final Comments.

¹⁷ Page 18 of Staff's Final Comments.

“b. Natural gas utilities should either describe in the IRP their bidding practices for gas supply and transportation, or provide a description of those practices following IRP acknowledgment.”¹⁸

Staff's recommendation that all resource decisions must be vetted first in the IRP misapplies the Commission's Guidelines and is unworkable. First, the phrase “following IRP acknowledgment” in Guideline 13(b) should make it clear that other venues and proceedings, such as the PGA, were believed to be adequate for disclosing bidding practices. Second, the IRP is filed every two years and many decisions must be made in shorter time frames.

The Company believes that it continues to provide all of the necessary information to evaluate and vet resource decisions that are applicable to the IRP. Shorter term decisions, like those made to fill-in capacity that was lost due to the Plymouth LNG situation last winter, by their nature, are not part of any IRP Action Plan. Indeed, much discussion has already occurred regarding Staff's exclusion of projects that it deemed were already underway.

NW Natural requests that the Commission confirm the Company's reading of the IRP Guidelines and reject Staff's interpretations.

VI. LINEAR PROGRAMMING AND RISK ANALYSIS

NW Natural appreciates Staff's elaboration on its thinking regarding risk analysis in its Final Comments and will incorporate what Staff has defined as stochastic analysis in its next IRP. However, to make this analysis of benefit, the Company looks forward to working with Staff and other stakeholders through the Technical Working Group process on defining the appropriate stochastic inputs.

VII. ENERGY POLICIES AND ENVIRONMENTAL CONSIDERATIONS

Staff's Final Comments regarding Chapter 5 of NW Natural's 2014 IRP repeats language appearing in Staff's Initial Comments:

Staff stated [in its Initial Comments] that it is concerned that all of the climate change risks and opportunities beyond the immediate regulatory effects of EPA's 111(d) rule are not currently accounted for in the planning cycle. Additionally Staff stated [in its Initial Comments] that it is

¹⁸ Page 7 of Attachment A to Staff's Final Comments.

time for NWN to begin exploring how to analyze climate change risk and opportunities.¹⁹

Staff's Final Comments also include, and repeat in part, that:

Staff appreciates that NWN considered the impact of [a] high carbon tax on its resource acquisition. However, that consideration of a high carbon tax scenario may not be sufficient to account for the impacts of all the climate change risks and opportunities on the Company's resource additions. Therefore, Staff recommends that the Company and participants begin these discussions as part of NWN's next IRP process.²⁰

Staff also stated that, in the Company's Reply Comments, "[NW Natural] disagreed with Staff's characterization that it is time for [NW Natural] to begin exploring how to analyze climate change risks and opportunities."²¹

NW Natural is disappointed that Staff continues to express that NW Natural has not yet begun the effort to analyze climate change risks and opportunities. The Company held five meetings in which the Company solicited input from Staff and other Stakeholders regarding the appropriate analysis of this issue to include in the 2014 IRP. Additionally, NW Natural discussed its analysis in 23 pages of the 2014 IRP.²²

NW Natural would welcome Staff providing a more developed expression of its thinking on this topic prior to the Company commencing the development of its next IRP or, at least, during one of the early Technical Working Group meetings associated with the next IRP. NW Natural would benefit in particular from Staff's identification of "the immediate regulatory effects of EPA's 111(d) rule" on it and its customers. It appears that NW Natural's hypothesis that the price of delivered natural gas as experienced by the Company's customers might increase has not—to date—been acceptable to Staff. NW Natural also encourages Staff to provide within the same timeframe a list of "all of the climate change risks and opportunities" Staff envisions. The Company anticipates considerable interest from Stakeholders in the Company's next IRP process in discussing such risks or opportunities.

¹⁹ Page 19 of Staff's Final Comments.

²⁰ Page 20 of Staff's Final Comments.

²¹ *Ibid.*

²² See pages 5.3 through 5.25.

NW Natural looks forward to a continuing conversation, especially with the benefit of this input from Staff, regarding the analysis of the impacts on NW Natural and the Company's customers in a carbon-constrained world of the future.

VIII. CONCLUSION

NW Natural's 2014 IRP complies with the guidelines established for IRPs and the Company requests the Commission's acknowledgement of its filed Plan, subject to the modifications and clarifications identified in these comments.



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing NW NATURAL'S FINAL COMMENTS, upon all parties of record in the LC 60 proceeding, by electronic mail.

EDWARD FINKLEA W
EXECUTIVE DIRECTOR, NWIGU
efinklea@nwigu.org

TOMMY A. BROOKS W
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD
tbrooks@cablehuston.com

CHAD M. STOKES W
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD
cstokes@cablehuston.com

G. CATRIONA MCCRACKEN W
CITIZENS' UTILITY BOARD OF OREGON
catriona@oregoncub.org

ROBERT JENKS W
CITIZENS' UTILITY BOARD OF OREGON
bob@oregoncub.org

OPUC DOCKETS W
CITIZENS' UTILITY BOARD OF OREGON
dockets@oregoncub.org

PATRICK G. HAGER W
PORTLAND GENERAL ELECTRIC
pge.opuc.filings@pgn.com
patrick.hager@pgn.com

V. DENISE SAUNDERS W
PORTLAND GENERAL ELECTRIC
denise.saunders@pgn.com

LISA GORSUCH W
PUBLIC UTILITY COMMISSION
OF OREGON
lisa.gorsuch@state.or.us

JASON W. JONES W
PUC STAFF-DEPARTMENT OF
JUSTICE
jason.w.jones@state.or.us

DATED at Portland, Oregon, this 2ND day of February 2015.

/s/ Kelley C. Miller
Kelley C. Miller
Rates & Regulatory Affairs
NW NATURAL
220 NW Second Avenue
Portland, OR 97209
(503) 226-4211, ext. 3589