

CASE: UG 435
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION
OF
OREGON**

**STAFF EXHIBIT 1700
REDACTED**

**Opening Testimony:
Lexington Renewable Natural Gas Project**

April 22, 2022

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

2 A. My name is Matt Muldoon. I am a Manager employed in the Rates, Finance,
3 and Audit (RFA) Division of the Public Utility Commission of Oregon (OPUC).
4 My business address is 201 High Street SE, Suite 100, Salem, Oregon 97301.

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

6 A. My witness qualifications statement is found in Exhibit Staff/101.

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

8 A. In this testimony, I address NW Natural's request for rate recovery of its
9 investment in the Lexington Renewable Natural Gas (RNG) project. I discuss
10 the regulatory background for renewable natural gas investments and my
11 analysis of the prudence of the Lexington RNG project. I also address NW
12 Natural's request for an automatic adjustment mechanism that allows recovery
13 of forecasted costs for any RNG projects over \$5 million as well as the tracked
14 and deferred variance between NW Natural's forecasted and actual costs for
15 the eligible RNG projects.

16 The recommendations and findings contained in this testimony are
17 subject to change after review of testimony offered by other parties.

18 **Lexington Renewable Natural Gas (RNG) Project**

19 **Q. What is the regulatory background for NW Natural's investment in**
20 **renewable natural gas projects?**

A. In 2019, the Oregon Governor signed SB 98 into law to encourage
procurement of renewable natural gas resources. SB 98 required the
Commission to adopt regulatory guidelines for the procurement of renewable

natural gas and investments in renewable natural gas infrastructure while also protecting Oregon consumers.¹

1 SB 98 authorizes Oregon natural gas utilities to invest in RNG projects
2 and purchase RNG from third parties even if the cost is higher than other
3 options to meet customer demand. Notwithstanding this authority, the
4 difference between the total (or “all-in”) levelized annual cost of the utility’s
5 RNG portfolio and the all-in levelized annual cost of the same quantity of
6 conventional natural gas (i.e., the incremental cost of RNG) is capped at five
7 percent of a natural gas utility’s annual revenue requirement unless the
8 Commission approves additional investment.

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

12 **Q. For what RNG project does NW Natural seek recovery in this case?**

13 A. NW Natural seeks rate recovery for its investment in the Lexington RNG
14 Project near Lexington, Nebraska through a new Automatic Adjustment Clause
15 (AAC). Presumably were the Commission to not authorize an AAC, NW
16 Natural would still want cost recovery for the Lexington RNG project.

17 **Q. Please describe the NW Natural Lexington RNG Project.**

18 A. NW Natural in conjunction with Tyson Fresh Meats in Lexington, Nebraska,
19 proposes to take RNG output from a waste product digester, and, with use of
20 specialized membranes, bring that gas up to interstate pipeline standards.

¹ SB 98 (2019) is codified at ORS 757.390-.398.

1 While it would not be practical or cost effective to transport the RNG physically
2 to Oregon, with the injection of the RNG into the pipeline system in Nebraska,
3 the RNG is notionally “delivered” to Oregon for Legislative purposes of SB 98.

4 NW Natural notes that SB 98 (ORS 757.390-.398) does not require the
5 physical (as opposed to notional) delivery of the energy content of RNG to
6 Oregon customers. The Company also represents that the Oregon Clean
7 Fuels Program has similar operating guidelines to those developed in SB 98.²

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

9 A. No. NW Natural is working with others to develop and operate this project as
10 shown in Figure 1.³

11 **Q. What is the status of the Lexington RNG project?**

12 A. The Lexington project began flowing gas to the local Black Hills distribution
13 system on January 13, 2022. There have been no major stoppages according
14 to the Company, though there have been about four days of down time to
15 optimize facilities. The project’s Commercial Operation Date was January 24,
16 2022. The RNG output met gas specification and was accepted by the Black
17 Hills distribution system. **BEGIN HIGHLY CONFIDENTIAL ■ END Highly**
18 **CONFIDENTIAL.**⁴ NW Natural has deferred its capital costs and operating
19 expenses incurred to date for recovery under its proposed AAC.

20 **Q. How do Oregonians benefit environmentally from the Lexington RNG**
21 **project?**

² These representations are made in the Company’s response to Staff DR 312.

³ Figure 1 is provided by NW Natural as Attachment 6 in response to Staff DR 329.

⁴ This information was provided as Attachment 14 in response to Staff DR 329.

1 A. NW Natural retires the renewable credits associated with the facilities RNG
2 production on behalf of Oregon customers. Carbon dioxide (CO₂) is a global
3 pollutant so the source or location of the emissions do not necessarily limit the
4 benefits of the reduced emissions.

5 **Q. Did NW Natural consider the cost to build the Lexington RNG facility**
6 **versus to buy like renewable credits or offtakes from a third party?**

7 A. Yes. NW Natural projects that the Lexington LNG project will cost about
8 \$38 million, which is equal to 1.62 percent of the Company's 2025 dollar sales
9 volume – a permissible spend level under SB 98, translating into a 2025
10 incremental revenue requirement of about 0.33 percent.⁵ Though expensive
11 compared to brown natural gas, the Lexington facility would be a relatively low
12 cost RNG project. This reflects very high recent California recognition of the
13 value of landfill and other renewable natural gas projects, driving up the cost to
14 purchase like renewable credits or equivalent offtakes.⁶

15 **Q. Is Tyson Fresh Meats, Inc., a reasonable partner and counterparty risk for**
16 **NW Natural?**

17 A. Yes. The parent company of Tyson Fresh Meats, Inc. is Tyson Foods, which
18 Moody's rates as Baa2 and Standard and Poor's Rates as BBB+. Despite
19 cyber-hacking and challenges related to COVID-19, Tyson is doing well and
20 appears committed to its relationship with NW Natural through a change in

⁵ This information is provided on page 187 of Attachment 2 of the Company's response to Staff DR 329.

⁶ See Staff/108, Muldoon/58, "California Green Subsidies Boost New Biofuel," Wall Street Journal (WSJ), [insert date].

1 Tyson CEO.⁷ Staff is satisfied that NW Natural performed diligent counterparty
2 review in the case of Tyson Fresh Meats.

3 NW Natural's Lexington RNG project is projected to be less expensive on
4 a per-Renewable Tax Credit (RTC) basis than offtake agreements and
5 partnering with Tyson posed acceptable counterparty risks. Further, in the
6 docket opened for NW Natural's request for approval of an Affiliated Interest
7 (AI) Agreement relating to the Lexington RNG project, Staff, NW Natural, the
8 Oregon Citizens' Utility Board and the Alliance of Western Energy Consumers
9 entered into a stipulation agreeing to support NW Natural's AI application
10 subject to several conditions that protect customers. Based on the costs of the
11 RNG project, the Stipulation conditions protecting customers, and Joint
12 Testimony in Support thereof in Docket No. UI 451 that examined the
13 Company's affiliated interest (AI) agreement with Tyson, Staff finds that the
14 decision to partner with Tyson in developing the Lexington RNG facility is
15 reasonable given other RNG alternatives and associated costs and risks and

⁷ See Staff/108, Muldoon/61, "Higher Meat Prices Boost Tyson," Wall Street Journal, February 8, 2022. See also Staff/108, Muldoon/64, "Tyson Replaces CEO Dean Banks after Eight Months on the Job" Wall Street Journal, June 2, 2021.

1 the Company's goal of RNG development within the framework of SB 98.^{8,9}

2 **Q. Graphically, how did the Lexington RNG project compare with alternate**
3 **projects considered?**

4 A. See Figure 2 below. Also See Table 5 for RNG projects that NWN has
5 considered.

6 **Q. How does NWN depict the cost profile of the Lexington RNG project?**

7 A. Figure 3 provides a sense of the breakdown of costs from an Oregon customer
8 perspective.¹⁰

9 **Q. What are some of the component costs for the Lexington RNG project?**

10 A. In developing and operating the Lexington RNG facility, NW Natural incurs the
11 following types of costs shown in Figure 4.¹¹

12 **Q. What are the annual cost profiles of the Lexington Project in spreadsheet**
13 **form?**

14 A. NWN provided the following annualized capital costs of the project and

⁸ UI 451 is the docket that reviews the affiliated interest arrangement with regards to Lexington direct owners and NW Natural. The PUC has not issued an order in UI 451 as of the time this testimony was prepared. In that docket, all parties supported a stipulation that contained the following provision, "For the Lexington RNG Project only, the Stipulating Parties agree not to argue, for a period of five years from the Lexington RNG Project's commercial operation date, in UG 435 or any other proceeding, for a cost sharing mechanism to address production risk and the risk related to the cost of producing RTCs, except as specified in paragraph 2. The Stipulating Parties remain free to raise and address any issue in Docket UG 435, other than a cost sharing mechanism to address production risk and the risk related to the cost of producing RTCs for the Lexington RNG Project. After the Commission has issued an order on the specific ratemaking treatment of the Lexington RNG Project in UG 435 that becomes final by operation of law or appeal, the Stipulating Parties agree to not oppose or seek any changes to the project's ratemaking treatment for a period of five years from the Lexington RNG Project's commercial operation date; provided, however, that no Stipulating Party is precluded from seeking rehearing or appealing any order the Commission issues in UG 435. During the five-year period referenced above, Stipulating Parties may advocate for a disallowance of any Lexington RNG Project expenditures that have not already found to be prudent in UG 435."

⁹ This determination relies in part on NW Naturals response to Staff DR 312.

¹⁰ This breakout is provided by the Company in response to Staff DR 329.

¹¹ This breakout is provided by the Company in response to Staff DR 329.

1 forecasted expense for future years, as well as the expense already incurred
2 and deferred (see Table 2) and Lexington RNG's 10-year forecast (see Table
3 3), but this information will be updated over time by the Company.

4 **Q. Is business risk evenly distributed over the expected life of the Lexington**
5 **RNG Project?**

6 A. No. As shown in the incremental costs projected by the Company below in
7 Figure 5, **BEGIN HIGHLY CONFIDENTIAL** ■ **END Highly CONFIDENTIAL**.

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Table 1 – RNG Project Evaluation

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Figure 1

BEGIN HIGHLY CONFIDENTIAL [REDACTED] END Highly CONFIDENTIAL

Figure 2

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Figure 3

BEGIN HIGHLY CONFIDENTIAL [REDACTED] END Highly CONFIDENTIAL

Figure 4

BEGIN HIGHLY CONFIDENTIAL [REDACTED] END Highly CONFIDENTIAL Table 2¹²

Table 3¹³

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¹² NW Natural provides this information on page 149 of Attachment 2 in response to Staff DR 329.

¹³ NW Natural provides this information on page 150 of Attachment 2 in response to Staff DR 329.

1 **Q. What Cash Flows are anticipated with the Lexington RNG Project?**

2 A. Between 2020 and 2030, the Company represents that cash flows for this project will be roughly as provided in
3 Table 4 below, again subject to update.¹⁴

4 **Table 4**

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5 **Figure 5¹⁵**

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6 **Table 5**

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7 **Table 5 – Continued**

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8 **Table 5 – Concluded**

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¹⁴ NW Natural provides this information on page 150 of Attachment 2 in response to Staff DR 329.

¹⁵ NW Natural provides this information on page 150 of Attachment 2 in response to Staff DR 329.

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

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

6 **Q. Has NW Natural demonstrated that RNG project development and**
7 **operation is a core competency of NW Natural's regulated gas utility? Or**
8 **does NWN have a proven track record?**

9 A. Not at this time. NW Natural appropriately relied on partners, including:
10 BioCarbN, Clean Energy Counsel, Nexus, Cross River Infrastructure Partners,
11 LLC, Miron Construction, and **BEGIN HIGHLY CONFIDENTIAL ■ END Highly**
12 **CONFIDENTIAL** to help it plan, develop, build, and operate the Lexington RNG
13 as well as sell the brown gas after renewable energy credits (REC) are retired for
14 the benefit of OR customers.¹⁶ More detail is provided in Docket No. UI 451
15 regarding NW Natural's partners in the development of the Lexington RNG facility.

16 **Q. Why is this a potential concern for the Commission going forward, even if**
17 **the Lexington RNG project is deemed prudent at this time?**

18 A. There is a risk that NW Natural in structuring agreements that limit risk, provide
19 incentives, and allow for returns on effort and investment for partners could
20 obligate Oregon ratepayers to a cost-plus RNG construct. In an ideal market
21 for RNG, RECs and offtakes with many buyers and sellers in a competitive

¹⁶ NW Natural's Attachment 2 in response to DR 329 provides more information on the Company's RNG partners and counterparties.

1 market would drive price down to a commodity cost. That is not the case here.
2 There is competition, but not a robust level of competition with many buyers
3 and sellers. The market is more “thin” and not yet well-developed. In the
4 current environment, the Lexington RNG project appears cost effective within
5 the framework of SB 98.

6 **Q. Is it essential that RNG development take place beneath the regulated**
7 **utility in NW Natural’s corporate structure?**

8 A. No. NW Natural could develop RNG elsewhere under the NW Natural Holding
9 Company umbrella where the only decision for the regulated utility on some
10 RNG RECs and Transactions would be to buy or not to buy from a separate
11 Company. This is of concern to the Commission because projects like the
12 Lexington RNG project are highly complex, and there are and more business
13 counterparties and more potential points of failure in said complexity.^{17,18}

14 **Q. How long does the Company anticipate customers will pay for the costs**
15 **of Lexington?**

16 A. NW Natural estimates the useful life of Lexington RNG project to be **BEGIN**
17 **HIGHLY CONFIDENTIAL** ■ **END Highly CONFIDENTIAL**. Therefore, the
18 Company plans that customers will benefit and pay for Lexington RNG project
19 over **BEGIN HIGHLY CONFIDENTIAL** ■ **END Highly CONFIDENTIAL**.¹⁹

¹⁷ *In the Matter of Northwest Natural Gas Company dba NW Natural, Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket No. UM 1804, Order No. 17-526, December 28, 2017 (Approving NW Natural HoldCo subject to ring fencing conditions).

¹⁸ The Company provides a list of Lexington RNG project agreements in Appendix 2, page 197 response to Staff DR 329.

¹⁹ This expectation is provided by NW Natural in response to Staff DR 363.

1 Docket UI 451 addresses more about the early life of the project, particularly in
2 the first five years of operation.

3 **Q. Please describe any extra weighting or consideration for any RNG project**
4 **physically located in or actually delivering RNG to Oregon rather than**
5 **Arkansas, New York, or other remote states?**

6 A. **BEGIN HIGHLY CONFIDENTIAL ■ END Highly CONFIDENTIAL.**²⁰

7 **Q. What reaction has Staff seen in public comments regarding NW Natural's**
8 **Lexington RNG project?**

9 A. A large number of public comments are concerned about RNG project
10 development very remote to Oregon and seemed to feel some of the
11 Company's communications were misleading with regard to Oregon direct
12 benefits.

13 **Q. How does Staff weigh in on the prudence of the Lexington RNG project at**
14 **this time?**

15 A. Based in part on learning in Docket No. UI 451, incorporated into Staff's
16 analysis in this case through DRs, Staff believes that within the unique context
17 of SB 98, the costs to date of the Lexington RNG project appear to be prudent.
18 Further, Staff notes that Lump-Sum Turnkey Engineering Procurement
19 Construction (EPC) contracts can control unforeseen risks in the development
20 of facilities and long-lineal projects, like pipelines. The Company addresses
21 this thought in several places in its testimony and DR responses.²¹

²⁰ These representations are made in the Company's response to Staff DR 215, part a.

²¹ NW Natural addresses the relative benefits of fixed-bid turnkey EPC contracts in Exhibit NW Natural/1100, Chittum/49-50, 53-54, and also in response to Staff DR 312. As a Staff

1 **Q. Are there considerations other than compliance with SB 98 that are**
2 **pertinent to the prudence of NW Natural's investment in the Lexington**
3 **RNG project?**

4 A. Yes. In December 2021, Oregon's Environmental Quality Commission
5 adopted final regulations for the Governor-ordered Climate Protection Program
6 (CPP), which caps and reduces emissions from transportation fuels and natural
7 gas usage starting in January 2022.²² It is not clear that a project located in
8 Nebraska may be used for compliance with the CPP. Staff is continuing to
9 investigate whether the a project located in Nebraska can be used for
10 compliance with the CPP and NW Natural's decision to proceed with the
11 Lexington RNG Project notwithstanding what appears to be a lack of clarity as
12 to its usefulness for compliance with the CPP.

13 **Automatic Adjustment Clause**

14 **Q. Please describe how NW Natural proposes to recover costs associated**
15 **with the Lexington project and future RNG and hydrogen (H) projects.**

16 A. NW Natural proposes to recover costs for RNG and presumably hydrogen (H)
17 projects and offtake deals through Automatic Adjustment Clause (AAC)
18 mechanism that would provide annual cost recovery for the Company.²³ Under
19 Schedule 198 –Renewable Natural Gas Recovery Adjustment Mechanism, NW

corroborating example, one may recall one such PGE contract wherein a subcontracting crane operator dropped an expensive reciprocating engine, which had to be replaced by the contractors and manufacturer – including additional transportation and rigging – at no incremental cost to PGE or its customers.

²² See OAR Ch. 840, Div. 271.

²³ NW requested the AAC in an advice filing submitted on December 4, 2020. The request was docketed as Docket No. UG 411. ALJ Spruce issued a ruling consolidating UG 411 with this general rate case on January 26, 2022.

1 Natural would make a filing no later than August 1 of each year with new rates
2 to be effective on November 1. The August 1 update would include newly
3 added RNG investment and updated forecasted costs for operations and
4 maintenance (O&M) of new and existing projects.

5 In addition, the Company proposes to update depreciation expense and
6 to defer the difference between the total forecasted cost included in rates and
7 the Company's actual costs and annually amortize the overall variance in
8 Schedule 198. The 12-month deferral period proposed by NW Natural is July 1
9 – June 30, similar to the Purchased Gas Adjustment (PGA), and the Company
10 represents this is intended to allow for ratemaking based on actual deferred
11 costs.

12 NW Natural's filing on August 1 would allow three months for Staff,
13 stakeholder, and Commission review of NW Natural's costs before the update
14 on November 1.

15 **Q. Are there some positive aspects about NW Natural's proposed cost**
16 **recovery mechanism?**

17 A. Yes. There would be process efficiencies in a more streamlined procedure
18 than general rate cases. In addition, the Company offers to address certain
19 depreciation elements, as well as reduced rate base and carrying costs to
20 customer benefit.²⁴ Further it builds equity to temporally assign costs to the
21 particular ratepayers who enjoy a given benefit, including environmental
22 benefits, as opposed to assigning costs to other future customers. Another

²⁴ The Company describes these benefits in response to Staff DR 316.

1 consideration could be that Moody's and Standard and Poor's (Rating
2 Agencies) would see automatic cost recovery, like that NW Natural enjoyed
3 historically for pipe-line replacement, as credit positive – lowering the cost of
4 borrowing on all the Company's activities, indirectly benefiting all ratepayers
5 including those most energy burdened.

6 **Q. Is an AAC as proposed by NW the only viable cost recovery mechanism**
7 **for RNG and H?**

8 A. No. The costs could be recovered through rate cases on a prospective basis
9 with normal utility regulatory lag for RNG project cost recovery just like other
10 capital spending by NW Natural. A deferral is another mechanism that can be
11 used with and without an AAC.

12 **Q. Does SB 98 require the Commission to authorize an AAC for NW Natural**
13 **RNG and H Cost Recovery?**

14 A. No. SB 98 leaves it up to the Commission to decide. There are pros and cons
15 for an AAC as opposed to recovery of costs in base rates. On the one hand,
16 an AAC would offer efficiencies, potentially lower or maintain the cost of
17 borrowing for utility purposes, and accelerate and add certainty to these
18 environmentally related cost recoveries. On the other hand, RNG and H are
19 complex new endeavors for NW Natural, potentially requiring learning on the
20 Company's part, and possibly not ripe for automating project cost recovery of
21 efforts as complex as the Lexington RNG project.²⁵

²⁵ The Harvard case-based MBA program advises managers to obliterate, rather than automate complexity. See "Reengineering Work: Don't Automate, Obliterate" by Michael Hammer,

1 **Q. Would there be a difference in how the Lexington RNG costs are**
2 **recovered from customers if the Lexington RNG costs were recovered in**
3 **base rates in this case rather through an AAC?**

4 A. Yes. The revenue requirement associated with the Lexington RNG project
5 would be included within all other utility rate base and expenses, and the
6 project's rate impacts would align with the overall authorized rate spread
7 methodology, unless otherwise authorized by the Commission.

8 In contrast, under the AAC process, the Lexington Project rate base and
9 expenses would be evaluated separately from the rest of the Company's rate
10 base and expenses, and the rate spread and rate design methodology would
11 reflect the rate class cost-causation associated with the Lexington RNG project
12 specifically. Exhibit NWN/1314 WP 1, Lexington RNG Cost of Service (COS)
13 contains the Company's estimated revenue, expense, rate base, and revenue
14 requirement were this RNG project addressed within this general rate case.
15 Staff will revisit those values in expected Company updates in subsequent
16 testimony, and review intervenor testimony regarding the cost recovery
17 expectations differences between recovery in the rate case and through an
18 AAC.

19 **Q. How does Staff land on its recommendation regarding an AAC at this**
20 **time?**

21 A. Now, prior to reviewing the testimony of other participants in this general rate

published in the Harvard Business Review (HBR) – July, August 1990 at
<https://hbr.org/1990/07/reengineering-work-dont-automate-obliterate>.

1 case, Staff is favorably inclined to recommend the Commission approve an
2 AAC at least for recovery of the costs and expenses of Lexington RNG project.
3 Staff appreciated that the Company offers efficiencies in cost recovery and in
4 updating depreciation rates. However, Staff recommends that the Commission
5 modify the proposed Schedule 198 so that the Company must make a filing no
6 later than February 28 each year to recover costs of a new (meaning
7 additional) RNG project. Staff may have different recommendations regarding
8 the proposed AAC after it has reviewed other parties' testimony and as new
9 information becomes available.

10 **Q. What would the AAC process look like for new RNG and potential H**
11 **projects, if implemented as the Company currently recommends?**

12 A. First in Part 1, NW Natural would:

- 13 1. File a project deferral application so that NW Natural may later recover
14 the project's costs in rates.
- 15 2. Make a filing on or before February 28 demonstrating that the project's
16 costs were prudently incurred and that they should be recovered in
17 rates.²⁶
- 18 3. Implement new rates on November 1, which would include actual
19 amounts deferred and forecasted amounts to be incurred prior to
20 November 1 (project deferral from part 1 above). In addition, a forecast of
21 the next year's cost of service for the project would also be built into rates
22 under the AAC.

²⁶ NW Natural/1500, Kravitz/8 @ line 18 describes what will be included in that filing.

1 Then in Part 2:

2 4. On August 1 of each year, the Company will update the cost-of-service
3 forecast for qualified investments that were previously included in rates.²⁷

4 5. Update rate making for qualified investment projects that include actual
5 deferral amounts through June 30, plus amortization forecasts through
6 October, similar to PGA filings.

7 3. Implement new rates on November 1 which include the forecast amounts
8 in Part 1 and deferral amounts in Part 2 above.

9 **Q. Is the Company proposing to recover all RNG costs through an AAC?**

10 A. No. NW Natural proposes to only recover qualifying RNG and presumably H
11 projects of \$5 million or more via AAC. Other RNG projects costing less than
12 \$5 million would still be recovered via general rate cases.²⁸

13 **Q. Are there other qualifying RNG projects costing over \$5 million in service**
14 **before November 1, 2022, and currently seeking cost recovery through**
15 **AAC or in this rate case?**

16 A. The Company represents there are no other qualifying RNG projects ready for
17 cost recovery now that would affect customer rates proposed to go into effect
18 November 1 of this year.

19 **Q. Please explain how depreciation expense within an AAC would interact**
20 **with depreciation studies prior to a general rate case and depreciation**
21 **activities within subsequent general rate cases.**

²⁷ NW Natural provides this workflow as part of its response to Staff DR 313 page 2.

²⁸ The Company clarifies this cutoff predicated on RNG project cost size in its response to Staff DR 321.

1 A. The Company represents that it follows generally accepted accounting
2 principles and FERC guidelines for depreciation expense. To the extent
3 that a project would use a depreciation rate from a study, NW Natural would
4 update the depreciation rate at the same time as the other utility
5 depreciation rates are updated.

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

8 A. Yes. NWN indicates it believes that RNG costs should be allocated to the
9 customer classes that benefit from it. Due to the Oregon Department of
10 Environmental Quality's (DEQ) Climate Protection Program (CPP), all
11 customer classes, except storage customers, benefit from RNG. RNG
12 would reduce the amount of emissions attributed to the Company's sales
13 and transport customers (i.e., all non-storage customers), thereby reducing
14 the compliance requirement under the CPP. The CPP uses therms to
15 determine the metric tons of carbon dioxide emissions and therefore the
16 NW Natural thinks the application of RNG costs on an equal cent per therm
17 basis most closely ties to NW Natural's compliance obligations. The
18 Company did not propose allocating any RNG costs to storage customers
19 because it notes that NW Natural is not the point of regulation for its storage
20 customers' emissions under the CPP.²⁹

21 **Q. Is NW Natural required to apply RNG costs in a certain manner?**

²⁹ NW Natural proposes this approach in its response to Staff DR 324.

1 A. The Company believes that ORS 757.390-.398 does not require NW
2 Natural to allocate the costs of RNG projects in a certain manner.³⁰

3 **Q. How did NW Natural propose to revise Schedule 198 with respect to**
4 **Schedule 133?**

5 A. NW Natural proposes to revise Schedule 198 so that it also applies to
6 customers taking service under Rate Schedule 33, High Volume Non-
7 Residential Firm and Interruptible Transportation Service. NW Natural made
8 this change because the Company is the point of regulation under the CPP
9 for large natural gas users taking transportation-only service. Prior to the
10 CPP being finalized in December 2021, it was unclear if NW Natural would
11 be the point of regulation for its large transportation customers' emissions.³¹

12 **Q. Please summarize some of the cost impacts of the Lexington RNG**
13 **project.**

14 A. NW Natural estimates that as of March 23, the cost impacts of the
15 Lexington RNG project will be:

- 16 1. \$3.3 million for the deferral and annual cost of service;
- 17 2. An overall revenue increase on a percentage basis of
18 0.63 percent;
- 19 3. An average bill percent impact to residential customers of 0.3 percent;
- 20 and

³⁰ NW Natural provides this understanding in its response to Staff DR 326.

³¹ See NW Natural/1500, Kravitz/13. This information is also provided in response to Staff DR 327.

1 4. An average bill dollar impact to residential customers of \$0.17.

2 **Q. Please recap the key RNG issues and concerns you see before the**

3 **Commission.**

4 **A.** Staff sees four primary issues and concerns:

5 1. Many persons providing public comments question the efficacy of
6 extremely remote RNG projects that do not geographically interact with
7 Oregon and do not use RNG to back off the consumption of brown gas or
8 otherwise directly reduce Oregon's carbon footprint. On the other hand,
9 SB 98 allows for notional RNG benefits and a definition of "delivered" to
10 interstate pipelines in lieu of Oregon based on assumptions therein. Staff
11 takes its policy direction from the relevant Oregon statutes and rules.

12 2. Both recovery through rate cases and through an AAC as proposed by
13 NW Natural are viable methods for cost recovery but may not generate
14 identical calculations of cost or spread those costs identically to customer
15 classes.

16 3. There is reasonable uncertainty whether the time is ripe to automate cost
17 recovery for very complex initial NW Natural approaches to RNG, or
18 whether more time is required to simplify many of the Company's RNG
19 constructs and then automate.

20 4. Staff finds in a snapshot recommendation now that costs for the
21 Lexington RNG project were prudently incurred within the context of
22 SB 98, and the requirements of Oregon DEQ, even though the cost of
23 RNG RECs is high compared to prevailing brown gas costs. However, as

1 stated earlier, Staff may revise its position after reviewing testimony of
2 other parties and public comments received going forward.

3 **Q. Do you recommend an adjustment regarding RNG or H in this rate case?**

4 A. Staff does not propose an adjustment to the amount of costs NW Natural seeks
5 to recover for the RNG Lexington Project at this time.

6 Staff also recommends the Commission consider modifications to the NW
7 Natural-proposed AAC to allow more time to Staff and other parties to review
8 the prudence of any new acquisitions of RNG or H projects before they are
9 placed into rates.

10 **Q. Does this conclude this portion of your testimony regarding RNG?**

11 A. Yes.

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

13 A. Yes.