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December 4, 2020

NWN OPUC Advice No. 20-19

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: Schedule 198 – Renewable Natural Gas Recovery Mechanism

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith the following revisions to its Tariff P.U.C. Or. 25, stated to become effective on March 30, 2021.

Original Sheet 198-1	Schedule 198	Renewable Natural Gas Recovery Mechanism
Original Sheet 198-2	Schedule 198	Renewable Natural Gas Recovery Mechanism
Ninth Revision of Sheet v	Index	Tariff Index

Purpose

The purpose of this filing is to add Schedule 198, Renewable Natural Gas Recovery Mechanism, to NW Natural’s tariff. Schedule 198 would establish an automatic adjustment clause, as defined in ORS 757.210, that enables the Company to recover the revenue requirement associated with prudently incurred qualified investments in renewable natural gas (RNG) to meet the targets in ORS 757.396. Schedule 198 is consistent with Governor Kate Brown’s Executive Order No. 20-04, which recognizes that transitioning the traditional natural gas supply to RNG can significantly reduce greenhouse gas emissions.¹ Schedule 198 will aid in this transition by providing NW Natural with greater certainty in planning for future RNG acquisitions, thereby removing barriers to further acquire RNG to meet the targets set forth in ORS 757.396.

Background

In Senate Bill 98 (2019), codified at ORS 757.390 through 757.398, the Oregon Legislature established that RNG benefits natural gas utility customers and the public, and that the development of RNG resources should be encouraged to support a smooth transition to a low carbon energy economy in Oregon. SB 98 further provided that RNG should be included in the broader set of low carbon resources that may leverage the natural gas system to reduce greenhouse gas emissions. Through the rulemaking docket AR 632, the Public Utility Commission

¹ Executive Order No. 20-04, “Directing State Agencies to take Actions to Reduce and Regulate Greenhouse Gas Emissions,” at 2, available at: https://www.oregon.gov/gov/Documents/executive_orders/eo_20-04.pdf, (2020).

of Oregon (Commission) established rules for an RNG program for Oregon's natural gas utilities, codified at OAR 860, Division 150.

As a result, NW Natural can procure renewable natural gas for delivery to its customers. Similar to a renewable portfolio standard for electric utilities, SB 98 sets volumetric RNG targets for NW Natural of 5% by 2020, 10% by 2025, 15% by 2030, 20% by 2035, 25% by 2040, and 30% by 2045, as well as other parameters for the procurement of RNG. NW Natural can invest in and own the cleaning and conditioning equipment required to bring raw biogas and landfill gas up to pipeline quality, as well as the facilities to connect to the local gas distribution system.

OAR 860-150-0300 establishes mechanisms available for NW Natural to recover the costs of prudently incurred RNG. Under these rules, the Company may recover RNG costs associated with the purchase of RNG to meet the annual targets established in ORS 757.396, excluding qualified investments, by means of its purchased gas adjustment (PGA) mechanism. ORS 757.396(2)(a) provides that qualified investments and operating costs associated with qualified investments that contribute to NW Natural meeting the targets set forth in ORS 757.396(1) may be recovered by means of an automatic adjustment clause, as defined in ORS 757.210

Consistent with OAR 861-150-300(4), NW Natural files this request to establish an automatic adjustment clause for the recovery of prudent costs associated with qualified investments, and the operating costs associated with those investments, in RNG.

Proposed Mechanism

NW Natural proposes Schedule 198, RNG Adjustment Mechanism, to recover the prudently incurred costs of the Company's qualified investments in RNG. The revenue requirement associated with qualified investments in RNG includes incremental depreciation expense, property and other taxes, return on investment, income taxes, related operating and maintenance costs, and other costs relating to NW Natural's qualified investment. The capital structure and the cost of capital to be used in the calculation of return on rate base will be that adopted by the Commission in the Company's most recent general rate case.

Annual Filings

Under Schedule 198, NW Natural proposes to make a detailed filing on or before August 1 (as described below) to request recovery in rates of qualified investments in RNG, for rate adjustments coincident with the Company's annual PGA and technical rate adjustment filings. The filing will include proposed new charges relating to new qualified investments and updated charges for investments already included on this schedule.

1. Filings for new qualified investments will occur throughout the year, in anticipation of the expected in-service date of the RNG project and providing time for stakeholder review. Filings for new qualified investments will include: 1) details of the qualified investment project, 2) costs associated with the project, 3) revenue requirement associated with the qualified investment, including workpapers, detailed rate calculation and bill impacts, and 4) any additional supporting information to aid with stakeholder review. Depending on the size and complexity of the RNG project, the Company may also provide testimony and exhibits to support its filing. In addition, the Company will provide a draft procedural schedule to accommodate stakeholder review and feedback, and may also include a technical workshop, depending on the size and complexity of the RNG project.

2. Each year by August 1, the Company will file an update of costs for previously included RNG investments. This filing will include updating for the relevant vintage of the revenue requirement for previously included investments and a true-up for actual costs and volumes of previously included costs. This updating of charges will be supported by a deferral application that will apply to costs recovered through this Schedule 198 (Schedule 198 Deferral).

The Company also will include in its Schedule 198 filings: 1) its calculations of the incremental cost associated with the qualified investment of the new RNG project, 2) the impact of the new RNG project on the Company's incremental costs as defined in OAR 860-150-0200, including whether the RNG project will cause the Company's net total incremental costs to exceed five percent of NW Natural's revenue requirement, and 3) the impact of the new RNG project on the Company's RNG target volumes specified in ORS 757.396. If the incremental costs associated with the new RNG project result in NW Natural's total annual incremental cost exceeding five percent of its revenue requirement, the Company will file a petition with the Commission as outlined in OAR 860-150-0200(3) concurrently with its Schedule 198 filing.

NW Natural anticipates that rates that become effective under Schedule 198 will remain in place through the useful life of the RNG projects, updated annually as described in this advice letter. Schedule 198 rates may also be adjusted for any deferrals that have been approved for amortization as discussed below.

Deferrals

As mentioned above, NW Natural proposes to seek deferred accounting treatment for a Schedule 198 Deferral to support the updating and true-up of RNG investments recovered through Schedule 198. This deferral would capture a true-up for actual costs and volumes as well as the update of the appropriate vintage of all previously included RNG projects.

In addition, NW Natural's proposed RNG Adjustment Mechanism allows for additional new qualified investments associated with RNG to be incorporated in Schedule 198 as they are placed in service. When the Company anticipates that a new qualified investment will commence operation, the Company may file a deferral request (RNG Project Deferral) pursuant to ORS 757.259 and OAR 860-027-0300 by the in-service date of the RNG project. The Company anticipates deferrals for qualified investments in RNG may be helpful in minimizing the frequency of rate changes should multiple RNG projects go into service consecutively and/or the in-service date of an RNG project occurs shortly after a major rate change, such as a general rate case or purchased gas cost adjustment filing. The RNG Project Deferral will include any start-up operating and maintenance costs incurred prior to the project being placed in service and the revenue requirements of the qualified investment beginning on the project's in-service date. Amounts will be deferred until the qualified investment can be placed in rates. NW Natural will make a filing to amortize the RNG Project Deferral under Schedule 198 providing the same information and elements detailed above. Once approved for recovery in Schedule 198, the vintaging of the revenue requirement and true-up of actual costs and volumes will fall under the Schedule 198 Deferral.

Conclusion

NW Natural respectfully requests that the Commission approve this tariff change to become effective on March 30, 2021.

In accordance with ORS 757.205, copies of this letter and the filing made herewith are available in the Company's main office in Portland, Oregon and on its website at www.nwnatural.com.

Please address correspondence on this matter to me with copies to the following:

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Respectfully submitted,

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**SCHEDULE 198
RENEWABLE NATURAL GAS ADJUSTMENT MECHANISM**

(N)

PURPOSE:

The purpose of this Schedule is to identify adjustments to rates in the Rate Schedules listed below for the recovery of the revenue requirement of qualified investments, as defined by ORS 757.392(5), in renewable natural gas (RNG) infrastructure.

This adjustment mechanism will recover the revenue requirement associated with the prudently incurred qualified investments that contribute to the Company meeting the targets set forth in ORS 757.396. For purposes of this Schedule, "qualified investment" has the meaning given that term in ORS 757.392. This Adjustment Schedule is implemented as an automatic adjustment clause as provided for under ORS 757.210 and Oregon Senate Bill 98 (2019) codified as ORS 757.396.

APPLICABLE:

To Sales Service Customers on the Rate Schedules of this Tariff listed below:

Rate Schedule 2	Rate Schedule 31
Rate Schedule 3	Rate Schedule 32
Rate Schedule 27	

Application to Rates:

The Base Adjustment in the applicable Rate Schedules include the following adjustment:

		Effective Date:
Schedule 198 ongoing	\$0.00000 per therm	November 1, 20xx
Schedule 198 amortization of RNG Project Deferral	\$0.00000 per therm	TBD
Total Schedule 198 adjustment	\$0.00000 per therm	

SPECIAL CONDITIONS:

1. The Company will file this Schedule by August 1 of each year as necessary to update all charges already included on this schedule as needed. Updating of charges will include updating for the relevant vintage of the revenue requirement for previously included investments and a true-up for actual costs and volumes of previously included costs. This updating of charges will be supported by a deferral application (Schedule 198 Deferral) that will apply to costs recovered through this Schedule 198. The amortization of the Schedule 198 Deferral amount will not be subject to the provisions of ORS 757.259(5).

(continue to Sheet 198-2)

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SCHEDULE 198
RENEWABLE NATURAL GAS ADJUSTMENT MECHANISM
(continued)

(N)

2. In addition, the Company will file this Schedule as necessary for proposed charges relating to new qualified investments in anticipation of the expected in-service date of the RNG project and providing time for stakeholder review. When the Company anticipates that a new qualified investment will commence operation, the Company may file a deferral request by the in-service date (RNG Project Deferral). The RNG Project Deferral will include any start-up operating and maintenance costs incurred prior to the project being placed in service and the revenue requirements of the qualified investment beginning on the project's in-service date. Amounts will be deferred until the qualified investment can be placed in base rates. NW Natural will make a filing to amortize these deferred amounts under this Schedule 198. The amortization of the RNG Project Deferral amount will not be subject to the provisions of ORS 757.259(5).
3. Costs recovered in this Schedule will be allocated to all Sales Service Customers on an equal-cent-per-therm basis.
4. The provisions listed in the special conditions above may be modified if approved by the Commission.

QUALIFIED INVESTMENT COST RECOVERY:

The revenue requirement associated with qualified investments in RNG includes incremental depreciation expense, property and other taxes, return on investment, income taxes, operating and maintenance costs, and other costs relating to the Company's qualified investment. The capital structure and the cost of capital to be used in the calculation of return on rate base will be that adopted by the Commission in the Company's most recent general rate case.

GENERAL TERMS:

This Schedule is governed by the terms of this Schedule, the General Rules and Regulations contained in this Tariff, any other Schedules that by their terms or by the terms of this Schedule apply to service under this Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

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NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 25

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