

RNG SOLICITATION/SELECTION PROCESS

To determine which RNG projects to pursue, NW Natural uses its risk adjusted incremental cost methodology established in Oregon Public Utility Commission docket UM 2030. This methodology is used to assess the ratepayer costs and benefits of NW Natural-owned RNG projects and third-party RNG contracts. In other words, the methodology assists in determining the least cost/least risk RNG projects, whether they be RNG purchases or projects developed by NW Natural.

NW Natural applies its risk adjusted incremental cost methodology to all potential utility RNG investments and RNG purchase opportunities. The Company develops its portfolio of RNG purchase opportunities by conducting an annual Request for Proposals (RFP) as well as evaluating other opportunities that arise outside of the RFP process throughout the year. In 2024, NW Natural received a total of 53 proposals from 34 responders for its RFP. We use our same evaluation approach and incremental cost analysis to compare all available resources – both offtakes and developments – on the same incremental cost basis so that at any point, we have visibility into whether a certain resource appears to be a better choice for customers than another.

Attachments 1-5 list the newly executed transactions since the last purchase gas adjustment. Among the opportunities that were available at the time, these offtake contracts had the lowest risk adjusted incremental cost.

2024 RFP Evaluation process:

1. Each 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.
2. A risk-adjusted incremental cost model was executed for each proposal. The model is based on information provided in the proposal such as volume, term and offtake price.
3. The proposals were ordered by the calculated incremental cost from smallest to largest. The proposals with the lowest 33% of incremental cost were placed on the short list and moved on to the next step in the evaluation process.
4. The calculated risk-adjusted incremental costs of the short-listed resources are compared to the incremental cost of other opportunities available outside of the RFP.
5. Short listed opportunities were interviewed, and a risk assessment was completed. Risk assessments were based on a pass-fail basis, and opportunities that failed were removed from the list.
6. Competitive proposals then follow the same process as opportunities that arose outside of the RFP, including risk assessment, negotiations and recommendations to management.

RNG INCLUSION CONSISTENT WITH RCW 80.28.385

RCW 80.28.385 allows NW Natural to acquire RNG, even if the cost of that gas exceeds the cost of conventional natural gas. Schedule P of NW Natural's tariff already established a "renewable natural gas program" per RCW 80.28.385(1) by permitting the Company to acquire RNG and recover those costs from its customers. NW Natural will also retire the environmental attributes of RNG consistent with RCW 80.28.385(2) by utilizing the M-RETS tracking system per Commission direction.¹ Finally, the incremental cost of NW Natural's RNG acquisitions do not exceed 5% of its revenue requirement as specified in RCW 80.28.385(1) (see below).

RNG ALLOCATION

In the 2024-25 PGA, NW Natural allocated 89.2% of the total costs of the above RNG purchases to Oregon customers and 10.8% to Washington customers. This allocation is based on the total forecasted sales volumes in both states.

¹ RNG Policy Statement, Docket U-190818, para. 43 (Dec. 16, 2020).

REVENUE REQUIREMENT CALCULATION

Based on NW Natural's most recent rate case, the incremental costs of NW Natural's RNG acquisitions do not exceed 5% of its revenue requirement.

Contracts	Incremental Cost (WA Allocation)
Anew	[BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]
Terreva	[BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]
TOTAL	[BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]

RNG Acquisitions of Revenue Requirement	
RNG Incremental Costs	[BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]
UG-200994 Revenue Requirement	\$86,133,927
% of Revenue Requirement	[BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]