

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 21, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE September 1, 2007

DATE: August 9, 2007

TO: Public Utility Commission

FROM: Lynn Kittilson

THROUGH: Lee Sparling, Ed Busch, and Bonnie Tatom

SUBJECT: NW NATURAL: (Advice No. 07-5) Adds a new program, the Community Action Program (CAP) Pilot, to Schedule 320, Oregon Low-Income Energy Efficiency (OLIEE) Programs.

STAFF RECOMMENDATION:

I recommend the Commission allow the tariff revisions proposed in Northwest Natural Gas Company's (NW Natural or company) Advice No. 07-5 to go into effect on September 1, 2007.

DISCUSSION:

On July 31, 2007, NW Natural filed tariff revisions in Advice No. 07-5 with a proposed effective date of September 1, 2007. The purpose of the filing is to add a new Community Action Program (CAP) Pilot to Schedule 320, Oregon Low-Income Energy Efficiency (OLIEE) Programs, which will replace the existing OLIEE CAP for a three-year period ending September 30, 2010. The company submitted two replacement sheets on July 31, 2007 that made minor corrections and clarifications to the original filing.

The proposed CAP Pilot is the result of discussions on restructuring the OLIEE CAP that took place over the last year between NW Natural, the Community Action Partnership of Oregon (CAPO) (formerly Community Action Directors of Oregon), the Citizens' Utility Board (CUB), several community action agencies (Agencies), and Commission staff. The discussions culminated in a Memorandum of Understanding (MOU) signed in July 2007 that describes the OLIEE program modifications, terms, and conditions agreed to by the parties for the three-year pilot period, which are reflected in the Schedule 320 revisions proposed in Advice 07-5.

The current OLIEE CAP has been in effect since November 2003. NW Natural collected approximately \$1.1 million in funds for low-income energy efficiency assistance from its Schedule 301, Public Purposes Funding Surcharge, before the original program was implemented. The total number of households served by the OLIEE CAP since 2003 is 1,071 (287 in 2003-2004; 337 in 2004-2005; 253 in 2005-2006, and 194 in 2006-May 2007) requiring a total OLIEE funds expenditure of about \$2.1 million. NW Natural has forecast the public purpose charge is currently collecting almost \$2 million per year for the OLIEE program. Despite the efforts of the company and the Agencies delivering the OLIEE program to ramp up the number of low-income homes served, approximately \$4.8 million of OLIEE funds collected remain unspent.

NW Natural began efforts in 2004 to identify how the excess unspent OLIEE funds that were accumulating could effectively fund customer efficiency efforts and how the existing OLIEE CAP could be modified to increase the number of homes served. Rebate levels on program measures were significantly increased in February 2005 based on updated avoided costs. In March 2006, the company filed Schedule 320 revisions (1) to add the Open Solicitation Program (OSP) to OLIEE and (2) to add new measures and related incentives and to modify incentives for several existing measures. NW Natural has signed one contract under the OLIEE OSP with Ecos Consulting. The \$2 million commitment signed on March 13, 2007 is an 18-month contract for the delivery of energy efficiency measures to a target of 826 low-income homes within NW Natural's service territory.

Over the past 12 months, NW Natural worked with the parties interested in modifying the OLIEE CAP to address identified program design barriers that hinder the effective delivery of energy efficiency services by participating Agencies to qualifying customers. The parties agreed that the primary objectives of the program modifications are to:

- Continue to leverage other funding sources with OLIEE funds to increase the overall energy efficiency of low-income homes (homes that are at or below 60% of median income) within the company's Oregon service territory.
- Maximize the number of low-income natural gas homes served in each OLIEE program year.
- Align the OLIEE CAP program with other state and federal low-income programs that work along side or in combination with the OLIEE CAP.
- Create a collaborative process that aligns the parties with a common set of OLIEE Program goals and objectives.
- Ensure open and effective communication between the company and the Agencies through the OLIEE Advisory Council (OAC).

Based on these objectives, the parties agreed to OLIEE CAP modifications during the three-year pilot period that will increase rebates paid per home; add an allowance for Health, Safety & Repair costs; use the RemRate auditing tool as the basis for identifying cost-effective measures; and establish minimum annual program targets of homes treated by the participating Agencies. The OLIEE program revisions proposed in the filing are summarized in the following table provided by NW Natural and described more fully below:

	Description	Current (per home)	Proposal (per home)	Difference
	REBATE CHANGES			
1	Average rebate for energy efficiency measures per home	\$1,970	\$2,542 [1]	\$ 572 [2]
2	Agency administration reimbursement per home	\$225	\$225	\$0
3	Health, Safety & Repair allowance	\$0	\$440	\$440
4	Total average change in rebate per home	\$2,195	\$3,207	\$1,012 [2]
	OTHER CHANGES			
1	Qualifying Energy Efficiency Measures	Based on prescriptive Tariff measure and their related avoided costs (from NW Natural's most recent IRP)	Based on a whole-house perspective of cost-effective measures as prescribed by RemRate (the audit tool used by all participating CAAs). The bundled measures must pass a benefit/cost test of 1.0 or better.	
2	Minimum Homes Treated	None	Minimum Annual Targets per Year: Year 1 - 450 Year 2- 525 Year 3 - 600	

[1] This is derived by taking 90% of the average of the 2005-2006 reported total job costs (exclusive of any non-measure costs) after forcing jobs greater than \$3,500 to a \$3,500 cap. The actual average total job cost for 2005-2006 was \$3,498. Under the proposal, the rebate per home is capped at \$3,500.

[2] At the \$3,500 cap, the maximum difference in the per-home rebate for energy efficiency measures is \$1,530, and the maximum difference in the total rebate per home is \$1,970.

The OLIEE CAP Pilot will reimburse the Agencies for the installation of energy efficiency measures recommended by RemRate, the Department of Energy-approved residential energy analysis software tool. The total of all measures selected for each home must result in a Savings to Investment Ratio (SIR) of 1.0 or better, and except for certain

approved exceptions, measures must be chosen in the ranked order of the RemRate's prescriptions. Rebates will be paid based on the cost of the total group of qualifying measures recommended by RemRate for the whole house that are installed by the Agency. The rebate amount per home will be 90% of the documented installed cost of all measures, up to a maximum of \$3,500 per home.

The CAP Pilot adds a new program allowance for reimbursement of Health, Safety and Repair (HSR) costs incurred by the Agencies in delivering the program. HSR costs are defined as "home repairs that if not completed would adversely impact the safety and effectiveness of the energy efficiency measures or the health of the occupants." Examples of qualifying HSR costs include asbestos or lead abatement; mold cleanup; CO detector; duct cleaning; repair of roof leak, dry rot, water damage, broken window, exterior door, pipe leak, toilet seal, and defective wiring/fire hazard. Standard efficiency furnace replacements may qualify for HSR funds if the existing furnace is broken, is found to produce an unsafe level of CO emissions, is back-drafting, or has a cracked heat exchanger and a high-efficiency furnace is not cost-effective or if it is physically impossible to install a high-efficiency furnace.

The maximum annual HSR disbursement available to each Agency will be \$440 times the actual number of homes treated by the Agency in the program year. The Agency will have discretion to use more or less than the \$440 allowance on any one home. However, each Agency must manage their HSR funds to ensure that the average HSR amount per home over the program year is not more than \$440.

The CAP Pilot has established the following annual minimum program year targets (households):

Year 1 (October 1, 2007 – September 30, 2008): 450 households

Year 2 (October 1, 2008 – September 30, 2009): 525 households

Year 3 (October 1, 2009 – September 30, 2010): 600 households

At the beginning of each program year, each participating Agency will be assigned a minimum home completion target that supports achievement of the minimum annual program targets. Agency targets may be adjusted as necessary to meet the minimum annual program targets. Nothing precludes the achievement of more than the target number of households in any program year so long as sufficient OLIEE funds are available. NW Natural will maintain a \$500,000 contingency fund for this purpose. The program targets and achievements will be reviewed, and modified as necessary, at each quarterly OLIEE Advisory Council meeting.

NW Natural will distribute a one-time funds advance to each participating Agency in an amount equal to \$4,165 or two months of the first year's estimated OLIEE funds disbursements, whichever is greater, to cover energy efficiency measure installation costs incurred in the start-up the CAP Pilot.

Detail on Agency reporting requirements to NW Natural on treated homes is included in the proposed OLIEE tariff revisions. The company will continue to summarize program year accomplishments in the OLIEE Program annual report, which is filed with the Commission by December 31 of each year. NW Natural will also begin to file a semi-annual status report with the Commission showing the total OLIEE Program (OLIEE CAP Pilot and Open Solicitation Program) results to date by April 30, 2008. Subsequent status reports will be filed by April 30 of each year. In addition to the current annual process and/or impact evaluations required by the OLIEE program, the company will file a comprehensive evaluation of the OLIEE CAP Pilot with the Commission by May 31, 2010. Prior to the end of the term of the Pilot, NW Natural will work with the parties to the MOU to determine if the CAP Pilot modifications should continue beyond September 30, 2010.

Staff has worked with NW Natural, CUB, CAPO, and Agency representatives to come to agreement on OLIEE CAP revisions that will enable the Agencies that deliver the program to serve more NW Natural low-income households with energy efficiency services. We are hopeful that the modifications agreed to in the MOU and included in the proposed Schedule 320 OLIEE CAP Pilot will accomplish the program goals and targets and thereby reduce and eventually eliminate the accumulation of excess OLIEE program funds. All of the Agencies that currently participate in the OLIEE CAP have advised NW Natural that they will support the MOU and that each Agency will promptly enter into a written contract with the company upon Commission approval of the proposed Schedule 320 tariff modifications. I recommend that the Commission allow the OLIEE CAP Pilot tariff revisions proposed in NW Natural's Advice No. 07-5 to go into effect on September 1, 2007.

PROPOSED COMMISSION MOTION:

The tariff revisions proposed in NW Natural's Advice No. 07-5 be allowed to go into effect on September 1, 2007.