Board Decision
Providing Programs to NW Natural Customers in Washington

May 6, 2009

Summary

Endorse a proposal to provide energy efficiency services to Washington residential and commercial customers of NW Natural. Proceeding to implement the proposal would be contingent on Washington Utilities and Transportation Commission (WUTC) approval.

Background

- NW Natural serves approximately 60,000 customers in Washington. Most are in Clark County, and most are residential (55,000).
- In 2008, NW Natural sought WUTC approval of a "decoupling" proposal to remove what the company sees as a disincentive to utility efforts to encourage customers to reduce gas consumption. Less gas use reduces net revenues and the Company's ability to recover fixed costs. NW Natural asked the WUTC to allow it to decouple rates from sales to allow the Company to recover these costs as they fund expanded programs encouraging consumers to reduce gas use.
- In April 2008, NW Natural contracted with the Energy Trust to conduct Phase One, of a reconnaissance-level planning study related to the proposed implementation of Energy Trust residential and commercial programs in NW Natural's Washington service area.
- The Phase One study concluded that providing these programs would be feasible, and recommended that Energy Trust should proceed to Phase Two – preparation of a detailed implementation plan.
- The WUTC and an advisory committee organized for purposes of the decoupling proceeding approved the Phase One study. Energy Trust staff is in the process of completing Phase Two, which will be reviewed by the committee and WUTC.

Discussion – Findings Based on the Phase Two Study

- Energy Trust's existing programs are generally applicable to these customers.
- Based on NW Natural's 2009 Integrated Resource Plan, and adjusting for the current economic downturn, 75,000 – 125,000 therms of energy savings could be cost-effectively attained from residential and commercial programs in the first year, increasing to 350,000 per year after four years. The housing stock is relatively new, so the residential retrofit potential is proportionately smaller than in Oregon.
- The cost of acquiring these savings would be approximately $7.00 per first-year therm, assuming current levels of evaluation rigor and reporting of net savings. The costs of acquisition are on the high end based on Oregon experience, but Washington allows gross, deemed savings without adjustment for free riders.
- NW Natural would pay Energy Trust approximately $ 700,000 to provide these services during the first 12 month test period. Unless the WUTC requires otherwise after the first year of service, services would continue indefinitely.

- The WUTC is comfortable with Energy Trust's approach to reporting. We are still discussing with them our incentive levels. Washington is accustomed to higher incentives as a percentage of total expenditures.
- Impacts to Energy Trust IT, financial and contracting are likely to be substantial initially. Differentiated marketing materials, advertising, web pages, etc. may be required to reflect differences between Oregon and Washington tax credits, loans, etc. We also expect to expand our trade ally network to Clark County, and to work closely with Clark PUD, which provides electric service. Start-up costs are estimated in the range of $200,000 to $300,000.
- Once programs are up and running, impacts should be modest. There should be no impact on Energy Trust's ability to serve Oregon customers is expected.
- Overall, 2.0 -2.5 Energy Trust FTEs would be required to do this work, which would be covered by NW Natural Washington public purpose revenues, and included in the total delivery cost of $7/therm.
- There is a remote possibility that Energy Trust Oregon funds could be exposed to a Washington liability for activities associated with this program. For this to occur, a liability would have to exceed NW Natural-Washington funds *and* Energy Trust insurance limits. It would be possible to organize a Washington subsidiary corporation to limit this liability. However, the risk appears small enough and the complications of dealing through a subsidiary are significant enough that staff recommends against organizing a subsidiary.
- Program management contracts would need to be amended to carry out this initiative. Under board policy, the executive director may execute contract amendments without board approval as long as they do not entail more than 10% change in funds obligated, or more than 20% change in energy saved or produced. Contract amendments for these services would involve less than these amounts. Accordingly, if the board follows this policy, the contract amendments would not require board authority.

Recommendation

Staff believes providing these services would enhance Energy Trust's relationship with NW Natural, save energy, and provide continuity to Energy Trust's trade allies whose operating territories span the Columbia River. The policy committee supported the proposal. Staff recommends that the board endorse the proposal by adopting resolution #512.

RESOLUTION 512

ENDORSING PROVISION OF EFFICIENCY SERVICES TO NW NATURAL'S WASHINGTON CUSTOMERS

WHEREAS:

1. **At NW Natural's request, Energy Trust has completed a study of providing energy efficiency services to NW Natural's residential and commercial customers in Washington, approximately 60,000 people and businesses. The study indicates:**
   a. **About 75,000 – 125,000 therms could be saved cost-effectively from residential and commercial programs initial offerings in the first year, increasing to 350,000 per year after four years as program outreach infrastructure and offerings mature.**
   b. **The cost of acquiring these savings would be approximately $7 per first-year therm, assuming current levels of evaluation rigor and reporting of net savings.**
2. **NW Natural would pay Energy Trust $700,000 to provide these services in the first year of the program. Unless the Washington Utility and Transportation Commission requires otherwise after the first year of service, services would continue indefinitely.**

It is therefore RESOLVED:

1. **The board of directors of Energy Trust of Oregon, Inc. endorses the proposal that Energy Trust provide efficiency services to NW Natural's residential and commercial customers in Washington.**
2. **The executive director requires no additional authority to receive funds from NW Natural for this purpose, or to execute contract amendments to provide these services.**

Moved by: Seconded by:

Vote: In favor: Abstained:

Opposed: [list name(s) and, if requested, reason for "no" vote]