

# NW Natural's 2016 Energy Efficiency Plan

## I. Background

Northwest Natural, dba NW Natural ("NW Natural" or Company"), began offering its current energy efficiency programs to Washington customers on October 1, 2009. The Washington Utilities and Transportation Commission's ("WUTC's") Order No. 04 in the Company's 2008 rate case, docketed as UG-080546, directed NW Natural to create and begin offering a program.

## II. Oversight

NW Natural's energy efficiency programs were developed and continue to evolve under the direction and oversight of the Energy Efficiency Advisory Group ("EEAG") which is comprised of interested parties to the Company's 2008 rate case. The EEAG includes representatives from NW Natural, Energy Trust of Oregon ("Energy Trust"), WUTC Staff, Public Counsel, Northwest Industrial Gas Users ("NWIGU"), The Energy Project, and NW Energy Coalition.

## III. Program Administration

NW Natural's general energy efficiency programs are administered by the Energy Trust, which is an independent, nonprofit organization dedicated to helping utility customers save electric and gas energy. Energy Trust was formed in 2002 in response to Oregon legislation that restructured electric utilities<sup>1</sup> for multiple reasons including allowing non-residential customers to purchase their electricity from providers other than the utility and reassigning the responsibility for demand side management from utility operations to Energy Trust.

NW Natural began using Energy Trust as the delivery arm for its Oregon energy efficiency program in 2003. Since NW Natural's Washington service territory is contiguous with its Oregon territory, it made sense to have Energy Trust extend the boundaries of the Oregon program offerings into Washington.

As agreed to in UG-080546, Energy Trust administered the Company's program for one pilot year. During this time, the EEAG monitored the program's performance and assessed whether Energy Trust should be the ongoing program administrator. On May 25, 2011, NW Natural made a compliance filing in UG-080546 wherein it stated the

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<sup>1</sup> SB 1149, codified as ORS 757.612, mandated the creation of an independent entity capable of providing demand side management services to utility customers.

EEAG's opinion to allow Energy Trust to continue administering NW Natural's energy efficiency programs in Washington. On June 8, 2011, Public Counsel separately filed a letter supporting this decision.

NW Natural's Washington Low Income Energy Efficiency Program ("WA-LIEE") is administered by Clark County Community Action Agency, and Washington Gorge Action Programs serving Klickitat and Skamania Counties.

#### IV. Programs Offered

NW Natural offers the following general energy efficiency programs:

Existing Homes – Residential customers with gas heated homes are offered home energy reviews wherein an energy consultant identifies incented and qualifying insulation and weatherization measures that could be installed to improve the efficiency of the customer's home. Incentives are provided for cost-effective weatherization measures and certain efficient gas appliances. The Company also offers On-the-Bill Repayment Services for loans offered by Craft3 for the purpose of installing qualifying energy efficiency measures.

New Homes – The New Homes program encourages builders to construct homes to an energy efficiency standard that is at least 10% better than Washington building code. In 2016, Energy Trust will be providing an energy performance score (EPS) that rates the efficiency of a home and measures it against similar-sized homes in Washington. Qualifying homes must also meet new construction Best Practice criteria established by the New Homes Program. The compliance of all homes is verified through an inspection process and upon completion homes are issued an EPS.

Commercial – Commercial customers are offered incentives for prescriptive weatherization and efficient gas appliance installations, as well as efficient installations unique to the customer's facilities that are identified in a custom study.

Specific measure offerings and details are as listed in Appendix A and Appendix B to this Plan.

##### WA-LIEE

Under NW Natural's low income energy efficiency program, agencies administering the program leverage other funding sources with WA-LIEE dollars to provide whole-house weatherization services to qualifying customers. Program details are available in the Company's Schedule I, "Washington Low Income Energy Efficiency Program (WA-LIEE)."

To increase the success of the WA-LIEE Program in 2016, the following revisions have been made:

1. **Customer qualifications:** The stipulation requiring a customer's dwelling be built before 1991 has been removed. While building code increased the insulation requirements that year, floor insulation is often not installed properly and therefore these newer homes still benefit by weatherization services.
2. **Inclusion of customer outreach:** In order to drive greater participation in WA-LIEE, program funding of up to \$11,000 is available for the 2016 program year only for a social media campaign geo-targeted to the greater Clark County area and segmented for audience groups that meet the low-income profile and live in homes heated with natural gas. Details on the Social Media Outreach Proposal can be found in Appendix C.
3. **Sufficiency of NW Natural program administration:** For the 2016 program year only, NW Natural's actual program administration costs will be reimbursed up to \$7,700. Previously program administration costs were limited to 5% of the total funds distributed during the Program Year. This equates to less than \$4,000 over the past three years and less than \$2,000 in 2015 which is insufficient to administer a robust program. An increase in program administration will allow staff to provide additional focus on increasing program participation. The Company will include a report of actual administrative costs in the WA-LIEE end of program year report.
4. **Increase of per unit cap:** The maximum rebate amount per home has been increased to the greater of \$5,000 or the average total installed cost of measures as reported by the Agencies for the prior program year. Previously agencies were reimbursed the greater of \$3,500 or an amount equal to ninety percent (90%) of the average total installed cost of measures as reported by the Agencies for the prior program year. We recommend increasing the WA-LIEE contribution from ninety percent (90%) of job costs (up to the cap) to 100% of job costs (up to the same cap). WA-LIEE previously paid ninety percent (90%) of job costs up to the cap which was an inconsistent method with the other Washington low income utility programs. Since most jobs exceed the cap, this has very little financial impact. For jobs completed in 2015 to date, the impact would have been \$1,200, or 5% of weatherization reimbursements. These changes will help create better alignment between actual job costs and reimbursed cost, which is expected to increase program performance.

## V. Cost Effectiveness Standard

The goal of NW Natural's portfolio of residential, new homes, and commercial energy efficiency programs is to acquire cost-effective gas therm savings. The portfolio of programs offered through the Energy Trust will be deemed cost-effective if, at the end

of the program year, the program portfolio passes the Utility Cost Test (UCT) by having a benefit to cost ratio of one or more. The UCT is defined as follows:

The UCT measures the present value of the energy savings in relation to the net costs incurred by the program, including incentive costs and excluding any net costs incurred by the participant. The UCT is benefits divided by costs where each is defined as follows:

**UCT Benefits** are:

1. The value of gas energy saved based on the Company's avoided costs. The Company's avoided costs include the following values:
  - The long term gas price forecast compiled from a consultant's carbon policy embedded gas price forecast;
  - Gas storage carrying costs for inventory;
  - Upstream variable transmission costs;
  - Incremental system capacity costs;
  - Incremental system distribution costs; and
  - The hedge value of DSM.
2. The 10% credit for the benefits of conservation in addressing risk and uncertainty as well as unquantified environmental benefits.

**UCT Costs** are:

1. Incentives paid to the participant;
2. Administrative costs; and
3. Evaluation, verification, and monitoring.

The Company will continue to monitor and report how the portfolio fares using the Total Resource Cost (TRC) Test, which is benefits divided by costs when each is defined as follows:

**TRC Benefits** include:

1. The value of gas energy saved based on the Company's avoided costs. The Company's avoided costs include the following values:
  - The long term gas price forecast compiled from a consultant's carbon policy embedded gas price forecast;
  - Gas storage carrying costs for inventory;
  - Upstream variable transmission costs;
  - Incremental system capacity costs;
  - Incremental system distribution costs; and
  - The hedge value of DSM.
2. Non-energy benefits as quantified by a reasonable and practical method; and
3. The 10% credit for the benefits of conservation in addressing risk and uncertainty as well as unquantified environmental benefits.

**TRC Costs** are:

1. Incentives paid to the participant;
2. Administrative costs;
3. Evaluation, verification, and monitoring; and
4. The participant's remaining out-of-pocket costs for the installed cost of the measures after incentives and Federal tax credits.

Levelized Cost Metric

The portfolio of measures promoted through the program will also meet and report on a Levelized Cost metric, which is determined as follows:

The levelized cost is the present value of the total net cost of a measure over its economic life, converted to equal annual payments. The levelized cost calculation starts with the incremental capital cost of a given measure or package of measures. The total cost is amortized over an estimated measure lifetime using the discount rate established in the Company's most current IRP. The annual net measure cost is then divided by the annual net energy savings (therms) from the measure application (again relative to a standard technology) to produce the levelized cost estimate in dollars per therm saved, as illustrated in the following formula.

$$\text{Levelized Cost} = \frac{\text{Net Annual Cost (\$)}}{\text{Net Annual Savings}}$$

The levelized cost of an energy efficiency measure is cost-effective if it is less than the average levelized costs of other supply-side options. A cost-effective threshold is established in the Company's most current IRP and further refined through the BCR test.

Avoided Cost

Energy Trust has always used an Energy Trust avoided cost, which is a weighted blend of avoided cost values from NW Natural and the other gas company in the Energy Trust territory, Cascade Natural Gas. Each company's avoided cost, weighted average cost of capital, and inflation assumptions are weighted by the percent of revenue each company represents. The 10% Conservation Act adder and a premium value are then applied. Avoided costs previously provided to Energy Trust by NW Natural were system-wide and covered both Oregon and Washington.

As a condition of acknowledgment of the 2014 NW Natural Integrated Resource Plan (IRP), the WUTC requested NW Natural to work with the IRP Technical Working Group to correct deficiencies in the avoided cost calculation and file and updated cost in the 2016 Energy Efficiency Plan. The avoided cost calculation from the 2014 IRP included a

commodity cost, but did not account for the capacity value of any transmission and distribution projects.

NW Natural updated the avoided cost calculation with a new natural gas price forecast and to capture the hedge value of demand side management (DSM) as well as supply and distribution capacity avoided costs. This calculation is reflective of the avoided cost calculation that will be proposed to the Technical Working Group during the 2016 IRP process. Energy Trust updated the NW Natural 2016 Energy Efficiency program to reflect the updated NW Natural avoided cost calculation. A memo summarizing the results of this update can be found in Appendix D. The updated avoided cost did not change the existing 2016 program measures or budget as natural gas prices have fallen significantly and the lower commodity cost nearly completely offset the increase in the avoided cost due to the addition of the hedge value of DSM and supply and distribution capacity avoided costs. NW Natural is continuing to work with Energy Trust to further improve this calculation which will then be vetted during the Technical Working Group process for the Company's 2016 IRP.

Following this avoided cost update, WUTC Staff requested an additional analysis reflecting the impact that using the 2014 IRP avoided cost with the addition of the supply and distribution capacity avoided costs would have on the 2016 program measures and budget. Energy Trust completed a review of the 2016 program with this methodology and the results of the analysis can be found in Appendix E. Overall the analysis showed that a bonus would be extended in the residential program for 95% +AFUE furnaces in the fall of 2016 and bonuses would be available for three commercial measures. The increased budget impact of this avoided cost methodology was \$15,295, which only impacted the residential program. The cost of the commercial bonuses were not expected to increase the budget as the new avoided costs would allow the program to run a more cost effective effort and savings would be easier to achieve.

NW Natural believes that Energy Trust's analysis of the WUTC Staff request to understand the impacts of the 2014 IRP avoided cost with the addition of the supply and distribution capacity avoided costs was valuable because it may be representative of NW Natural's future avoided cost should gas prices increase up to the levels that existed in the 2014 avoided cost analysis. From that analysis it was apparent that continuing the furnace bonus in the fall of 2016 would provide a more consistent program throughout 2016 and it would allow for additional therm savings to recover savings for measures that had previously been included in the 2016 budget planning and had since been removed from the program due to no longer being cost effective.

For the 2016 EE Plan, NW Natural chose to use the updated avoided cost calculation including the new natural gas price forecast, hedge value of DSM, and supply and distribution capacity avoided costs. Of the three avoided costs evaluated during the 2016 program planning process, this calculation is most closely aligned to the avoided cost calculation that will be proposed to the Technical Working Group and it most accurately reflects the true avoided cost for Washington customers. As a result of the additional analysis completed by Energy Trust and requested by WUTC Staff, however, NW Natural will also be adding an extended bonus for the 95% +AFUE furnace in the fall of 2016 where the bonus otherwise would have ended in May 2016.

## VI. Program Evaluation, Monitoring and Verification

### Impact Evaluations

Annual savings are reported based on the deemed, gross savings, for each measure. The deemed savings used is consistent with the most current impact studies performed on the programs that Energy Trust delivers in Oregon until impact evaluations include results from the Washington-delivered programs. The Energy Trust performs the impact study wherein they analyze customers' energy usage data before and after a measure is installed. The savings from all measures are analyzed annually unless sample sizes (based on participation rates) are not statistically significant. From the impact evaluation, the Energy Trust is able to determine if average savings are consistent with deemed savings. If they are not, the deemed savings are "trued-up" once annually to reflect the findings. A link to the annual true up report as well as a short summary of the results will be provided in the quarterly report following the report's release.

### Process Evaluations

Besides impact evaluations, the Energy Trust contracts with a third party to perform a process evaluation on all general energy efficiency programs offered, typically on an annual basis. The third party studies and reports on the processes employed for each program. Study results are available on the Energy Trust's website: [www.energytrust.org](http://www.energytrust.org). A link to the annual process evaluation, as well as a short summary of the results, will be provided in the quarterly report following the report's release.

## VII. Process for Program Changes

NW Natural will file to revise Appendix A of its Energy Efficiency Plan when it plans to add, change, or remove a long-term incentive offering. Every year the Company will consider if program year changes are needed. If they are, the Company will revise its EE Plan to make requested program modifications when it makes its annual advice filing, submitted no later than December 1, to revise the performance metrics and budget that are also included in the Plan. This does not preclude the Company from filing to revise

Schedule G or its EE Plan at any time during the year. Advice filings revising or adding measures will include:

- 1) A benefit cost ratio (“BCR”) calculator demonstrating the measure’s life, measure cost, the quantifiable non-energy benefits, the utility system benefits and the societal BCR; and
- 2) For new measures, a blessing memo which refers to an in-house Energy Trust document that summarizes the vetting of a measure before it is introduced as a program offering. The EEAG will be given the opportunity to review all tariff filings before they are filed. The Company will generally give the EEAG ten business days to review a draft filing. The EEAG’s review process will not be less than five business days.
- 3) New programs proposed mid-cycle will include a program-specific plan addressing the possible need for program-specific metrics.

Please note that not all advice filings must include the EE Plan. The EE Plan will only be included when it is being revised.

The Company will work to resolve issues with EEAG members before filing. If the EEAG cannot completely recommend approval of a filing, the Company may still choose to make the filing with the WUTC with the understanding that EEAG members may intervene in that public proceeding.

## VIII. Annual Schedule for Program Planning

By November 15 of each year, the Company will provide the EEAG with the following proposals for the next program year, which will subsequently be filed with the WUTC in a new docket that will contain all the required reporting for the calendar year, including a link to the Purchased Gas Adjustment (PGA) filing wherein program costs are recovered:

### Budget

The Company will provide a total estimated program budget for the next calendar year. The budget will present expected expenditures by program and customer class.

Please note that this budget forecast will be based on the best information available at the time. As the year progresses, budgeted dollars may be reallocated among various programs or new offerings that are approved by the WUTC.

### Funding Schedule

A funding schedule is a contractually-agreed-to timeline between NW Natural and Energy Trust whereby NW Natural will provide Energy Trust the necessary funding for program administration and delivery. The amounts dispersed to the Energy Trust in one year are the sum of all funds needed for that program year determined by subtracting any unspent or uncommitted funds previously dispersed to the Energy Trust for the Washington program from the total forecasted budget.

### Metrics

The Company will propose performance metrics that will address the following:

- Total program costs
- Projected therm savings consistent with most recent IRP
- Average levelized cost for measures
- A ceiling for average cost per therm
- Projected homes to be weatherized in the WA-LIEE program

The Company expects that Utility Cost Test (UCT) at the portfolio level should be greater than 1.0 and will report compliance to this on an annual basis. The Company will also report on the portfolio TRC.

The Company will come to agreement with the EEAG on the next year's budget and performance metrics before making a tariff filing with the WUTC to modify this plan so that it incorporates the next year's projected costs and metrics accordingly. This filing will be made annually not later than December 1 for a January 1 effective date.

Generally, milestones for the program year will be as follows:

<b>Program Year Schedule</b>	
January 1	Start of program year
April 25	Annual report for previous program year is filed.
May 25	Q1 report on January 1 through March 31 of current year
August 25	Q2 report on April 1 through June 30 and YTD
October 1	Tariff filing submitted for program cost recovery.
November 1	Requested effective date of program cost recovery filing.
November 15	Share next year's budget range, funding schedule, and proposed performance metrics with EEAG no later than this date
November 25	Q3 report on July 1 through September 30 and YTD
December 1	Latest date to file EE Plan for next program year
January 1	Start of next program year; new EE Plan effective

## IX. Reporting

The Company will file all required reporting with the WUTC in the docket established for the current program year.

### Quarterly

The Company will report on its program on a calendar year basis. Quarterly reports will be provided to the EEAG and filed with the WUTC on the following schedule:

- 1Q – May 25
- 2Q – August 25
- 3Q – November 25

### Annual

An annual report will be due annually for the previous year by April 25<sup>th</sup>.

### EEAG Review

The EEAG will meet either in person or by teleconference to review the annual report and as requested if additional meetings are needed.

### Content of Reports

The quarterly reports will include

1. Quarterly progress toward annual program metrics
2. A breakdown of costs by program and customer sector
3. A reporting on percentage of program costs spent on customer incentives
4. The funding received to date
5. Energy payback estimator site traffic statistics both in aggregate and by geography, detailing the volume of visits to the URL
6. A status report on Northwest Energy Efficiency Alliance (NEEA), market transformation efforts, spending, and activity
7. The 2Q report will include a report on the Company's mid-year transactional review of the Energy Trust's expenses
8. The 2Q report will include a 6 month check in on WA-LIEE
  - program year costs,
  - homes served,
  - estimated total therms saved per home, and
  - total therm savings to-date
9. The quarterly report following the annual release of the impact and process report will include a link to that report and a short summary of the findings

The annual report will include the following:

1. Budget compared to actual results by program
2. Cost-effectiveness calculations on a program by program and total portfolio basis. Total portfolio means all residential and commercial programs.
3. Cost-effectiveness calculations of the total portfolio plus NEEA expenses
4. Measure level participation (units installed and savings) under each program
5. Reporting on achievement of metrics
6. Energy payback estimator site traffic statistics both in aggregate and by geography, detailing the volume of visits to the URL
1. A status report on NEEA, market transformation efforts, spending, and activity
7. An overview of the Company's year-end review of Energy Trust transactions.
8. Evaluation results (if performed)
9. WA-LIEE program results including:
  - total program year costs
  - homes served
  - estimated total therm savings, and
  - average therms saved per home

## X. Annual Program Budget

### Budgets

Forecasted program costs for the next calendar year will be reviewed annually in November when metrics are also proposed for the following program year.

### Actual Costs

Each year, the Company will file its annual report by April 25 which will detail costs and acquisitions for the previous program year. This filing will trigger the EEAG's review of general energy efficiency and WA-LIEE program costs.

## XI. Cost Recovery

Energy Efficiency and WA-LIEE program costs are deferred and later amortized for recovery from applicable customers on an equal cents per margin basis as established annually in the temporary rate adjustments, Schedules 215 and 230, respectively. The Company will annually submit a stand-alone filing concurrent with its PGA filing, for cost recovery of its energy efficiency program expenses for the prior calendar year. That annual filing will include the following information:

- Background on the Company's energy efficiency programs and cost recovery

- A copy of the prior program year’s annual report which will include detail on the achievement of performance metrics, the forecasted budget for that year and actual expenditures
- The total dollar amount the Company is seeking to recover
- The total incremental dollar impact that the proposed rate change will have on average residential and commercial customer monthly bills
- Total average monthly bill of proposed rate for applicable customers
- Work papers demonstrating the analysis behind the collection rate

The Company also includes a message on applicable customers’ monthly bills stating how much of their current monthly bill represents costs collected to pay for the residential and commercial energy efficiency programs.

## XII. 2016 Performance Metrics

Below are the 2016 program metrics. Each metric is followed by a statement explaining how it was determined.

- Total residential and commercial program costs, including NEEA gas efficiency market transformation, will be between \$1,441,218 and \$1,695,551.

*The total costs for this metric correlate to the range of costs estimated to achieve all cost effective therms for the programs being offered as determined in the Company’s 2014 Integrated Resource Plan (“IRP”).*

- Therms saved for the residential and commercial program will be between 223,706 and 263,184. Including WA-LIEE, therm savings targets for the total portfolio will be between 228,851 and 271,759.

Range	Low	High
<b>Commercial</b>		
Retrofit	128,398	151,056
<b>Residential</b>		
Retrofit	46,796	55,054
New Homes	48,513	57,074
<b>WA-LIEE</b>	5,145	8,575
<b>Total</b>	<b>228,851</b>	<b>271,759</b>

*The program’s primary goal is to meet system demand with the least cost conservation as required per WAC 480-90-238(1). The therm savings target is aligned with the demand-side management targets for the programs offered as identified in the Company’s 2014 Modified IRP.*

- Average levelized cost for the portfolio of measures will not exceed \$0.65 per therm

*This metric is unchanged from last year. The profile of NW Natural Washington service territory makes it harder to reduce the averaged levelized cost per therm than it would be in an area with more industrial customers since therm savings are acquired more cost effectively for bigger customers than for residential customers.*

- First-year therms will cost less than \$6.50 per therm

*This metric remains unchanged from 2013, 2014, and 2015.*

- The UCT at the portfolio level is greater than 1.0

*The UCT shall be calculated as prescribed in Schedule G. A value greater than 1.0 demonstrates that the benefits received are greater than the costs. This test is applied at the portfolio level.*

Schedule I, Washington Low Income Energy Efficiency (WA-LIEE) 2016 Performance Targets

*In 2016, the WA-LIEE program will strive to weatherize 15-25 homes for a cost of \$96,300 to \$160,500. Assumptions are as provided in the following table:*

**WA-LIEE 2016 Performance Targets**

Estimated homes served	15-25
Estimated Average Cost of Incentives per home	\$5,200
Maximum Cost per home (\$5,200 incentives + \$440 health, safety and repairs and \$780 administration costs)	\$6,420
Maximum cost based on estimated homes served	\$96,300 to \$160,500
Estimated therms saved per home	343
Total estimated therms saved	5,145 to 8,575

### XIII. 2016 Budget and Funding Schedule

Below is the 2016 budget for the residential and commercial energy efficiency programs, NEEA gas market transformation, and the WA-LIEE program. This budget includes the addition of the residential gas furnace bonus discovered as part of the WUTC Staff's avoided cost analysis request. The budget includes Energy Trust administrative costs, but does not include NW Natural administrative costs. On-the-Bill

Repayment Service costs are not included in the budget while some Energy Trust administrative time may be spent on the loan program.

Range	Low	High
<b>Commercial</b>		
Retrofit	\$598,085	\$703,629
<b>Residential</b>		
Retrofit	\$415,173	\$488,439
New Homes	\$347,947	\$409,349
<b>NEEA</b>		
NEEA Pilot Program	\$80,014	\$94,134
<b>WA-LIEE</b>	\$96,300	\$160,500
<b>Total</b>	<b>\$1,537,518</b>	<b>\$1,856,051</b>

Funding Schedule: As of December 2015, the Company and Energy Trust have not executed a contract to define the 2016 funding schedule but parties expect the funding schedule will mirror what was done in prior years, which was that 50% of budgeted need was provided to Energy Trust on March 1 and the remaining 50% was provided on October 1.

#### XIV. Gas Market Transformation, Second Year Pilot

NW Natural will continue its participation in the regional gas market transformation initiative lead by the Northwest Energy Efficiency Alliance (NEEA) for the second year in 2016. The Company views such activities as a necessary investment in the future of gas demand side management (DSM) as an enduring component of regional power planning. NEEA’s primary work on behalf of the Pacific Northwest is focused on two strategic goals 1) bring energy efficient emerging gas technologies to market, and 2) create the market conditions that will accelerate and sustain the market adoption of energy efficient emerging gas technologies. NEEA uses a stage-gate approach to manage its work. Below are the six phases that a technology would go through to fully achieve the two goals and result in a sustained market change that provides gas savings.



Prior to the market development phase, NEEA works on:

- Scanning for new technologies (shown in the graphic above as “scanning and concept identifications”),
- Researching and assessing both the market and technology conditions and savings potential (through the concept opportunity assessment and market and product assessment stages),
- Developing and testing the market intervention strategy for the technology and developing cost effectiveness models which produce long term cost effectiveness metrics and energy savings forecasts (both part of strategy testing and finalization).

The purpose of these phases is to develop additional efficiency measures and strategies over the long-term that will further the cost-effectiveness and reliability of savings and programs by acquiring savings at market scale. At each stage, the assessment of the potential for long-term cost-effective savings is refined. NEEA does not typically forecast savings associated with these earlier phases. These first four phases are where most of the activity will be in the early years of the NEEA gas collaborative. Significant savings begin in the fifth stage.

The Company is not including the costs invested in gas market transformation in the analysis it performs when reporting on its 2015 and 2016 cost effective performance metrics. For 2017, the Company will discuss with the EEAG whether or not keeping these costs out of its cost effectiveness analysis continues to be appropriate. The Company acknowledges that this practice of excluding market transformation costs from its cost effectiveness analysis for at least a two-year period of time is in no way precedent setting, and should the Company make any future requests for the unique treatment of costs, such requests will be evaluated by the EEAG on a case-by-case basis.

The increase in the NEEA budget from \$52,075 in 2015 to \$94,134 in 2016 is due to increasing market research for hearth products, a shift in timing of combination space and water heating system work, and acceleration of rooftop HVAC work.

## XV. Residential Loans and On-The-Bill Repayment Services

### **Description of On-the-Bill Repayment Services**

NW Natural will assist in marketing a low-interest, unsecured financing offer to residential homeowners who heat their homes with gas heat. The program lender will originate loans granted for the purposes of installing conservation and energy efficiency measures incented by the existing homes program, and the Company will provide billing and remittance services to

the program lender by placing the loan repayment fee on the customers' monthly gas bill. Customers who obtain a loan with On-the-Bill Repayment Services will receive a loan repayment charge separately itemized as "Energy Upgrade Loan" on their monthly bill for natural gas service for the term of the loan or until the loan has been paid off, transferred, or otherwise discharged or removed from the bill in accordance with the terms and conditions of the Company's service agreement with Energy Trust, who will manage the coordination of activities between the program lender, the program management contractor, and the Company.

### **Program Lender**

Craft3, a non-profit community development financial institution (CDFI) lender, will act as the program lender, under the terms and conditions of a service agreement with Energy Trust. Craft3 received a grant from the State Of Washington's Clean Energy Revolving Loan Fund<sup>2</sup> for the purpose of providing financing to Washington residents for the purpose of installing energy efficiency measures. The intent of this offering is to facilitate the acquisition of cost-effective natural gas savings while extending the benefit of the State Of Washington's Clean Energy Revolving Loan Fund to natural gas ratepayers in Southwest Washington.

### **Loan**

The loan offerings through Craft3 that will qualify for On-the-Bill Repayment Services must fit the following parameters:

- Loans must be granted to residential homeowners who use natural gas as their primary heating fuel.
- Loan amounts must be used to install conservation and energy efficient measures incented under NW Natural's existing homes program.
- Loan Amount:
  - Loan amounts must be no less than \$2,500 and no more than \$15,000.
- Term of loan:
  - Loans up to \$7,500 to have a max term of 7 years,
  - Loans between \$7,500-\$15,000 up to 15 years.
- The program will launch with a fixed interest rate at 4.49%. Contingent on market conditions, Craft3 may at a later date revise the interest rate offer for future customers, not to exceed 5.49%. Under all circumstances rates will be fixed, and consistent for any qualifying customer.
- Loans will be unsecured.
- No penalty for early repayment.

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<sup>2</sup> See <http://www.commerce.wa.gov/Programs/Energy/Office/Pages/Clean-Energy-Funds.aspx>

- Craft3 may assess a financing fee of \$100 for loans between \$2,500-\$7,500, \$200 for loans between \$7,500-\$15,000
  - Fees may be financed as an addition to the loan balance
- At least 51% of the loan must be for costs that are directly attributable to the commissioning and installation of the qualifying measure(s), costs incurred to comply with applicable building code, mechanical code, or other pertinent regulations, or costs incurred to meet any technical specifications established by the Energy Trust. Whereas 49% of the loan may be allocated toward non-qualifying energy measures such as cooling.

### **Terms and Conditions**

1. The Company will directly bill Energy Trust or Craft3 for ongoing administrative costs, including costs associated with loan setup, loan termination and other incremental activities related to accounting and processing of bill payments.
2. The business relationship and the services exchanged between Energy Trust and the Company shall be in accordance with an executed Service Agreement. The Energy Trust will act as the program manager of this offering.
3. The provision of On-the-Bill Repayment Services will in no way conflict with the Company's compliance to WAC 480-90, Washington Administrative Code (WAC).
4. A Customer's decision to enter into a loan agreement with Craft3 will not affect his/her ability to establish credit with the Company; it will have no impact on the amount that a Customer may be required to pay on deposit for Natural Gas utility service; and it will have no effect on a Customer's ability to receive reliable natural gas service. The Company will communicate this in writing to customers who participate in this loan program.
5. By entering into a loan agreement with Craft3, the customer will be responsible to remit the monthly loan repayment amount to NW Natural with his/her monthly bill payment for natural gas services.
6. NW Natural is not a party to the loan agreements and has no financial interest in these loans.
7. Monthly payments received from customers participating in this program will be allocated to the customers' account in accordance with Rule 4 of this the Company's Tariff.
8. The Company will not disconnect gas service to a customer for non-payment of loan repayment charges.

9. NW Natural is solely a billing agent for Craft3. Participating Customers must acknowledge that the Company shall be held harmless for any liability resulting from contractors' actions with regard to installation of energy efficiency measures resulting from this program.
10. NW Natural has no responsibility to collect charges, penalties, or fees beyond the remitting to Craft3 the loan repayment collections the Company receives from Customers in accordance with the services described herein.
11. Craft3 is responsible to tell the Company how much to bill per month for each loan and how many months each customer should be billed. The Company is not responsible for any information provided by Craft3.
12. The Company will not a) accept loan pay-offs, b) issue refunds on loan payments, c) offer payment arrangements on loan amounts due, or d) allow energy assistance to be applied to loan balances.
13. Craft3 must obtain a signed consent form from participating Customers that states that the Customer agrees to allow the Company to provide Craft3 with Customer-specific bill payment information.
14. Craft3 must obtain signed documentation from the Customer that certifies that the Customer has been made aware of the Company's limited role in the loan repayment process.
15. Craft3 must provide the Company with a toll-free customer service phone number to which the Company will refer Customers who have questions or concerns about their loan. The Company is not responsible for Customer questions and disputes related to the loan or the Customer's perceived or real experience related to any portion of the loan or energy efficiency measures.
16. The Company will provide Customers with an overview of the loan product. Specific terms and conditions of the loan will be provided by Craft3.
17. A Customer with a loan open at the time he/she sells his/her home may either pay the loan off at the time of the sale; or if the new homeowner is willing to assume the loan and is able to pass the Craft3's credit requirements, the new homeowner may assume the remaining balance of the loan.
18. If a Customer with a loan refinances his/her mortgage, Craft3 will work with the Customer. A fee may be assessed if Craft3 subordinates its lien to the new mortgage lender.