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November 17, 2014

NWN WUTC Advice No. 14-7

VIA ELECTRONIC FILING

Steven V. King, Executive Director and Secretary
WASHINGTON UTILITIES &
TRANSPORTATION COMMISSION
1300 S Evergreen Park Drive, SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: Schedule G, Energy Efficiency Services and Programs – Residential and Commercial

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files the following revisions to its Tariff WN U-6, stated to become effective with service on and after January 1, 2015:

Tenth Revision of Sheet G.1,
Schedule G,
“Energy Efficiency Services and Programs – Residential and Commercial.”

The purpose of this filing is to revise the Company’s attached Energy Efficiency Plan (EE Plan or Plan), which is by reference in Sheet G.1 part of the Company’s Tariff. In accordance with the parameters of the Plan, the Company is required to submit an annual filing each November to establish goals and metrics for the following calendar year. This filing establishes 2015 calendar year program goals and budget, as well as the revisions adopted as a result of the Commission’s Policy Statement issued October 9, 2013, in Docket No. UG-121207 (Policy Statement).

When the Company submitted its November 2013 filing, it was too far along in its planning for 2014 to include any changes or consideration based on the Commission’s Policy Statement. Since then, the Company has worked with its program administrator, Energy Trust of Oregon (Energy Trust) to review its portfolio of offerings and recommend changes based on the Commission’s direction in the Policy Statement.

On April 25, 2014, NW Natural hosted a meeting with its Energy Efficiency Advisory Group (EEAG), where its program manager from Energy Trust explained that as the program matures and gas prices continue to be low, fewer measures will pass the Total Resource Cost (TRC) test. He showed that the Company’s programs have been passing the TRC test because of non-energy benefits—namely water savings. Since the portfolio would be moving towards being non-cost effective under TRC without water benefits, and the Company cannot ensure that its calculation balances all benefits and costs, the

Company proposed to its EEAG using Utility Cost Test (UCT) as the cost effectiveness standard and shifting its focus from cost effective measures with short measure lives (such as showerheads) to acquiring more durable savings from measures such as water and space heating equipment.

Because using the UCT represents a fairly significant shift in program administration, the Company guaranteed its EEAG that it would continue to report TRC values at the program level in quarterly reports and at the portfolio level with its annual report. The Company will work with its EEAG after its 2015 Annual Report is filed to assess if the new cost effectiveness standard and new focus on long term savings measures is successful, and if it should be continued or modified.

The UCT ensures that the utility is investing in a prudent acquisition for the energy system and ratepayers, but because the UCT does not look at all the costs a participant spends, a measure that passes the UCT may have a poor payback and be a bad economic choice for the participant. Utilities in UG 121207 workshops voiced concern that utility incentives may be viewed as an endorsement for investing in a measure whether or not it had a good payback for customers. For this reason, the Company agreed to point customers to Energy Trust's webpage that provides payback info. Residential customers will be directed to an online payback estimator located at the following URL:
<https://energytrust.org/forms/residential/energypaybackestimator/>

The energy payback estimator utilizes deemed savings values calibrated to the customer's utility records to produce reports detailing annual energy and cost savings and a simple payback calculation. The Company will report site traffic statistics, both in aggregate and by geography, detailing the volume of visits to the URL listed above. The tool is designed for residential customers as all of the measures screening beneath 1.0 under the TRC – with the exception of two – are residential retrofit measures. Commercial customers utilizing the Existing Buildings Program "custom-path" may access funding for detailed, site specific feasibility studies which provide financial analysis including savings and payback estimates. Energy Efficiency measures supported by the Existing Building prescriptive track all screen above 1.0 under the TRC with the exception of two insulation measures, one of which is newly proposed for 2015.

As part of moving to the UCT as the cost effectiveness standard, the Company's portfolio will include measures it otherwise would not have, and in some cases, incentives will be more generous. Weatherization measures are maintained at existing levels, including a modification of attic and ceiling insulation eligibility requirements for both residential and commercial customers designed to enfranchise greater participation. Other key changes include the introduction of a tiered furnace incentive, offering greater incentives for residential furnaces with an AFUE of 95 or better. Under a UCT framework, the Company will leverage greater savings potential to offer an incentive of \$350, which is \$250 more than the historical offer of \$100. This offer would not be possible under a framework solely prioritizing TRC, as the incremental cost of a higher tier furnace also has the effect of lowering the measure's TRC screening. Also of note, the Company will continue support for residential new construction projects exceeding the State Of Washington's building energy code. Washington's current energy code mandates low-flow water fixtures, thus negating the water conservation benefits formerly credited to high performance building tracks such as Energy STAR, as these fixtures are now considered baseline requirements, as opposed to incremental improvements. A complete list of measures screening beneath 1.0 TRC are listed in Exhibit B. Members of the EEAG consented with the Company's

approval to move forward with its plan to use the UCT as its primary cost effectiveness screening tool starting January 1, 2015.

In light of these changes, the Company expects that in 2015 it will spend approximately \$1.5 million on the acquisition of 240,000 therm savings in the residential and commercial sector. The Company will maintain a benefit to cost ratio of 1.0 or better for its total portfolio using UCT but will continue reporting both UCT and TRC. Further, we propose maintaining the performance metrics of \$0.65 for the overall levelized cost per therm saved and \$6.50 or less for the first year therm cost.

Besides establishing 2015 goals and performance metrics, the Company is also updating savings assumptions, changing incentive offers and introducing 37 new measures to its residential and commercial portfolio. Updated, changed or new measures are noted the revised list of measures included as Appendix A of the EE Plan. The list is revised to include a Unit Energy Savings (UES) value for each incented measures.

Besides these new measures, the EE Plan is revised to include on-the-bill repayment services for a new residential loan offering. NW Natural will assist in marketing a loan offering available to residential homeowners who heat their homes with gas heat. NW Natural will not be a party to the loan, will not qualify customers for the loans, and will not charge late fees or disconnect customers' service for nonpayment of loan fees. The Company's role is limited to marketing the offering and providing billing and remittance services for the loan originator.

Loans will be provided through Craft3, a non-profit community development financial institution (CDFI) lender that received a grant from the State Of Washington's Clean Energy Revolving Loan Fund for the purpose of providing financing to qualifying Washington residents. Loans will be offered to qualifying customers for the purpose of installing energy efficiency measures incented through NW Natural's existing homes program. Trade Allies preparing customer bids for eligible measures will complete a workbook detailing an estimated impact to the customer's utility bill, including both the cost of financing and projected energy savings. A sample output from the "Bill Impact Estimator" is included in Exhibit C. All customers will receive a projected Bill Impact prior to applying for financing with the program lender, Craft3. Customers who obtain a loan from Craft3 with on-the-bill repayment services will receive a loan repayment charge as a 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 from the bill.

This financing will assist customers in overcoming the first cost barrier experienced with installing multiple energy savings measures. Loans up to \$7500 will have terms not to exceed seven years, and loans between \$7,500 and \$15,000 will have terms not longer than 15-years. The interest rate will be 4.49%¹, and no more than 25% of funding may be used for non-energy related measures. Expenditures that are non-energy related will be restricted to costs incurred by the commissioning of energy efficiency measures (for example, removal of knob and tube wiring).

¹ The program will launch with a fixed interest rate at 4.49%. Contingent on market conditions, Craft 3 may at a later date revise the offer for future customers, not to exceed 5.49%. Under all circumstances rates will be fixed, and consistent for any qualifying customer.

Another change for 2015 will be an investment in upstream market transformation. NW Natural is planning to partner with other local gas utilities in a pilot project where participating utilities will fund Northwest Energy Efficiency Alliance (NEEA) to research and develop new gas technologies for the region. Since investing in NEEA is new for gas utilities and working on gas technologies is new for NEEA, the Company is not able to provide meaningful performance benchmarks but will provide updates on the investments and progress in its quarterly and annual reports.

In alignment with the direction provided in the Policy Statement, the Company's Washington Low Income Energy Efficiency (WA-LIEE) program will provide incentives to home weatherization projects that pass the Savings-to-Investment Ratio, and will not include the costs of WA-LIEE in the portfolio costs evaluated by TRC and UCT. In 2015 the Company will target to treating 10 to 12 low income homes, acquiring up to 5275 therms saved at a cost of \$44,650 to \$53,580.

In support of these revisions, attached are the following work papers:

- **Exhibit A** - Energy Trust's narrative blessing memos and BCR calculators for 37 updated, changed or new measures, which outlines the justification for offering the proposed incentive for cost effective savings.
- **Exhibit B** - List of active 2015 measures which screen <1.0 TRC
- **Exhibit C** - Sample Bill Impact Estimator. (Sample does not reflect measures proposed in this filing but will be updated as appropriate.)

Other tariff changes include removing the cost effectiveness standard from Schedule G and placing it in the EE Plan as the Plan is intended to be the comprehensive definition of the program.

The Company has shared this filing with its Energy Efficiency Advisory Group.

The Company respectfully requests that the tariff sheets filed herein be approved to become effective with service on and after January 1, 2015.

As required by WAC 480-80-103(4)(a), I certify that I have authority to issue tariff revisions on behalf of NW Natural.

A copy of the filing is available for public inspection in the Company's main office in Portland, Oregon and on its website at www.nwnatural.com.

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Please call me if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
NW Natural

Enclosures