

August 7, 2015

NW Natural acknowledges the findings in the study and believe that, to a large extent, the study supports the arguments made by NW Natural in the UM 1565 docket. Further, we have concerns that are not fully addressed in the staff memorandum dated June 12, 2015.

1. Customers are influenced by Energy Trust incentives

37% of customers considered information (which is largely communication regarding incentives) provided by the Energy Trust when making their decision to switch equipment and fuel sources. According to the study, it is the second most important source of influence.

2. Dealers leverage incentives to drive fuel switching

As noted in the memo, customers were most heavily influenced by the HVAC dealer (66%). Dealers are, in fact, leveraging the Energy Trust incentives as part of the overall sales presentation. Inducement to fuel switch is not made in the absence of the incentives.

3. Consumer demand for air conditioning is a critical factor

The majority (61%) of natural gas customers rated cooling as “absolutely critical” to the fuel switching decision. The absence of corresponding incentives on central air conditioning with the gas furnace drives consumers to select heat pumps as a cooling solution. The incentive results in subsidized heat pump air conditioning and it signals to customers that the Energy Trust endorses this cooling option.

4. There is no two-step decision process for heat pumps

The basis of the Commission Order No. 13-104 was that customers make two independent decisions: first to switch to a heat pump, and then a separate decision regarding the efficiency level. This two-step theory is the foundation of Energy Trust’s assertion that their incentive motivates only the latter decision for higher efficiency but does not influence the primary decision to change fuel sources. The study not only failed to reveal evidence of the two-step decision process, but showed (by explanation of the lengthy and multisource decision process) that incentives were likely considered while making the decision to switch from gas space heating to electric space heating.

5. Hybrid systems are becoming more prevalent

The study indicates that among the respondents, 40% now have hybrid systems (heat pump with gas furnace). There are long-term rate implications of the trend toward hybrid systems that will need to be addressed.

In response to the study findings NW Natural requests the following:

- A. Completion of an updated full Total Resource Cost (TRC) analysis on the heat pump incentive, taking into account the baseline equipment of gas for certain customers
- B. Clarification of the steps taken by Energy Trust to revise its messaging and marketing activities related to heat pump incentives and clarify the fuel switching policies (as mentioned in the staff memorandum).

- C. Revised memorandum from staff that more fully reflects the study conclusions and notes the concerns described above.
- D. Review of the decision to allow continued offering of heat pump incentives to customers that currently heat with gas, in light of the study's findings

We appreciate the opportunity to discuss the study findings and to collaborate on an approach to the design of incentive measures that benefit all parties.