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January 17, 2013

Via Electronic Filing Only

OREGON PUBLIC UTILITY COMMISSION

ATTENTION: FILING CENTER

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SALEM OR 97308-2148

**RE: Docket No. UM 1565 – In the Matter of the PUBLIC UTILITY
COMMISSION OF OREGON Investigation of Fuel Switching and Cross
Fuel Energy Efficiency Issues.**

Enclosed for electronic filing in the above-captioned docket is Staff's
Response Testimony.

/s/ Kay Barnes

Kay Barnes

Filing on Behalf of Public Utility Commission Staff

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c: UM 1565 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1565

STAFF RESPONSE TESTIMONY OF

JULIET JOHNSON

**In the Matter of the
PUBLIC UTILITY COMMISSION OF OREGON
Investigation of Fuel Switching and Cross Fuel
Energy Efficiency Issues**

January 17, 2013

CASE: UM 1565
WITNESS: JULIET JOHNSON

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 200

RESPONSE TESTIMONY

JANUARY 17, 2013

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Juliet Johnson. My business address is 550 Capitol Street NE
4 Suite 215, Salem, Oregon 97301-2551.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
6 **EXPERIENCE?**

7 A. My Witness Qualification Statement is in STAFF's and ENERGY TRUST's
8 Joint Opening Testimony of Juliet Johnson and Steve Lacey (Staff-ETO/101,
9 Johnson-Lacey/1).

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to present Staff's position on the issues list
12 presented by Administrative Law Judge Hardie in her May 15, 2012 ruling and
13 to respond to relevant information in Northwest Natural's (NW Natural or NWN)
14 opening testimony in NWN/100 and the letter of support filed by Cascade
15 Natural Gas filed on November 19, 2012.

16 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

17 A. My testimony is organized based on the issues list in the docket. My testimony
18 is divided into the following sections:

19 Issue 1A - What are Energy Trust's policies and practices regarding
20 residential fuel switching related to space conditioning? 3

21 Issue 1B - What outreach and messaging does the Energy Trust
22 engage in related to this type of fuel switching? 6

23 Issue 2 - Is fuel switching actually occurring? 8

1 Issue 3 - Do the answers to Issues 1 and 2 indicate a need to modify
2 Energy Trust policies or practices or ratepayer-funded
3 messaging? 9
4

1 **ISSUE 1A - WHAT ARE ENERGY TRUST'S POLICIES AND PRACTICES**
2 **REGARDING RESIDENTIAL FUEL SWITCHING RELATED TO SPACE**
3 **CONDITIONING?**

4 **Q. HOW WOULD OREGON PUBLIC UTILITY COMMISSION STAFF (STAFF)**
5 **SUMMARIZE ENERGY TRUST'S CURRENT POLICY ON FUEL**
6 **SWITCHING?**

7 A. Below are excerpts from Energy Trust's (Trust or ETO) fuel switching policy,
8 which was provided as an exhibit with the Joint Opening Testimony of Staff and
9 Energy Trust. Staff-ETO/104, Johnson-Lacey/1. Staff understands why the
10 current policy has been a source of confusion. Initially, the policy says:

11 "Energy Trust should not advocate fuel-switching, but may provide
12 fuel-neutral technical information on efficiency options...If the energy
13 user expresses interest in *converting to another energy source*, Energy
14 Trust may perform analysis showing the economics of alternative
15 systems, including the savings *and incentives* for installing high-
16 efficiency options for the energy source."

17 (*Emphasis added*) The policy then reads:

18 " However, the Energy Trust should *not provide financial incentives for*
19 *converting or replacing electric or natural gas equipment to another*
20 *fuel.*"

21 (*Emphasis added*) Finally, the policy states:

1 “Energy Trust should work with gas and electricity suppliers who wish
2 to provide efficiency information and/or *incentives for conversion* where
3 the customer deems it appropriate.”

4 (*Emphasis added*) My understanding is that Energy Trust does not actively
5 advocate or explicitly promote fuel-switching. However, there are elements of
6 the current policy that appear contradictory. It is not clear from these different
7 policy statements whether Energy Trust intends to provide incentives in the
8 event a customer switches fuels and installs high efficiency heating equipment.

9 **Q. PLEASE SUMMARIZE ENERGY TRUST’S CURRENT PRACTICES**
10 **RELATED TO FUEL SWITCHING**

11 A. In terms of Energy Trust’s practices relative to residential space conditioning,
12 Energy Trust does provide incentives for people who are switching from gas to
13 electric heat. Staff’s understanding of ETO’s rationale is that if a customer
14 decides to install a heat pump (for whatever reasons), Energy Trust will provide
15 incentives for the most efficient heat pump.¹ Energy Trust allows the customer
16 to make a decision based on factors relevant to the customer, and Energy
17 Trust will provide incentives targeted at the most efficient equipment available
18 for the type of fuel selected, unless it has been demonstrated that the market
19 for that equipment has been transformed, and the majority of customers select
20 energy efficient equipment without needing an incentive.

¹ Energy Trust’s website specifies that heat pumps must be used as the primary heat source; back-up systems do not qualify for an incentive.

1 Energy Trust takes a customer's prior fuel source into consideration with
2 respect to the amount of the current incentives for heat pumps. Residential
3 customers, who previously were heating with gas, propane, wood, or oil
4 receive an incentive of only \$250. Whereas, if customers previously had
5 electric heat (electric furnace, baseboard, wall heater or ceiling heat), their heat
6 pump incentive is \$450.²

7 **Q. WHAT IS THE RATIONALE FOR THE DIFFERENCE IN INCENTIVE**
8 **AMOUNTS?**

9 A. Based on a phone conversation with Steve Lacey of Energy Trust, the
10 difference in incentive amounts is based on the quantity of savings Energy
11 Trust is able to attribute to the new heat pump. If a customer previously heated
12 with gas, oil, wood or propane, the savings attributable to the new heat pump
13 are the difference between a standard efficiency heat pump and a high
14 efficiency one. This level of savings results in a \$250 incentive.

15 If a customer has electric resistance heat, the savings attributable to the new
16 heat pump are the difference between resistance heat and a high efficiency
17 heat pump. These savings are greater than from a low efficiency heat pump to
18 a high efficiency heat pump, and therefore the incentive is \$450 instead of
19 \$250.

² <http://energytrust.org/residential/incentives/heating-and-cooling/HeatPumps1>

1 **ISSUE 1B- WHAT OUTREACH AND MESSAGING DOES THE ENERGY TRUST**
2 **ENGAGE IN RELATED TO THIS TYPE OF FUEL SWITCHING?**

3 **Q. IN WHAT WAYS DOES ENERGY TRUST PROMOTE HEAT PUMP**
4 **INCENTIVES?**

5 A. Energy Trust promotes heat pump incentives through its own communications
6 in forums such as internet, events and media advertising. ETO also
7 coordinates marketing of incentives with utilities through bill inserts,
8 newsletters, email, mailings and web promotions.

9 **Q. DOES ENERGY TRUST PROMOTE HIGH EFFICIENCY GAS FURNACES?**

10 A. Yes, to a certain extent. Although Energy Trust no longer offers furnace
11 incentives to its standard residential customers, ETO does promote high
12 efficiency furnaces on its website. Energy Trust continues to offer gas furnace
13 incentives to moderate income residential customers through the Savings
14 Within Reach program.³ Furnaces are promoted in communications targeted
15 at specific customer groups eligible for gas furnace incentives under the
16 Savings Within Reach program.

17 **Q. HOW ARE SENATE BILL 838 UTILITY RETAINED FUNDS USED IN HEAT**
18 **PUMP MARKETING?**

³ Qualifications for Savings Within Reach described here: <http://energytrust.org/income-qualified-assistance/savingswithinreach/>

1 A. Portland General Electric (PGE) and PacifiCorp retain a portion of energy
2 efficiency funds to help generate customer awareness of Energy Trust
3 programs and services. Utilities have used these funds to help develop and
4 deliver specific marketing communications. These communications may or
5 may not be co-branded with Energy Trust.

6 Based on PGE's response to NW Natural's Data Request 001, in 2012, it is
7 apparent that PGE used Senate Bill 838 funds for four different ads or
8 customer communications that reference heat pumps and mention incentives
9 provided by Energy Trust. NWN/103 Edmunds/1.

10 It is Staff's understanding that PGE intends to scrub the company's mailing
11 lists and in the future will only send heat pump incentive promotional
12 information to PGE's customers who appear to heat with electricity. It is Staff's
13 understanding that PacifiCorp is not currently nor planning to scrub its mailing
14 lists so as to only send promotional materials related to heat pumps to
15 customers who currently appear to heat with electricity.

16 **Q. DOES ENERGY TRUST SPECIFICALLY MENTION FUEL SWITCHING ON**
17 **THEIR WEBSITE OR MARKETING MATERIALS?**

18 A. To the best of my knowledge, Energy Trust currently does not mention on its
19 website or in its marketing materials that its heat pump incentives are not
20 intended to encourage customers to switch from gas to electric heat.

1 **ISSUE 2- IS FUEL SWITCHING ACTUALLY OCCURRING?**

2 **Q. WHAT EVIDENCE HAS BEEN PRESENTED ABOUT WHETHER**
3 **CUSTOMERS ARE SWITCHING FROM ONE FUEL TO ANOTHER?**

4 A. NW Natural pulled historical mechanical permits from various cities in their
5 service territory and compared those to their customer database. Based on
6 this analysis and NW Natural's response to PGE's data request 009, it is clear
7 that fuel switching is occurring in both directions. Between 2006 and 2011, NW
8 Natural estimates that in their service territory 38,904 customers switched from
9 non-gas heat to gas heat, while 2,711 customers switched from gas to heat
10 pumps and 139 customers switched from non-gas heat to heat pumps.⁴

11 Based on information provided by Energy Trust and included as an exhibit with
12 the Joint Opening Testimony of Staff and Energy Trust (Staff-ETO/105,
13 Johnson-Lacey/1) Staff finds that between January 2006 and mid October
14 2011, Energy Trust provided 6,463 heat pump incentives to customers whose
15 new heat pumps replaced old electric heating systems. During the same time
16 period, Energy Trust provided 1,337 heat pump incentives to customers whose
17 previous primary heating source was gas.

⁴ NW Natural response to PGE Data Request 009

1 **ISSUE 3- DO THE ANSWERS TO ISSUES 1 AND 2 INDICATE A NEED TO**
2 **MODIFY ENERGY TRUST POLICIES OR PRACTICES OR RATEPAYER-**
3 **FUNDED MESSAGING?**

4 **Q. WHAT IS THE LARGER CONTEXT FOR THIS DISCUSSION?**

5 A. Energy Trust was formed as a tax-exempt nonprofit corporation in response to
6 legislation enacted in 1999 (Senate Bill 1149) and now codified in Oregon
7 Revised Statute (“ORS”) 757.612, to act as the nongovernmental entity to
8 direct expenditure of public purpose funds for *new cost-effective local energy*
9 *conservation*, new market transformation efforts, and the above-market costs
10 of new renewable energy resources. In these comments and docket, only
11 space heating is being addressed.

12 **Q. HAVE PARTIES ADDRESSED THE ECONOMICS OF FUEL SWITCHING**
13 **FOR SPACE HEAT?**

14 A. Administrative Law Judge Hardie’s ruling in this docket on May 15, 2012, laid
15 out the issues list and explicitly excluded the question of whether fuel switching
16 is uneconomic to ratepayers. She wrote: “Should the Commission ultimately
17 determine that this issue [whether fuels switching is uneconomic to ratepayers]
18 should be addressed, an additional phase may be added to develop a uniform
19 methodology for analyzing evidence on this issue.” Therefore, it has not been
20 established whether fuel switching is uneconomic or whether one fuel type is
21 more cost effective than another.

1 **Q. WHAT ARE STAFF'S POLICY RECOMMENDATIONS?**

2 A. Based on the answers to items 1 and 2 above, Staff's position is that a) Energy
3 Trust's policy on fuel switching should be revised to make the Trust's position
4 more clear, b) Energy Trust should not be providing incentives in the case
5 where fuel-switching is clearly uneconomic, and c) if rate payer dollars are
6 used for communications messages should be targeted such that uneconomic
7 fuel switching is not encouraged.

8 **Q. WHAT PRINCIPLES ARE STAFF'S POLICY RECOMMENDATIONS**
9 **BASED ON?**

10 A. Staff's recommendations are based on the following principles:

11 1) Customers make decisions based on a number of factors important to
12 them.

13 It's not the utilities', PUC's or Energy Trust's role to presuppose why a
14 customer may choose a particular product. A customer may choose a heat
15 pump for air conditioning, so they have the potential to offset energy use with
16 renewable energy, or a variety of other reasons. Incentives are one of many
17 factors that a customer may take into consideration when making an
18 equipment choice.

19 2) Energy Trust's role is to incent the highest efficiency gas and electric
20 equipment as well as to promote overall efficiency use of energy.

1 If a gas customer has made up their mind to buy a heat pump, for whatever
2 set of reasons, that's the choice of the customer. However, to ensure that
3 ratepayer funds are not used to promote one fuel source over another,
4 incentives should not be provided where energy *inefficiency* is a clear result.

5 3) Energy Trust should be a source for clear and appropriate information
6 about fuel choices.

7 Staff's position is that part of Energy Trust's role is to provide clear and
8 appropriate information about fuel choices. Energy Trust should make clear
9 on its website and in marketing materials, that incentives are not intended to
10 promote fuel switching.

11 4) Rate payer dollars should not be used to promote uneconomic fuel
12 switching.

13 Oregon Administrative Rule (OAR) 860-027-0310(1)(a) includes "cost
14 effective fuel switching" in the definition of "conservation". OAR 860-027-
15 0310 is directed to the acquisition of cost-effective conservation resources by
16 energy utilities. However, the complexities associated with implementing a
17 fuel switching conservation program involving the Energy Trust have not been
18 addressed (i.e., who pays versus who benefits and how ongoing cost
19 effectiveness should be determined as technology and costs vary over time).
20 Therefore, at this time Staff recommends that messaging paid for by rate
21 payer dollars should not promote fuel switching. If a utility uses rate payer

1 dollars to market heat pumps, the utility should scrub its mailing lists so that
2 materials are not sent to customers who currently heat with gas. Staff
3 recognizes that some utility promotions paid for by shareholders, may still
4 refer to Energy Trust incentives in a way that could be interpreted as Energy
5 Trust's endorsement of the particular promotion. Staff does not recommend
6 any special provisions for these instances.

7 **Q. BASED ON THE HIGH LEVEL POLICY RECOMMENDATIONS AND**
8 **PRINCIPLES DESCRIBED ABOVE, PLEASE SUMMARIZE STAFF'S**
9 **RECOMMENDED CHANGES TO CURRENT PRACTICES.**

10 A. Staff's recommendation below are contingent on the fact that it has not yet
11 been clearly established that switching from gas heat to high efficiency heat
12 pumps is uneconomic.

13 Staff recommends Energy Trust be given discretion to maintain its heat pump
14 incentive for customers switching from gas heat.

15 Staff recommends Energy Trust's fuel switching policy as contained in Staff-
16 ETO/104; Johnson-Lacey/1 be modified to clearly reflect that although Energy
17 Trust may offer equipment incentives to customers who elect to switch fuels,
18 the incentives are not intended to promote fuel switching, and messaging
19 should clearly reflect that.

1 Staff recommends that on the Trust website and in marketing materials, Energy
2 Trust should make clear that heat pump incentives are not intended to incent
3 fuel switching.

4 Staff recommends that the commission specify that rate payer funded
5 messaging should not be used in a way that could reasonably be interpreted as
6 promoting fuel switching. If rate payer funds are used to promote heat pumps,
7 a utility should be required to use best efforts to scrub its mailing lists of gas
8 heat customers.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

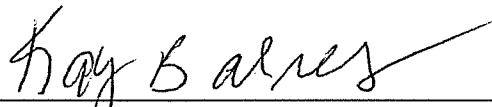
10 A. Yes.

CERTIFICATE OF SERVICE

UM 1565

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 17th day of January, 2013 at Salem, Oregon



Kay Barnes

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UM 1565
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