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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 143

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY)	ORDER
)	
Application for Public Purposes Funding and)	
Distribution Margin Normalization.)	

DISPOSITION: ORDER NO. 02-634 AMENDED;
TARIFF ALLOWED TO GO INTO EFFECT

On May 16, 2003, Northwest Natural Gas Company (NW Natural) filed Advice No. 03-14 to become effective July 2, 2003. The filing was made pursuant to UG 143, in which the Commission adopted a stipulation that required NW Natural to collect monies from customers to fund three public purpose programs. See Order No. 02-634. This filing addresses one of those programs to provide low-income weatherization assistance.

The purpose of the filing is to incorporate a new low-income energy efficiency program, the Oregon Low-Income Energy Efficiency Program (OLIEE program), on NW Natural's Schedule 320 and Schedule 1M. A description of the program is set forth in Staff's Public Meeting Report, which is attached as Appendix A and incorporated by reference.

The filing proposes that NW Natural be the administrator for the OLIEE program. Although the stipulation adopted in Order No. 02-634 stated that the program would be administered by an independent entity, both NW Natural and Staff believe the most effective and efficient option currently available is for NW Natural to administer the program. Under the terms of the filing, NW Natural will continue to assess opportunities for this program to be administered by an external entity and has agreed to use an advisory group process and the independent program evaluation results to modify the program structure and processes when appropriate.

At its September 11, 2003, Public Meeting, the Commission adopted Staff's recommendation to: (1) amend Order No. 02-634 to allow NW Natural to administer the OLIEE program, (2) approve NW Natural's application to waive statutory notice, and (3) allow the tariff sheets filed in Advice No. 03-14A to go into effect with service on September 12, 2003.

ORDER

IT IS ORDERED that:

1. Order No. 02-634 is amended to allow Northwest Natural Gas Company to administer the Oregon Low-Income Energy Efficiency Program.
2. Northwest Natural's application to waive statutory notice is approved.
3. Advice No. 03-14A is allowed to go into effect with service on September 12, 2003.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 11, 2003

REGULAR X CONSENT _____ EFFECTIVE DATE September 12, 2003

DATE: September 9, 2003

TO: Lee Sparling through Ed Busch and Bonnie Tatom

FROM: Lynn Kittilson

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 143/Advice No. 03-14A)
Implements a low-income energy efficiency program.

STAFF RECOMMENDATION:

I recommend the Commission amend Order No. 02-634, approve Northwest Natural Gas Company's application to waive statutory notice, and allow the tariff sheets filed in Advice No. 03-14A to go into effect on September 12, 2003.

DISCUSSION:

On May 16, 2003, NW Natural Gas Company (NW Natural or company) filed Advice No. 03-14 to become effective July 2, 2003. The filing was made pursuant to Docket UG 143. In that docket, the Commission adopted a stipulation that required NW Natural to collect monies from customers to fund three public purpose programs. See Order No. 02-634. This filing addresses one of those programs to provide low-income weatherization assistance.

The purpose of the filing is to incorporate into the company's tariffs a new low-income energy efficiency program, the Oregon Low-Income Energy Efficiency Program (OLIEE program), on Schedule 320 and Schedule 1M. The company requested extensions of the effective date of the filing on June 18, June 27, and August 4, in order to address issues raised by staff and other interested parties on the proposed OLIEE program and tariff schedules. On August 20, NW Natural withdrew Advice No. 03-14 and replaced it with Advice No. 03-14A with an application to waive statutory notice requesting the tariff revisions go into effect on September 12, 2003.

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Since October 1, 2002, NW Natural has been collecting funds through Schedule 301, Public Purposes Funding Surcharge, for an energy efficiency program dedicated to the company's low-income customers. The \$955,000 in funds, net of uncollectibles, collected through July 31, 2003, have been transferred to an interest-bearing bank account dedicated to the low-income program.

Advice 03-14A proposes the OLIEE program as the low-income program to receive the funds collected to date and future collections under Schedule 301. The goals of the OLIEE program are (1) to bring energy efficiency services to at least double the number of low-income NW Natural households served in 2002 under other available programs and (2) to maximize the energy efficiency savings achieved per household.

The filing also proposes that NW Natural be the administrator the OLIEE program. The company investigated several alternatives for program administration, including the Energy Trust of Oregon, Oregon Housing and Community Services (OHCS), and NW Natural. Although the stipulation adopted in Order No. 02-634 stated that the program would be administered by an independent entity, the company believes the most effective and efficient option currently available is NW Natural administration of the program. The filing adds that "the company will continue to assess opportunities for this program to be administered through an external entity, and will pursue an external administration option in the future should it be appropriate to do so."

Program Description

Under the OLIEE program, community action agencies (agencies) currently delivering Oregon's low-income programs within NW Natural's service territory will conduct home energy evaluations in qualifying low-income, gas-heated homes. Incentives will be paid to the agencies for the installation of cost-effective energy efficiency measures in NW Natural homes. Qualifying program measures include: ceiling, floor, wall, and duct insulation; duct sealing; caulking and weatherstripping; high efficiency natural gas furnace installation; and furnace tune-up and filter replacement. Incentives for installation of insulation measures will be paid based on a calculation using the following components for each measure: therm savings factor per square foot, avoided cost per therm, and square footage treated. Fixed rebates will be paid on installation of duct sealing, caulking and weatherstripping, and furnace measures.

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The agencies will be paid \$225 per home for their costs of program administration and delivery, which is 15% of projected funds collected. Except for the first year of the program, NW Natural will be reimbursed for its actual administrative costs up to 5% of total funds collected during the year, which is approximately \$65,000. This amount will cover the company's costs for administration, data collection and reporting, accounting, and post-inspections of a portion of program participant homes. During the first year of the program, NW Natural will also be reimbursed for some one-time program set-up costs up to a maximum of \$100,000. The company estimates its total first-year program development and administrative costs at \$123,000, which is 8% of program funds. In addition, \$50,000 per year is reserved in the OLIEE account for independent program evaluations, in accordance with the requirements of Schedule 301. A program baseline assessment will be performed within the next few months.

The ongoing OLIEE funds will be allocated to the agencies delivering the program based on the same allocation used by OHCS to allocate funds under the Federal Low Income Energy Assistance Program during the previous year. NW Natural may reallocate funds among the agencies, if appropriate, to make the most effective and efficient use of the funds after notification of the affected agencies. The funds collected prior to program implementation will be allocated to the agencies quarterly over the first two program years. NW Natural will distribute one-quarter of the funds collected in the OLIEE account to the agencies when the program begins in order to assist the agencies in program implementation. After the first distribution, the agencies will be reimbursed within 30 days of the date NW Natural receives all completed billing documentation.

NW Natural estimates collecting about \$1.3 million per year during the first two years of program implementation. With the funds collected over the 2003-2005 period and the funds collected to date, the company estimates the OLIEE program has the potential for serving 1,949 homes in the first two years, a 235% increase over the 2002 level of 291 NW Natural low-income participants.

NW Natural is establishing an OLIEE advisory group to assist the company in program development, review, and evaluation. The advisory group will include at least one member each from the company, Commission staff, Community Action Directors of Oregon (CADO), and from two or more participating agencies. The initial group met twice to discuss the design and implementation details of the proposed OLIEE program.

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Staff believes NW Natural's proposed OLIEE program in Advice No 03-14A should be implemented as proposed. The revised filing addresses the issues raised by staff, CADO, and representatives for the agencies in the company's initial program proposal. Although the stipulation approved in Order No. 02-634 indicated that an independent entity would administer the program, staff supports NW Natural's proposal that the company administer the program for the immediate near term. Staff agrees that this is the most cost-efficient option currently available. Moreover, the tariff requires NW Natural will provide the Commission with annual reports on program performance and arrange for independent annual program performance evaluations. The company has also agreed to use the advisory group process and the independent program evaluation results to modify the program structure and processes when appropriate.

PROPOSED COMMISSION MOTION:

Order No. 02-634 be amended, NW Natural's application to waive statutory notice be approved, and the tariff sheets filed in Advice No. 03-14A be allowed to go into effect with service on September 12, 2003.

NWN Advice 03-14A