

ORDER NO. 13 104

ENTERED MAR 27 2013

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1565

In the Matter of

PUBLIC UTILITY COMMISSION OF  
OREGON

Investigation of Fuel Switching and Cross Fuel  
Energy Issues.

ORDER

**DISPOSITION: ENERGY TRUST OF OREGON DIRECTED TO MODIFY  
MESSAGING AND MARKETING OF HEAT PUMP  
INCENTIVE**

**I. INTRODUCTION**

We opened this investigation to address concerns raised about incentives offered by the Energy Trust of Oregon (the Energy Trust) for space heating to residential customers. Currently, the Energy Trust offers an incentive for installing high-efficiency electric heat pumps, but does not offer an incentive for high-efficiency gas furnaces. Northwest Natural Gas Company, dba NW Natural and other parties believe having an incentive for one fuel source and not another unfairly shifts energy consumption away from natural gas to electric energy.

The following parties intervened and participated as parties in this proceeding: the Energy Trust; NW Natural; Cascade Natural Gas; Avista Corporation; Portland General Electric Company (PGE); PacifiCorp, dba Pacific Power; NW Energy Coalition (NWEC); City of Portland; the Citizens' Utility Board of Oregon (CUB), the Industrial Customers of Northwest Utilities; the Oregon Department of Energy; and Commission Staff.

**II. DISCUSSION**

Following the procedural schedule adopted in this case, parties filed testimony addressing three issues:

Issue 1: What are the Energy Trust's policies and practices regarding residential fuel switching related to space conditioning? What outreach and messaging does the Energy Trust engage in related to this type of fuel switching?

Issue 2: Is fuel switching actually occurring?

Issue 3: Do the answers to Issues 1 and 2 indicate a need to modify the Energy Trust's policies or practices or ratepayer-funded messaging?<sup>1</sup>

We summarize the parties' testimony below, followed by our resolution.

**A. Energy Trust's Policies and Practices with Respect to Space Conditioning Incentives**

As part of its efforts to achieve cost-effective energy efficiency, the Energy Trust offers an incentive for customers to install high-efficiency electric heat pumps. Customers receive a payment of \$450 if currently heating with electricity, or \$250 if currently heating with gas, wood, oil, or propane. The difference in incentive amounts is based on the quantity of savings attributable to the new heat pump based on existing fuel source. The Energy Trust does not currently provide incentives for high-efficiency gas furnaces.

The Energy Trust does not advocate fuel-switching and does not provide financial incentives to induce customers to convert to a different fuel. The Energy Trust maintains that fuel choice is the customer's decision. The Energy Trust acknowledges, however, that customers who receive incentives switch fuels. Furthermore, many parties find the Energy Trust's fuel switching policies to be somewhat confusing and contradictory. Relevant parts of the policies provide:

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

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

Energy Trust should work with gas and electricity suppliers who wish to provide efficiency information and/or incentives for conversion where the customer deems it appropriate.<sup>2</sup>

The Energy Trust promotes its heat pump incentives through mass marketing and efforts with utilities including bill inserts. The Energy Trust does not tailor its message to target certain types of customers.

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<sup>1</sup> ALJ Ruling (May 15, 2012).

<sup>2</sup> See Staff/200, Johnson/3 (Jan 17, 2013)

**B. Whether Fuel Switching is Occurring**

The parties reported varying figures on the amount of fuel switching that is occurring. Based on information provided by NW Natural and the Energy Trust, Staff reports that fuel switching occurs in both directions. Staff states that, from 2006-2011, about 39,000 customers in NW Natural's service territory switched from non-gas to gas heat, while 2,700 switched from gas to heat pumps. During the same time period, the Energy Trust provided 6,463 heat pump incentives to customers whose new heat pumps replaced old electric heating systems, and 1,337 heat pump incentives to customers whose previous primary heating source was gas.

NW Natural believes that the actual number of gas customers switching to electric is much greater. Based on information from city permit data, the gas utilities report that over 5,000 customers installed heat pumps during the 2006-2011 timeframe, with half of those being installed in homes of NW Natural customers.

**C. Whether Energy Trust's policies should be modified.**

The parties address two possible changes to the Energy Trust's policies and practices: (1) limiting the heat pump incentive to customers currently not heating with gas; and (2) modifying the Energy Trust's messaging and marketing of the incentive.

**1. Limiting Incentive**

The gas utilities and NWECA recommend that the Energy Trust should limit the heat pump incentive to customers who currently do not heat with gas. The gas utilities contend this change will make the Energy Trust's program more consistent with its policy of not promoting fuel switching, and would be consistent with studies showing that it is uneconomic for current gas customers to switch to electric heat pumps for space heating. The gas utilities also object to any ratepayer-funded incentive that could harm their competitive business.

The gas utilities and NWECA also raise questions about the perception and use of the heat pump incentive. They believe the fact that there are incentives for electric heat pumps but not for gas furnaces sends a message that a high-efficiency heat pump is the preferred heating alternative. The gas utilities also contend that contractors use the incentive to improperly promote heat pumps to gas customers.

The Energy Trust, Staff, electric utilities, and CUB recommend that the Energy Trust have the discretion to continue to provide the heat pump incentives to all customers, regardless of heating source. Although they acknowledge that fuel switching is occurring to some degree, they claim there is no persuasive evidence that the Energy Trust incentive is the primary cause. CUB notes that these decisions are based on numerous factors, and PGE questions whether a \$250 incentive on a purchase of over \$5,000 is sufficient to influence the overall choice of fuel.

Parties opposing changes to Energy Trust's policies also emphasize that a customer's choice of fuel source should be maintained, and that the key focus should be whether the

incentives are promoting the installation of an energy-efficient heating source. The Energy Trust adds that the proposed limitation would require additional training to inform contractors of the restricted incentive, and that even with training some contractors will be confused leading to an increase in customer complaints.

## 2. *Messaging and Marketing*

All parties recommend that the Energy Trust's messaging and marketing of its heat pump incentive be changed and clarified. The gas utilities generally propose changes that include:

- Taking steps to avoid sending marketing materials to gas customers
- Making explicit that the incentive is not intended to promote fuel switching
- Modifying the message to avoid implication that the incentive is offered to encourage installation of cooling equipment

Staff agrees that marketing materials for heat pump incentives should not be sent to gas customers, and that the Energy Trust should make clear that the incentives are not intended to promote fuel switching. Staff adds that messages should be targeted such that uneconomic fuel switching is not encouraged. Staff also recommends that electric utilities not use ratepayer funds to target gas heat customers with heat pump promotional materials.

CUB agrees that the Energy Trust should clarify the purpose of the incentive. CUB and NWEC recommend the Energy Trust also provide information about the value of high-efficiency gas furnaces.

The Energy Trust agrees its policy and messaging activities should be revised to make clear that fuel choice is a customer decision and that the Energy Trust's incentives are not intended to promote fuel switching. Although it does not control utility marketing activities, the Energy Trust indicates that it is willing to assist electric utilities in taking steps to ensure that heat pump-related marketing materials do not target gas customers.

The Energy Trust also agrees that incentives should not be used where fuel switching is not cost-effective. It cautions, however, against having the Energy Trust be responsible with the difficult task of assessing which fuel choice would be cost-effective for customers. The Energy Trust prefers to continue to leave fuel choice decisions to the customer.

Although Pacific Power and PGE earlier believed that no changes to the Energy Trust's messaging were warranted, the electric utilities now support the Energy Trust's proposed clarification of its policy and message. They agree that all information should be fuel neutral, and that the customer should remain at the center of the decision on fuel choice. PGE adds that it is undertaking efforts to avoid marketing of heat pump incentives to gas customers, but is afraid that Staff's recommendation to ensure ratepayer funds are not used to target gas customers, if interpreted broadly, would prohibit the utility from discussing heat pumps in its newsletter or website.

**D. Commission Resolution**

We decline to eliminate the heat pump incentive for customers who currently heat with gas. Based on the record, we concur that there are multiple factors in play that influence individuals to switch from gas space heating to electric space heating. We lack conclusive evidence that the incentive is the primary reason for the switching that has occurred. For that reason, and because of the benefits of encouraging individuals to purchase higher-efficiency space heating equipment, we believe the incentive should be retained.

We agree with the parties, however, that the Energy Trust should revise its messaging and marketing activities related to the heat pump incentive, and clarify its fuel switching policies. The Energy Trust's policies and incentive activities should focus on encouraging economic investments in high-efficiency space heating equipment and be designed to avoid the inadvertent promotion of fuel switching. The Energy Trust acknowledges this, and has indicated that its staff will recommend to the Energy Trust Policy Committee and Board that its policy state more clearly that fuel choice is a customer decision and that the incentive is not intended to promote fuel switching.

We decline Staff's recommendation that electric utilities not use ratepayer funds to target gas customers with heat pump promotional materials. Although we appreciate PGE's voluntary efforts to avoid the marketing of heat pump incentives to gas customers—and encourage Pacific Power to take similar action—we will not adopt in these proceedings any firm limits on utility promotional materials. We find any such restrictions would be overly difficult to monitor and enforce. Rather, we will continue to rely on our rules, set forth in OAR chapter 860, division 026, to govern the treatment of utility advertising and promotional expenditures.

We will revisit these decisions in early 2015, and direct the Energy Trust to work with our Staff to identify and collect, through the use of an independent surveying entity, additional information about the reasons underlying a gas customer's decision to install a heat pump. We are interested in obtaining data about the reasons behind a gas customer's decision to install a heat pump. We are also interested in learning to what extent these customers continue to use natural gas as a back-up heating source.

Finally, we find no significant issues related to fuel switching that warrant a broader examination of cross-fuel energy efficiency and fuel switching. This docket should be closed.

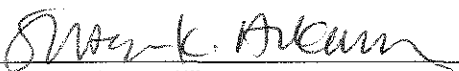
**III. ORDER**


IT IS ORDERED that:


1. The Energy Trust of Oregon has the discretion to provide the heat pump incentive to all customers, regardless of their heating source.

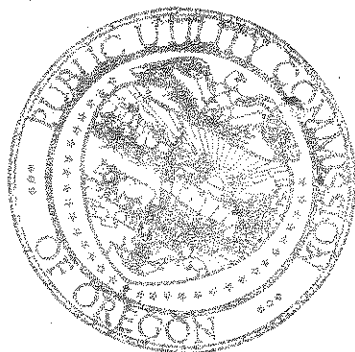
2. The Energy Trust of Oregon must revise its messaging and marketing activities related to the high-efficiency heat pump incentive and clarify its fuel switching policies consistent with the terms of this order.
3. The Energy Trust of Oregon must use an independent surveying entity to collect additional information about natural gas customers who receive the heat pump incentive.
4. This docket is closed.

Made, entered, and effective MAR 27 2013

  
**Susan K. Ackerman**  
Chair

  
**John Savage**  
Commissioner

  
**Stephen M. Bloom**  
Commissioner



A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.