



Energy Efficiency in the Natural Gas Sector: A New Priority

presented at the
American Council for an Energy-Efficient Economy

NATIONAL CONFERENCE ON "ENERGY EFFICIENCY AS A RESOURCE"

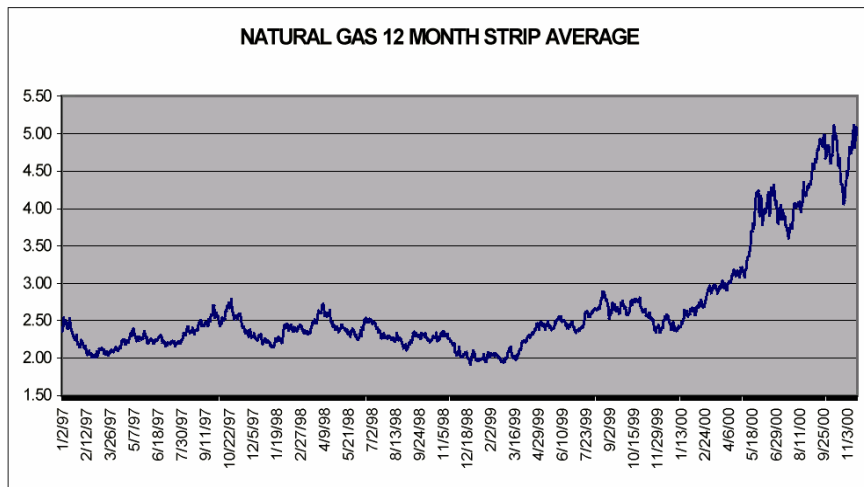
Berkeley, California
Tuesday September 27, 2005
Stephen Bicker
NW Natural



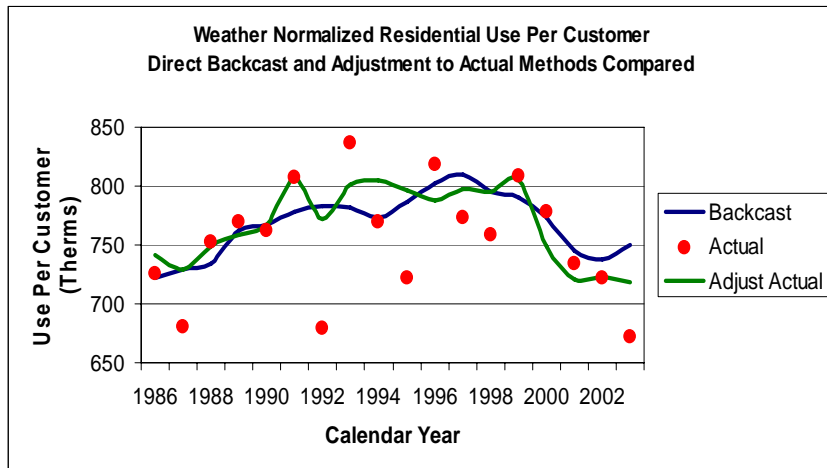
Impossible or just challenging?

- ◆ Teach an old a dog new trick.
- ◆ Find good sushi in Albuquerque.
- ◆ Design a hotel meeting room capable of maintaining a comfortable temperature.
- ◆ Persuade Gov. Schwarzenegger to replace all his Hummers with a single Prius.
- ◆ Get an investor-owned utility to **embrace conservation.**

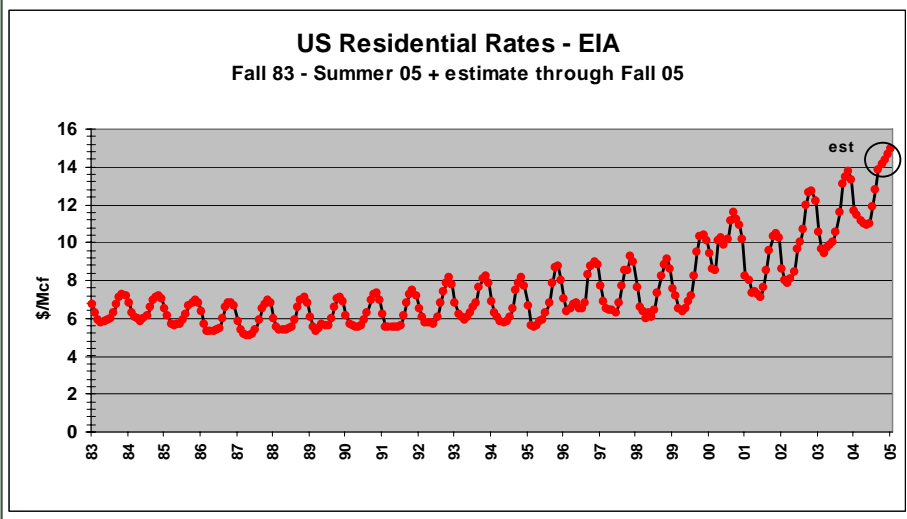
Timing helps. Here's where we got creative.



Altruism or self-interest? Could it be both?



Its time to solve the problem...



What about the traditional solutions?

- ◆ Lost margin recovery makes utilities whole, **but** only after a negotiated and often contentious settlement.
 - Free ridership?
 - Distributed attribution?
 - Non-energy benefits?
- ◆ Performance-based ratemaking creates accountability, **but:**
 - Measures are complex and contentious
 - Intrinsic perverse incentives for increasing consumption are not typically addressed

Our less traditional solution -2 parts:

1. Public purpose funding for Energy Efficiency
 - ETO managed electric efficiency programs (SB 1149)
 - NWN partnership was voluntary – sought economies of scale
 - Funding ETO at approximately \$6 MM/year.
2. Demand margin normalization (DMN)
 - Approved in Fall of 2002 outside of a rate case
 - Weather adjusted
 - Partial decoupling only (90%)
 - “An elegant solution to the problem of changes in customer energy utilization between rate cases.”

Objectives of DMN

- ◆ Align interests of utility with that of customers
- ◆ Dampen volatility for customers, utility and shareholders
- ◆ Reduce contention in rate cases
- ◆ Preserve conservation price signal

How it works (if you're not an economist)

◆ Revenue Per Customer Decoupling

- Use per customer (UPC_N) by class from last rate case
- Distribution margin (DM) = volumetric rate less commodity and purchased capacity cost per therm
- Each month, capture UPC_N and UPC_A
- Post differences to a 186 account for deferral
- $Adjustment = DM * (UPC_N - UPC_A) * customers$
- Refund/collect through a cents per therm one-year temporary increment at the time of the annual gas cost tracking filing

Timeline

<u>Start</u>	<u>End</u>	<u>Event</u>
9/02	9/05	Partial decoupling (DMN)
9/03	Indefinite	Public Purpose Funding
9/03	9/08	WARM
1/05	3/05	Independent Evaluation <i>Christensen Associates</i>
10/05	9/09	Renewal sans 90% limit

Effect on NWN Messages

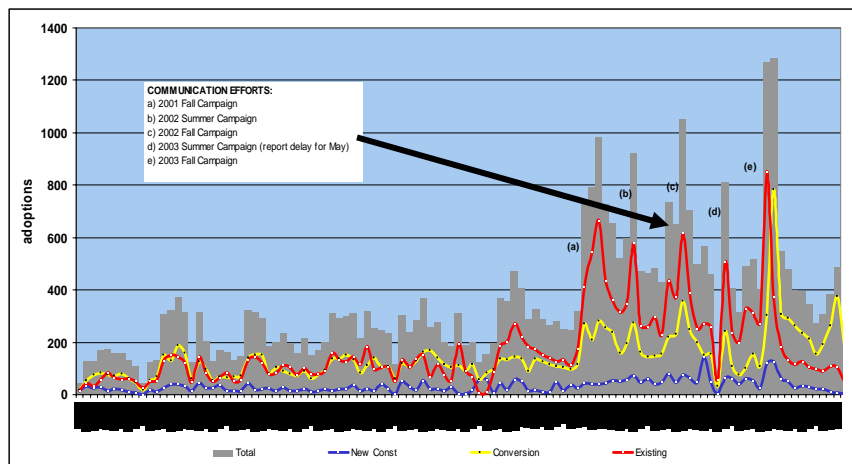
Year	Category A	Category B	Category C
2000	25%	1%	74%
2001	54%	1%	45%
2002	68%	10%	22%
2003	73%	6%	21%
2004	60%	23%	17%

Category A: Energy efficiency, conservation, and service information (including rate or account information)

Category B: Safety communication and advertising

Category C: Promotional advertising and communications to non-customers, or image advertising

Effect on NWN High Efficacy Furnace PGM



Other Effects

- ◆ Changes in compensation (sales to service shift)
- ◆ Reduced customer complaints (some complaints about public purpose funding)
- ◆ Improved customer satisfaction per independent study
- ◆ Call center performance improvements
- ◆ ETO believes that NWN “has been effective in assisting ETO in its efforts”

Supporters of NWN’s DMN

- ◆ Energy Trust of Oregon
- ◆ HVAC distributors
- ◆ Community Action Agencies
- ◆ NRDC
- ◆ Citizen’s Utility Board

Additional information

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- ◆ Partial Decoupling Order:
<http://www.puc.state.or.us/orders/2002ords/02%2D634.pdf>
- ◆ WARM Testimony:
http://www.nwnatural.com/about/rates/regulatory/pdf/pending_regulatory_activities/1600_WARM_TEST.pdf
- ◆ Public Purpose Funding Tariffs:
http://www.nwnatural.com/about/rates/rates_tariffs/or22/public_purposes_schedules.asp
- ◆ Partial Decoupling (190) and WARM (195) Tariffs:
http://www.nwnatural.com/about/rates/rates_tariffs/or22/adjustments.asp