

UTILITY REGULATION AND THE  
LEGISLATIVE PROCESS IN OREGON

A Case Study

Prepared by

The National Regulatory Research Institute

with the Cooperation of the

Public Utility Commissioner of Oregon

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## EXECUTIVE SUMMARY

This case was one of five selected for publication and broad distribution to demonstrate to public utility commissions how certain states have implemented innovative energy management and conservation programs. The Oregon energy conservation program was selected because of its skillful use of the legislative process and the implementation of a package of laws designed to address various elements of energy management and conservation.

Two major bills in that package require gas and electric utilities and other energy suppliers to provide information and assistance to residential space heating customers in connection with the financing and installation of weatherization services for homes. Other new laws provide for income tax credits for residential weatherization; special funds for weatherization by low-income, elderly persons; and the need to meet energy conservation standards to qualify for certain veterans' home loans.

Finally, an important piece of legislation creating a Domestic and Rural Power Authority represents an effort to obtain more federal electric power from Bonneville Power Administration facilities.

This case study devotes considerable space to a description and account of the strategies employed by the Public Utility Commissioner and the Oregon Department of Energy in the design, passage and implementation of a set of energy conservation bills. The following items are also described in some detail in this case study.

- The work of key personnel during the legislative year.
- The use of research to develop new legislative concepts in energy management and conservation.
- The development of support from public and private sector groups by means of education.
- Ways to cope with limited staff resources, political competition and strong individual differences.
- How to negotiate compromises acceptable to the greatest number of legislators and interest groups.

Also described in the case study report is how the Public Utility Commissioner and the Oregon Department of Energy have addressed problems of implementing the new package of laws. The two home weatherization bills pertaining to the gas and electric utilities and other energy suppliers require that these organizations submit their implementation plans

for approval by the appropriate state agency. While a number of these programs were still being finalized or reviewed, one large investor-owned electric utility company, Pacific Power and Light Company (PP&L), publicly announced an offer to provide weatherization services to its customers on an "indefinite loan basis" at a zero rate of interest.

The offer appeared to go beyond the requirements of the new law and the expressed intentions of other utility companies. As a result, the Commissioner and his staff had to evaluate the long-range benefits of the offer for Oregonians, compared with other alternatives. PP&L's announced justification for this type of weatherization program is that the energy conservation realized will reduce the Company's need to construct more expensive additional generating facilities and is considerably cheaper than other supply alternatives. On June 30, 1978, the Public Utility Commissioner of Oregon issued an order approving the PP&L proposal.

Finally, the case study report reviews current attitudes toward both the overall package of laws and the implementation of specific bills, including the PP&L Company offer. Because the new laws have only been in effect for less than a year, the results of the legislation cannot yet be adequately measured. Indeed, these may not become apparent until the early 1980s.

However, the lessons in strategy and tactics and the skillful use of the legislative process to get the package of bills enacted should have immediate value for those about to undertake a similar effort in their state.

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## CHAPTER 1 SELECTION OF OREGON

This report is a case study that describes the efforts of the Public Utility Commissioner of Oregon and the Oregon Department of Energy in their attempt to enact a series of "energy conservation bills" through the Oregon legislative Assembly. The process by which this occurred was the subject of investigation and examination by a case study team from The National Regulatory Research Institute (NRRI). Their findings are the subject of this report.

To understand better the case study program conducted by the NRRI, some background and introductory material is provided in the first part of this chapter. Methodology and a brief overview of the format used in the case study are also discussed. Careful examination of the material presented in this chapter will prepare the reader for the subject matter presented in the body of this report.

### The Background and Purpose of the Case Study

The primary purpose of this case study is to investigate and document an account of the energy management and conservation activities in the State of Oregon. This is accomplished by providing a description of how the State of Oregon has implemented new energy conservation programs. This case study does not endorse or prescribe the specific energy programs undertaken in Oregon. The focus, instead, is on the process as well as the specific programs used to achieve energy management and conservation goals.

The case study is intended to fill an existing need by state regulatory agencies and energy offices for information on how a specific state planned and implemented change for the purpose of energy conservation. Therefore, this report describes the various methods used by private organizations and public sector agencies in bringing about an energy conservation program in Oregon.

In order to meet this need, the investigation focuses on the problems encountered, the methods used for solution and the final energy conservation program that came about as a result of this process. The objective of this report is to identify the important factors that contributed to the adoption of an innovative energy conservation program in Oregon.

### Method of Investigation

Following notification of case study selection, the Public Utility Commissioner of Oregon, Charles Davis, was given a brief description of the methods and procedures to be used to conduct the on-site investigation. Commissioner Davis assigned his Deputy Commissioner as the liaison and main contact for the study.

In preparation for the on-site visit to Oregon, the case study team performed preliminary research using materials from The Ohio State University libraries and other sources. Based on this background research and adherence to the basic objective of the case study, which is to examine the process of change, a strategy was developed for conducting the on-site investigation. The process examined included identifying the problems that initiated action, the strategies that evolved to solve the problems and the programs that were created as a result of that effort.

The complexity of the Oregon energy conservation program required that contact be established with many organizations, agencies and individuals outside the influence of the Public Utility Commissioner of Oregon. A preliminary list of contacts was sent to the Deputy Commissioner asking for his opinion and assistance in arranging appointments. Arrangements were made for the case study team to visit Oregon the week of April 17-21, 1978. In most cases, appointments outside of state government were made by the on-site case study team.

During the week, the case study team made 22 contacts in Salem, the capital, and Portland, the largest city in Oregon and headquarters for many corporations and organizations important to the investigation.

A list of these contacts is found in Appendix A to this report. All responses determined relevant to the objectives of this study appear in this report. Unless otherwise noted, the statements were made to the NRRI case study team member during the week of April 17-21, 1978, and in subsequent telephone contact or letter correspondence.

An open format was used during the discussion sessions with each participant in the study. In most cases, the first topic of discussion was usually a description of the NRRI followed by the purpose of the case study. Once an understanding of the purpose of the meeting was reached, the contact persons were asked to provide a narrative of their involvement in the energy conservation legislation. Generally, the NRRI team tried to focus the discussion on the problems encountered, the process at work and how the matter was resolved from the contact person's viewpoint. All responses were taken to be those of the persons or the organizations they represented. In many instances, supporting documents and reports were provided to the case study team and where appropriate are cited in footnotes.

#### Oregon - Factors for Selection

The Oregon Public Utility Commissioner was visited by an NRRI staff member in January 1978, to determine the technical assistance needs of the Commissioner. As a result of that visit, the NRRI became aware of the progressive and innovative energy conservation program under way in the State of Oregon. This program was built on a base of several legislative bills each designed to address a specific element of energy conservation. Although the legislative process has been used in many other states to initiate new directions for energy management and conservation, the program in Oregon appeared to have many elements worthy of wider national attention. Based on these elements, the Oregon energy conservation program surfaced as the leading contender for a case study on residential energy conservation. The heart of the Oregon energy conservation

program can be found in a series of legislative bills passed by the 59th Session of the Oregon Assembly, which convened on January 10 and closed on July 5, 1977, three days short of establishing a new record for length. It was a busy session, for some 2,800 measures were introduced, approximately 100 of which were concerned with energy matters. The winter of 1976-1977 was also a time when the "energy consciousness" of Oregonians rose as the water level in the hydropower reservoirs fell due to severe drought conditions. In addition, Oregon has gained a national reputation as a state that has enacted progressive legislation. Within this unsettling environment, the Oregon legislature was able to produce a series of energy bills that provide the first indication of a unique and innovative energy management and conservation program. Brief summaries of each of the surviving energy bills passed by the Oregon house and the senate during that session lend support to this view.

HB 2157 requires the six investor-owned gas and electric utilities to provide weatherization services to their residential space heating customers. These services include: (1) information about home energy conserving actions; (2) on-site inspections resulting in cost estimates for various energy conservation measures; (3) arrangement of installation of insulation, weatherstripping, and storm doors and windows, as examples; (4) arrangement of financing through the utility or a commercial lending institution at a maximum 6½ percent interest rate. The difference between the 6½ percent interest rate and the market rate, up to 12 percent, for these types of loans will be made up by a tax credit to lending institutions. Elements of this and other weatherization programs will be coordinated between the Public Utility Commissioner and the Director of the Department of Energy.<sup>1</sup>

A reading of HB 2157 reveals that the legislation contains not only the basic essentials of a weatherization program but also several unique elements as well. The mandating of a pegged 6½% loan rate was

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<sup>1</sup>This summary of HB 2157 and other energy legislation cited in this chapter was compiled by the Oregon Department of Energy and distributed in the form of periodic summaries.

of interest as well as the implications of the manner in which the difference between the weatherization loan rate and the market rate was to be compensated. This feature immediately brings into play the concerns of financial institutions and investor-owned utilities and their responses to such a program. Note also the call for cooperation between the Public Utility Commissioner and the Oregon Department of Energy. After a full review of HB 2157, the NRRI had the first signal that the Oregon energy conservation program contained all the elements necessary for a successful weatherization program and contained features that could be transferred to other states.

A companion bill was also of great interest to the NRRI case study team.

HB 3265 requires that the 31 publicly-owned utilities and the over 300 fuel oil dealers provide weatherization services to their residential space-heating customers. These services include providing (1) information about home energy conserving actions; (2) on-site inspections resulting in cost estimates for various energy conservation measures; (3) a list of registered contractors near to the customer who provide weatherization services; and (4) information about low-interest loan programs available through lending institutions. Low-interest loans are only available to customers who participate in the energy supplier's weatherization service program. A maximum 6½ percent annual interest rate for weatherization loans has been specified in HB 3265. A tax credit to lending institutions will account for the difference between the 6½ percent and a maximum 12 percent market annual interest rate which otherwise may have been charged for these same types of loans.

HB 3265 appears to impose the elements of HB 2157 on the 31 publicly owned utilities and the approximately 300 fuel oil dealers operating in Oregon. This raises the question of why two separate pieces of legislation were required. In addition, the issue of public power versus private power in the Northwest and the strength of nonregulated utilities in Oregon make this piece of legislation particularly interesting for investigation. Again, a more in-depth reading of HB 3265 indicates that the Oregon approach to energy conservation was worthy of case study investigation.

Another bill highlights the issue of states' rights versus federal law in an attempt by a state to solve its electrical energy problem.

SB 320 creates a Domestic and Rural Power Authority (DRPA) to enable the State of Oregon to buy power from the Bonneville Power Administration (BPA) as a preference customer and in turn be able to supply investor-owned utilities in Oregon.

DRPA will be an independent state agency headed by a director appointed by the Governor. It will buy electricity at wholesale from BPA and market it at retail to residential and farm customers of investor-owned utilities. The PUC will regulate DRPA's retail sales just as it now regulates rates of investor-owned utilities.

DRPA may contract with each investor-owned utility for services of power transmission, power distribution, and system maintenance. The contracts are subject to PUC review, and contract disputes may be arbitrated by the PUC.

The PUC must determine the increase in cost to consumers of publicly owned utilities caused by DRPA's dilution of benefits from the federal hydro pool. A publicly owned utility may apply to DRPA for relief if the PUC determines that the customers of the publicly owned utility will be adversely affected by DRPA. DRPA will not serve customers within the service territory of a publicly owned or cooperative utility unless specifically requested by the utility.

The Domestic and Rural Power Authority (DRPA) concept offers a direct challenge by a state to the authority of a federal agency. The bill also raises questions of conflict with the Constitution. The leadership role spelled out for the Public Utility Commissioner of Oregon in such a scheme should also be of major interest. Note also the potential conflict that is set up between the PUC and the nonregulated utilities.

The possible impact of such a bill, due to become effective in March of 1979 if certain conditions are present, would be impossible to overlook. DRPA may prove to have a significant impact on energy management and conservation not only in Oregon but also for other states in the Northwest.

Other pieces of legislation, such as those given here, were relatively minor factors in the selection of Oregon as a case study but proved to be, upon further on-site investigation, important to understanding the total energy conservation program in the state.

HB 2701 allows a personal income tax credit for individual taxpayers who weatherize or who otherwise improve the energy efficiency of their principal residence or the principal residences of their renters, excluding mobile homes. The credit may not exceed the lesser of \$125 or 25 percent of the actual cost of purchasing and installing such items as caulking, weatherstripping, insulation, vapor barrier materials, timed thermostats, dehumidifiers, and storm windows and doors.

HB 2156 requires that in order to acquire a veteran's loan for a home built prior to July 1, 1974 (when state insulation standards went into effect for newer homes), the home must meet new "retrofit" weatherization standards set by the Department of Commerce. For a veteran, the cost of these energy conservation improvements can be added to the principal of a loan from the Oregon Department of Veteran's Affairs.

HB 2155 mandates lighting standards for all public buildings constructed on or after July 1, 1978. A voluntary lighting standard will be established for all existing buildings built prior to July 1, 1978.

SB 370 requires that the Energy Conservation Board adopt a voluntary energy efficiency rating system for single-family homes. Available January 1, 1978, the ratings can be used by realtors to aid those people buying or selling a home. For example, the more energy efficient a home is, the higher the rating and the more attractive it is to the potential buyer. The rating system itself was developed by the Energy Conservation Board, a section of the Department of Commerce. The Department of Energy will be responsible for publicizing the availability of the rating system and encouraging its use. The rating system was made available January 1, 1978.

The high level of interest during the 59th session of the Oregon legislature also produced a host of other energy-related bills worthy of brief mention.

SB 4 appropriates funds to the Department of Revenue for a low income elderly home weatherization program.

HB 3007 provides a \$50 refund for fuel and utility rate relief for low income elderly persons.

SB 477 provides loans up to \$3,000 for any Oregon veteran intending to install a solar, wind, or geothermal energy device.

SB 339 provides a tax credit to any Oregon homeowner who installs a solar, wind, or geothermal energy device.

Senate Joint Resolution 18 requires that the Extension Service at Oregon State University develop and distribute solar energy information to the public.

HB 3309 authorizes the Department of Commerce to establish voluntary energy conservation standards for the management of public buildings.

SB 665 authorizes individual electric meters for each unit of a multi-family residential building built after January 1, 1978.

SB 818 prohibits the sale of new gas-fired equipment not equipped with electric ignition devices starting January 1, 1979.

SB 572 establishes an Energy Conservation and Production Fund to provide loans for development of nonnuclear energy sources in Oregon.

In total, the Oregon legislature passed 17 measures that were directly related to energy management or conservation. Despite this duplication, the energy conservation record of the 59th Assembly is certainly one that commands closer examination.

The Oregon experience has national implications as well. This case study reports on the activities of a state, which has taken a leadership role in energy conservation, even before a national energy bill has passed the Congress. Much of Oregon's energy conservation effort either matches or exceeds the requirements expected to be specified in the National Energy Act.<sup>1</sup> As such, the lessons learned

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<sup>1</sup> Direct financing and installation of insulation by the utility is specifically prohibited in the Senate version of the National Energy Act. (See Section 212(b)(1).) However, the Senate version states that prohibitions do not apply if a utility is already engaged in such a program on the date of enactment of such legislation.

from the Oregon experience should be transferable to other states and jurisdictions in the United States.

The Oregon energy conservation program, therefore, is presented as an example of how organizations and individuals from the public and private sector competed, interacted, compromised and resolved their differences to produce what may be, according to one observer, "conceptually the finest energy conservation program in the country."<sup>1</sup>

### Organization of The Report

The remainder of this case study examines the chronology of events that brought about the Oregon energy conservation program. The intent here is to describe and report as accurately as possible the environment and conditions that led to the decisions taken by the major participants.

Chapter 2 takes the reader from the last years of Governor Tom McCall's two-term administration (1968-1976) through the first two years (1976-1977) of Governor Robert Straub's term in office. It closes on July 5, 1977, the last day of the 59th session of the Oregon Assembly. This chapter provides the background, identifies the participants and establishes the position of several organizations on the energy conservation issue.

The summer of 1977 to the spring of 1978 was a time for adjustment and program implementation by those most directly affected by the recently passed energy bills. As such, chapter 3 describes the postlegislative environment which begins with all parties facing a steep learning curve in the autumn of 1977 and ends with the PP&L's "zero interest-deferred principal" home weatherization plan submitted to the Oregon Public Utility Commissioner in April of 1978.

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<sup>1</sup>Harold B. Olim, Director of Architectural and Construction Research, United States League of Savings and Loan Associations, Chicago, Illinois. Statement in a telephone conversation on April 28, 1978.

Reactions and responses from the main participants are the subject of chapter 4. What unfolds here is the candid response of individuals and the organizations they represent to the challenges created by the recently passed energy legislation. The reactions of the financial community, weatherization contractors and fuel oil dealers as well as private and public utilities in Oregon are also presented.

The final chapter is by design brief. Since the primary purpose of this case study is to document the process of change, judgment of the success or failure of the Oregon effort in energy conservation is beyond the scope of this investigation and, in any event, cannot be made at this time. However, chapter 5 does provide some concluding commentary and suggestions for future investigation.

CHAPTER 2  
THE DEVELOPMENT OF  
ENERGY CONSERVATION LEGISLATION

The important developments in energy conservation that have occurred in Oregon are the result of several recent historical events, mostly economic but some political. These events are recounted in this chapter in order to provide a background for those from other states interested in pursuing opportunities for developing similar programs and strategies by public utility commissions, state energy departments and governors' offices.

The first part of this chapter describes the growing awareness by Oregonians that energy is not inexhaustible and must be conserved. Droughts, the petroleum embargo, and early legislative and voluntary action were major factors in this process of public recognition of the "energy crisis" during a period that roughly extends from 1973 to 1976. As a result, Oregonians shared a common bond with the rest of the country as the impact of increased energy consumption and the increasing costs of adding new generating capacity began to influence political behavior.

Next, the chapter covers the research, drafting, introduction and passage of a set of energy conservation bills through the Oregon legislature. Principal participants in this process are introduced, and their activities in gaining support for particular bills are described. Particular emphasis is placed on strategic placement of personnel and skillful negotiation and compromise in the face of intense political competition and other obstacles during the 1977 legislative year in Oregon.

The Recent Past - 1973 to 1976

For many years, citizens of Oregon have enjoyed inexpensive and plentiful electric energy through access to hydropower generated by dams constructed on the Columbia River system. However, by early 1975, the likelihood of this "cheap energy" condition continuing in the future was

already being questioned. In a letter to his constituents included in the preface to a booklet published in 1977 titled Saving Energy Saving Money, Governor Robert Straub summarized the situation as follows:

For nearly four decades, most Pacific Northwest power consumers have had access to electricity generated at dams on the Columbia River system. Until recently, this hydro generation has produced more than enough electric energy for our homes, schools, hospitals, businesses and industries. And, it's been a bargain. For example, 1,000 kilowatt hours of electricity cost most Oregon households about \$15. New Yorkers pay about \$75 for the same amount of electricity. Not surprisingly, Oregonians have taken advantage of low-cost electric power. The average Oregon household uses twice as much electricity as typical homeowners elsewhere in America.<sup>1</sup>

Even before this assessment, certain events occurred that were a forecast of changing energy environment. Early in 1973, a severe drought causing a lowering of reservoir levels first began to make customers aware of potential energy shortages. Curtailment measures were put into effect, including an order by Governor McCall calling for a ban on most outdoor advertising display lighting in the state.<sup>2</sup> However, heavy rain in the fall of 1973 seemed to end the need for any conservation measures.

While recovering from this unusual experience with a drought, Oregonians, shortly thereafter, suffered from the pinch of gasoline shortages resulting from the Arab embargo in late 1973 and early 1974. This time Governor McCall responded to the problem with a widely noted plan that called for the allocation of gasoline to motorists on the basis of automobile license plate numbers. Cars bearing odd or even license numbers were served on alternate days of the week until the need for this restriction no longer existed. Again, the crisis passed almost as quickly as it arose and except for higher gasoline prices the state returned to normal.

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<sup>1</sup>Governor Robert Straub, "A letter to the citizens of Oregon." Saving Energy Saving Money (Salem, Oregon: Oregon Department of Energy, n.d.).

<sup>2</sup>Governor Tom McCall served two four-year terms, from January 1967 to January 1975. Oregon has a two-term limitation for the office of governor.

Neither the cost of energy nor energy conservation was a major issue in the 1974 gubernatorial campaign which brought Democrat Robert W. Straub into the statehouse as governor. The state had satisfactorily recovered from the earlier drought problem and adjusted to higher gasoline prices. However, new information supplied by the Oregon Department of Energy convinced Governor Straub that Oregonians were still using energy faster than could be produced by existing energy sources.<sup>1</sup>

One of the first responses to the growing awareness of rising costs was the establishment of a new Oregon Department of Energy in mid-1975. The agency was organized to centralize statewide energy policy. One major responsibility of the department, as identified in their enabling legislation, was to produce and distribute an annual energy consumption forecast for the State of Oregon to serve as a guide both to consumers and producers.<sup>2</sup> This action was quickly followed in August of 1975 by the formation of a 21-member task force charged to develop an energy conservation plan for the state. The Task Force on Energy Conservation, consisting primarily of private citizens, was given 90 days to put together a plan that would outline conservation measures that could reduce Oregon's short-term demand for energy.<sup>3</sup>

Among the task force recommendations were several relating to legislative proposals or areas for further study in which the Public Utility Commissioner,<sup>4</sup> in addition to the Director of the newly formed Department of Energy, was requested to act. Further, other groups,

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<sup>1</sup>Governor Straub's energy policy statements during this period are based on material presented in the first annual report of the Oregon Department of Energy. Oregon's Energy Future, First Annual Report (Salem, Oregon:Oregon Department of Energy, January 1, 1977), pp. 1-3.

<sup>2</sup>Section 469.070 of the enabling legislation creating the Oregon Department of Energy describes in detail what the Oregon legislature expected in terms of energy forecasting.

<sup>3</sup>Report to Governor Bob Straub - Task Force on Energy Conservation (Salem, Oregon:November 24, 1975).

<sup>4</sup>The Oregon Public Utility Commission is the only state regulatory agency in the United States that has a single commissioner charged to regulate the utility and transportation industries.

including various ad hoc committees and the Oregon Environmental Council,<sup>1</sup> concerned with the energy problem and possible impacts of measures to address the problem, held conferences and released a wide range of recommendations and proposals for action.

#### The First Strategy - Challenge The Preference Clause

The Public Utility Commissioner of Oregon responded to the emerging energy problem by pursuing a strategy that would increase the short-term supply of electric power.<sup>2</sup> Of particular interest to the Commissioner was the tangled legal question of whether or not the so-called Preference Clause could be challenged and upset to permit more federal electric power to come into Oregon from the Bonneville Power Administration (BPA) facilities.<sup>3</sup> It was felt that there were serious inequities in the present arrangement where the BPA could allocate more than three times as much power to the State of Washington than it did to the State of Oregon.

The Commissioner had discussed increasing the Oregon allotment and the general "irrationality" of the Preference Clause with BPA authorities

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<sup>1</sup>Oregon Environmental Council - a lobbying group speaking for "trees, beaches, wild life, environmental planning, environmental education, population stabilization, pollution control and for all of Oregon's unmatched natural environment."

<sup>2</sup>Charles Davis, Commissioner, assumed Commissionership April 7, 1975, current term ends January 1979.

<sup>3</sup>The term "Preference Clause" appears in the 1937 Act which created the Bonneville Power Administration. "The Administrator shall at all times in disposing of electric energy generated at said project, give preference and priority to public bodies and cooperatives." For an excellent current review of issues on the Preference Clause, see Jeffrey P. Foste, Alan S. Larsen, and Rodney S. Maddox, "Bonneville Power Administration: Northwest Power Broker," Environmental Law 831 (1976), reprinted by the Natural Resources Law Institute, Portland, Oregon.

but received very little encouragement from that source. Despite the odds against overturning the Preference Clause, the Commissioner was determined to pursue the matter. Accordingly, in early 1976, he hired a special assistant, who previously had been associated with an Oregon environmental group.<sup>1</sup>

The first assignment of the special assistant, and his highest priority activity, was to examine the legal complexities of the Preference Clause. Under the terms of the Preference Clause, the federal government enjoys the right to discriminate in disposing of its property, including electric power, so long as such discrimination is not based on racial or other such illegal prejudice. The only approach which seemed immediately feasible was to bring suit against the Bonneville Power Administration to overturn the clause. Success in such a suit, it was thought, would benefit the Oregon investor-owned utilities and bring more low cost federal electric power into the state. However, it quickly became apparent that such legal action would be time consuming, since constitutional issues were involved.

By the early part of 1976, it was recognized that since such legal action as described would be futile, a more promising approach might be to create a state energy agency to serve as a "public body" wholesale customer and therefore be eligible for preferential treatment for power from the Bonneville Power Administration. As a first step in that direction, a group of advisors to the Commissioner collaborated in drafting SB 320. This bill created a Domestic and Rural Power Authority (DRPA) to enable the state to buy power from the Bonneville Power Administration as a

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<sup>1</sup>The special assistant, Leroy Hemmingway, was Legislative Director for the Oregon Environmental Council and before that practiced law with a Portland firm. After a special assignment with the Governor's office he was named Deputy Public Utility Commissioner on July 18, 1977.

preference customer and sell that power to customers of investor-owned utilities in Oregon. SB 320 was eventually passed during the 1977 legislative session and becomes effective March 1, 1979; but only if Congress fails to enact a regional power bill, and the PUC has determined that implementation of DRPA will result in substantial benefits to the citizens of Oregon.

The only other alternative that appeared to have merit was to initiate action for complete takeover of the investor-owned utilities by the state and thus take advantage of the Preference Clause by this means. This alternative was laced with legal complexities and economic ramifications of considerable magnitude. It was apparent, moreover, that this strategy would have been unpopular because of the extremely high investment that this would entail, since the state would have been compelled to compensate the utilities at replacement costs.

#### The Governor's Energy Package

In preparation for the upcoming biennial legislative season, the Public Utility Commissioner's staff and the Department of Energy began drafting several other energy-related bills that along with SB 320 became identified as the "Governor's Energy Package." The bills were designated as HB 2155, HB 2156 and HB 2157. HB 2155 mandates lighting standards for all public buildings constructed on or after July 1, 1978 and states that a voluntary lighting standard will be established for all existing buildings prior to July 1, 1978.

HB 2156 states that in order for a veteran to obtain a mortgage loan for a home built prior to July 1, 1975 (when state insulation standards went into effect for new homes), the home must meet new "retrofit" weatherization standards set by the Oregon Department of Commerce. HB 2157, requiring participation by investor-owned utility companies and the Public Utility Commissioner in achieving weatherization of homes in Oregon, is a major element of this case study and is discussed in greater detail in the following paragraphs.

In addition to the DRPA legislation, the major interest of the Governor's Office during the fall of 1976 was HB 2157. This bill requires the investor-owned gas and electric utilities to provide weatherization services for their residential space heating customers. The services proposed in the bill included information on home energy conservation practices, on-site inspections and cost estimates, and arrangement for installation and financing assistance. The concept of what eventually became HB 2157 received an unenthusiastic response from the business community. One major commercial bank indicated that while favoring energy conservation through weatherization, it was negative about the financing aspects of the proposed legislation. Reportedly, the bank was not particularly interested in handling small loans, say under \$1,500, such as would be the case if the bill were to pass.

At the same time, similar investigatory approaches by the Governor's Office were made to large investor-owned utility companies in an early effort to line up their support for the bill. The reasons for seeking early support by utilities for the Governor's Energy Package at the time were as follows:

- (1) It was felt that the utility companies would gain increased credibility in their efforts to espouse conservation through weatherization. Indeed, consumers would see utility companies endorsing a position supporting and sponsoring actions that would result in reduction in the sale of the utilities' main product--energy.
- (2) The utilities are often perceived by the public as having competence and expertise in technical areas such as energy conservation and weatherization programs. In other words, if the electric or gas company installs the insulation, the customer reasons that it will be of high quality.
- (3) The utility companies maintain, through the monthly billing process, a continuing and regular contact with all sectors of the public, and such an arrangement would be extremely useful in communicating to the energy-consuming public the advantages of the legislation.

Unfortunately, reactions in several quarters were found to be unenthusiastic. For example, an executive of a utility company said that the truth in lending requirement of HB 2157 would make financing of weatherization by utilities for homeowners too complex and therefore difficult to administer.

Whether or not these expressions and opinions about the proposed legislation and lobbying efforts by the Governor's Office were truly representative and accurate is, of course, difficult to document. There are those who say today that if they had been consulted during the drafting of the legislation, the course of events could have been changed. The Commissioner's assessment on that effort was that the investor-owned utilities were "lukewarm to opposed" to the Governor's Energy Package, including the concept of DRPA, while the municipally owned utilities and rural cooperatives seemed to be totally opposed to the plan.

Nevertheless, through the remainder of 1976, the Governor's Office continued with the final draft of the legislation, bolstered, by the support of the Governor, the Public Utility Commissioner and the Oregon Department of Energy.

#### The 1977 Legislative Session - An Overview

Oregon's legislature convenes regularly in the state capitol at Salem the second Monday in January in each odd-numbered year. No limitation is set on the length of the session but, within recent years, adjournment has come after five to six months. The governor or the legislative assembly is empowered to convene special sessions; the most recent of these was in 1975 and lasted one day. In 1977, the Oregon legislature convened on January 10; the session finally ended July 5, three days short of the record 180-day session set in 1973. As in 1975, the Assembly was governed by substantial Democratic majorities in both houses, and key committees were little changed from the previous session. Although many state legislatures can lay claim to the distinction

of generating a record number of bills during a legislative session, perhaps Oregon stands alone in the volume of legislation during the last quarter of a session. As a result of a strict adherence to adjournment by Independence Day, the last weeks of the session result in marathon meetings and the rapid movement of bills through the legislative process. For example, during the 1977 session, Oregon lawmakers introduced a record 2,812 measures and passed or adopted more than a third of these - 978. Operating at a slow and deliberate pace during the first four months of the session, the 59th Assembly sped up following the failure of an important piece of school finance legislation. During the last month, the legislature passed or adopted nearly 700 measures, 500 of these in the session's last 20 days.

The Governor's Energy Package was submitted with uncertain support from the utilities and the financial community. The package moved through the legislature where a staggering number of proposals is common, but where the process is made more complex by the demands of the "open committee" system. With the support of the Governor's Office, the legislative energy bills were introduced for first reading on January 10, the first day of the session. The legislative process in Oregon is similar to procedures used in many other states. Appendix B of this report presents a brief description of the legislative process in Oregon.

The Governor's energy legislation was turned over to both the Speaker of the House and the President of the Senate for introduction as bills of special interest to the Governor. Sponsorship by any other legislators was not required. Following the first reading, HB 2157 (investor-owned utility weatherization program) was referred to the House Environment and Energy Committee for study on January 11, followed by HB 2156 (veteran's home weatherization program) and HB 2155 (lighting standard) in the next days. The latter two bills moved rapidly and made their way to the Senate by the end of March. HB 2156 was passed on March 16 and HB 2155 on March 29. However, HB 2157 remained in committee.

Faced with what appeared to be the onset of another severe drought in the spring of 1976, Oregonians again became conscious of potential energy shortages. The changing attitudes and recharged concern by the public about energy problems appeared to influence the behavior of the legislature to take action.

#### Introduction of HB 3265

Despite the deliberate and slow pace set by Oregon lawmakers during the first three months of the term, an increased number of legislators suddenly began to support the concept of energy conservation. By the middle of April, over one hundred energy conservation bills had been introduced in the 59th legislative Assembly. At least six of those bills defined comprehensive programs for weatherizing Oregon homes.

The supporters of the Governor's Energy Package concentrated on moving the various bills through the legislature and were surprised and unprepared for the next series of events in the process. On April 14, a Republican representative introduced HB 3265 that was designed to go beyond the provisions of HB 2157. The introduction of HB 3265 rekindled the debate as to alternative methods and approaches to a home weatherization program. Careful examination of the features of each bill will reveal why two competing home weatherization programs were being proposed in Oregon.

The major difference between these two bills was that the original version of HB 3265 called for the sale of general obligation bonds to raise moneys for a state controlled energy conservation loan fund. It also required all energy suppliers, including fuel oil suppliers and public- and investor-owned utilities, to provide technical advice and inspections of those dwellings for which they were the primary providers of space heating. HB 2157, on the other hand, limited its requirements to investor-owned electric and gas utilities and did not require a state-administered fund to provide low-interest weatherization loans for homeowners and renters. Financing was to be provided by either the utility or a financial institution.

The utility companies,<sup>1</sup> the Oil Heat Institute of Oregon<sup>2</sup> and the Oregon financial community,<sup>3</sup> expressed concern at various times about certain provisions of both bills. For example, PP&L was concerned with the financing requirements of the program as described in HB 2157. Portland General Electric Company, on the other hand, wished to provide services to electric space heating customers exclusively. Further, the Oil Heat Institute did not want to see electric utilities offering any services to oil heat customers. And the financial community, although supporters of home weatherization, objected to the utilities offering financial services, that were felt to be in the domain of the commercial banker.

HB 2157 also contained a financing provision which specified a 6½% interest ceiling on loans to customers. The difference between the 6½% loan rate and the actual market rate, to the maximum of 12%, will be made up by a tax credit to lending institutions. The market rate is interpreted to be the average annual yield on a home modernization loan. The Oregon financial community found this arrangement to be satisfactory, although the bankers were unsure to what degree the average annual loan yield would fluctuate over time. In general, the savings and loan industry found the provision slightly more attractive than the bankers, since this type of loan would represent new business. Although financing through a lending institution is specified in the bill, it does not mandate such

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<sup>1</sup>The utility companies most active in the legislative process were found to be Pacific Power and Light Company, Portland General Electric Company and Northwest Natural Gas Company. Appendix C of this report presents a profile of all six investor-owned utilities operating in the State of Oregon.

<sup>2</sup>The 50-year-old Oil Heat Institute of Oregon is located in Portland. It has approximately 300 members representing 80% of the individual distributors and 95% of the total fuel oil sales in Oregon.

<sup>3</sup>The position of the Oregon finance community is reflected in comments taken from representatives of the Oregon Bankers Association and First National Bank of Oregon located in Portland and the Oregon Savings and Loan League.

an arrangement. A utility could use some other means of financing that bypasses lending institutions through the use of internal funds.<sup>1</sup> HB 2157 also states that any program offered by an investor-owned public utility must be approved by the Public Utility Commissioner before it becomes effective.

HB 2157 subsequently received the support of investor-owned utilities after an early revision in the bill that came as a result of a series of meetings between interested groups and the Department of Energy.<sup>2</sup> By allowing financial institutions to make the loans required by HB 2157 and removing oil heat customers from the bill, all known objections raised at that time were resolved.

Satisfied with the resolution of these issues, the interested groups turned their attention to HB 3265. The utilities voiced no objections to House Bill 3265, but the Oregon Savings and Loan League<sup>3</sup> and the Oregon Department of Energy presented objections to the concept of financing with general obligation bonds. In addition, the Oregon Department of Energy objected both to the creation of a loan processing bureau in the department, and to the need to wait until a constitutional amendment was passed authorizing the use of general obligation bonds for financing of weatherization services before the program could be initiated.

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<sup>1</sup>HB 2157, Section 6B (1). In arranging financing for residential customers for weatherization services pursuant to subsection (5) of section 4 of this 1977 Act, the public utility may either use its own funds for loans to customers or arrange for financing for customers through one or more commercial lending institutions.

<sup>2</sup>By this time the Oregon Department of Energy had solved its staffing problems and participated as a strong partner in the lobbying efforts for the Governor's package. Ms. Margery Harris, Conservation Supervisor, was the staff person most active during this phase of the program. She continues to play a lead role in the administration of energy rules and regulations especially under requirements set down in HB 3265.

<sup>3</sup>Oregon Savings and Loan League, headquartered in Portland. The Oregon League has 31 members, with over \$5 billion in assets.

The spirit of compromise started to influence both sides during the first week of May. The proponents of HB 3265 agreed to delete the use of general obligation bonds for financial weatherization programs, and to replace it with a tax credit to subsidize low-interest loans by lending institutions similar to that offered in HB 2157. The agreement to compromise on this issue proved to be a significant first step in the reconciliation of differences between the two groups.

#### HB 2157 and HB 3265 - A Comparison of Differences Before Compromise

The differences between the two bills were significant, and the proponents for each remained steadfast in the support of their legislation. At this time it would be helpful to examine the major features of the two bills as they were before the two sides agreed to compromise. This comparison shows the status of the two bills in the legislative process about the middle of May 1977.

Information on Weatherization Services. The two bills do not differ on this matter. In both bills, the utility or the energy supplier is to make information available on weatherization services, either to all customers as in the case of HB 2157, or to all space heating customers as required in HB 3265.

Energy Conservation Inspection (Energy Audits). Again, there is no basic difference between the two bills. Either the utility or the supplier was to provide assistance, advice and cost estimates for weatherization.

Weatherization Services. The utility is to provide weatherization services up to \$2,000 per customer according to HB 2157. Under HB 3265, the energy supplier is simply required to provide a list of contractors within close proximity to a customer. The customer is to deal with the contractor directly. The energy supplier is not responsible for the quality of the work supplied by the contractor.

Quality of Weatherization Services. Under HB 2157, the utility must ensure that services were performed in a workmanlike manner and that the installation was completed satisfactorily. On the other hand, HB 3265 simply called for the supplier to develop and provide a list of approved contractors to customers.

Financing Weatherization. Under HB 2157, the customer was allowed to pay for services over a reasonable period of time with the interest rate determined by the Public Utility Commissioner. Under HB 3265, a supplier was simply required to provide the homeowner with information on low-interest loans offered by lending institutions. In short, HB 2157 requires the utility to provide or arrange financing, and HB 3265 left arrangements for financing up to the customer.

Further, under HB 2157, if the utility arranged financing through a lending institution, it must act on behalf of the customer, reimbursing the lending institution for the difference between the market interest rate and the rate allowed by the Public Utility Commissioner and, at the same time, guaranteeing payment of the principal. Under HB 3265, commercial lending institutions are asked to provide loans voluntarily to homeowners at a  $6\frac{1}{2}\%$  annual rate of interest, with the difference between the low-interest loan and the market rate made up through a tax credit subsidy from the General Fund.

Repayment of Loan. Under HB 2157, the customer is permitted to repay the loan via the regular month's billing from the utility company; whereas under HB 3265, the customer is required to arrange financing and repayment separately with the lending institution of the customer's choice. Thus HB 2157, as proposed at that time, was essentially a "one-stop" program, while HB 3265 required the customer to work with the supplier, contractor and lending institution separately.

Administrative Costs. HB 2157 provided for recovering administrative costs and interest rate differentials by means of increased utility rates, whereas HB 3265 did not specify a method.

Program Review. Implementation programs of investor-owned utilities were to be submitted to the Public Utility Commissioner for approval under HB 2157, whereas under HB 3265 the programs of energy suppliers were to be submitted to the Oregon Department of Energy. The significant difference here, is that the Public Utility Commissioner has direct jurisdiction over the investor-owned utilities while the Director of the Oregon Department of Energy does not have full enforcement power over the more than 350 energy suppliers and 31 publicly owned utilities required to submit their implementation programs for approval.

In short, the significant differences between the two bills were in the customers who were to benefit, the degree of supplier participation and the method of weatherization financing. By the latter part of May, these differences finally were reconciled but not without difficulty in the process. As noted previously, the sponsors of HB 3265 agreed to drop general obligation bonds as a means of financing the program but insisted that a state subsidy be provided to keep the interest rate low. The funding mechanism for the investor-owned weatherization program was left to the discretion of the Public Utility Commissioner.

Positions on these issues remained polarized, with HB 3265 supporters unwilling to permit their bill to become a vehicle for imposing requirements exclusively on the nonregulated utilities and the oil dealers but not on the investor-owned utilities. Finally, with the intercession of the Governor, along with spokesmen for the financial community, the Oil Heat Institute and others, compromises were reached involving other unrelated legislation; and the bills moved into the Oregon Senate.

Finally, after three readings, several referrals to the Senate Energy and Environment Committee, and continued participation by lobbyists representing both sides of the controversial provisions, both bills were passed in the Senate on June 28, and the governor signed both bills on July 28 to be effective that same date.<sup>1</sup>

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<sup>1</sup>The final version of HB 2157 and HB 3265 can be found in appendices D and E of this report.

## Other Weatherization Bills

In the meantime, a number of other bills relating to energy conservation and weatherization were passed but not with the controversy and compromise surrounding HB 2157 and HB 3265. Some of the bills were part of the Governor's original Energy Package, while others were drafted and introduced by individual legislators.

One other bill, SB 371, established requirements for investor-owned utilities and other energy suppliers. This bill required energy suppliers producing, delivering, transmitting or furnishing heat, light and power to provide energy conservation information services to homeowners. This service was to include answers to questions from the general public concerning energy conservation and energy-saving devices, to provide inspections and to make suggestions concerning the construction and siting of both buildings and residences.

Under SB 371, the Public Utility Commissioner oversees the implementation of the energy conservation information services provided by investor-owned utilities, and the Director of the Department of Energy prescribes rules for nonregulated utilities and oil heat dealers supplying these information services. However, the requirements stated in SB 371 were already adequately stated in HB 2157 and HB 3265, so the language in this statute was modified.

Three other bills, which are discussed in the following paragraphs, addressed the general topic of weatherization as a means of achieving energy conservation, although the direct participation of energy suppliers was not required. All three were supported and lobbied for by the Public Utility Commissioner, the Governor's Office and the Oregon Department of Energy. These bills and the general substance of their provisions are important in gaining a better understanding of the legislative process which brought about the energy management and conservation in Oregon.

## HB 2701 - Tax Credit Weatherization Program

HB 2701 allows a personal income tax credit for individual taxpayers who weatherize or otherwise improve the energy efficiency of their principal residences, excluding mobile homes. Landlords may receive the credit for weatherizing their rental property, as long as the property is the principal residence of their renters. Only one credit may be claimed in any tax year. The credit allows 25% of the actual cost of the installation and materials up to a maximum of \$125 to be claimed as a credit against state income taxes.

## HB 2156 - Veteran's Home Weatherization Program

HB 2156 was one of the measures included in the Governor's package. It states that in order to acquire a veteran's loan for a home built prior to July 1, 1974, and purchased after October 1, 1977, the new home must meet new "retrofit" weatherization standards set by the Oregon Department of Commerce. The cost of these energy conservation improvements can be added to the principal of the loan from the Oregon Department of Veteran's Affairs.

After HB 2157, HB 3265 and SB 320, the next most important piece of legislation to the energy conservation legislative effort was HB 2156. For an appreciation of the importance of this bill for energy conservation strategy in Oregon, some background information is in order.

Following World War II, the state put up some \$750 million in bonds to fund home loans for veterans. Accordingly, the Oregon Department of Veteran's Affairs that administers the funds has over the years become a very powerful agency. It is one of the largest home mortgage lenders in the United States and competes with private lenders for residential customers. Testimony prepared by the Department of Energy showed that, because of the number of homes directly impacted by the VA loan program, HB 2156 would present an excellent vehicle for achieving substantial energy conservation goals through weatherization.

It was estimated that 53% of all homes financed through the Department of Veteran's Affairs were in need of weatherization improvements, or 23,760 single family homes. The testimony continued with calculations to support the claims for substantial energy and dollar savings, to be derived from the proposed weatherization improvements for veterans' homes. This piece of legislation is an excellent example of how Oregon used the uniqueness of a local situation in order to bring about energy conservation. The Governor signed HB 2156 on July 15, effective the same date.

#### SB 4 - Elderly Low-Income Home Weatherization Program

SB 4 appropriated \$4 million to the Oregon Department of Revenue for a low-income elderly home weatherization program. In order to qualify for up to \$300 reimbursement for weatherization expenses, the applicant must be 60 years old or older on January 1, 1977, and have applied for, and received, an owner property tax refund in 1977 based on 1976 income and taxes. In addition, the January 1, 1976 assessed value of the applicant's home must be less than \$30,000 and the annual household income less than \$7,500.

#### Weatherization Bills That Failed

A total of seven other bills dealing broadly with the subject of weatherization failed to pass in the 59th Oregon Assembly. Six did not pass in the House or Senate Environment and Energy Committee, and the seventh one was tabled in the House Trade and Economic Development Committee. For the most part, these bills tended to overlap other bills that were passed, or they failed because they were generally unacceptable. One, for example, permitted a deduction of up to \$500 from state personal income tax for thermal insulation, while another allowed credit against personal income tax in the amount equal to the lesser of 50% of the amount the taxpayer paid for insulation materials for his dwelling or \$100. Finally, another would have established a minimum standard for insulations as R-19 for new buildings constructed after the effective date of the new statute. However, all of these bills were tabled after a comparative analysis with HB 2701.

## Other Energy Conservation Legislation

The closing days of the session also brought passage of HB 2155 that mandates lighting standards for all public buildings constructed on or after July 1, 1978. SB 370 is also related to increased energy efficiency, requiring that the Energy Conservation Board adopt a voluntary energy efficiency rating system for single family homes. First made available in January 1978, the ratings are to be used by realtors to aid those people buying or selling a home. For example, the more energy efficient a home is, the higher the rating and the more attractive it would be to the potential buyer. Although that is the intent behind SB 370, there have been problems arriving at the best system since the statute was enacted.<sup>1</sup>

### Summary

The 59th Assembly of the 1977 Oregon legislature was unusually active and productive, particularly in the area of energy conservation. With respect to the various bills discussed, and especially HB 2157 and HB 3265, the session was characterized by a great deal of competition among bills, politics, personality conflicts, rigorous attention to detail, persistence, dedication, negotiation and compromise.

Many of these characteristics are probably apparent as well in the legislative activities of other states. However, one lesson from the Oregon experience may be that if the legislative process is to bring about energy conservation, the rules and working procedures of the legislature must be clearly understood and followed. Further, those state regulatory agencies that plan to take the legislative route to bring about energy conservation must be prepared to deal with obstacles

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<sup>1</sup>The Executive Officer, Oregon State Home Builders Association, located in Salem, Oregon, was perhaps the most vocal. According to SB 370, ratings of a home are based solely on weatherization. The Executive Officer countered by saying that family lifestyle must be taken into account.

and to capitalize on those unique opportunities or situations that exist in their particular state. The focus on the discriminatory Preference Clause and the number of single family homes financed by the Oregon Department of Veteran's Affairs are two cases in point.

In Oregon, for example, knowledge of the legislative process combined with skillful lobbying, wise use of the Governor's Office, well-timed coordination of activities between the Office of the Public Utility Commissioner and the Department of Energy, strategic assignment of skilled personnel and enlistment of the support of influential private sector groups - including consumers, bankers and energy suppliers - were vital in surmounting such obstacles as insufficient agency staffing, overlapping agency responsibilities, political competition and personal rivalries.

Perhaps the most significant lesson to be learned from this phase of the Oregon experience is to realize that energy conservation, as defined in HB 2157, cannot be achieved solely by investor-owned utilities and the Public Utility Commissioner. Although HB 3265 has similar objectives as HB 2157, it points out the need for including coverage of customers served by oil heat suppliers, municipally owned electric companies and rural cooperatives. Therefore, the two bills in combination were able to provide weatherization services to almost all consumers of energy in the State of Oregon.

It is also important to point out that HB 2157 allowed the Public Utility Commissioner considerable latitude in the administration of the weatherization program. It was the intent of those drafting the bill to give the Public Utility Commissioner discretion as to the rules and procedures to be used in the approval process for a weatherization program submitted by an investor-owned utility. The law as now written allows the Commissioner the flexibility to administer the program through rule-making procedures or the rate case process. Similarly, the treatment of the program by the utility either as an investment

or as an expense is also decided by the Commissioner. This flexibility will become more evident in a later chapter that describes the Commissioner's ruling on the weatherization program submitted by PP&L.

Following adjournment of the legislature, the Commissioner's special assistant returned from the Governor's office and assumed duties as Deputy Commissioner on July 18, 1977. One of his major responsibilities was to oversee the implementation of HB 2157 while the staff of the Oregon Department of Energy turned their attention to the administrative requirements of HB 3265.

CHAPTER 3  
THE POSTLEGISLATIVE ENVIRONMENT

The adjournment of the 59th legislative Assembly on July 5, 1977, offered only a slight break in the rapidly developing course of events. During the remaining weeks of July, the Governor signed into law all the energy bills passed by the legislature. On July 28, HB 2157, the investor-owned weatherization program, and HB 3265, the publicly owned utilities and oil heat weatherization program, were signed into law by the Governor. This chapter concentrates on describing the efforts made by the Public Utility Commissioner, the Oregon Department of Energy, the investor-owned utilities and several other organizations in their attempt to comply with the requirement of the new laws.

The time period covered in this chapter is brief, but the developments that occurred are important in gaining a better understanding of how Oregon developed the administrative procedures for implementing HB 2157 and HB 3265.

The first part of the chapter describes events and issues that surfaced as a result of developing implementation plans for HB 2157. In a similar manner the major issues concerning the implementation plans for HB 3265 are described. The chapter ends with the PP&L "no interest-deferred principal" weatherization program proposal submitted to the Public Utility Commissioner in April 1978.

Implementation Efforts For HB 2157 - Investor-Owned Utilities  
Weatherization Program

Under the terms of HB 2157 as finally enacted, the six investor-owned gas and electric utilities were required to submit descriptions of their planned weatherization programs for approval by the Public Utility Commissioner within 90 days of the effective date of the statute.

Northwest Natural Gas Company was the first to respond, submitting a comprehensive plan on August 18, 1977. The Northwest plan was submitted before any administrative procedures and guidelines were developed by the PUC.

Northwest's presentation covered in detail an outline of the program proposed and included the following:

- (1) weatherization information to consumers;
- (2) provision of technical advice;
- (3) a description of weatherization services provided;
- (4) the pricing policy on sales of the weatherization services to customers;
- (5) a description of how the weatherization services were to be financed;
- (6) the treatment of cost and revenues for cost-of-service purposes;
- (7) the implementation timetable and manpower requirements;
- (8) field conservation representative training;
- (9) criteria for selecting weatherization materials and contractors;
- (10) relevant other information.<sup>1</sup>

The other five investor-owned utilities (California-Pacific Utilities Company, Idaho Power Company, Pacific Power and Light Company, Portland General Electric Company and Cascade Natural Gas Corporation) also submitted implementation plans well within the prescribed time frame. Representatives from the six utilities visited the Office of the Public Utility Commissioner to present their plans for approval to assure reasonable uniformity between various companies. Copies of the first round of submissions to the PUC were also distributed to other state agencies, including the Department of Energy, and to private sector groups who had particular interests in the statute and its enactment. The

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<sup>1</sup> Northwest Natural Gas Company's Weatherization and Energy Conservation Service Program for Residential Spaceheating Customers. Submitted August 18, 1977, with the Oregon Public Utility Commission, Salem, Oregon.

Savings and Loan League, given this opportunity to comment, made some minor suggestions about relationships between the investor-owned utilities and lenders but seemed overall in agreement with the plans developed. However, when reviewed by the PUC staff, the six plans, including the Northwest submission, were judged to be generally unacceptable. The independently drafted plans provided varying degrees of detail on a number of topics and were generally inconsistent.

During the review of the plans submitted by the six investor-owned utilities, two important facts were established by the Deputy Commissioner. First, the limited PUC staff did not have experience in specialized public policy analysis to the degree required for assessment of the six different submissions. Second, the PUC needed to provide specific instructions to the six utility companies to guide them in their submissions. Administrative guidelines and procedures might have enabled the designers of the plans to achieve compliance with the requirements of the new law on the first-round submission.

#### First PUC Draft Order - December 1977

On December 14, 1977, a detailed letter from the PUC was sent to the Chief Executive Officer of each of the six investor-owned utilities commenting collectively on the plans submitted. The letter states that in order to develop detailed programs that would achieve the goals of consistency with other utility programs filed under HB 2157, a new course of action for future plan submissions would be required.

A draft order enclosed with the letter set out the basic elements of the conservation programs drawn from the six filed proposals. The staff proposed that the Commissioner adopt an order requiring that the utilities prepare plans based upon a set of uniform basic elements. The draft order attempted to provide a uniform conservation program outline for all utilities while giving each the flexibility it might require to meet its own internal needs and the needs of its customers.

The following items were the major features of the draft order as outlined in the December 14 PUC letter to the six investor-owned utilities.

- (1) Two timetables were established. The first was a timetable for notifying customers of the availability of the home energy analysis program. The second timetable was one for making certain services available. The intent of the second timetable was to mandate utility action only in those areas that were within technical and manpower capabilities of the company and to mandate only those conservation services for which there is a substantial body of evidence that cost savings will result.
- (2) Specification of the company's relationship to the installer was not detailed beyond the requirement to "provide" the weatherization services and at least one bid to the customer. In short, the utility was to be in the position of forwarding the bids to the customer but might put each job out to bid among several contractors. The utility might also establish a relationship with a limited number of contractors for doing all the work ordered through the company's program. This flexibility was intended to allow for substantial differences in the ways the companies had chosen to approach this issue. However, the company could choose to establish a subsidiary for weatherization services similar to the Northwest proposal.
- (3) Specification of the customer's relationship to the installer was similarly not detailed. Whether the customer made a contractual relationship with the utility or the installer was to be left to each utility program. The utility's responsibility remained to "provide" the weatherization services. The PUC interpreted that language to mean that the company must at least gather and submit bids to the customer and assure a quality control program.
- (4) The effective date of the order was delayed until the company could obtain the authorization needed to guarantee the loans

under the program. For companies operating in several states, that authorization might have had to be obtained from other jurisdictions as well.

The draft order did not mention the specific interest rate to be charged for weatherization loans from commercial lending institutions made under the program. Under HB 2157, that determination was to be made in a rule-making proceeding. The letter also stated that it would be the PUC staff recommendation that the interest rate be set at 6½%. Finally, the letter made it clear that the Commissioner would issue cost-of-service guidelines for costs incurred under the conservation program mandated by HB 2157. In closing, the letter requested the utilities to review the material and submit their comments to the PUC as soon as possible.

#### Second PUC Draft Order - March 1978

During the first few weeks of 1978, comments were received from all six investor-owned utilities. On March 8, the PUC informed the investor-owned utilities that the staff had reviewed the comments on the initial draft weatherization order and had attempted, where possible, to accommodate and reconcile the suggestions of each utility. A second draft order, reflecting a consensus of the comments by the six utilities, was made part of that correspondence.

Some sections of the new draft order, for example, the section on definitions, remained essentially unchanged from the initial draft. Specific weatherization services were not deleted despite suggestions to the contrary, because many of these services are mandated by HB 2157 and a desire by the PUC to keep a wide range of definitions. The letter concluded with a request for additional comments and suggestions on the order and directed that such comments be submitted to the PUC staff by March 20, 1978.

Implementation Efforts For HB 3265 - Publicly Owned Utilities  
and Oil Heat Suppliers Weatherization Program

While the various investor-owned utility implementation plans were being submitted to and reviewed by the staff of the Public Utility Commissioner, similar activities were in progress at the Department of Energy. The Conservation Supervisor for the Department was assigned the major responsibility for contact with the 31 nonregulated utilities and the more than 300 fuel dealers required to submit descriptions of their weatherization programs by the fall of 1977.

When HB 3265 was finally passed and signed by the Governor, the bill specified that the identified "energy suppliers" would provide weatherization services to their residential space heating customers. These services included providing: (1) information about available weatherization services; (2) technical assistance concerning various methods of saving energy, including an inspection of the customer's home and cost estimate of energy-saving measures; (3) a list of registered contractors near the customer who provide weatherization services; and (4) information about low-interest loan programs through lending institutions. Low-interest loans were to be available only to customers who participated in the energy suppliers' weatherization services program.

Further, a maximum 6½% annual interest rate for weatherization loans was specified in HB 3265. A tax credit to lending institutions was to account for the difference between the 6½% rate specified in the bill and a maximum 12% market annual interest rate that otherwise might have been charged for these same types of loans.

As noted previously, mobile home dealers were specifically excluded from the weatherization services provided in HB 3265. Renters, however, were entitled to participate if their written leases were for more than three years at the time the weatherization services were

requested. The law also specified that all eligible customers must request weatherization services during the time when the dwelling is occupied.

#### Efforts in Education and Communication by The Department of Energy

While the Department of Energy's only responsibility under the new legislative package was to implement the provisions of HB 3265, the enabling legislation defines a strong role for the Department in the area of education concerning energy conservation.<sup>1</sup> In addition, an effort was made to coordinate the Department's efforts with those of other state agencies responsible for implementing the new energy laws. It was recognized that the laws were complex and interrelated, involved a number of different state and local agencies, and required direct communication with the public if the program was to be successful.

In October of 1977, the Department of Energy took the lead to familiarize and update key personnel in other agencies with overlapping responsibilities in an early effort to identify and resolve any possible problems. The Director also described his views on interagency communication, external public contact and consumer information services, referring specifically to a new publication of the Department of Energy entitled Something New.<sup>2</sup> The objective of this booklet was to establish uniform information so that all agencies might convey the same message concerning effective dates, eligibility and procedures required by the new energy legislation.

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<sup>1</sup>Fred D. Miller, Ph.D., assumed the position of Director for the Oregon Department of Energy in October 1976. Prior to this appointment, Dr. Miller served as a special assistant to the Oregon Department of Transportation.

<sup>2</sup>Something New (Salem, Oregon: The Oregon Department of Energy, 1977).

## Developing Administrative Procedures For HB 3265

In the meantime, the implementation status of HB 3265 with respect to the weatherization programs of nonregulated utilities and fuel oil dealers was being closely monitored by the Department of Energy. Several meetings on rule-making had been held during the summer, and temporary rules were filed on September 16, 1977. A list of contractors was being pursued with assistance from the Oregon Department of Commerce while a list of lenders was being compiled with representatives from the financial community. By mid-September, 10 energy supplier programs had already been submitted to the Department of Energy for approval, and evaluation of these programs was under way.

In an attempt to provide guidance for compliance with HB 3265, the Department of Energy encountered many obstacles. One concern was that the Oregon Department of Commerce did not have many specialty builders listed for weatherization, and HB 3265 specifically required energy suppliers to develop a list of weatherization contractors registered with the Oregon Builders Board.

Other concerns voiced by the Department of Energy included:

- (1) notifying and identifying lending institutions who might choose to participate in the program;
- (2) integration of utilities based in neighboring states who have relatively few residential customers in Oregon;
- (3) difficulties in providing services for selected rural customers who have little if any contact with their energy suppliers;
- (4) the fact that owners of mobile homes (approximately 90,000 in Oregon) were excluded from the benefits of the program.

Following the release of the temporary implementation rules, Department of Energy personnel continued to meet and consult with representatives of the energy suppliers affected by HB 3265. These included representatives of the Oregon Rural Electric Cooperative Association, the League of Publicly

Owned Utilities and the Oil Heat Institute. Representatives from the individual oil heat companies, rural cooperatives, People's Utility Districts (PUD), and water and electric boards also participated actively in these discussions along with representatives of the financial community and the weatherization contractors. The response by the energy suppliers to the requirements of the bill and the action on requests of the Department of Energy were timely and done with a spirit of cooperation.

One of the more active participants in these discussions was the Executive Director of the Oil Heat Institute (OHI) of Oregon. The OHI had been very active and vocal during the drafting period of HB 2157 and HB 3265 and later when the bills were moving through the Oregon legislature. Indeed, the OHI surfaced as a most enthusiastic supporter of the legislation even though the statute placed responsibilities, representing certain costs, on members of the organization. This support came in spite of the major objective of the legislation which was to reduce consumption of fuel oil along with other forms of energy.

#### Final Rules For HB 3265

On January 16, 1978, following the interim meetings and public hearings just discussed, the Oregon Department of Energy released final rules outlining the requirements by which energy suppliers should provide weatherization and energy conservation services to their space heating customers and to the public.<sup>1</sup> The rules, as published, consisted of sections covering definitions, descriptions of weatherization services programs, descriptions of energy conservation services programs, approvals of such programs, descriptions of low-interest loans through commercial lending institutions and provisions for contracting for energy conservation and weatherization services.

In the section that describes weatherization services, the final rules specified that each energy supplier should be prepared to provide:

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<sup>1</sup>Final Rules, Weatherization and Energy Conservation Services Programs, 1977. Revised January 16, 1978, OAR-300-60-000, Oregon Department of Energy, Salem, Oregon.

- (1) information on request about weatherization services, and technical advice and assistance based primarily on an inspection of the customer's dwelling to determine sources of heat loss following an established standard procedure;
- (2) a written estimate of the cost of recommended weatherization services within 60 days following the inspection;
- (3) a warning printed on, or attached to, the customer's copy of the heat loss analysis and cost estimate forms that the customer must present copies of these forms when applying for a low-interest loan;
- (4) a list of contractors providing the various types of services recommended;
- (5) notification of the availability of low-interest home loans for weatherization services through commercial lending institutions.

An attachment to the final rules consisted of a listing of participating commercial lending institutions for the use of energy suppliers in meeting this requirement. In addition, the final rules specified that the suppliers were expected to develop "energy conservation services programs," defined as services provided to educate and inform all customers and the public about energy conservation.

Finally, the rules of January 16, 1978 specified that each energy supplier, or association of energy suppliers, whose program was not approved pursuant to the temporary rules adopted September 16, 1977, was required to submit a program which complies with these final rules by February 15, 1978. These programs were to contain planned implementation schedule dates, sample copies of training materials, heat loss analysis forms, worksheets, brochures and other supporting documentation.

The rules also required that the Director of the Department of Energy would approve or disapprove programs submitted within 30 days

of receipt. In addition, suppliers were directed to submit evaluations of their programs every 180 days on an evaluation form provided by the Director of the Department of Energy. These evaluations were to include comments concerning successful implementation of the supplier's program, public and customer response and participation, any significant changes in the program or suggested changes in these rules.

The last two sections of the final rules defined low-interest loans offered by commercial lending institutions along with the obligations of such lenders, and provided permission, with prior notification from the Director, for an energy supplier to contract with one or more other energy suppliers or with any person authorized and competent to perform the weatherization services required. However, each energy supplier was to be held responsible for ensuring the availability, objectivity, accuracy and quality of weatherization services provided under such contracts. The very last section of the rules statement reminded energy suppliers that the services specified by the statute were to be provided without direct charge to the individual who requests the service. However, suppliers were also assured that they might charge all classes of customers for the cost of providing the services specified.

Thus, with the release of these final rules by the winter of 1978, the Department of Energy was ahead of the Public Utility Commissioner in implementing its assigned statute. Some individual energy supplier programs had already been received and approved.

#### The New PP&L Company Proposal

Following the release of the March 8 draft order, the staff of the Public Utility Commissioner continued to carry on dialogue with officials of each of the six investor-owned utilities designated and identified under the statute. Some of these utility companies had actively lobbied against the legislation in 1977 while others, depending upon their market positions, mildly supported the legislation. The position of the PP&L during this period is somewhat difficult to assess.

The PP&L, along with the other investor-owned utilities, had submitted a plan of compliance in response to the first Commission directive before the end of 1977 but without the degree of detail demonstrated by the Northwest Natural Gas Program or those of other investor-owned utilities. The Company had also received the December 14, 1977 and March 8, 1978 draft orders or guidelines and had continued to carry on dialogue with the Office of the Public Utility Commission, concentrating on the minor details of terms and phrases used. On April 4, 1978, officials of the PP&L called a press conference to announce that the Company had developed a program to supply weatherization services to approximately 80,000 qualified Oregon customers of the utility on an "indefinite loan basis" at a zero rate of interest. The Public Utility Commissioner, the other utilities, the banking community and others who had followed the progress of implementation of HB 2157 were surprised by this response from the PP&L.

Individuals, who had been involved in the dialogue with the Public Utility Commissioner and with energy suppliers, similarly expressed surprise with respect to the announcement. However, for the most part, the comments did not criticize the substance of the proposal but rather expressed disappointment that Pacific Power had not made its plans known earlier. There was great concern as to what effect the dramatic announcement might have upon other compliance plans, submitted by other energy suppliers to, or even already approved by, either the Public Utility Commission or the Department of Energy. The inference was that a good deal of time and money could have been wasted over the preceding six or eight months in drafting, submitting and negotiating compliance plans which would be overshadowed by the PP&L proposal.

The Governor declared that he fully endorsed the new proposal. He added also that the gesture which the PP&L was now making voluntarily was something he had originally wanted to mandate under a very early version of HB 2157 that the Company had opposed.

## The PP&L Application and Proposal To The PUC

On April 14, 1978, Pacific Power filed a formal application with the Public Utility Commission. The rider, identified as "Schedule 8, Residential Energy Efficiency Rider," incorporated the detail on the proposal described at the April 4 press conference.<sup>1</sup> Formally addressed to the Public Utility Commissioner, the application with attachments represented a request for a hearing and approval of the Company's proposal. The proposal did not call for any change in the existing rate schedule applicable to residential service and, furthermore, there would be no subsequent change in annual revenue for the Company as a result of the proposal.

Supporting documentation for the proposed rate schedule and proposed testimony were set forth in the application. The following statement from the application is very important:

Generally, the company believes that the proposed rate schedule will allow it to achieve long run savings in the cost of meeting its customers' electrical needs through encouraging customers to install materials to conserve energy. Such conservation will reduce the company's need to construct more expensive additional base load generating facilities.<sup>2</sup>

This statement is one of the major reasons for an electric utility to embark upon and support an energy conservation program by means of weatherization.

Important features of the proposal as stated in the application are worthy of mention.

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<sup>1</sup>"Application for Approval of Proposed Tariff Rider and Associated Accounting and Rate-Making Treatment," Proposed Schedule 8, Pacific Power and Light Company Submitted April 14, 1978, to the Oregon Public Utility Commission.

<sup>2</sup>Ibid.

- (1) Company personnel, upon request of a customer occupying a qualified single family residence or duplex, will conduct a Home Energy Analysis to determine the cost effectiveness of installing additional insulation or weatherization materials. Homes not served by the Company on or before April 3, 1978, and homes converted to electric space heating after April 3, 1978, would not qualify. If the analysis indicates that additional insulation or weatherization materials would be cost effective to the Company, as compared to the marginal cost of new energy resources, the available options and their associated costs and benefits will be explained to the homeowner.
- (2) If the homeowner consents, the Company will arrange and pay for all labor and materials associated with installing the cost effective insulation or weatherization materials in the dwelling. The homeowner's only financial obligation will be to repay the Company, without interest, the cost of the insulation or weatherization materials, prior to or at such time as ownership of the dwelling is transferred. The homeowner will be required to sign a contract setting forth the respective obligations of the Company and the homeowner.
- (3) All insulation and weatherization work will be done by independent insulation and weatherization contractors. The contractors will be selected for each job based on competitive bids, and will be required to warrant both materials and workmanship to both the Company and homeowner. Pacific Power will inspect each installation to determine if insulation and weatherization have been installed in a workman-like manner.
- (4) The Company anticipates that a reasonable time frame for completing the program is five years, assuming a substantial portion of qualifying homeowners elect to participate. In addition, the Company proposes, upon any residential customer's request, to provide installation of an insulation blanket on all electric water heaters maintained in unheated spaces. This will be done without direct cost to the customer.

- (5) While those who qualify for service pursuant to the rider will be the most directly affected by the Company's proposed residential conservation program, the program will benefit all of Pacific Power's customers in the long run. The underlying goal of the proposal is to reduce the Company's future average cost of generation from what it would be were the program not instituted. Thus, effectively, nonparticipants in the program will not be subsidizing the insulation of participant's dwellings in the long run.
- (6) The test of cost effectiveness will be whether, in each instance, the cost of "producing" the energy to be saved through installation of insulation or weatherization is sufficiently less than the cost of producing equivalent energy, through new production, to provide long-term benefits to all rate payers. This test will be uniformly and objectively applied and cost effective installation will be available to all qualified customers who meet the test. Despite economic incentives, it appears that most electric customers have not been convinced of the long-run cost effectiveness of investing in insulation and weatherization. In spite of the incentives, too many of the Company's customers choose to devote their disposable income to other needs. The Company believes some further action is demanded.
- (7) At the heart of Pacific Power's proposal is the notion that if kilowatt-hours are saved through insulation and weatherization at a cost less than the cost of new generation, the Company should proceed to invest in insulation and weatherization just as it would choose a more efficient power plant. The Company estimates that retrofitting qualifying homes in its Oregon service territory with cost effective insulation and weatherization would cost approximately \$80 million and would capture about 400 million kilowatt-hours annually. This approach appears most attractive when compared with the value of 42 mills (4.2¢) per kilowatt-hour that is the Company's best estimate of its 1978 long-run incremental cost of meeting space heating

load, which could otherwise be met through insulation and weatherization.

- (8) To the extent insulation and weatherization can be installed in qualified homes, for substantially less than 42 mills per kilowatt-hour saved, all of Pacific Power's customers are better off for two reasons: (1) the average cost of generation is lower than it would be if the more expensive new plant were built; and (2) rate payers support the Company's investment in insulation only until such time as participating homeowners repay the Company, whereas if the Company invested in a new plant, rate payers would effectively have to support that plant, or its replacement, in perpetuity.<sup>1</sup>

Proposed testimony, submitted with the application, expands to some extent upon the description of the weatherization program and the reasons for the Company's proposal.<sup>2</sup> As to why new residences and recent conversions are not covered in the program, the testimony states that these are excluded because the Company does not wish the program to have the effect of promoting electric heat or causing builders to skimp on insulation. Subsequently, in response to a question as to whether or not the Company would provide all types of insulation or weatherization that might appear cost effective, the testimony shows that the Company does not intend to insulate walls, because of the vapor problem. Finally, the rider refers to the exclusion of mobile homes from benefits of the program, implying that mobile home weatherization would not be cost effective.

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<sup>1</sup>The Company's current kilowatt-hour cost of additional new facilities for residential heating requirements has been determined to be in excess of 4.2¢ per kilowatt-hour. To the extent that the average installed cost of selected energy-saving materials for eligible dwellings results in a cost of less than 1.8¢ per kilowatt-hour saved, the Company will offer weatherization service under schedule eight. See Appendix F (78-499, Exhibit 2).

<sup>2</sup>Testimony supplied by C. P. Davenport, Vice President, Pacific Power and Light Company.

In a meeting with a PP&L spokesman shortly after the filing of the formal application, it was stated that the major objection to the early legislative concept was that the original version would have resulted in the addition of principal and interest for home weatherization in addition to the Company's monthly service charge. PP&L felt that utility bills were already high enough and adding these additional charges would have been unpopular with, and protested by, the customers. The spokesman emphasized that without a program such as PP&L is proposing, average homeowners simply would not take the conservation steps necessary and would be more likely to spend their money on other material goods.

In summary, the management of the PP&L felt that this proposal represented an effort to "hard sell conservation" and established that the Company "really means business." Finally, they reasoned that this conspicuously aggressive effort at conservation might also, fortuitously, be advantageous to the PP&L in the future if the Company chooses to enlist support for construction of additional generating capacity facilities should they be required.

#### Summary

This chapter has described the efforts of the Public Utility Commissioner to administer the requirements of HB 2157, the weatherization program for customers of investor-owned utilities after a delay caused in part by inadequate administrative procedures and shortage of staff. The PUC was able to develop implementation guidelines based on open lines of communication with the utilities and the financial community. Approximately eight months passed before a set of rules was established. This time period may be reduced substantially if the utilities were to be included earlier in the design of program submission procedures.

The Oregon Department of Energy, on the other hand, faced an entirely different set of administrative problems. Since fuel oil dealers and nonregulated utilities are strangers to state government regulation,

the Department approached the development of program guidelines and procedures somewhat differently from the PUC. The Department set up lines of communication with the Oil Heat Institute and representatives of the financial community and nonregulated utilities prior to passage of HB 3265. By January of 1978, the final administrative procedure and program guidelines for those subject to the requirements of HB 3265 were complete.

The Department of Energy also took a leadership role in developing task forces that would educate the staff of state government agencies affected not only by HB 3265, but also by other energy legislation passed during the 1977 legislative session. In addition, the Department developed a promotional program designed to educate the public as to the features of each piece of energy legislation. The efforts in communication and public education should be noted as an important element for those agencies charged with the implementation of energy conservation programs.

A few other lessons can be learned from the Oregon experience as described in this chapter. The cooperation between the Public Utility Commissioner and the Oregon Department of Energy is an example of two energy-related agencies working harmoniously in regulation and public policy. Note also that the passage of legislation is only a start in the development of an energy conservation program. The design for success in energy conservation may be found in the ability of an agency to overcome "the steepness of the learning curve" presented by new legislation. The experience of the Public Utilities Commissioner and the Department of Energy should be of value in this regard.

This chapter ends with a presentation of the PP&L weatherization program proposal. It is important that the various reactions and responses to this unexpected proposal be described so that the final phase in developing an energy conservation program in Oregon can be better understood. This phase is the subject of chapter 4.

## CHAPTER 4 REACTION AND RESPONSE TO THE PP&L PROPOSAL

The unveiling of the PP&L proposal had an unsettling effect on the other investor-owned utilities, the financial community and weatherization contractors. The announcement took many completely by surprise, but perhaps what is more significant from an energy conservation point of view is that the reaction focused more on the announcement rather than on the merits of the proposal itself. Understandably, many close observers were miffed by the PP&L proposal. Their reactions are described in the first part of this chapter. However, once emotions returned to normal and the content of the PP&L proposal was studied more closely, it became obvious that the Company had designed a quality weatherization program that would meet not only regulatory standards but also provide incentives for customers to weatherize their homes.

This chapter describes the events from about the second week of April to the last day of June 1978. The PP&L proposal was announced in early April and was followed by similar program announcements by two other investor-owned utilities in May and June. The chapter closes with the issuance of an order by the Oregon Public Utility Commissioner approving the PP&L proposal on June 30, 1978. Since the PP&L proposal is so important toward satisfying the objective of this case study, this chapter is devoted to describing the reactions of the major participants in Oregon's energy conservation effort and the actions of the Public Utility Commissioner in approving the PP&L program.

### The First Reactions

By the latter half of April 1978, first reactions to the PP&L proposal and application were as divided as were feelings about the energy package itself. However, because of the complexity of both the proposal and the legislation, there is reason to believe that not all of the

individuals and organizational spokesmen who did express opinions at this time had not yet had an opportunity to study the program in sufficient detail.

#### The Governor's Office

As mentioned in the previous chapter, the Governor voiced his support for the PP&L proposal, although he understood why other utilities and the bankers might be upset. He predicted that if the Public Utility Commissioner permitted the costs of the PP&L proposal to enter into the rate base, the other utility companies would more than likely submit similar proposals.

#### The Public Utility Commissioner of Oregon

On April 19, only a few days after the filing of the PP&L application, the Public Utility Commissioner said he still had some "philosophical differences" with the proposal and could not immediately predict when official action would be taken on the plan. He also recognized that there was some unhappiness in the business community, particularly among weatherization contractors, about some of the details of the proposal. The contractors were concerned about PP&L's plans for awarding weatherization work contracts on the basis of bids. The contractors preferred some form of a plan of centralized purchasing and allocation that they felt was more equitable.

In broader terms, the Commissioner felt that thus far the response to weatherization and conservation at the national level had been dilatory, and that something in the form of the PP&L proposal had to be done if energy conservation were to have any impact on energy supply.

#### The Oregon Media

Reactions of the Oregon news media to the PP&L proposal were generally favorable during the last weeks of April 1978. Any adverse reactions appeared to fall into one of three categories:

- (1) belief that weatherization should be the responsibility of the weatherization contractor and the homeowner rather than of the electric utility;
- (2) an impression that the plan would not provide equal benefits to all and would be unjust to the homeowner who has already weatherized or whose home does not require weatherization;
- (3) fear that the Company would amortize its costs under the plan and still charge its customers for the work; thus, in effect, charging some rate payers twice.

In response, a spokesman for PP&L stated that careful study of the application would show these criticisms to be invalid. The rate payers, the spokesman said, could rest assured that the Company would never ask for a rate increase because of reduced sales resulting from weatherization and conservation. Even the roughly \$10 million in annual gross sales which the Company could potentially lose in the short term through effective implementation of the program would not be significant enough in a Company that does over \$400 million total business annually to serve as justification for a rate increase application. However, in the longer term, the program represents a net savings to rate payers of \$12 million annually.<sup>1</sup>

#### Portland General Electric Company (PGE)

Spokesmen for Portland General Electric Company (PGE) clearly were not in agreement with the views of the PP&L. In brief, the Company had a definite problem with a program where some customers were, in effect, paying for the cost of other people's weatherization as implied in the PP&L proposal. A first reading of the proposal by the PGE staff found no economic justification to weatherizing customer A's home at the expense of customer B. However, the staff concluded that if the Public Utility

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<sup>1</sup>Exhibit I-T to testimony of C. P. Davenport. (Proposed Schedule 8, Residential Energy Efficiency Rider, filed April 14, 1978, with the Oregon Public Utility Commission, Salem, Oregon.)

Commission approves the PP&L plan, Portland General Electric Company would more than likely follow suit. On June 30, 1978, the PGE submitted to the Commission a similar proposal and it was approved immediately.

#### Northwest Natural Gas Company

A spokesman for the Northwest Natural Gas Company did not voice criticism of the PP&L proposal but stated definitely that his Company would not follow suit and offer such a program. According to him, the differences between the economics of gas and electric supply prescribed against the PP&L type of approach for his Company and the natural gas industry.

He more moderately echoed the position expressed by the PGE by pointing out that the PP&L proposal offers weatherization services only to PP&L customers and that excluding owners of homes purchased after 1974 or homes already weatherized seems unfair. Homeowners who are excluded do not want to subsidize, through the rate base, other perhaps less diligent or less prudent homeowners who would benefit from such a program.

#### Associated Oregon Industries (AOI)

The Associated Oregon Industries (AOI) functions, in many ways, as do state chambers of commerce in other areas.<sup>1</sup> The official attitude of the AOI to the PP&L proposal was one of concern that the utility Company's costs for conducting the proposed program for homeowners would somehow be shifted to industry. The Legislative Director of AOI estimated that more than 60% of the electric rate payers in Oregon are industries and commercial enterprises who cannot benefit from the residential weatherization activities. The General Counsel for the group in Portland

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<sup>1</sup> Associated Oregon Industries (AOI), headquartered in Salem, Oregon, has 2,400 company members representing more than half of the state's privately employed work force.

shared this concern. The latter contended that the inference that the PP&L plan was in any way "free" is invalid. According to the General Counsel, the PP&L proposed to borrow from the state government at a 6.5% interest rate in order to implement the program, and then, ultimately, would put the costs into the rate base. This approach was not supported by the AOI.

#### Oregon Weatherization Contractors and Manufacturers Association (WCMA)

The weatherization contractors and manufacturers in Oregon were highly disturbed by the PP&L plan. A spokesman for the group commented that the weatherization work proposed under the plan is not really without cost.<sup>1</sup> His criticism was that regardless of who pays the costs of the weatherization work, real estate appraisers generally will not take those costs into consideration when establishing the selling price of a home for resale.

Further, the WCMA spokesman predicted that homeowners are not going to be any more willing to accept liens against their homes for weatherization work, regardless of the repayment date, than they would be to take on any other type of contractual obligation. The average older homeowner, particularly, who has already fully paid off his home, would be reluctant to assume an obligation which could reduce his equity.

However, WCMA's major criticism of the PP&L proposal was that it does not provide the personal service that could be provided by a salesman of a weatherization company. A knowledgeable salesman representing a contractor could probably succeed in selling the homeowner other weatherization services - including weather stripping and insulation for crawl spaces - which PP&L might not consider cost effective from the

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<sup>1</sup>The Oregon Weatherization Contractors and Manufacturers Association (WCMA) is a recently formed organization with headquarters in Salem, Oregon.

utility Company's standpoint. The general feeling among contractors is that there will be inadequate follow-up to the heat loss inspections made by PP&L analysts. Also cited were limitations in the forms of cost effective weatherization activities which the PP&L proposed to undertake for ceilings, floors, storm windows and water heater jackets primarily.

The exclusion of wall insulation in the proposal was also felt to be controversial by the WCMA. Reportedly, the rationale behind PP&L's exclusion of wall work was the potential for moisture entrapment in insulated walls. However, the WCMA spokesman felt that this concern was unjustified, and that installation of dehumidifiers, required under some states' building codes, would satisfactorily solve this problem.

Other very pragmatic concerns of WCMA members related to PP&L's proposed methods of selecting contractors to do the weatherization work. In addition, the WCMA felt that the smaller weatherization contractors might be excluded from PP&L's consideration in soliciting bids. There had been some discussion of making random selections of contractors by computer, so that the weatherization business could be equitably distributed, but that the issue had not been finally resolved to the satisfaction of WCMA.

Another major concern of the WCMA was that the PP&L proposal might eventually lead to the utility going directly into the insulation business in competition with established independent weatherization contractors. The fear, generally, was that the utility would have a substantial edge over smaller competitors in the insulation business because of resources, financial flexibility and capacity to set up subsidiary companies for this purpose.

In summary, the WCMA membership expressed concern with the possible long-range impact of the PP&L proposal. Since the PP&L announcement, a substantial drop was recorded in the number of customers who were committing themselves to weatherization services provided by the membership. There was a fear that this condition would be permanent.

## Oregon State Home Builders Association (OSHBA)

Oregon home builders and realtors are concerned with rising construction costs that make it increasingly difficult to provide and sell housing.<sup>1</sup> Accordingly, anything that adds to the cost of construction is viewed with some suspicion as to its cost effectiveness.

Members of the Oregon State Home Builders Association (OSHBA) closely watched the progress and implementation of all of the energy conservation programs moving through the Oregon legislature. Of major concern to the builders were HB 2156 and SB 477 dealing with mortgage loans and solar energy devices for veterans' homes respectively, and SB 370 defining energy efficiency ratings for single family homes. However, the builders also paid close attention to the implementation of HB 2157 and HB 3265 and, along with other groups, were concerned by the potential impacts of the PP&L proposal.

OSHBA reaction to the announcement of a "free" weatherization program by PP&L was supportive, but the estimates of how much energy would be saved by the measures and whether the Company could achieve its goals as it planned was questioned.

## The Oregon Bankers Association

Reactions from the banking community to the PP&L proposal were mostly unfavorable. A spokesman for the Oregon Bankers Association was unsure as to the implications of the proposal for the Oregon banking community.<sup>2</sup> He thought there would be further delay in the approval of implementation

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<sup>1</sup>The Oregon State Home Builders Association (OSHBA) located in Salem is the voice of the home-building industry in Oregon.

<sup>2</sup>The Oregon Bankers Association, state chartered Banks of Oregon, is located in Salem, Oregon, and is the trade association for all banks operating under state charter in Oregon.

plans submitted by other investor-owned utilities to the Public Utility Commission.

Perhaps the major concern of the bankers was that much effort had been expended in planning for implementation of both HB 3265 and HB 2157 with respect to the mechanics of financing. Now, the PP&L proposal may have created a need to modify and reevaluate procedures and reeducate personnel. In addition, the spokesman for the association predicted that if the other utilities all were to follow suit, the banks would not get the loan volume as originally anticipated under the legislation program, and therefore it would be an unattractive program for the banks.

#### Oregon Savings and Loan League (OSLL)

A spokesman for the Oregon Savings and Loan League (OSLL) voiced many of the concerns about the PP&L proposal as did his counterpart in the Oregon Bankers Association.<sup>1</sup>

The members of the OSLL were not particularly concerned with the PP&L proposal but felt that the customers of the Company who had already retrofitted their homes would be penalized by the offer of relatively "free weatherization" to others. A similar concern was expressed with the time and effort already invested in developing financing programs to fit the legislation as enacted. However, the OSLL spokesman did not appear to be concerned about the potential loss of loan business by his membership. And finally, he thought the average PP&L residential customer would be unwise not to take advantage of the program.

#### Developing Responses - Attitudes and Programs

The dramatic impact of the PP&L announcement was almost sufficient to overshadow the implications of HB 2157 itself. There was no provision

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<sup>1</sup>The Oregon Savings and Loan League is the trade association for the savings and loan industry in Oregon and is located in Portland, Oregon.

in the legislation prohibiting a utility from voluntarily going beyond requirements of the act, yet this appeared to be what had occurred with the PP&L proposal.

The announcement seemed to have the effect of delaying the process of evaluating and approving the implementation plans submitted by the other investor-owned utilities to the Oregon Public Utilities Commission. However, despite the PP&L announcement, an order (No. 78-263) was issued by the PUC on April 20, 1978. Shortly thereafter, California-Pacific Utilities Company, another of the six investor-owned utilities covered by HB 2157, announced a proposal and made an application very similar to that released earlier by PP&L. In response, the Oregon Public Utility Commissioner set formal hearings on the PP&L application for the month of June 1978.

#### Developing Attitudes Toward HB 2157

A spokesman for Northwest Natural Gas Company indicated that his Company would adhere to the concepts of its original compliance plan previously submitted to the Public Utility Commissioner. However, if a resubmission was made, Northwest would be defined as the absolute seller on the weatherization services because the Company would be ultimately responsible for the quality of the installation. He felt there might be legal problems ahead for such a plan in that it may violate antitrust regulations since the Company is already the largest supplier of home heating in Oregon. Accordingly, Northwest would be obliged to sell weatherization material at not less than the retail market price and must indiscriminately offer the same service to all potential customers.

The PGE, awaiting the release of the April 20 final orders, was still unsure of its response to the PP&L plan. The Company had reached a decision in October 1977 not to become involved in financing at the time that PGE's first compliance plan was first submitted to the Public Utility Commissioner. A major concern of PGE was the availability and capability of contractors to perform quality weatherization work because, under the statute, the utility is required to guarantee the work.

Under the PGE plan, as submitted, the homeowner who weatherized would continue to make the same monthly electric services budget payment that he had in the past. It was assumed that the difference between the budget payment and the new actual electric service cost, after weatherization, would represent savings sufficient to cover the cost of the weatherization actions over the period of repayment involved.

Furthermore, it was the opinion of the Company that eventually it may be ruled illegal for utilities to contract directly with contractors to do weatherization work in rate payers' homes. Finally, if it is eventually mandated that the investor-owned utilities must provide weatherization services to homeowners upon request, the same should also apply to all energy suppliers and, particularly, suppliers of oil and gas, since these forms of energy are in shortest supply.

#### Developing Attitudes Toward HB 3265

In the meantime, while the reviews of submitted investor-owned utilities implementation plans continued at the Office of the Public Utility Commission, similar activities were in progress at the Department of Energy. By the middle of May 1978, a total of 24 compliance plans had been received and approved by that agency. Six others were close to approval and only four out of 34 submissions were still unresolved at that time. The latter four were submissions either by very small publicly owned utility companies or by companies headquartered outside Oregon.

Thus, for the most part, implementation of HB 3265 seemed to be progressing quite smoothly. When contacted in April 1978, a spokesperson representing the League of Publicly Owned Utilities (LPOU) said that the larger publicly owned utilities would have little difficulty in complying with the legislation, but there would be problems as far as the smaller utility companies were concerned.<sup>1</sup> The legislation

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<sup>1</sup>The League of Publicly Owned Utilities (LPOU) in Oregon located in Salem, Oregon, was formed as a nonprofit organization in late 1976. It represents municipally owned electric utilities and People's Utility Districts.

makes it necessary for these small utility companies to add personnel. This can be relatively costly for small local People's Utility Districts (PUD) that in some cases have only two or three thousand customers.

With the larger utilities, such as those in Eugene and Springfield, the additional costs involved are relatively nominal. The Eugene Water and Electric Board (EWEB), for example, set up a separate division consisting of 12 specialists, designated as members of an Energy Conservation Center (ECC), in order to offer mandated weatherization services to EWEB customers. The ECC is staffed by three engineers plus supporting personnel and has been quite successful in promoting the offered services through media and billing stuffed inserts. In addition, the ECC has been fully occupied with making heat loss inspections, giving recommendations, and providing names of suppliers, contractors and lending sources.

In general, the LPOU membership supported the concepts of HB 3265, because they believed that weatherization promotes conservation which, in effect, is another needed energy source. The Oregon Rural Electric Cooperative Association held views similar to those expressed by the representative from the LPOU.<sup>1</sup>

The Oil Heat Institute (OHI) moved rapidly in submitting and obtaining approval for its compliance plans. Under the OHI plan submitted, fuel oil dealers who supply less than 500,000 gallons per year have the option of either joining to participate in the Institute's program or paying a fee for the service. The fee is to cover use of the approved forms and techniques of making energy audits, calculating installation estimates and providing other services necessary to comply with the statute.

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<sup>1</sup>The Oregon Rural Electric Cooperative Association is located in Salem, Oregon.

In April 1978, OHI developed a compliance program. The key elements in the package are the survey and the recommendation forms. The energy audit survey form used by the OHI dealer-inspector serves as a check list of items describing the energy and heat loss characteristics of an individual home. Information gathered from the survey is analyzed by a computer program and the results transferred to the recommendation form, that is returned to the homeowner requesting the inspection.

Originally, the average home inspection by a trained and qualified inspector took only about 35 minutes. However, calculating the "R" factor and arriving at specific recommendations and alternatives consumed another 90 minutes back in the OHI offices per inspection. The computer program now makes it possible to complete all the computations in less than three minutes per survey form.

Publicizing and promoting the availability of the free heat loss inspection and recommendation service has also been a major activity of OHI. Small envelope inserts briefly describing the services have been printed and are made available to oil heat dealers to be mailed out to residential customers with periodic fuel bills. The OHI has also set up a series of seminars to acquaint dealers with the program and to communicate the need for energy conservation through weatherization. It is the purpose of the seminars to convince fuel oil salesmen that it is beneficial to promote a program that will result in reduced consumption of fuel oil.

Representatives for the OHI had one major criticism of the program. Their feeling was that the 30-day period of time in which the energy supplier is required to respond to a customer's request for inspection and the 60-day period of time in which the supplier is required to provide the homeowner with results of the inspection and recommendations were too long and could cause the customer to lose interest.

The financial community, as reflected in comments by the Oregon Bankers Association, the Savings and Loan League and the First National Bank, had also been working with the Department of Energy as well as with

energy suppliers to establish policies and procedures for implementing the financing aspects of HB 3265. By late April 1978, some 10 savings and loan institutions, of a total of about 31 in the state, had signed up to participate in the program. Included were the "big three": Savings and Loan's Equitable, Benjamin Franklin Federal and Farwest Federal.

Some of the smaller savings and loan institutions chose not to participate primarily because these institutions do not have home improvement loan experience and were reluctant to open special lending departments to serve that market exclusively. However, if a homeowner were to approach the savings and loan institution which holds the mortgage on the property and were to learn that that particular institution does not offer such a service, the customer would be referred to other sources of appropriate financing.

By late May 1978, only two home weatherization loans, under the provisions of HB 3265, had been granted in the entire State of Oregon. These were placed through Farwest Federal Savings and Loan Association. In the meantime, the Oregon financial community continued in a holding pattern until some minor implementation problems with the State Revenue Department were resolved.

#### Attitudes Toward The Legislative Package In General

Although there was general agreement that the concepts behind the legislative package were sound, many representatives of the business community expressed concern about weaknesses or ambiguities in the statutes as they were finally enacted. There was question as to the cost effectiveness of weatherization as an energy conservation measure in general. Home builders and realtors tend to look with suspicion upon anything that adds to construction costs or delays conveyance of property titles. The measures relating to veterans' loans and energy efficiency ratings fall into that category.

There were also questions about the feasibility or practicality of some specific forms of weatherization. Builders question laboratory-derived ratings for insulation materials and are concerned as to whether such materials actually provide the energy savings promised.

It was also stressed by some individuals contacted that certain weatherization actions are either extremely difficult to execute or costly to accomplish. Mentioned, for example, is the problem of wrapping ducts in unheated crawl spaces. Further, some elements of weatherization for old houses with odd-shaped windows and low-pitched gables may be impossible or at least economically not feasible.

There is also concern among bankers, contractors and the business community in general over the potential for fraud that may exist in the legislative package. Some observers have detected opportunities for collusion between unscrupulous contractors and homeowners through submission of false or padded invoices including nonweatherization-related home improvements with contracted weatherization actions. An extreme example would be where the contractor might include the addition of a small porch or a flight of steps in the cost of weatherizing a home.

There was also a general feeling among the investor-owned utilities that, over the long run, tightening building codes to ensure that newly constructed homes are adequately weatherized when constructed is preferable to mandating retrofitting. In many cases, as a banker pointed out, even fairly new homes cannot be adequately weatherized for \$1,500, a maximum considered in the rules, since it would cost at least that much simply to install storm windows.

Finally, many philosophical objections to the legislative package were voiced. A number of spokesmen contacted expressed regret for the many different bills with complex implementation procedures administered by such a wide assortment of state agencies. For efficiency, some argued, all of the responsibilities should be centralized in one single state agency. The logical choice for this responsibility, in the eyes of the

energy suppliers and the financial community, would be the Oregon Department of Energy rather than the Office of the Public Utility Commissioner. Fuel oil suppliers, along with the publicly owned utilities, were emphatic in their objections to having any involvement, whatsoever, with the Oregon Public Utility Commissioner.

Another philosophical objection to the legislation package as passed is the fact that the homeowner is faced with a choice between taking advantage of the low-interest loan available under HB 2157 and HB 3265 or file for a tax credit available under HB 2701. Under the latter statute, the tax credit may not exceed the lesser of \$125 or 25% of the actual cost of purchasing and installing weatherization material. Therefore, each homeowner must evaluate the options and make a decision based upon what is best for his own particular situation. In some cases, homeowners may find it to their advantage not to weatherize their homes at all so that they can offer either the zero interest loan or the tax credit as a selling point to another potential buyer.

#### The PP&L Proposal - Review And Recommendation By The PUC Staff

During the early part of June 1978, the PUC staff submitted testimony regarding the PP&L Company Proposal Schedule 8, Residential Efficiency Rider (UF 3444) submitted on April 14, 1978.<sup>1</sup> The staff paper presented eight observations on the PP&L proposal that are listed below.

- (1) The proposal is likely to be of long-term benefit to all of PP&L's Oregon ratepayers. Even without considering generation facility rescheduling, the estimated net reduction in normal revenues (not current dollars) over the next thirteen years may approach 80 million dollars in total (inclusive of the costs of the program).

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<sup>1</sup>UF 3444, Public Utility Commission of Oregon, Exhibit, PP&L's Proposed Residential Energy Efficiency Rider, Salem, Oregon. June 1978. Testimony prepared and submitted by William G. Warren, Deputy Director of the utility program.

- (2) Short-run (two to four years) benefits are likely to be small and may be slightly negative. Since most of the potential customers will not have participated in the program for a few years, short-run benefits will likely not materialize. In addition, generation construction (if appropriate) will not likely take place until the impact of the program is empirically assessed.
- (3) Benefits to Oregon ratepayers are largely predicated on Oregon reducing its relative responsibility for Pacific's system costs. If this relative responsibility (primarily through the trended peak calculation) is not reduced, the major benefit to be derived under the program will be through generation facility deferrals.
- (4) The criteria for judging the cost-effectiveness of the measures to be undertaken by the company appear to be reasonable. However, it would appear that the determination of the cost-effectiveness standard could be simplified.
- (5) There should be no expectations of major shifts in planned generation facilities due to the plan. The estimated 65 megawatts of capacity expansion saved by the plan appears cost-effective but will not likely significantly defer the need for new sources of energy. Some savings through deferral will ultimately occur, but these cannot be quantified without empirically assessing the program's impact.
- (6) The plan is somewhat open-ended insofar as expenditures are concerned. While estimates of applicability and feasibility may be accurate, no detailed expanded data base exists for accurately assessing the financial commitments the company is proposing.
- (7) The impact of the company's proposal on local insulation contractors cannot be determined at this time. The company has committed itself to conducting business associated with the program on the basis of competitive bidding.
- (8) Various administrative activities appear to be omitted from the filing.

The staff position paper goes on to make a set of 12 recommendations. For the purpose of this case study, the first recommendation is the only one presented here.

The Commission should accept, with modifications, the filing of PP&L as a reasonable approach to partially alleviating rate increases over the longer run. We would recommend, however, that some caution be exercised in employing this type of program for other companies not in a similar situation as PP&L (i.e. in a dramatically capital intensive increasing cost situation).<sup>1</sup>

The other recommendations spelled out some of the modifications requested by the staff, which included: procedures for a peak-trending technique used; a more understandable determination of the cost effectiveness standard; a limitation of initial expenditures to \$30 million for the program; submitting quarterly status reports; establishing an accounting system, to disallow an unreasonable amount of uncollectibles as a rate making expenditure; and several information requests.

Acting on these recommendations and taking into account the positions of several intervenors, the Public Utility Commissioner of Oregon signed Order No. 78-499 approving the proposed tariff schedule applicable to residential thermal insulation service in Oregon filed by PP&L Company. The following two excerpts from the order are presented to provide the final resolutions regarding the issues of financing and the accounting treatment of PP&L's investment and expenses for the program. A copy of the PUC order No. 78-499 can be found in Appendix F of this report.

The schedule provides, generally, that the Company will finance designated weatherization services for designated residential customers without repayment from those customers until such time as a customer may sell his home. At that time the customer is obliged to repay to PP&L the cost of the services provided without any interest charge.

The accounting treatment proposed by PP&L is approved. While there may be modifications by reason of adoption of a rule following hearings on PUC Docket No. R-43, the "weatherization" accounting rule, no changes will be made which will preclude

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<sup>1</sup>Ibid., p. 3.

PP&L from including its investment in this program in its rate base, nor will it be precluded from recovery of the reasonable expenses attributable to the program.<sup>1</sup>

### Summary

The events which have been described in this chapter provide, perhaps, an expected reaction to the PP&L program. The five other investor-owned utilities were understandably taken by surprise not only by the method of announcement but more perhaps by the progressive design of the program. In a similar manner, the banks and savings and loan associations also felt upstaged by a utility that proposed such a bold program for financing a home weatherization program. It remains to be seen if the weatherization contractors can reconcile their differences with a program of this type.

The PP&L weatherization program is, without a doubt, an innovative approach to home weatherization and energy conservation. Although the first reaction by several of the investor-owned utilities criticized the PP&L program, at least two have submitted similar weatherization programs to the Public Utility Commissioner for his approval. California-Pacific Utilities Company filed an application on May 15, 1978, followed several weeks later by Portland General Electric Company. It appears that the proposal has set a standard that other utilities will find necessary to equal or surpass.

The Governor, the Public Utility Commissioner and the Oregon Department of Energy have used the legislative process to bring about meaningful change in energy management and conservation. The quality of their work and effort has been rewarded in legislation that is not being contested in the courts but is being aggressively implemented by "the regulated." However, the unanswered question is whether

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<sup>1</sup>Order No. 78-499 Before The Public Utility Commission of Oregon. UF 3444, Public Utility Commission of Oregon June 30, 1978, p. 2.

homeowners will find voluntary weatherization programs offered by the utilities and other energy suppliers to be attractive enough to commit themselves in sufficient numbers, so that the goals of energy conservation can be achieved.

A final comment on the contents of this chapter: the reactions and responses described are presented so that others presently facing a similar task in their states can learn from the Oregon experience and, hopefully, be better prepared to solve the problems that will arise. If only several months can be saved in the implementation of similar programs in other states, it will certainly contribute to improving the energy supply of this nation.

CHAPTER 5  
OBSERVATIONS AND COMMENTARY

Energy Conservation in Retrospect

It is important to recall why residential energy conservation measures, such as those described in this report, and being implemented by states such as California, New Mexico, New York, Rhode Island and Wisconsin, are so important. In the literature on this subject, there is significant agreement that energy saved as a result of conservation can be considered a new supply. A report by the U.S. Department of Housing and Urban Development estimates that the addition of proper insulation to the existing supply of single-family housing would result in a 32% reduction in heating and cooling energy use and a 17.5% reduction in the total amount of energy consumed in the home. As a result, a 17.5% reduction in annual residential energy consumption would save the equivalent of 949,200 barrels of oil per day.<sup>1</sup>

The potential for increasing energy supplies by means of residential energy conservation programs is significant for both natural gas and electric power but has different impacts on each industry. For example, one proposal known as the Rosenberg Plan states that a residential energy gas conservation plan could provide up to 5% of national gas supplies by 1985.<sup>2</sup> Viewed another way, if a plan of this type were to be adopted, it could make available a quantity of gas equal to 130% of the gas deliveries estimated to come from the Alaskan North Slope. For electric utilities, the motivation for the Pacific Power and Light proposal as described in this report was to lessen the need for additional

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<sup>1</sup> Russell J. Profozich, Howard S. Useem, and Douglas N. Jones, Home Insulation Manufacturing Industry and the National Energy Plan: Some Economic Prospects (The Library of Congress Congressional Research Service, January 4, 1978.)

<sup>2</sup> William G. Rosenberg, "Conservation Investments by Gas Utilities Gas Supply Option," Public Utilities Fortnightly 99, no. 2 (January 20, 1977): 13-21.

capital to finance expenditure for new generating capacity. The energy consumer, at least in theory, will be better off in relative terms, with an assured and stable supply of energy delivered at a fair price.

As a result, residential energy conservation measures play an important role in developing a national energy plan. The utility program of the plan has set a goal of insulating and weatherizing 90% of the existing homes by 1985.<sup>1</sup> The plan describes several possible alternative actions that states will be required to initiate when it becomes law. Each state, taking into account the uniqueness of its environment, will be required to design and implement a residential energy conservation plan of its own. The case efforts and experience of Oregon presented in this case study may provide guidance to states that are in the planning stage for their energy conservation programs.

#### Reflection and Prognosis

The major lesson to be learned from the Oregon experience is, once again, that the process for bringing about change is a difficult and demanding task. For years, Oregonians were accustomed to cheap and abundant power and, as a result, recorded one of the highest per capita residential consumption of electric energy in the nation. For years, utilities satisfied that demand for energy with little increase in price and virtually no caution as to its use. Politicians and regulators, understandably, were interested in other issues. As a result of a series of droughts, an oil embargo and a dismal forecast for future energy supply and prices, a small group of concerned people decided to set into motion an effective energy plan without drastically changing the life-style of Oregonians.

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<sup>1</sup>Analysis of The Proposed National Energy Plan (Washington, D.C.: Office of Technology Assessment, August 1977), p. 123.

This case study describes the methods used by the several participants and organizations in their attempts to change the energy situation in Oregon. Governor McCall was among the first in Oregon to recognize the power of legislation to implement a ban on outdoor lighting and to provide a means for allocating gasoline for automobiles. However, the Governor Straub administration and the members of the 59th legislative Assembly used the political and legislative process even more aggressively in their attempt to provide answers and solutions to the energy problem in Oregon. The result of their efforts is offered as one model that produced a progressive energy conservation program. This program had a complex start but culminated in weatherization programs that are being actively implemented by almost all energy suppliers in the State of Oregon.

The cooperative efforts among the various state agencies, especially between the Public Utility Commissioner and the Oregon Department of Energy, contributed significantly to the success of this effort. Private sector participants such as the electric utilities, the financial community and the fuel oil dealers also played important roles. However, PP&L and its weatherization program must be singled out as the most important factor in raising the energy conservation effort in Oregon from one of passive compliance to a bold new initiative surpassing the requirements of the law. The PP&L program now serves as a model for other utilities in the state and the Northwest. As a result, the original designers of HB 2157, the weatherization program for customers of investor utilities, and HB 3265, the weatherization program for customers of non-regulated utilities and fuel oil suppliers, should be satisfied that progressive change has been brought about by meaningful legislation.

The process of change is not static, and the Oregon Department of Energy is now preparing a legislative agenda for the 60th Session of the Oregon General Assembly. The Department of Energy consults with the Executive Department and the Public Utility Commission and with

other state agencies in the drafting of new energy-related legislation. Currently, legislative concepts for consideration by the legislature are in the early stages of development.

Among ideas suggested for new legislation or modification of existing statutes is the inclusion of mobile home dwellers for all services currently covered under HB 2157 and HB 3265 and for information, technical assistance services and eligibility for low-interest financing. Additional changes for renters were also being considered. Some home builders feel that the provision of the statutes relating to renters is still somewhat ambiguous. Existing legislation makes no provision whatsoever for the technically qualified homeowners to conduct their own heat loss inspections and to make the necessary improvements themselves. The existing statutes require that such qualified individuals must still have the inspection made and the work performed by an independent energy supplier and an accredited weatherization contractor if the homeowner expects to obtain a tax credit.

As of the fall of 1978, it is difficult to predict what the future holds for the Oregon Energy Conservation Legislative Program as described in this report. Some observers feel that available services could be so overpromoted that energy suppliers would be virtually swamped with requests for heat loss inspections. Others, like the Oil Heat Institute, for example, are more cautious in their predictions as to what the public response will be and are concerned that much of their planning and preparatory work of recent months will be wasted if response is light.

In the final analysis, with respect to implementing HB 2157 and HB 3265, the test of these programs' success will not be so much the consumer response to the offers of free heat loss inspections, but more the degree to which homeowners act on the recommendations of the energy suppliers and agree to undertake proposed weatherization work. Some observers hold that if homeowners are sufficiently interested to request an inspection, then they will more than likely follow through,

authorizing the necessary corrective measures. The more conservative weatherization contractors, however, feel that, without aggressive sales follow-up, relatively few heat loss inspections and recommendations, often requested purely out of curiosity, will be translated into actual sales.

Another area that calls for close observation is the methods of financing the weatherization services for customers and the treatment of investment and expenses for the support of the program by the PP&L. As described in this report, the "no cost financing" feature and the approval of an accounting treatment that allows for the inclusion of investments for this program in the rate base should provide the incentives for both the customer and the Company.

Of course, the final test of success of the Oregon effort will come sometime in the future when it must answer some basic questions. Did the Oregon energy management and conservation program reduce the energy demand for the consumer? Did the consumer's decision to weatherize hold down the increase in his utility bill? Did including utility company costs for this program as allowable expenses in the rate base result in a higher or lower cost to consumers than a normal installment loan? Finally, were the savings in capital costs returned to the consumer in the form of stable utility rates? Since Oregon has taken the early lead in promoting energy conservation through the legislative process, it is more than likely that the first results for evaluation and impact analysis will be available there. More will then be known about the wisdom of transferring these experiences to other states.

APPENDIX A

LIST OF CONTACTS MADE BY  
THE NRRI CASE STUDY TEAM  
April 17-21, 1978

The Honorable Robert W. Straub  
Governor of Oregon  
State Capitol  
Salem, Oregon 97310

The Honorable Charles Davis  
Oregon Public Utility Commissioner  
300 Labor and Industries Building  
Salem, Oregon 97310

Mr. Roy Hemmingway  
Deputy Commissioner  
Oregon Public Utilities Commission  
300 Labor and Industries Building  
Salem, Oregon 97310

Ms. Margery S. Harris  
Conservation Supervisor  
Oregon Department of Energy  
Room 111, Labor and Industries  
Building  
Salem, Oregon 97310

Ms. Janet McLennan  
Assistant to the Governor  
Oregon Office of the Governor  
State Capitol  
Salem, Oregon 97310

Mr. Fred Van Natta  
Oregon State Home Builders  
Association  
565 Union Street  
Salem, Oregon 97310

Mr. Ivan Congleton  
Associated Oregon Industries  
1149 Court Street N.E.  
Salem, Oregon 97309

Mr. C. P. Davenport  
Pacific Power & Light Company  
Public Service Building  
Portland, Oregon 97204

Mr. Frank E. Brawner  
Oregon Bankers Association  
State Chartered Banks of Oregon  
610 Capitol Tower  
388 State Street  
Salem, Oregon 97301

Mr. Henry A. Speckman  
Oregon Rural Electric Cooperative  
Association  
1460 State Street  
Salem, Oregon 97301

Mr. & Mrs. Glen Stadler  
League of Publicly Owned Utilities  
3621 Augusta National Drive, South  
Salem, Oregon 97302

Mr. Len Gassner  
Oil Heat Institute of Oregon  
1927 Northwest Kearney Street  
Portland, Oregon 97209

Mr. David S. Barrows  
Oregon Savings and Loan League  
Suite 300 Century Building  
1201 Southwest 12th Street  
Portland, Oregon 97205

Mr. R. H. Short  
Portland General Electric Company  
121 Southwest Salmon Street  
Portland, Oregon 97204

Mr. G. L. Ellis  
First National Bank of Oregon  
Post Office Box 3131  
Portland, Oregon 97208

Mr. John R. Munro  
Associated Oregon Industries  
1149 Court Street N.E.  
Salem, Oregon 97309

Mr. Gene Maudlin  
Public Affairs Counsel  
300 Equitable Center  
530 Center Street N.E.  
Salem, Oregon 97301

Mr. Robert J. Speckman  
Oregon Rural Electric Cooperative  
Association  
1460 State Street  
Salem, Oregon 97301

Mr. Charles Heinrich  
Portland General Electric Company  
121 Southwest Salmon Street  
Portland, Oregon 97204

Mr. Thomas C. Donaca  
Associated Oregon Industries  
1221 Southwest Main Street  
Portland, Oregon 97208

Mr. Glenn O. Harding  
Oil Heat Institute of Oregon  
1927 Northwest Kearney Street  
Portland, Oregon 97205

Mr. Roger L. Conkling  
Northwest Natural Gas Company  
Suite 300  
200 Southwest Market Street  
Portland, Oregon 97201

APPENDIX B  
A BRIEF DESCRIPTION OF THE  
LEGISLATIVE PROCESS IN OREGON

In Oregon, two houses comprise the legislature: the senate and the house of representatives. The 30 members of the senate are elected for four-year terms with half of the seats up for election biennially. The house has 60 members, all of whom must be elected biennially. Except in the case of persons selected to fill vacancies in office, the members of the legislative Assembly are elected by the voters of 30 senatorial and 60 representative districts at the regular general election held throughout the state in even-numbered years.

A presiding officer is elected by each house of the legislative Assembly. The officer in the senate is called the president and in the house, the speaker. The president and the speaker exercise general powers over their houses, appoint chairmen, vice-chairmen and members to committees and make the decisions regarding the appropriate committee to which a bill is to be referred.

Oregon's legislature operates under the "open committee system" that enables interested persons to voice their opinions on measures of particular interest. Each legislator serves on several committees. Most of the work of consideration and revisions of bills is done in committee.

After a bill has been processed by a committee and passed in the chamber in which it was introduced, it is sent to the other chamber where a similar procedure is followed. When both chambers have passed a bill, including any amendments approved by the other chamber, it is enrolled (printed in final form) for the signature of the presiding officers and the governor. A bill may become law the instant it is signed by the governor if it has an emergency clause; otherwise it becomes law 90 days after adjournment.

APPENDIX C

INVESTOR-OWNED UTILITY COMPANIES SERVING OREGON  
RANKED BY TOTAL NUMBER OF CUSTOMERS\*

Rank	Company	Total Number of Customers	Total Sales (in thousands)
1	Pacific Power & Light Co.	607,394	20,013,856 kWh
2	Portland General Electric Co.	412,556	12,009,467 kWh
3	Idaho Power Company	212,170	10,839,246 kWh
4	Northwest Natural Gas Co.	210,447**	832,960 Therms
5	Cascade Natural Gas Corp.	80,183**	52,196 Therms
6	California-Pacific Utilities Corp.	47,824	1,021,692 kWh

\* Statistics of Privately Owned Electric Utilities in the United States, Federal Power Commission, Washington D.C.

\*\* Source: Brown's Directory of North American Gas Companies (91st Ed.) and individual company statements--FPC Form 1, Schedule 432. Total number of on-line customers.

**C-Engrossed**  
**House Bill 2157**

Ordered by the Senate June 25  
(Including Amendments by House May 16 and by Senate June 1 and June 25)

By order of the Speaker (at the request of the Governor)

**SUMMARY**

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

*[Requires gas and electric utilities that are primary providers of space heating for customers to submit program to Public Utility Commissioner which provides weatherization and energy conservation services to residential customers. Limits cost of services to no more than \$2,000. Permits public utilities to loan own funds to customers or to arrange funding with commercial lending institutions. Permits the Public Utility Commissioner to require gas and electric utilities to provide for various methods of collection and payment by residential customers for weatherization services. Requires commissioner to approve weatherization services provided by utility, time payment periods for customer payment and interest rates charged. Makes owners of multiple-family dwellings or rentals responsible for weatherization services. Specifies that unpaid amounts due for such services shall become lien on property.]*

**Requires gas or electric service public utilities to inform of and provide weatherization services to residential customers up to \$2,000 when storm windows installed. Requires Public Utility Commissioner approval of public utility energy conservation programs under which weatherization services are provided. Provides for financing of services by loans of public utility or commercial lending institutions. Makes cost of weatherization a personal obligation of dwelling unit owner. Requires coordination of weatherization programs by Public Utility Commissioner and Director of Department of Energy. Requires Public Utility Commissioner to adopt by rule a formula for public utility charges to customers of cost of weatherization services.**

Declares emergency.

## A BILL FOR AN ACT

1  
2 Relating to energy conservation; and declaring an emergency.

3 **Be It Enacted by the People of the State of Oregon:**

4 **SECTION 1.** Sections 2 to 15 of this Act are added to and made a part of ORS  
5 chapter 757.

6 **SECTION 2.** The Legislative Assembly finds and declares that:

7 (1) There is an urgent and continuing need for all Oregonians to conserve energy;

8 (2) Many of the homes in Oregon are in need of additional insulation and other  
9 weatherization measures to make them more energy efficient;

10 (3) Insulation and other weatherization measures in many cases can conserve  
11 energy and make it available for other uses at less cost than energy from new sources;  
12 and

13 (4) Expenditure by energy suppliers on conservation programs is in many cases a  
14 prudent and cost-effective means of gaining new supplies for energy consumers.

15 **SECTION 3.** As used in this 1977 Act:

16 (1) "Commercial lending institutions" means any bank, mortgage banking  
17 company, trust company, savings bank, savings and loan association, credit union,  
18 national banking association, federal savings and loan association or federal credit  
19 union maintaining an office in this state.

20 (2) "Dwelling" means real property within the state inhabited as the principal  
21 residence of an owner or renter and which is occupied at the time weatherization  
22 services are requested. "Dwelling" does not mean a mobile home as defined in ORS  
23 446.003.

24 (3) "Public utility" has the meaning given that term in ORS 757.005.

25 (4) "Weatherization services" means providing and installing items primarily  
26 designed to improve the efficiency of space heating and energy utilization of a dwelling.  
27 Such items include, but are not limited to, caulking, weatherstripping and other  
28 infiltration preventative materials, ceiling and wall insulation, crawl space insulation,  
29 vapor barrier materials, timed thermostats, insulation of heating ducts and hot water  
30 pipes and water heaters in unheated spaces, storm doors and windows, double glazed  
31 windows and dehumidifiers.

32 **SECTION 4.** Within 90 days after the effective date of this 1977 Act, each public  
33 utility providing gas or electric service shall present for approval by the Public Utility  
34 Commissioner a residential energy conservation program which, to the satisfaction of  
35 the commissioner:

1 (1) Makes available to all residential customers of the public utility, upon request,  
2 information about weatherization and other means of saving energy;

3 (2) Provides to all residential customers of the utility desiring such service  
4 assistance and technical advice concerning advantages and disadvantages of various  
5 methods of saving energy in that customer's dwelling unit, including but not limited to  
6 an estimate of the cost to the customer of the weatherization services provided under  
7 the program;

8 (3) Provides weatherization services upon request of the owner of a dwelling unit  
9 served by the utility. The utility shall not be required to provide weatherization  
10 services costing greater than \$1,500 except in the case when storm windows are  
11 installed together with other weatherization services, and then in an amount no greater  
12 than \$2,000;

13 (4) Provides that weatherization services performed under the program are  
14 performed in such a workmanlike manner and with such materials as to be in  
15 accordance with the prevailing standards of the industry;

16 (5) Allows the residential customer, with approved credit, to pay for the  
17 weatherization services performed under the program over a reasonable period of time,  
18 in no case greater than 10 years, and at an interest rate paid by the customer not in  
19 excess of that determined by the commissioner; and

20 (6) Sets a reasonable time schedule for effective implementation of the elements set  
21 forth in subsections (1) to (5) of this section in the service areas of the utility.

22 **SECTION 5.** No public utility shall be required to provide the services described in  
23 subsections (2) and (3) of section 4 of this 1977 Act to a residential customer unless that  
24 public utility is the primary provider of space heating energy for that customer.

25 **SECTION 6.** (1) In arranging financing for residential customers for weatheriza-  
26 tion services pursuant to subsection (5) of section 4 of this 1977 Act, the public utility  
27 may either use its own funds for loans to customers or arrange for financing for  
28 customers through one or more commercial lending institutions.

29 (2) If financing is arranged through a commercial lending institution pursuant to  
30 this section, the public utility shall:

31 (a) Act on behalf of the customer in arranging financing, in order that the  
32 residential customer need not deal directly with the lending institution to obtain  
33 financing for weatherization services;

1 (b) Reimburse the commercial lending institution for any difference between the  
2 rate charged by the lender and the rate allowed by the commissioner pursuant to  
3 subsection (5) of section 4 of this 1977 Act; and

4 (c) Guarantee the payment of the principal portion of the loan from the commercial  
5 lending institution.

6 **SECTION 6a.** If House Bill 3265 (1977) becomes law, section 6 of this 1977 Act is  
7 repealed and section 6b is enacted in lieu thereof.

8 **SECTION 6b.** (1) In arranging financing for residential customers for  
9 weatherization services pursuant to subsection (5) of section 4 of this 1977 Act, the  
10 public utility may either use its own funds for loans to customers or arrange for  
11 financing for customers through one or more commercial lending institutions.

12 (2) If financing is arranged through a commercial lending institution pursuant to  
13 this section, the public utility shall:

14 (a) Act on behalf of the customer in arranging financing, in order that the  
15 residential customer need not deal directly with the lending institution to obtain  
16 financing for weatherization services;

17 (b) Reimburse the commercial lending institution for any amount by which the rate  
18 allowed by the commissioner pursuant to subsection (5) of section 4 of this 1977 Act is  
19 below six and one-half percent; and

20 (c) Guarantee the payment of the principal portion of the loan from the commercial  
21 lending institution.

22 **SECTION 7.** Before approving a utility program pursuant to section 4 of this 1977  
23 Act, the commissioner shall consult with the Department of Energy.

24 **SECTION 8.** The commissioner may require as part of a utility residential  
25 weatherization program that, for customers with approved credit, the utility add to the  
26 periodic utility bill for the owner-occupied dwelling unit for which weatherization  
27 services have been provided pursuant to this 1977 Act an amount agreed to between the  
28 owner of the dwelling unit and the utility.

29 **SECTION 9.** For dwelling units not occupied by the owner and for which utility  
30 service is separately metered and billed to the occupant, permission for the performance  
31 of weatherization services must be obtained from the owner of the dwelling unit and  
32 financing for the weatherization services will be arranged through the owner. Payment  
33 for weatherization services performed under the program will be the responsibility of  
34 the owner of the dwelling unit. Contracts for weatherization with an owner of more

1 than one single family or multiple family dwelling unit shall not exceed \$10,000  
2 outstanding at any one time.

3 SECTION 10. (1) The cost of weatherization services provided pursuant to this  
4 1977 Act shall be a personal obligation of the owner of the dwelling unit who requests  
5 weatherization services.

6 (2) Any amount due that public utility or commercial lending institution under the  
7 program and not paid in full within 30 days after completion of the weatherization  
8 services shall become a lien on the property on which the weatherization services were  
9 performed. The lien shall have the same priority as a mortgage. A notice of the lien  
10 may be filed with the recording officer of the county or counties in which the services  
11 were performed. The notice shall set forth:

12 (a) The amount of the remaining balance due at the time of the filing of the notice;  
13 and

14 (b) The amount, if any, that will appear as a charge on the periodic utility bill for  
15 that dwelling unit until the remaining balance is paid.

16 SECTION 11. The recording officer of the county shall record the notice described  
17 in subsection (2) of section 10 of this 1977 Act in a manner designed to appear in the  
18 mortgage records of the county.

19 SECTION 12. The provision of weatherization services to a dwelling unit shall be  
20 considered part of the utility service rendered by the public utility.

21 SECTION 13. In order to avoid duplication of efforts by the commissioner and the  
22 Director of the Department of Energy and to provide consistency in weatherization  
23 services for all residential energy consumers, the commissioner shall coordinate  
24 weatherization programs pursuant to this 1977 Act with any other weatherization  
25 programs approved by the Director of the Department of Energy.

26 SECTION 13a. If House Bill 3265 (1977) becomes law, section 13 of this Act is  
27 repealed and section 13b is enacted in lieu thereof.

28 SECTION 13b. In order to avoid duplication of efforts by the commissioner and the  
29 Director of the Department of Energy and to provide consistency in weatherization  
30 services for all residential energy consumers, the commissioner shall coordinate  
31 weatherization programs pursuant to this 1977 Act with weatherization programs  
32 approved by the director of the Department of Energy pursuant to chapter \_\_\_\_\_,  
33 Oregon Laws 1977 (Enrolled House Bill 3265).

34 SECTION 14. The commissioner shall adopt by rule a formula by which the public  
35 utility shall charge all customers to recover:

1 (1) The cost to the utility of the services required to be provided under subsections  
2 (1) and (2) of section 4 of this 1977 Act;

3 (2) The interest or other carrying charges or a part thereof that would normally be  
4 charged to those customers making payments over a period of time for the services  
5 provided under subsection (3) of section 4 of this 1977 Act;

6 (3) Any bad debt costs, including casualty losses, attributable to the services  
7 performed under section 4 of this 1977 Act or to the loan guarantees required by  
8 paragraph (c) of subsection (2) of section 6 of this 1977 Act; and

9 (4) The administrative costs of the residential energy conservation program  
10 described in section 4 of this 1977 Act.

11 **SECTION 15.** The commissioner shall approve:

12 (1) The weatherization services to be provided by the utility pursuant to subsection  
13 (3) of section 4 of this 1977 Act;

14 (2) The time periods for customer payment for weatherization services under  
15 subsection (5) of section 4 of this 1977 Act; and

16 (3) The interest rates to be charged for extended payments for weatherization  
17 services pursuant to subsection (5) of section 4 of this 1977 Act, which the commissioner  
18 finds shall act to conserve energy at a cost less than the cost of energy from new energy  
19 sources.

20 **SECTION 16.** Sections 1 to 15 of this Act expire and stand repealed on January 1,  
21 1982.

22 **SECTION 17.** This Act being necessary for the immediate preservation of the  
23 public peace, health and safety, an emergency is declared to exist, and this Act takes  
24 effect on its passage.

APPENDIX E

OREGON LEGISLATIVE ASSEMBLY--1977 Regular Session

**B-Engrossed**

**House Bill 3265**

Ordered by the Senate June 25

(Including Amendments by House May 16 and by Senate June 25)

Sponsored by COMMITTEE ON ENVIRONMENT AND ENERGY (at the request of Representative Kinsey)

**SUMMARY**

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

Requires energy suppliers, upon request, to supply technical advice and assistance concerning various methods of energy saving. Requires energy suppliers to provide list of at least two competent energy-conservation contractors and provide information about availability of low-interest home loans for energy-conservation services. Defines "energy conservation services."

Limits interest rate for loans provided by commercial lending institutions for financing energy-conservation services to six and one-half percent annually. Authorizes credit against corporate excise taxes to commercial lending institutions for difference between maximum amount of interest allowed to be charged for energy-conservation loans and amount of interest which lending institution would have charged based upon lesser of average annual interest rate for home improvement loans or 12 percent. Repeals weatherization services program provisions of Act on January 1, 1982.

Repeals portions of this Act effective January 1, 1982.

NOTE: Matter in bold face in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted; complete new sections begin with SECTION.

## A BILL FOR AN ACT

1  
2 Relating to energy conservation; creating new provisions; amending section 2, chapter  
3 197, Oregon Laws 1977; and declaring an emergency.

4 **Be It Enacted by the People of the State of Oregon:**

5 **SECTION 1.** This Act shall be known as the Oregon Energy Conservation Act of  
6 1977.

7 **SECTION 2.** The Legislative Assembly finds and declares that:

8 (1) There is an urgent and continuing need for all Oregonians to conserve energy;

9 (2) Many of the homes in Oregon are in need of additional insulation and other  
10 weatherization measures to make them more energy efficient;

11 (3) Insulation and other weatherization measures in many cases can conserve  
12 energy and make it available for other uses at less cost than energy from new sources;  
13 and

14 (4) Expenditure by energy suppliers on conservation programs is in many cases a  
15 prudent and cost-effective means of gaining new supplies for energy consumers.

16 **SECTION 3.** As used in this Act, unless the context requires otherwise:

17 (1) "Commercial lending institutions" means any bank, mortgage banking  
18 company, trust company, savings bank, savings and loan association, credit union,  
19 national banking association, federal savings and loan association or federal credit  
20 union maintaining an office in this state.

21 (2) "Director" means the Director of the Department of Energy.

22 (3) "Dwelling" means real property within the state inhabited as the principal  
23 residence of an owner or renter and which is occupied at the time weatherization  
24 services are requested, excluding mobile homes as defined in ORS 446.003.

25 (4) "Dwelling owner" means the person or persons having legal title to a dwelling,  
26 including the mortgagor under a duly recorded mortgage of real property, the trustor  
27 under a duly recorded deed of trust or a purchaser under a duly recorded contract for  
28 the purchase of real property.

29 (5) "Contractor" means a person, partnership, association, company, corporation or  
30 other form of organization qualified to perform one or more weatherization services.

31 (6) "Weatherization services" means providing and installing items primarily  
32 designed to improve the efficiency of space heating and energy utilization of a dwelling.  
33 These items include but are not limited to caulking; weatherstripping, and other  
34 infiltration preventative materials; ceiling and wall insulation; crawl space insulation;  
35 vapor barrier materials; timed thermostats; insulation of heating ducts, hot water pipes

1 and water heaters in unheated spaces, storm doors and windows; double glazed  
2 windows; and dehumidifiers.

3 (7) "Energy supplier" means a publicly owned utility or fuel oil dealer which  
4 supplies electricity or fuel oil for the space heating of dwellings.

5 (8) "Fuel oil dealer" means a person, association, company, corporation or any other  
6 form of organization which supplies during any 12-month period more than 500,000  
7 gallons of fuel oil at retail for the space heating of dwellings.

8 (9) "Investor-owned utility" means an electric or gas utility regulated by the Public  
9 Utility Commissioner of Oregon under ORS chapter 757.

10 (10) "Publicly owned utility" means an electric utility owned or operated, in whole  
11 or in part, by a municipality, cooperative association or people's utility district.

12 (11) "Space heating" means the primary means of heating the air within a dwelling  
13 by electricity, gas or fuel oil.

14 (12) "Space-heating customer" means a dwelling owner or tenant receiving his  
15 space-heating requirements from an energy supplier.

16 (13) "Tenant" means a person or head of a household occupying a dwelling under a  
17 written lease the remaining unexpired term of which is not less than three years at the  
18 time any weatherization services are performed.

19 **SECTION 4.** Within 90 days after the effective date of this Act, each energy  
20 supplier shall present for approval by the director a weatherization services program  
21 which shall, in accordance with the rules of the director adopted pursuant to ORS  
22 183.310 to 183.500:

23 (1) Make available to all space-heating customers of the energy supplier, upon  
24 request, information relating to weatherization services;

25 (2) Except as provided in section 5 of this Act, provide to all space-heating  
26 customers of the energy supplier, upon request, assistance and technical advice  
27 concerning various methods of saving energy in the customer's dwelling, including but  
28 not limited to an inspection of the customer's dwelling to determine sources of heat loss  
29 followed within 60 days by an estimate of the cost to the customer for the installation of  
30 recommended weatherization services by a contractor;

31 (3) Include a list of not less than two contractors providing various types of  
32 weatherization services within or in close proximity to the service area or areas of the  
33 energy supplier, each of which has registered with the Builders Board and posted a  
34 surety bond as provided in ORS chapter 701;

1 (4) Based upon the list described in subsection (3) of this section, submit to each  
2 space-heating customer desiring one or more types of weatherization services, a list of  
3 not less than two contractors in close proximity to the customer to provide such services;  
4 and

5 (5) Provide information about the availability of low-interest home loans for  
6 weatherization services through commercial lending institutions.

7 **SECTION 5.** (1) No energy supplier shall be required to provide assistance and  
8 technical advice concerning weatherization services to a space-heating customer unless  
9 such energy supplier is the primary provider of space-heating energy for the customer.

10 (2) No energy supplier who in good faith complies with the provisions of section 4 of  
11 this Act shall be liable for any act or failure to act or any contractor whose name is  
12 submitted by such energy supplier to a space-heating customer.

13 **SECTION 6.** The interest rate for loans provided by commercial lending  
14 institutions to space-heating customers for the purpose of financing weatherization  
15 services shall not exceed six and one-half percent annually.

16 **SECTION 6a.** If House Bill 2157 (1977) becomes law, section 6 of this Act is  
17 repealed and section 6b is enacted in lieu thereof.

18 **SECTION 6b.** The interest rate for loans provided by commercial lending  
19 institutions to space-heating customers of energy suppliers pursuant to this Act and  
20 space-heating customers of investor-owned utilities pursuant to chapter \_\_\_\_\_,  
21 Oregon Laws 1977 (Enrolled House Bill 2157), for the purpose of financing  
22 weatherization services shall not exceed six and one-half percent annually.

23 **SECTION 7.** Section 8 of this Act is added to and made a part of ORS chapter 317.

24 **SECTION 8.** A credit against taxes otherwise due under this chapter for the  
25 taxable year shall be allowed commercial lending institutions in an amount equal to the  
26 difference between:

27 (1) The maximum amount of interest allowed to be charged during the taxable year  
28 under section 6 of this 1977 Act for loans made prior to January 1, 1982, by the lending  
29 institution to space-heating customers for the purpose of financing weatherization  
30 services; and

31 (2) The amount of interest which would have been charged during the taxable year  
32 by the lending institution for such loans at an annual interest rate which is the lesser  
33 of the following:

1 (a) The average interest rate charged by the commercial lending institution for  
 2 home improvement loans made during the calendar year immediately preceding the  
 3 year in which the loans for weatherization services are made; or

4 (b) Twelve percent.

5 SECTION 9. Section 8 of this Act applies with respect to taxable years beginning  
 6 on and after January 1, 1977.

7 SECTION 10. Sections 1 to 6 of this Act expire and stand repealed on January 1,  
 8 1982.

9 Section 11. Section 2, chapter 197, Oregon Laws 1977 (Enrolled Senate Bill 371), is  
 10 amended to read:

11 Sec. 2. (1) As used in this section, "energy conservation services" means services  
 12 provided by public utilities to educate and inform customers and the public about  
 13 energy conservation. Such services include but are not limited to providing answers to  
 14 questions concerning energy saving devices and providing inspections and making  
 15 suggestions concerning the construction and siting of buildings and residences.

16 (2) All public utilities as defined in ORS 757.005, that produce, transmit, deliver or  
 17 furnish heat, light or power shall establish energy conservation services and shall  
 18 provide energy conservation information to customers and to the public. The services  
 19 shall be performed in accordance with such rules as the commissioner may prescribe.

20 *[(3) All persons as defined in ORS 758.400, other than public utilities as defined in*  
 21 *ORS 757.005, that produce, transmit, deliver or furnish heat, light or power shall*  
 22 *establish energy conservation services and shall provide energy conservation information*  
 23 *to customers and to the public. The services shall be performed in accordance with such*  
 24 *guidelines as the commissioner may prescribe.]*

25 SECTION 12. Section 13 of this Act is added to and made a part of ORS 469.010 to  
 26 469.140.

27 SECTION 13. (1) As used in this section "energy conservation services" means  
 28 services provided by energy suppliers to educate and inform customers and the public  
 29 about energy conservation. Such services include but are not limited to providing  
 30 answers to questions concerning energy saving devices and providing inspections and  
 31 making suggestions concerning the construction and siting of buildings and residences.

32 (2) Energy suppliers other than public utilities as defined in ORS 757.005, that  
 33 produce, transmit, deliver or furnish heat, light or power shall establish energy  
 34 conservation services and shall provide energy conservation information to customers

1 and to the public. The services shall be performed in accordance with such guidelines as  
2 the director may by rule prescribe.

3 (3) As used in this section "energy supplier" means a publicly owned utility or fuel  
4 oil dealer which supplies electricity or fuel oil for the space heating of dwellings.

5 **SECTION 14.** This Act being necessary for the immediate preservation of the  
6 public peace, health and safety, an emergency is declared to exist, and this Act takes  
7 effect on its passage.

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APPENDIX F

ORDER NO. 78-499

BEFORE THE PUBLIC UTILITY COMMISSIONER  
OF OREGON  
UF 3444

In the Matter of the Proposed )  
Tariff Schedule Applicable to )  
Residential Thermal Insulation ) ORDER  
Services in Oregon filed by PACIFIC )  
POWER & LIGHT COMPANY (on the )  
Commissioner's own motion). )

On April 14, 1978, the Pacific Power & Light Company (PP&L) filed Tariff Schedules which set forth provisions for residential thermal insulation services, or weatherization. The schedule is designed to become effective upon its approval by the Commissioner.

On June 6, 1978, a hearing was held at Salem, Oregon, before Richard Sabin, an Administrative Law Judge for the Commissioner. Appearances at the hearing are shown on Appendix "A" to this order.

Following the hearing, (PP&L) submitted, in lieu of a brief, a proposed form of order for the Commissioner's signature. The Commissioner's staff (staff) then filed the PP&L proposed order with modifications which provide for certain accounting and reporting requirements. The Antitrust Division of Oregon Department of Justice filed a brief to which staff filed a reply. The Weatherization Contractors & Manufacturers Association of Oregon, (WC&MA) who participated in the proceeding but is not a party to the proceeding, filed a document which proposed two alternatives, both in the form of modifications of the order submitted by PP&L. The Oregon Committee for Fair and Equitable Utility Rates also filed a memorandum.

Based upon the record herein, and after consideration of the positions of the parties and the WC&MA, the Commissioner now enters his findings, conclusions and order herein.

PP&L filed its proposed Schedule 8 (Appendix "B" [to this order]) pursuant to ORS 757.205 to 757.230. It intends to submit the program in partial compliance with Chapter 889,

Oregon Laws 1977, enrolled House Bill 2157 Appendix "C" [to this order]). The Commissioner has reviewed the filing under both ORS Chapter 57 and the House Bill, and has consulted with the Department of Energy regarding the proposed Schedule.

The schedule provides, generally, that the Company will finance designated weatherization services for designated residential customers without repayment from those customers until such time as a customer may sell his home. At that time the customer is obliged to repay to PP&L the cost of the services provided without any interest charge.

The record reflects that the proposed schedule will provide benefits for all customers, both those who take advantage of the service offered under the schedule and those who do not. It should therefore be approved. However, that approval should be granted with the understanding that it does not constitute "state action" so as to grant immunity from antitrust laws. It should also be understood that there are unresolved problems which PP&L will be expected to resolve with the assistance, if necessary, of this agency. These include, but are not limited to: method of selection (or rejection) of contractors; selection of materials; criteria for application of the program to old residential units; multiple bids on various phases of work on a home.

A program such as this will necessarily bring to light unanticipated problems. These should be resolved by PP&L. Those dissatisfied with any such resolution may take advantage of the remedies available under the statutes governing this agency.

It is further found that the service proposed is available to PP&L's specified residential customers, and that the program will be beneficial to all customers including those who do not participate in it. The proposed service will not constitute an undue preference, prejudice or discrimination.

It is further found that insofar as the customers who are covered by the filing, Schedule 8 complies with HB 2157.

The accounting treatment proposed by PP&L is approved. While there may be modifications by reason of adoption of a rule following hearings on PUC Docket No. R-43, the "weatherization" accounting rule, no changes will be made which will preclude PP&L from including its investment in

this program in its rate base, nor will it be precluded from recovery of the reasonable expenses attributable to the program.

The implementation of the proposed tariff schedule is for a purpose for which PP&L may issue securities under ORS 757.415, namely, the improvement or maintenance of its service. It is also found that the tariff is for the construction, completion, extension or improvement of its facilities. The purpose of the schedule is to reduce energy use by PP&L's residential customers in order that PP&L not be required to provide the energy saved by reason of that reduced use. So viewed, the result for PP&L, and consequently its customers, is akin to the addition of low cost generation facilities which have no operating costs.

IT IS THEREFORE ORDERED that the proposed Schedule 8 of the Pacific Power & Light Company is approved, pursuant to ORS Chapter 757, and HB 2157 with respect to those customers to whom Schedule 8 is applicable; and

IT IS FURTHER ORDERED that Schedule 8 shall become effective 30 days after the effective date of this order; and

IT IS FURTHER ORDERED that within 30 days of the effective date of this order the Pacific Power & Light Company shall file additional tariff sheets providing for weatherization services for all residential customers covered by HB 2157 and not covered by Schedule 8; and

IT IS FURTHER ORDERED that the Company is initially authorized to expend no more than \$30 million associated with its insulation and weatherization plan. In the event that the Company needs additional funds for the program, the Company shall apply to the Commissioner for authority to expend such funds no less than forty-five days prior to the need for additional funds.

Made, entered and effective June 30, 1978.



*Charles Davis*  
\_\_\_\_\_  
CHARLES DAVIS  
Public Utility Commissioner

APPEARANCES:

Leonard A. Girard, Attorney, Portland, Oregon, appearing in behalf of Pacific Power & Light Company.

George Galloway, Attorney, Portland, Oregon, appearing in behalf of Pacific Power & Light Company.

Timothy Wood, Assistant Attorney General, Salem, Oregon, appearing in behalf of the PUC staff.

Bruce DeBolt, Assistant Attorney General, Salem, Oregon, appearing in behalf of the Antitrust Division.

Allan Hart, Attorney, Portland, Oregon, appearing in behalf of the Oregon Committee for Fair and Equitable Utility Rates.

Ivan Gold, Attorney, Portland, Oregon, appearing in behalf of the Oregon Committee for Fair and Equitable Utility Rates.

Gene Maudlin, Acting Executive Director, Salem, Oregon, appearing in behalf of the Weatherization Contractors and Manufacturers Association.

Paul Olson, Salem, Oregon, appearing in behalf of the Weatherization Contractors and Manufacturers Association.

Bob Bone, Klamath Falls, Oregon, appearing in behalf of Golden West Insulation Company.

Rod Hamilton, Salem, Oregon, appearing in behalf of WCMA.

C. Stanley Rasmussen, Baker, Oregon, appearing in behalf of C. P. National.

Philip B. Carman, San Francisco, California, appearing in behalf of C. P. National.

Harold Wright, Spokane, Washington, appearing in behalf of Washington Water Power Company.

James Killfoil, San Jose, California, appearing in behalf of Golden Therm Insulation.

Bob Reynolds, Salem, Oregon, appearing in behalf of Valley Storm Window Company.

Jack Henderson, Portland, Oregon, appearing in behalf of Hendersons & Daughter, Inc.

W. J. Finnegan, Bellevue, Washington, appearing in behalf of himself.

BEFORE THE PUBLIC UTILITY COMMISSIONER  
OF THE STATE OF OREGON

PACIFIC POWER & LIGHT COMPANY  
.....  

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Proposed Residential Energy Efficiency Rider

## PACIFIC POWER &amp; LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER  
OPTIONAL FOR QUALIFYING CUSTOMERS

PURPOSE:

Service under this schedule is intended to reduce the electricity requirements of residential dwellings through the installation of permanent energy saving materials. The decision to extend service under this schedule shall be solely at the Company's option, but will be based upon the cost-effectiveness criteria and eligibility requirements contained herein.

COST-EFFECTIVENESS CRITERIA:

The Company's current kilowatt-hour cost of additional new facilities for residential heating requirements has been determined to be in excess of 4.2 cents per kilowatt-hour. To the extent that the average installed cost of selected energy saving materials for eligible dwellings results in a cost of less than 1.8 cents per kilowatt-hour saved, the Company will offer service under this schedule.

In addition, upon the request of any residential customer, the Company will install an insulation blanket on any electric water heater installed on or before April 3, 1978, and located in an unheated area within homeowner's building.

AVAILABLE:

In all territory served by the Company in Oregon. Service will not be available under this schedule to dwellings not served by the Company on or before April 3, 1978 nor to dwellings converted to electric space heating subsequent to April 3, 1978.

APPLICABLE:

To residential single-family homes and duplexes where each homeowner and occupant thereof satisfy all the Provisions of Service contained herein. Excluded from service under this schedule are multifamily dwellings of more than two units, mobile homes in transient trailer parks, dwellings in campgrounds which are seasonal or intermittently occupied, and ordinary hotels and motels. Hospitals, convalescent homes, college dormitories, fraternities and sororities, student rooming houses or military barracks are also excluded because of the transient nature of their inhabitants, and because of the current uncertainty associated with the degree of cost effectiveness associated with installing energy saving materials in such structures. The permanency of mobile homes will be determined by the Company based on the following criteria:

- A. Site improvements--such as permanent footings or foundations and permanent sanitary facilities.

(Sheet 1 of 9)

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Issued April 14, 1978  Effective: Upon PUC Order Approving Application dated April 14, 1978

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Issued by PACIFIC POWER & LIGHT COMPANY  
C. P. Davenport, Vice President  
Public Service Building, Portland, Oregon

PACIFIC POWER & LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER  
OPTIONAL FOR QUALIFYING CUSTOMERS

- B. Potential for mobility--such as wheels, axles and towing devices or skirting, awnings and other accessories.
- C. Ownership--whether the land on which the mobile home is located is also owned by the occupant or owner of the mobile home.

PROVISIONS OF SERVICE:

1. Occupant must request the Company, in writing, to conduct a Home Energy Analysis of the dwelling to be served.
2. If the Home Energy Analysis indicates that providing service pursuant to this schedule might satisfy the cost-effectiveness criteria set forth above, the occupant will be so informed and the Company will discuss with the owner and occupant (if different from the owner) the energy saving materials the Company believes should be installed, the standards associated with their installation, and the possible benefits to the owner and occupant associated with such installation.
3. If a water heat insulation blanket is called for, it will be installed at the time of the Home Energy Analysis.
4. Occupant shall permit contractor-installers working with the Company to enter the dwelling in order to bid the installation of specified energy saving materials.
5. Owner, after having been informed of the cost, based upon the lowest acceptable bid, of the installation of specified energy saving materials, shall sign an "Insulation Cost Repayment Agreement" form, which is attached and by reference made a part of this schedule.
6. Upon the completion of the contractor-installer's work, occupant shall allow a Company representative to inspect the quality of the installation and arrange for any necessary follow-up to complete the work consistent with contract specifications.

EFFECTIVE DATE OF SERVICE:

The installation obligations of the Company under this schedule shall become effective to a customer on the date which the "Insulation Cost Repayment Agreement" is signed by the owner.

(Sheet 2 of 9)

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Issued April 14, 1978  Effective: Upon PUC Order Approving Application Dated April 14, 1978

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Issued by PACIFIC POWER & LIGHT COMPANY  
C. P. Davenport, Vice President  
Public Service Building, Portland, Oregon

## PACIFIC POWER &amp; LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER  
OPTIONAL FOR QUALIFYING CUSTOMERS

MONTHLY BILLING:

Billings for electric service to customers under this schedule shall be calculated in accordance with the applicable Residential Service Schedules of this tariff.

SPECIAL CONDITIONS:

A. The Insulation Cost Repayment Agreement requires that individual owners of dwellings shall repay the Company, without interest, the contract cost of the installation of energy saving materials no later than the time the ownership of the dwelling is transferred by any means. In the case of dwellings not owned by individuals, repayment shall be made within seven years of the date of execution of the Insulation Cost Repayment Agreement.

B. If insulation of an electric water heater located in an unheated space is required, it will be installed by the Company at no direct cost to the customer and with no repayment obligation.

C. Order of selecting qualifying owner-occupants: The Company anticipates a significant number of its current residential customers will apply for service under this schedule. Service will be rendered pursuant to this schedule in the order of the date of execution of the "Insulation Cost Repayment Agreement" by individual customers.

D. Company representatives will consult with those considering service under this schedule in an attempt to mutually agree upon a plan of installation of energy saving materials which will maximize cost-effective energy savings and respond to aesthetic concerns. However, the Company shall have complete discretion in the selection of materials it proposes to cause to be installed.

E. Home Energy Analyses will be conducted to determine the cost-effectiveness of insulation and weatherization based upon typical consumption patterns and average local weather. However, because of the variability and uniqueness of individual energy use, it is not possible to precisely predict the savings that will accrue to any particular dwelling. Therefore, the Company, by providing information in the course of a Home Energy Analysis, will not warrant that the energy saving materials it proposes be installed will achieve any specific savings benefits from the standpoint of any particular customer.

RULES AND REGULATIONS:

Service under this schedule is subject to the General Rules and Regulations contained in the tariff of which this schedule is a part, and to those prescribed by regulatory authorities.

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Issued April 14, 1978

Effective: Upon PUC Order Approving  
Application Dated April 14, 1978

Issued by PACIFIC POWER & LIGHT COMPANY

C. P. Davenport, Vice President

Public Service Building, Portland, Oregon

NOTE: Unless otherwise indicated, type must be at least 8 point.

PACIFIC POWER & LIGHT COMPANY  
SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER  
INSULATION COST REPAYMENT AGREEMENT  
(Limited Warranty)

This agreement is made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, between Pacific Power & Light Company ("Pacific") and \_\_\_\_\_ ("Homeowners").

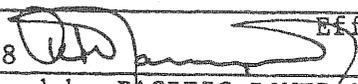
1. Homeowners represent that they are the owners of the property at

\_\_\_\_\_  
(address) (county) (state)

which is more particularly described as:

hereinafter referred to as "the property."

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C. P. Davenport, Vice President  
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PACIFIC POWER & LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER

INSULATION COST REPAYMENT AGREEMENT (CONTINUED)  
(Limited Warranty)

2. Pacific shall cause insulation and weatherization materials to be installed in Homeowners' home as follows:

The cost of the installation described above, for which Homeowners will ultimately be responsible under this agreement, shall not exceed \$\_\_\_\_\_.

3. LIMITED WARRANTY PROVISION

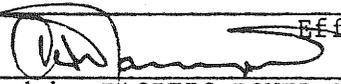
Pacific shall contract with an independent insulation and weatherization contractor and will pay for work done as described above.

Pacific warrants that the insulation and weatherization materials will be installed in a workmanlike manner consistent with prevailing industry standards. If installation is not installed in a workmanlike manner, Pacific, at no expense to the Homeowners, will cause any deficiencies to be corrected.

If upon completion of installation, Homeowners believe the work is deficient, Homeowners must contact the Manager, \_\_\_\_\_, Department of Pacific Power & Light Company, Public Service Building, 920 S. W. Sixth Avenue, Portland, Oregon 97204, (503) 243-1122, or the District Manager at their local Pacific Power & Light Company district office.

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PACIFIC POWER & LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER

INSULATION COST REPAYMENT AGREEMENT (CONTINUED)  
(Limited Warranty)

EXCEPT FOR THE WARRANTIES EXPRESSLY DESCRIBED IN THIS AGREEMENT, PACIFIC MAKES NO OTHER WARRANTIES. ALL EXPRESS AND IMPLIED WARRANTIES ARE EXTENDED ONLY TO AND LIMITED TO THE HOMEOWNERS, WILL START UPON COMPLETION OF THE INSTALLATION OF THE INSULATION, AND WILL TERMINATE 90 DAYS FROM THAT DATE. HOMEOWNERS' REMEDIES FOR ANY CLAIM, INCLUDING, BUT NOT LIMITED TO, EXPRESS OR IMPLIED WARRANTIES, NEGLIGENCE, STRICT LIABILITY OR CONTRACT ARE LIMITED TO THOSE REMEDIES EXPRESSLY DESCRIBED HEREIN, AND IN NO EVENT SHALL PACIFIC BE RESPONSIBLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES TO HOMEOWNERS OR ANYONE ELSE.

NOTE: Some states do not allow limitations on how long an implied warranty lasts, so the above limitation may not apply to you.

Some states do not allow the exclusion or limitation of incidental or consequential damages, so the above limitation or exclusion may not apply to you.

This warranty gives you specific legal rights, and you may also have other rights which vary from state to state.

Pacific conducts Home Energy Analyses at the request of its customers to determine the cost-effectiveness of insulation and weatherization based upon average consumption patterns and typical local weather conditions. However, because of the variability and uniqueness of individual energy use, it is not possible to precisely predict the savings that will accrue to any particular individual. Therefore, Pacific, by providing information in good faith concerning the anticipated benefits of insulation and weatherization, or by entering into this agreement, does not warrant that the installation of the insulation and weatherization materials provided for in this agreement will result in savings of money or electrical consumption.

Pacific may petition the Oregon Legislature to amend current law to allow the Company, rather than individual owner-occupants, to receive the benefit of any tax credit accruing from the installation of energy saving materials provided for herein.

4. HOMEOWNERS' OBLIGATION TO REPAY

Individual Homeowners shall pay to Pacific, without interest, the actual contract cost of the insulation and weatherization prior to the sale or transfer of any legal or equitable interest in any part of the property, except that in the case of a transfer due to death, such payment shall be

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Public Service Building, Portland, Oregon

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## PACIFIC POWER &amp; LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDERINSULATION COST REPAYMENT AGREEMENT (CONTINUED)  
(Limited Warranty)

due at the time title of the property is deemed to pass to any other person. Homeowners other than individuals (corporations, trusts, etc.) shall pay to Pacific, without interest, the actual contract cost of the insulation and weatherization within seven years of the date of this agreement. Homeowners may pay such cost to Pacific at any time prior to the time payment is due.

5. HOMEOWNERS' OBLIGATION TO NOTIFY

Homeowners shall notify Pacific in writing of the sale or transfer of any legal or equitable interest in any part of the property, whether it is voluntary or involuntary. Such notice shall be sent as soon as Homeowners know that there will be a sale or transfer, and not later than one week before the expected sale or transfer. The notice must include the name of the Homeowners, the address of the property, the name of the person to whom the property is being sold or transferred, and the name of any person or company who is acting as a closing agent for the sale or transfer or is otherwise participating in the transaction. Homeowners authorize Pacific to contact any of the persons so named and authorize and direct such persons to pay Pacific any obligations owing under this agreement from any monies which such persons owe to Homeowners.

6. SECURITY INTEREST

To secure the Homeowners' obligations herein, Homeowners hereby mortgage to Pacific the property, together with all present and future appurtenances, improvements, and fixtures thereto. This paragraph shall not take effect until that date which is one day prior to the earliest to occur of the following dates:

- (1) the date on which any legal or equitable interest in any part of the property is transferred;
- (2) the date on which any legal or equitable interest in any part of the property which does not exist as of the date of this agreement is created, including without limitation any deed, lien, mortgage, judgment or land sale contract;

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## PACIFIC POWER &amp; LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDERINSULATION COST REPAYMENT AGREEMENT (CONTINUED)  
(Limited Warranty)

- (3) the date on which any action or suit is filed to foreclose or recover on the property or any part thereof for any mortgage, lien, judgment or other encumbrance on the property or any part thereof which existed prior to the recording date of this agreement.

7. PERFECTION OF SECURITY INTEREST

Pacific may record this agreement in the county real property records, and Homeowners shall execute any other documents deemed necessary by Pacific to perfect this security interest.

8. Each Homeowner who signs this agreement shall be individually and jointly responsible for performing the obligations of Homeowners in this agreement. This agreement shall be binding upon the successors and assigns of the parties. Homeowners shall not assign this agreement without the written consent of Pacific.

9. This document contains the entire agreement between the parties and shall not be modified except by a written instrument signed by the parties.

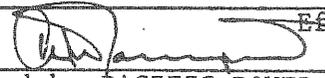
10. HOMEOWNERS' RIGHT TO CANCEL

If this agreement was solicited at a place other than the offices of Pacific, and you do not want the goods or services, you may cancel this agreement without any penalty, cancellation fee or other financial obligation by mailing a notice to Pacific. The notice must say that you do not want the goods or services and must be mailed before 12:00 midnight of the third business day after you sign this agreement. The notice must be mailed to: Pacific Power & Light Company, \_\_\_\_\_, Oregon.

However: You may not cancel if you have requested Pacific to provide goods or services without delay because of an emergency and

(1) Pacific in good faith makes a substantial beginning of performance of the contract before you give notice of cancellation, and

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PACIFIC POWER & LIGHT COMPANY

SCHEDULE 8  
RESIDENTIAL ENERGY EFFICIENCY RIDER

INSULATION COST REPAYMENT AGREEMENT (CONTINUED)  
(Limited Warranty)

(2) In the case of goods, the goods cannot be returned to Pacific in substantially as good condition as when received by Homeowners.

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11. HOMEOWNERS ACKNOWLEDGE THAT THEY HAVE RECEIVED A COPY OF THIS AGREEMENT.

PACIFIC POWER & LIGHT COMPANY

HOMEOWNERS

By \_\_\_\_\_

\_\_\_\_\_

STATE OF OREGON )

) ss.

County of )

\_\_\_\_\_, 19\_\_

Personally appeared the above-named \_\_\_\_\_ and acknowledged the foregoing instrument to be \_\_\_\_\_ voluntary act and deed.

Before me:

\_\_\_\_\_  
Notary Public for Oregon  
My Commission Expires: \_\_\_\_\_

STATE OF OREGON )

) ss.

County of )

\_\_\_\_\_, 19\_\_

Personally appeared the above-named \_\_\_\_\_ and acknowledged the foregoing instrument to be \_\_\_\_\_ voluntary act and deed.

Before me:

\_\_\_\_\_  
Notary Public for Oregon  
My Commission Expires: \_\_\_\_\_

(Sheet 9 of 9)

Issued April 14, 1978

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