

RE: Energy Trust of Oregon Performance Measures

ORS 757.612(3)(d) requires the Public Utility Commission of Oregon (PUC or Commission) to direct how public purpose charges are collected and spent. As the statute allows, the Commission has directed that funds collected through the public purpose charge for investment in new cost-effective local energy conservation, new market transformation efforts and the above market cost of new renewable energy resources be paid to the nongovernmental Energy Trust of Oregon (ETO or the Trust), a 501 (c)(3) nonprofit organization.

In order to monitor the Trust's performance and to ensure that conservation and new investment in renewable energy resource development are funded efficiently and effectively, the Commission is establishing performance standards, measures and targets.¹ The development of performance measures at this time does not imply that the Commission has identified any particular concerns with the ETO performance to date. Rather, performance measures are being developed to clarify the Commission's expectations of ETO performance for future reference. Performance measures will be used as a monitoring tool to provide an early indication of when and if the Commission should consider issuing a Notice of Concern, as provided by the Grant Agreement between the Commission and the ETO. They will also be considered when the Commission decides whether to renew the grant agreement.

Following the ETO's annual report to the Commission each year, staff intends to submit a report on whether the ETO met the performance measures and whether staff believes that the measures should be modified.

The Commission's staff (staff) has prepared the attached draft performance measures and requests your comment on what modifications, additions and/or deletions to its draft performance measures should be considered. A public workshop on the subject will be held on June 14, 2004, at 1:30 p.m. in the Commission's Main Hearing Room. Staff asks that written comments regarding the draft performance measures be submitted by 4 p.m. on June 25, 2004. Staff will present a formal recommendation on the issue at the July 6, 2004, Commission public meeting.

Staff also asks your opinion as to whether any performance measures adopted as a result of this proceeding should be officially incorporated into the PUC/ETO Grant Agreement. Questions can be directed to me at 503-373-7133, or e-mailed to janet.fairchild@state.or.us.

¹ Staff defines performance standards as the ideals or principles that the Commission expects the ETO to attain. Performance measures are the actions the ETO takes to ensure that it will meet a given performance standard. Performance targets are designed to demonstrate that ETO has taken appropriate actions and demonstrated attainment of a given performance standard.

**OPUC Staff's Draft Performance Measures for the
Energy Trust of Oregon (ETO)
June 4, 2004**

Performance Standard No. 1: Financial Integrity

Financial integrity means that funds entrusted to the ETO are accounted for accurately and reported openly. The performance measure for this standard is that the ETO will retain a certified public accountant to perform annual financial audits and that they receive an unqualified audit opinion. The performance target for this measure is also that they meet the performance measure of receiving an unqualified audit opinion. Should the Trust fail to obtain an annual audit, or if it received an adverse or qualified audit opinion, the Commission would issue an immediate Notice of Concern pursuant to the Grant Agreement.

Performance Standard No. 2: Operational Efficiency and Effectiveness

Funds entrusted to the ETO should be spent in a manner that produces the maximum societal benefit on behalf of the ratepayers who pay public purpose charges. This means that ETO must operate as efficiently and effectively as possible. There are four performance measures that should be used to monitor compliance with this standard.

1. The ETO will retain a certified public accountant or a consultant with demonstrated expertise to perform biennial (or annual)² performance/management audits.³ PUC staff should have advance access to audit plans to determine if the audit objectives will sufficiently address any ETO performance concerns the PUC might have. ETO responses to performance audit recommendations should reflect reasonable efforts to implement program improvements in a timely manner.
2. The ETO will retain a certified public accountant or a consultant with demonstrated expertise to perform biennial or annual customer satisfactions surveys either, as part of the management audit identified in No. 1 above, as part of their routine program evaluations or

² The PUC/ETO grant agreement requires management reviews to be performed at least once every five years. This performance measure would exceed the grant agreement requirement, but would provide an independent tool for ongoing PUC oversight. A biennial audit cycle beginning with a report due no later than January 1, 2005 would coincide with the Oregon State Legislative cycle.

³ For these purposes, staff defines a management or a performance audit as a review of an entity's operating procedures and methods to determine their efficiency and effectiveness. In performing such an audit, the auditor typically examines the entity's policies and procedures to determine whether or not they (1) accomplish the goals of management (that is, their effectiveness) and (2) achieve their goals in the best possible and least wasteful manner (that is, their efficiency). Examples of kinds of questions the audit should address include: is information and advice provided via advisory councils given proper consideration, is the ETO's approach to contracting out work appropriate, should more work be brought in house, should more work be contracted out, does ETO staff adequately evaluate expected energy savings before implementing a new conservation program, are savings from existing programs adequately assessed and are proper corrective actions taken when programs are not providing anticipated savings.

independently. If the results show customer satisfaction levels below the equivalent of a 4 on a 1-to-5-scale, with 5 being superior, the ETO should submit an action plan outlining how it will improve customer satisfaction.

3. Administrative costs should be kept to the minimum necessary to ensure effective program delivery. It is difficult to determine exactly how much administrative activity is needed to support effective program delivery and the appropriate level may vary over time depending on the mix of program offerings and other factors. Staff stresses that the final target levels should reflect the upper bound on what should be expected and should be set high enough to allow for such variability. A range of administrative cost measures and targets could be considered reasonable. Some alternatives include:
 - a) Administrative costs, defined by generally accepted accounting principles (GAAP) for non-profit organizations, should not exceed 6 percent of overall ETO **expenditures**. Based on ETO's 2003 audited financial statements, administrative expenditures comprised 6 percent of total ETO expenditures for the year.
 - b) Administrative costs, defined by GAAP for non-profit organizations, should not exceed 10 percent of overall ETO **revenues**. Based on ETO's 2003 audited financial statements, administrative expenditures comprised 4 percent of total ETO funding for the year.
 - c) Administrative (or support) costs, defined as all costs not included in the ETO's program management, program incentive, program payroll and related expenses, call center, and program outsourced services accounts, should not exceed 3 percent of overall revenues. Based on ETO's 2003 audited financial statements, expenditures in these accounts were 1 percent of overall revenues.
4. Savings targets should be established for both energy efficiency programs and for renewable resource development programs. Targets are set at an aggregated level rather than at a sector level to allow the ETO flexibility to pursue programs in different sectors as market forces and technological advances would dictate. Implicit in these target levels is the assumption that ETO will provide programs for all customer sectors, including those that have historically been underserved.
 - a) Energy Efficiency Programs (Electric): For **electricity savings** ETO should deliver at least 20 aMW of savings annually at a cost of no more than \$1.65 million/aMW, with average savings life of 15 years. (Levelized cost of \$0.0183/kWh). The goal should be viewed as the upper bound on reasonable ETO savings.⁴ It would provide the ETO flexibility to pursue more expensive residential programs as it sees fit. However, the

⁴ Savings programs targeted at reducing peak load would be excluded from this measure and subject to a target based on the utilities' avoided cost for peak load service.

Commission would anticipate that ETO performance would be closer to its own savings goals, which are 30 aMW for 2004 at a cost of approximately \$1.4 million/aMW.

For comparison, note that over the past 12 years, PGE and PacifiCorp have averaged 10 aMW per year at an average annual cost of \$1.9 million/aMW. PGE reports that their conservation program ran at an average of \$1.14 million/aMW from 1997 through 2001.⁵ The regional average, per the Northwest Power Planning Council's research, is \$2.2 million/aMW.

- b) Energy Efficiency Programs (Natural Gas): For **natural gas** savings ETO should deliver at least 700,000 therms of savings annually at a cost of no more than \$2.50/therm and an average measure life of at least 15 years. The goal should be viewed as the upper bound on reasonable ETO savings. This performance measure is set to reflect a slight improvement over NWN achievements from 1996 through 2003. Over that time, NWN averaged 638,000 therms of savings per year at an average cost of \$2.61 per therm.

Performance measures based on the dollars per aMW or therm of savings is easily calculated and verified. It is also comparable with data available from prior utility programs and with programs currently conducted in other jurisdictions. However, it does not fully account for the benefits associated with high value savings programs. A levelized cost approach captures the lifetime benefits of a savings program, but it still does not adequately reflect the full value of many savings programs.

Alternatively a benefit/cost ratio of X/XX calculated as based on measure life, a 3 percent discount rate, and achieved energy savings could be considered as a measure of ETO effectiveness and efficiency. This approach would better reflect the actual value of energy efficiency savings programs, but it is far more difficult to calculate and verify and it is not easily compared to other programs.

- c) Renewable Resource Programs: Based on a three year rolling average, the ETO should deliver an average of at least 15 aMW per year of new renewable resources, from a variety of renewable sources. The ETO's long-term goal is to deliver 450 aMW of new renewable resource by 2012. A target of 35 aMW would be needed to achieve a more conservative goal of 300 aMW by 2012.⁶ However, staff recognizes that the ETO's ability to reach either of these targets by 2012 is highly dependent on factors, such as

⁵ It is important to note that in addition to the program costs reflected in the above averages, utilities were also receiving payment for lost revenue recovery, incentives and a return on investment. Therefore, ratepayers paid more for the utility conservation programs than the program averages would indicate.

⁶ 16 aMW have been achieved to date. 300 less 16 aMW leaves 284 aMW to be obtained over the next 8 years. 284 aMW divided by 8 years is 35.5 aMW.

the production tax credit, which are beyond the ETO's control. Therefore, staff proposes a lower 15 aMW target.

Performance Standard No. 3: Equitable Distribution of Programs

ETO funding is received from residential, commercial and industrial customers of the largest investor owned Oregon utilities. The availability and penetration rate of cost-effective savings programs for each sector varies, so the appropriate number and types of programs delivered to each sector should also vary. However, staff expects at least some level of service to be provided to each sector on an ongoing basis. To allow flexibility while at the same time ensuring that some level of services are delivered to each sector, the ETO should target at least 20 percent of its program expenditures to residential programs, 20 percent to commercial programs and 20 percent to industrial programs each year.