EnergyTrust of Oregon, Inc.

# Financial Glossary

(for internal use) - updated October 24, 2006

## Administrative Costs

- Costs that, by nonprofit accounting standards, are not program services and are not directly attributed to programs—i.e. management and general and general communication and outreach expenses

I. **Management and General**
   - Includes oversight/board activities, interest/financing costs, accounting, payroll, board, human resources, general legal support, and other general organizational management costs.
   - These costs are determined by the general makeup of the programs.
   - Does not include indirect costs such as facilities, telephone, etc. (However, M&G does receive an allocated share of such expenses.)

II. **General Communications and Outreach**
   - Expenditures of a general nature, conveying the nonprofit mission of the organization and general public awareness.
   - Expenditures are not directed to specific programs.
   - Receives an allocated share of indirect costs.

## Allocation

- A way of grouping costs together and applying them to a program as one pool based upon an allocation base that most closely represents the activity driver of the costs in the pool
- Used as an alternative to charging programs on an invoice–by-invoice basis for accounting efficiency purposes
- An example would be accumulating all of the costs associated with customer management (call center operations, Energy Trust customer service personnel, complaint tracking, etc). The accumulated costs are then spread to the programs that benefited by using the ratio of calls into the call center by program (i.e. the allocation base)

## Allocation Cost Pools

- Employee benefits
- Employer portion of payroll taxes
- Indirect costs-general corporate fixed costs, i.e. rent, utilities, supplies, etc.
- Trade Ally costs
- Customer service costs
- General communications & outreach costs
- Management and general costs
- Planning costs
- Evaluation costs
- Shared costs for electric utilities
- Shared costs for all utilities

**Auditor's Opinion**

- An accountant's or auditor's opinion is a report by an independent CPA presented to the Board of Directors describing the scope of the examination of the organization's books, and certifying that the financial statements meet the AICPA requirements of GAAP (generally accepted accounting principles)
- Depending on the audit findings, the opinion can be unqualified or qualified regarding specific items. Energy Trust strives for and has achieved in all its years an unqualified opinion.
- An unqualified opinion indicates agreement by the auditors that the financial statements present an accurate assessment of the organization's financial results.
- The OPUC Grant Agreement requires an unqualified opinion regarding Energy Trust's financial records
- Failure to follow generally accepted accounting principles (GAAP) can result in a qualified opinion.

**Board-approved Annual Budget**

- Funds approved by the board for *expenditures* during the budget year (subject to board approved program funding caps and associated policy) for the stated functions.
- Funds approved for *capital* asset expenditures.
- Approval of the general allocation of funds including commitments and cash outlays

**Carryover Funds**

- In any one year, the amount by which revenues exceed expenses for that year in a designated category that will be added to the cumulative balance and brought forward for expenditure to the next budget year
- In any one year, if expenditures exceed revenues, the negative difference is applied against the cumulative carryover balance.
- Does not equal the cash on hand due to noncash expense items such as depreciation
- Tracked by major utility funder and at high level program area--by EE vs RE, not tracked by program

**Commitments**

I. **Contract obligations**
   - A contract that has been signed creating a legal obligation
   - Reported in the monthly Schedule of Commitments

II. **Project commitments (see FastTrack projects forecasting)**
   - Commitments made to an electric or gas customer to assist in the funding of a project
   - Eventually to be posted against the PMC contract and program budget when paid
   - May be board-designated for a particular program to be expensed in a later financial period (i.e. many renewable energy investments)
   - May be escrowed in a special bank account for payment and expense in a later financial period

**Cost-Effectiveness Calculation**

- Programs and measures are evaluated for cost-effectiveness
- The cost of program savings must be lower than the cost to produce the energy from both a utility and societal perspective
- Expressed as a ratio of energy savings cost divided by the presumed avoided utility and societal cost of energy

- Program cost-effectiveness evaluation is "fully allocated," i.e. includes all of the program costs plus a portion of Energy Trust administrative costs

**Direct Program Costs**

- Can be directly linked to and reflect a causal relationship to one individual program/project; or can easily be allocated to two or more programs based upon usage, cause, or benefit.

**Direct Program Evaluation & Planning Services**

- Evaluation services for a specific program rather than for a group of programs
- Costs incurred in evaluating programs and projects and included in determining total program funding caps
- Planning services for a specific program rather than for a group of programs
- Costs incurred in planning programs and projects and are included in determining program funding expenditures and caps

**Escrowed Program (Incentive) Funds**

- Cash deposited into a separate escrow account at a bank that will be paid out pursuant to a contractual obligation requiring a certain event or result to occur. Funds can be returned to the Energy Trust if such event or result does not occur. Therefore, the funds are still "owned" by Energy Trust and will remain on the balance sheet.
- The funds are within the control of the bank in accordance with the terms of the escrow agreement.
- When the event or result occurs, the funds are considered "earned" and are transferred out of the escrow account ("paid out") and then are reflected as an expense on the income statement for the current period.

**Expenditures/Expenses**

- Amounts for which there is an obligation for payment of goods and/or services that have been received or earned within the month or year
- Does NOT include cash deposited into an escrow account

**FastTrack Projects Forecasting**

- Module developed in FastTrack to provide information about the timing of future incentive payments, with the following definitions**:**
- Estimated-Project data may be inaccurate or incomplete. Rough estimate of energy savings, incentives and completion date by project and by service territory
- Proposed-Project that has received a written incentive offer but no agreement or application has been signed. Energy savings, incentives and completion date to be documented by programs using this phase. For Renewable projects-project that has received Board approval
- Accepted-Used for renewable energy projects in 2nd round of application; projects that have reached a stage where approval process can begin
- Committed-Project that has a signed agreement or application reserving incentive dollars until project completion. Energy savings/generations, incentives and completion date by project and by service territory must be documented in project records and in FastTrack. If project not demonstrably proceeding within agreed upon time frame, committed funds return to incentive pool. Reapplication would then be required
- Completed-Project that has received payment from Energy Trust
- Program Summary Estimate (PEST)-program level (not specific projects) estimate of forecasted incentives and savings

## Incentives

I. **Residential Incentives**

- Incentives paid to a residential program participant (party responsible for payment for utility service in particular dwelling unit) exclusively for energy efficiency and renewable energy measures in the homes or apartments of such residential customers

II. **Business Incentives**

- Incentives paid to a participant other than a residential program participant as defined above following the installation of an energy efficiency or renewable energy measure. (Proposal to merge this category with Service incentives once method to determine tax status incorporated into FastTrack rather than requiring GL coding
- Above market cost for a particular renewable energy project

III. **Service Incentives**

- Incentives paid to an installation contractor which serves as a reduction in the final cost to the participant for the installation of an energy efficiency or renewable energy measure
- Payment for services delivered to participants by contractors such as home reviews and technical analysis studies
- Funds provided to delivery vendors to encourage the energy service providers to promote the installation of additional measures by end users
- End-user training, enhancing participant technical skills or energy efficiency practices proficiency such as "how to" sessions on insulation, weatherization, or high efficiency lighting
- CFL online home review fulfillment and PMC direct installations.
- Technical trade ally training to enhance technical competencies
- Incentives for equipment purchases by trade allies to garner improvements of services and diagnostics delivered to end-users, such as duct sealing, HVAC diagnosis, air filtration, etc.

## Indirect Costs

- Shared joint costs that are "allocated" for accounting purposes rather than assigning individual charges to programs
- Allocated to all programs and administration functions
- Examples include rent/facilities, supplies, computer equipment and support, and depreciation

## IT Support Services

- Information technology costs incurred as a result of supporting all programs
- Includes FastTrack energy savings and incentive tracking software, data tracking support of PMCs and for the program evaluation functions
- Receives an allocation of indirect shared costs

## Outsourced Services

- Miscellaneous professional services contracted to third parties rather than performed by internal staff
- Can be incurred for program or administrative reasons and will be identified as such

**Program Costs**

- Fulfill the purposes or mission for which the organization exists and are authorized through the program approval process
- Includes program management, incentives, program staff salaries, planning, evaluation, quality assurance, and other costs incurred solely for program purposes.
- Can be direct or indirect (i.e. allocated based on program usage

**Program Delivery Expense**

- This will include all PMC labor and direct costs associated with: incentive processing, program coordination, program support, trade ally communications, and program delivery contractors
- Includes performance compensation incentives paid to program management contractors under contract agreement if certain incentive goals are met
- Trade ally training pertaining to program delivery (*Steve proposing to move to Service Incentives pending PUC staff approval, as it's Market Transformation activity and TA participants as well as customers are beneficiaries.)*

**Program Legal Services**

- External legal expenditures and internal legal services utilized in the development of a program-specific contract

**Program Management Expense**

- PMC billings associated with program contract oversight, program support, staff management, etc.
- ETO program management staff salaries, taxes and benefits

**Program Marketing/Outreach**

- PMC labor and direct costs associated with marketing/outreach/awareness efforts to communicate program opportunities and benefits to rate payers/program participants
- Awareness campaigns and outreach efforts designed to reach participants of individual programs.
- Co-op advertising with trade allies and vendors to promote a particular program benefit to the public.

**Program Quality Assurance**

- Independent in-house or outsourced services for the quality assurance efforts of a particular program (distinguished from program quality control).

**Program Support Costs**

- Source of information is contained in statement of functional expense report.
- Portion of costs in OPUC performance measure for program administration and support costs.
    - Includes expenses incurred directly by the program.
    - Includes allocation of shared and indirect costs incurred in the following categories: supplies; postage and shipping; telephone; printing and publications; occupancy expenses; insurance; equipment; travel; business meetings; conferences and training; depreciation and amortization; dues, licenses, subscriptions and fees; miscellaneous expense; payroll & related expense; outsourced services; and an allocation of information technology department cost

## Savings Types

- **Working Savings/Generation:** the estimate of savings/generation that is used for data entry by program personnel as they approve individual projects. They are based on deemed savings/generation for prescriptive measures, and engineering calculations for custom measures. They do not incorporate any evaluation or transmission and distribution factors.
- **Reportable Savings/Generation:** the estimate of savings/generation that will be used for public reporting of Energy Trust results. This includes transmission and distribution factors, evaluation factors, and any other corrections required to the original working values. These values are updated annually, and are subject to revision each year during the "true-up" as a result of new information or identified errors.
- **Contract Savings**: the estimate of savings that will be used to compare against annual contract goals. These savings figures are generally the same as the reportable savings at the time that the contract year started. For purposes of adjusting working savings to arrive at this number, a single adjustment percentage (a SRAF, as defined below) is agreed to at the beginning of the contract year and is applied to all program measures. This is based on the sum of the adjustments between working and reportable numbers in the forecast developed for the program year.
- **Savings Realization Adjustment Factors (SRAF):** are savings realization adjustment factors applied to electric and gas working savings measures in order to reflect more accurate savings information through the benefit of evaluation and other studies. These factors are determined by the Energy Trust and used for annual contract amendments. The factors are determined based on the best available information from:
  - Program evaluations and/or other research that account for free riders, spill-over effects and measure impacts to date; and
  - Published transmission and distribution line loss information resulting from electric measure savings.

## Total Program and Admin Expenses (line item on income statement)

- Used only for cost effectiveness calculations and management reports used to track funds spent/remaining by service territory
- Includes all costs of the organization--direct, indirect, and an allocation of administration costs to programs
- Should not be used for external financial reporting (not GAAP)

## Total Program Expenses (line item on income statement)

- All indirect costs have been allocated to program costs with the exception of administration (management and general costs and communications & outreach)
- Per the requirements of Generally Accepted Accounting Principles (GAAP) for nonprofits, administrative costs should not be allocated to programs
- There is no causal relationship—costs would not go away if the program did not exist

## Trade Ally Programs & Customer Service Management

- Costs associated with Energy Trust sponsorship of training and development of a trade ally network for a variety of programs
- Trade Ally costs are tracked and allocated to programs based on the number of allies associated with that program
- Costs in support of assisting customers which benefit all Energy Trust programs such as call center operations, customer service manager, complaint handling, etc.

- Customer service costs are tracked and allocated based on # of calls into the call center per month

**True Up**

- True-up is a once-a-year process where we take everything we've learned about how much energy programs actually save or generate, and update our reports of historic performance and our software tools for forecasting and analyzing future savings.
- Information incorporated includes improved engineering models of savings (new data factor), anticipated results of future evaluations based on what prior evaluations of similar programs have shown (anticipated evaluation factor), and results from actual evaluations of the program and the year of activity in question (evaluation factor).
- Results are incorporated in the Annual Report (for the year just past) and the True-up Report (for prior years).
- Sometimes the best data on program savings or generation is not available for 2-3 years, especially for market transformation programs. So for some programs, the savings are updated through the annual true-up 2 or 3 times