Board Action
Proposed Policy on Using Reserve Accounts

May 23, 2012

Summary

Energy Trust maintains two types of financial reserves, one to meet contingencies for all programs and unanticipated organizational needs and one to meet contingencies only for certain energy efficiency programs. This paper describes historical usage of both reserves, and proposes when prior board approval will be necessary for reserve usage.

Background

- Energy Trust has two reserve accounts, one derived from interest earnings on all revenues and one specific to each utility for energy efficiency programs.
- "Interest reserves:" The first reserve, which we call "interest reserves" or "interest carryover", was created in 2006, when the Board recommended Energy Trust maintain a certain amount of cash reserves as a guard against revenue fluctuations. After reviewing several options, the calculation agreed upon was based on a potential 10% loss of revenue corresponding to four unseasonably warmer winter months over a two-year revenue cycle. This seemed like the worse-case risk scenario. Any excess above that amount of reserves is available for any efficiency or renewable energy program and for other organization purposes consistent with our mission. To date, Energy Trust has been successful in using interest income earned on unspent funds to build these reserves, which are summarized annually during the budget process.
- "Program reserves:" A second reserve arose after the 2007 legislature passed SB 838 and authorized the electric utilities, with OPUC approval, to collect additional funds for energy efficiency. This same approach of negotiating annual projected energy efficiency funding to meet utility Integrated Resource Plan targets was subsequently applied to the gas utilities as well. Annual funding negotiations begin each August with each utility and culminate in tariff filings with the OPUC, if needed. As limited by statute, these program reserve funds apply only to residential and smaller commercial customers and cannot be used for large energy users or for renewable energy projects.
- In 2008, the OPUC suggested that projected utility program budgets should include a 5% "cushion" to accommodate unforeseen market demand. This program reserve cushion is tracked and identified in annual budgets as "carryover."
- Energy Trust also maintains a $4 million line of credit, which has never been used, and is available for emergencies.

Discussion

- The interest reserve currently appears to be sufficient to meet the Board's reserve requirements and protect against further revenue shortfalls.
- Variations in interest reserve amounts and the amount of carryover for a program reserve "cushion" change from year to year based on the accuracy of utility revenue

forecasts, Energy Trust expenditure forecasts, and balances in the two reserve accounts.

- Based on the approved 2012 budget and our projections, we expect to have the following program reserves (carryover) at the end of 2012:

	Expected balance by December 31, 2012 per budget (Carryover)	Projected balance by December 31, 2012 *	Recommendation (Target)	Projected as a % of target
Interest Reserves	$9,015,302	** $4,506,539	$8,195,000	55%
Program Reserves				
EE-PGE	932,555	932,555	3,458,606	27%
EE-Pacific Power	2,406,979	2,406,979	2,273,711	106%
EE-NW Natural	3,923,437	3,923,437	1,120,163	350%
EE-Cascade	308,831	308,831	146,850	210%

*****Incorporates revenues through April 2012

*Budgeted reserve of $9,015,302 less transfer of $1,120,000 for the solar PV program as approved by Board on March 28, 2012, less revenue shortfall to-date of $3,389,000.

- As is evident from the table (above), the extent to which the expected program reserve balances approximate the “5% cushion” varies widely between the utilities and changes over time depending upon expenditure patterns, whether the account was tapped and if it is in the process of being replenished.

- To this point, Energy Trust has had no board policy on how program reserves can be used. Because use of reserves can be a sensitive matter, staff recommends a policy be adopted by the board and suggests consideration of the following guiding principles:
    - Because programs occasionally encounter contingencies that require quick adjustment, a maximum of 50% of individual utility program reserve fund expected balance should be available for staff allocation to meet unanticipated energy efficiency program demand absent advance board approval. Such actions would always be reported to the board and OPUC after the fact and clearly identified in quarterly reports.
    - The board must provide prior review and approval for usage of individual utility energy efficiency program reserves above 50%.
    - Annual utility funding negotiations and corresponding OPUC tariff filings will include replenishment of program reserve funds when needed.
    - Because funding for large energy user efficiency measures and renewable energy programs are limited by statute, use of interest reserves for these or any other purposes would continue to require board action.

Recommendation

- **Require board action before staff may draw upon the interest reserve, or if staff proposes to use more than 50% of the program reserve for energy efficiency particular to each utility and provided such usage is clearly identified in the quarterly report to the board and the OPUC.**
- **Enable staff to tap up to 50% of individual utility program reserve funds absent prior board approval, provided such usage is clearly identified in the monthly financial reports provided to the board and the OPUC.**
- **Direct staff to work with the Policy and Finance committees to reference this change and corresponding guidelines within the appropriate policies.**

RESOLUTION 633

POLICY ON USING RESERVE ACCOUNTS

WHEREAS:

1. **Historically, Energy Trust has maintained two reserve accounts.**
2. **The first account, "Interest reserves" was created in 2006, when the Board called for a reserve to guard against revenue shortfalls, calculated using revenue reduction estimates assuming unseasonably warm weather over a two-year funding cycle. Interest reserves are available for any efficiency or renewable energy program and are available for other organization purposes consistent with our mission.**
3. **The second account, "Program reserves" arose after the 2007 legislature authorized electric utilities to collect additional funds for energy efficiency measures for customers with loads under one average megawatt. The same principle of negotiating additional energy efficiency funding with the gas utilities has been in place since this same time. The OPUC subsequently suggested that these revenue discussions and corresponding tariff filings should include a 5% "cushion" from each utility to accommodate unforeseen market demand.**
4. **Energy Trust has had no board policy governing the use of either of the two reserve accounts. Following the board's 2006 guidance and if the board finds that a policy would be helpful, and should be based on the following guiding principles:**
    - **Require board action before staff may draw upon the interest reserve, or if staff proposes to use more than 50% of the program reserve for energy efficiency particular to each utility.**
    - **Direct staff to work with the Policy and Finance committees to reference this change and corresponding guidelines within the appropriate policies.**

It is therefore RESOLVED:

1. **Board action shall be required before staff may draw upon the interest reserve, or if staff proposes to use more than 50% of the program reserve specific to an individual utility and provided such usage is clearly identified in the monthly financial statements provided to the board and the OPUC.**
2. **Enable staff to tap up to 50% of individual utility program reserve funds absent prior board approval, provided such usage is clearly identified in the quarterly report to the board and the OPUC.**
3. **Staff is directed to work with the Policy and Finance committees to reference this change and corresponding guidelines within appropriate Energy Trust policies.**

Moved by: Seconded by:

Vote: In favor: Abstained:

Opposed: [list name(s) and, if requested, reason for "no" vote]