Secretary of State
Oregon Audits Division

Public Utility Commission

Energy Trust Administrative Costs are Generally Reasonable, but the Public Utility Commission Can Improve Oversight of These Costs

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Audit Highlights

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Report Highlights

The Oregon Public Utility Commission (PUC) has designed controls to ensure administrative and program support costs at Energy Trust of Oregon are reasonable. Energy Trust is a nonprofit organization and is not subject to state administrative cost requirements. However, PUC could strengthen its oversight of Energy Trust administrative costs by more clearly defining what constitutes reasonable costs, revising key performance metrics, and clarifying financial reporting requirements.

Background

Energy Trust is a nonprofit organization funded by a grant agreement with PUC to develop and administer energy efficiency and renewable energy programs in certain utility service territories in Oregon. The grant funding comes from three separate charges on bills of customers of electric and natural gas utilities regulated by PUC.

Purpose

The purpose of the audit was to determine whether Energy Trust administrative costs are reasonable and whether PUC has reasonable controls in place to oversee Energy Trust's administrative costs.

Key Findings

1. Energy Trust complies with PUC's administrative cost control requirements. We found these controls to be reasonable, and Energy Trust has consistently spent below the established administrative cost cap of 8% of revenue per year. However, Energy Trust's administrative costs increased from $1.6 million to $10.1 million between 2002 and 2017, as its annual revenues increased from $30.6 million to $194.2 million during the same period. Improved oversight could help PUC better ensure that Energy Trust makes reasonable administrative spending decisions.
2. We determined Energy Trust's administrative costs are generally reasonable. However, we identified a small percentage of questionable administrative costs that do not align with state agency standards or the grant guidelines that govern Energy Trust operations. PUC could improve its oversight by providing guidance for acceptable administrative costs.
3. Increased clarity and detail in financial reporting would improve transparency and stakeholder oversight. PUC monitors Energy Trust's administrative costs through an enforced spending cap and public budget and reporting processes. Revised reporting methodologies would increase the transparency of Energy Trust's administrative costs and spending trends.

Recommendations

Our report includes recommendations to PUC regarding the clarity of its grant agreement with Energy Trust, revision of performance metrics, and reporting of administrative costs.

PUC generally agreed with our recommendations. The agency's response can be found at the end of the report.

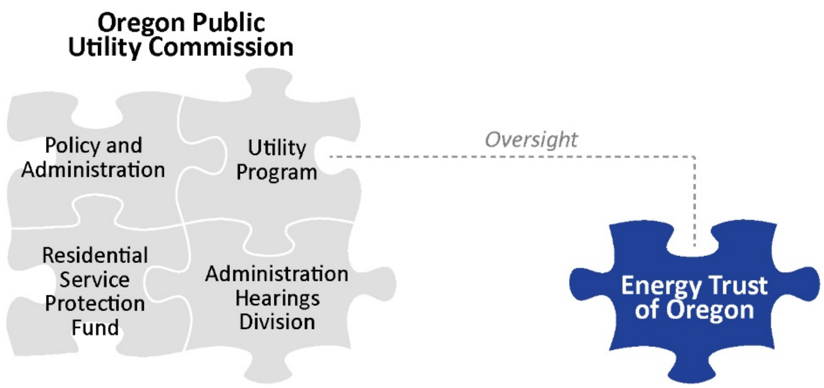
Introduction

Oregon elected officials have prioritized the pursuit of sustainable energy efficiency and renewable energy sources.

Energy Trust of Oregon (Energy Trust) is a nonprofit organization created to help identify and provide sustainable energy solutions for ratepayers. Energy Trust receives funding from state-mandated fees and PUC-approved charges applied to utility ratepayer bills.

The Oregon Public Utility Commission (PUC), Oregon's utility regulatory agency, is responsible for overseeing how these funds are spent. A grant agreement between the two entities outlines PUC's oversight, setting requirements and guidelines for Energy Trust operations.

Both entities have adequate controls in place to ensure that Energy Trust's administrative costs are reasonable. However, PUC can improve Energy Trust's cost reporting requirements for clarity and transparency, and provide better guidance on whether Energy Trust administrative costs for employee recognition and special events align with the intent of the grant agreement.



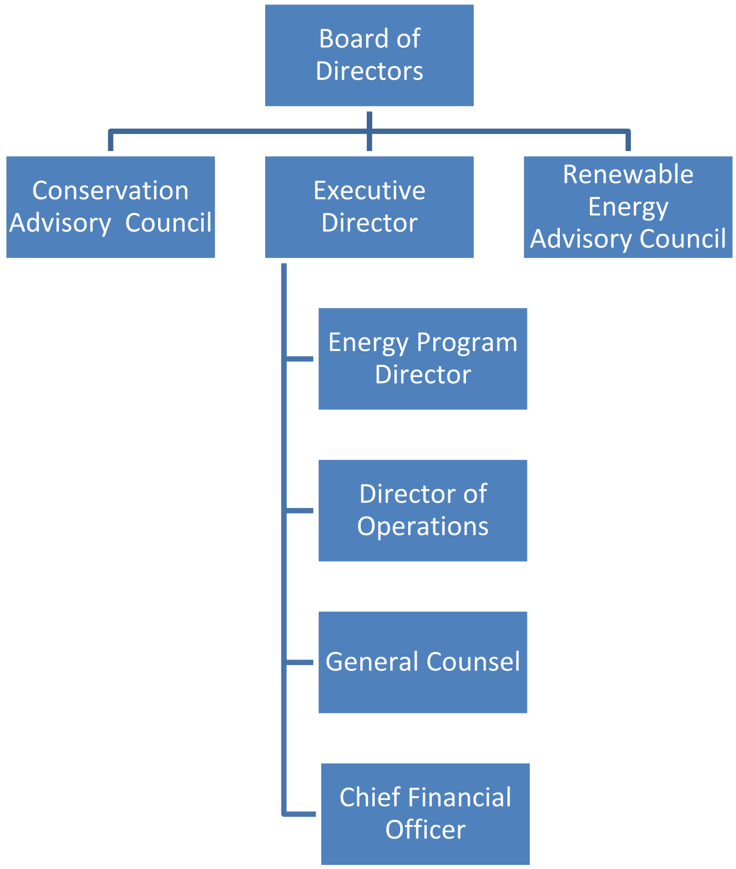
Energy Trust operates energy efficiency and renewable energy programs for customers of investor owned utilities in Oregon

Oregon, like many other states, requires that its utilities invest in saving energy. Since 2002, PUC has assigned a nonprofit organization, Energy Trust, with responsibility for running energy efficiency and renewable energy programs for electric and gas utilities that PUC regulates. This nonprofit is funded through charges paid by ratepayers of participating utilities.

Energy Trust is not a state agency. It operates with state oversight under the direction of an executive director, a 15-member board of directors,[1] and two advisory committees made up of interest groups, two state agencies, and stakeholders.

[1] Consistent with its bylaws, Energy Trust has a board of 13 voting members, three positions of which are currently vacant, plus one non-voting, ex officio member from PUC, and one non-voting special advisor from Oregon Department of Energy.

Figure 1: Energy Trust administrative structure



In 2017, Energy Trust had 107 employees. The majority of staff work in the Portland Metropolitan area. Some staff are located in Eastern and Southern Oregon to provide points of outreach to ratepayers and contractors in those regions.

Energy Trust operates programs around the state that help save energy and generate renewable power

Energy Trust provides energy efficiency and renewable energy programming for state-regulated electric and natural gas utilities, including Portland General Electric, Pacific Power, NW Natural, Cascade Natural Gas, and Avista Corporation.[2] Program activities include providing information, cash incentives, and technical assistance to help utility ratepayers invest in energy-saving or renewable energy projects. See Appendix A at the end of this report for a map of service areas by utility.

> Energy efficiency refers to energy that is saved (rather than produced) through the use of more efficient appliances or by otherwise decreasing energy use.

Energy Trust's programs exist in four market sectors: residential, commercial and public, industrial and agricultural, and renewable energy. Programs provide ratepayers with a variety of energy saving and renewable energy generation options, such as helping home and business owners install more efficient appliances, or helping agricultural customers upgrade their irrigation to save

[2] All PUC-regulated electric and natural gas utilities participate in Energy Trust programs with the exception of Idaho Power. Idaho Power provides electric service to a small number of customers in Eastern Oregon.

water and energy. Contractors and other service providers deliver the majority of these programs. Independent local businesses provide many of the direct services.

Much of Energy Trust's work relates to energy efficiency, which refers to energy that is saved rather than produced. Ratepayers can save energy by using appliances that are more efficient, such as installing LED lightbulbs instead of halogen, or modifying behavior to use less energy, such as turning off appliances when not in use. Energy Trust quantifies savings in average megawatts and therms, which are traditional terms of electric and gas-powered energy measurement.

Programs that focus on saving energy must be cost-effective

Individual energy efficiency projects are comprised of one or more measures. Energy Trust administers a variety of energy saving programs comprised of different measures. Statute requires that programs designed to save energy be cost-effective.[3] This occurs when the costs associated with a saved quantity of energy are less than what a utility must spend to produce and deliver that energy.[4]

Energy Trust uses two nationally recognized cost-benefit assessments to compare the cost of energy efficiency to the cost of energy production.[5] With a few exceptions, Energy Trust's measures and programs must pass both these assessments. Measures that do not pass these cost-benefit tests may be considered for an exception by PUC if the measure conforms to a set of criteria that assesses the overall societal benefits.[6] In 2017, measures with exceptions represented under 2% of Energy Trust's total energy savings.

Energy Trust reports that ratepayers save energy and money

In addition to saving energy, Energy Trust reports their activities have kept nearly 20 million tons of carbon dioxide out of the atmosphere – equivalent to removing more than 3.5 million cars from Oregon roads for one year.

In collaboration with PUC and stakeholders, including utilities as well as industry trade and protection groups, Energy Trust annually sets energy efficiency and renewable energy generation goals. PUC and participating utilities hold the organization accountable to these goals. Energy Trust reported meeting these goals through 2016, the year of the latest completed report.

Per Energy Trust, from 2002 to 2016, the nonprofit's programs and services helped electric utility customers save 607 average megawatts of electricity and generate another 121 average megawatts from renewable sources, delivering 728 average megawatts of electricity. [7] This is enough electricity to power 564,000 average Oregon homes per year.

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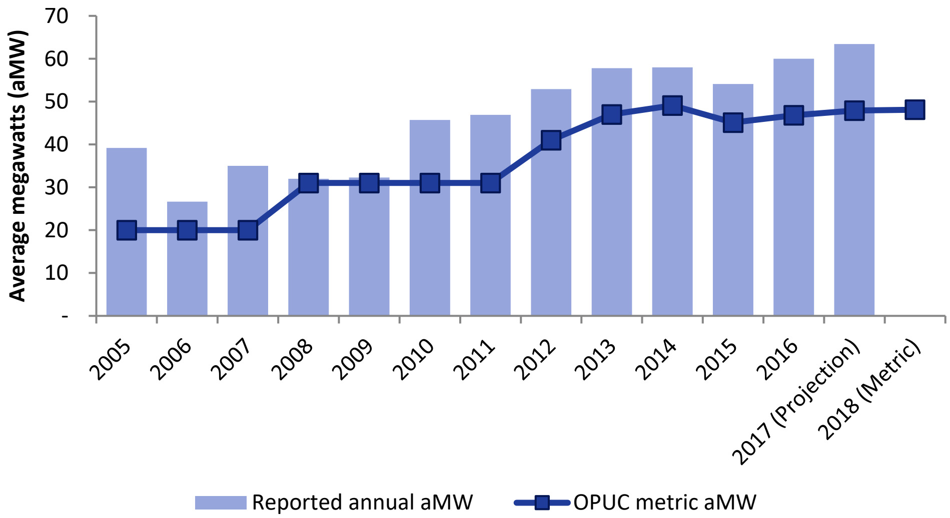
[3] Oregon Revised Statute 757.612 (1)
[4] These costs are the monetary costs of the energy saving programs and services and customer out of pocket costs.
[5] Energy Trust uses the nationally recognized Total Resource Cost Test and Utility Cost Test to measure cost-effectiveness. To learn more about these tests and how they are used, see Energy Trust's resource: https://insider.energytrust.org/wp-content/uploads/GEN_FS_CostEffectiveness.pdf. Accessed 6-13-18.
[6] For a complete list of exceptions, see PUC Order No. 13-256.
[7] A megawatt is a measurement of electricity. An average megawatt (aMW) is one million watts of electricity delivered continuously 24 hours a day for a year.

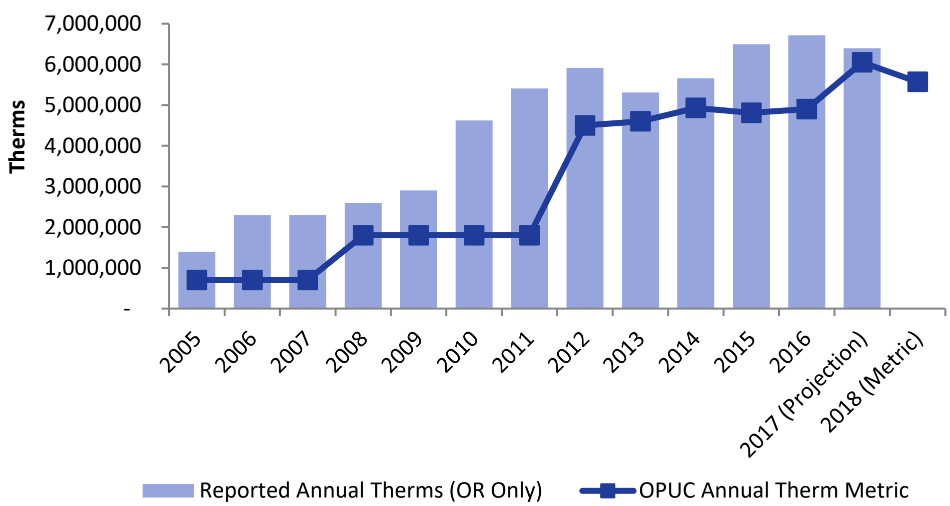
Figure 2: Energy Trust's reported electric savings outperform PUC's goals (average megawatts)[8]



Source: Energy Trust

Energy Trust reports its programs have also helped natural gas utility customers save 52 million annual therms since 2003.[9] This is enough natural gas to heat 100,000 average Oregon homes.

Figure 3: Energy Trust's reported natural gas savings outperform PUC's goals (therms)



Source: Energy Trust

According to Energy Trust, utility ratepayers saved nearly $3 for every dollar invested in energy efficiency programs between 2002 and 2016. Savings are determined through a variety of methods and are subject to third-party evaluations.

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[8] This graph, and the one following, include all savings data since PUC instituted a KPM related to energy savings goals, which occurred in 2005. Savings represent annual, first-year savings at the time each annual report is released.

[9] A therm is a measurement of energy or heat, equal to 100,000 BTU. An annual therm is the amount of energy saved during the first year of the measure's life.

Ratepayers provide all of Energy Trust's funding

The charges Energy Trust receives from ratepayer bills support energy efficiency and renewable energy programs. While their use is subject to state oversight, these charges are not a tax and do not go into the state's General Fund. These charges come from several sources.

Senate Bill 1149, passed in 1999, established the original public purpose charge. It is a 3% fee assessed on Portland General Electric and Pacific Power ratepayer bills. Energy Trust receives approximately 73% of the total amount collected to run electric energy efficiency and renewable energy programs. According to Senate Bill 1149, the remaining 27% of the public purpose charge collections fund school district energy efficiency projects and state low-income housing programs.

Senate Bill 838, passed in 2007, authorizes PUC to allow electric utilities to collect an additional customer fee to support further energy efficiency efforts.[10]

Gas utilities may also collect fees from their customers and direct them to Energy Trust, subject to an agreement with PUC.

The total amount assessed on ratepayers varies annually by utility. Energy Trust determines the amount of funding required to deliver all cost-effective efficiency resources identified in each utility's established integrated resource plan, which is vetted and acknowledged by PUC through public meetings.[11] The utility assesses a corresponding fee on ratepayers to meet that funding amount. There are no caps set on the fee percentages or total amount of funding collected. These amounts are set annually through a public process involving Energy Trust, PUC, utilities, and other stakeholders designed to ensure Energy Trust has appropriate funding to acquire all achievable cost-effective energy efficiency savings.

Figure 4: Estimated PUC approved funding rates for 2018, by utility

	Portland General Electric	Pacific Power	NW Natural	Cascade Natural Gas	Avista Corporation
Total ratepayer fees by percentage	6.3%	4.7%	4%	4.30%	1.10%
Total utility revenue contribution in millions	$102.14	$60.04	$21.27	$2.17	$1.16

Source: Energy Trust's 2018 Approved Budget and Action Plan

[10] Customers that use more than one average megawatt of energy annually are exempt from charges associated with SB 838.
[11] An Integrated Resource Plan (IRP) is developed through a long-term utility planning process to determine the least cost and least risk portfolio of resource actions to meet needs for electric service in a utility's service territory over the next twenty years. Commission guidelines for IRPs require a stakeholder process and filing of plans with the commission for acknowledgement at least every two years.

State policies have driven increased funding for energy efficiency

Since Energy Trust began operation in 2002, new state requirements have driven program expansion and increased funding needs.

Energy Trust reported $30.6 million in revenues in 2002, its first year of operation, and forecasts $186.7 million in revenues for 2018. See Figure 5 for a timeline highlighting legislative actions and other events that have affected Energy Trust's revenues.

Energy Trust is a unique organization that provides energy efficiency and renewable energy programs

While the majority of states have implemented policies related to saving energy, no two states approach energy efficiency and renewable energy identically. Some states house their programs within government agencies, while others leave energy efficiency programming entirely to the utilities.

Only four states, Oregon included, use nonprofit organizations to manage some or all energy efficiency efforts.[12] Oregon chose this route in an effort to establish a flexible, consolidated effort across the region, as well as to ensure that utilities would not grapple with conflicting business incentives to both sell and save energy.

According to a leading industry study, Oregon tied in 2017 with Vermont for fourth in national rankings that assess state progress on implementing policies and programs that save energy and benefit the environment.[13] This ranking includes a variety of criteria that goes beyond the work of Energy Trust, including state tax policies and other regulatory accomplishments.

[12] Maine, Vermont, and Wisconsin use nonprofits to manage some or all energy efficiency efforts.
[13] The American Council for an Energy-Efficient Economy performs rankings annually.

Figure 5: Timeline of legislative events and Energy Trust revenues

1999
Senate Bill 1149 passes, instituting a public purpose charge that requires Pacific Power and Portland General Electric to designate 3% of ratepayer bills to energy efficiency and renewable energy investments. The bill designates PUC as administrator of 73% of these funds, which can be directed to a nonprofit organization. As written in the bill, the public purpose charge sunsets after ten years.

2002
Energy Trust begins operation under a grant agreement with PUC. Energy Trust receives 73% of the 3% public purpose charge assessed on Pacific Power and Portland General Electric ratepayers.

Energy Trust's initial revenues: $30.6 million.

2003
Energy Trust begins to administer the gas utility NW Natural's energy efficiency programs under the direction and oversight of PUC. NW Natural Gas budgeted revenues total $3 million.

Energy Trust's revenues increase to $47 million.

2006
Energy Trust begins to administer energy efficiency programs for gas utilities Cascade Natural Gas and Avista (limited) under the direction and oversight of PUC. These gas utilities budgeted revenues total $9.6 million.

Energy Trust's revenues increase to $58 million.

2007
Senate Bill 838 passes. Known as the Oregon Renewable Energy Act, it allows electric utilities to request all costs related to energy efficiency from ratepayers and extends the original public purpose charge until 2026. Portland General Electric and Pacific Power add an additional public purpose charge (incremental fees) to ratepayer bills (with the exception of customers using more than 1aMW per year).

Energy Trust's revenues increase to $64 million.

2016
Senate Bill 1547 passes. This bill requires utilities to plan for and pursue all available cost-effective energy efficiency. Avista becomes a permanent part of Energy Trust's portfolio, with services beginning in 2017.

Energy Trust's total revenues increase to $149 million.

The Public Utility Commission regulates Oregon investor-owned utilities

PUC's mission is to ensure customers have access to safe, reliable, and high quality utility services at just and reasonable rates. PUC strives to do this through thorough analysis and independent decision-making in an open and fair process.

PUC is a state agency comprised of a three-member commission appointed by the Governor and support staff. PUC regulates Oregon's investor-owned electric and natural gas utilities, private natural gas utilities, telephone utilities, and select water companies. Per statute and a grant agreement, PUC oversees Energy Trust's activities and energy savings goals.

The agency has 125 positions, including the three commission members and support staff. PUC's budget for the 2017-19 biennium is $102.1 million, with 99% of this funding coming from public utility fees. [14]

PUC oversees utilities through three operating programs: the Utility Program, Residential Service Protection Fund Program, and the Policy and Administration Program. The Utility Program is responsible for ensuring that regulated utilities offer safe and reliable energy at reasonable rates. The Utility Program also promotes the development of competitive energy markets.

PUC allows utilities to recover approved costs plus a reasonable return on their investments. [15] The agency requires that electric and gas utilities develop long-term plans that assess all supply options, including energy conservation. Utility rates include costs incurred related to energy efficiency and renewable energy goals.

PUC contracts with Energy Trust to implement energy efficiency and renewable energy programs for major utilities

By statute, PUC is responsible for directing the collection and investment of 73% of the public purpose charge funding and all other PUC-approved charges designated for Energy Trust. [16] PUC oversees Energy Trust's use of these funds through a grant agreement. This grant agreement renews automatically on an annual basis and sets the requirements and guidelines for Energy Trust's operations.

PUC dedicates the equivalent of approximately one-half of one full-time analyst position to Energy Trust. The analyst's duties include reviewing Energy Trust's operations and annual budget in depth. The analyst acts as liaison between Energy Trust, PUC commissioners and the Utility Program Director, ensuring that any concerns regarding Energy Trust operations are communicated effectively.

In addition to this analyst, PUC's commissioners, Utility Program director, Energy Resources and Planning program manager, and senior regulatory affairs advisor all have regular contact with Energy Trust and play a role in monitoring its operations. These commissioners and staff review Energy Trust's annual strategic plans, budgets, and quarterly progress reports, and set the annual key performance metrics. They also approve cost-benefit tests and determine whether any measures or programs qualify for an exception to cost-effectiveness. PUC commissioners address any major changes in Energy Trust operations, such as administrative restructuring, during public meetings.

Administrative costs both support operations and are monitored to evaluate organizational efficiency

PUC monitors Energy Trust's administrative costs to track its operational efficiency and effectiveness. PUC limits these costs to 8% of annual revenues. To date, Energy Trust has

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[14] Roughly 65% of PUC's budget is used to support telecommunications providers in high cost areas and the Residential Service Protection Fund. The remaining 35% of their budget funds oversight of utility and Energy Trust operations.
[15] Each utility submits rate changes to PUC when they want to change rates charged to customers. PUC staff and stakeholders review these rate changes and make recommendations. PUC approves these rates.
[16] Oregon Revised Statute 757.612(3) (d)

achieved its goals of increasing energy savings despite the changing energy industry and while remaining within its cost cap.

Administrative costs are the costs for goods and services used to manage the organization

As stated by the Oregon Nonprofit Corporation Handbook, administrative costs are all costs for goods and services used to provide overall management of the agency. For Energy Trust, these are defined as all costs not counted in direct program delivery or incentive payments. They may include: executive activities, accounting, and general reporting; general outreach and communication; and direct program support costs, such as supplies, meetings, trainings and conferences, equipment, and travel.

Energy Trust tracks administrative costs using two categories: one, Management and General, which includes governance and board activities, accounting, payroll, human resources, general legal support, and other general organizational management costs; and two, General Communications and Outreach, which includes communications that provide general organizational public awareness.

Throughout this report, we refer to all costs listed above as administrative costs.

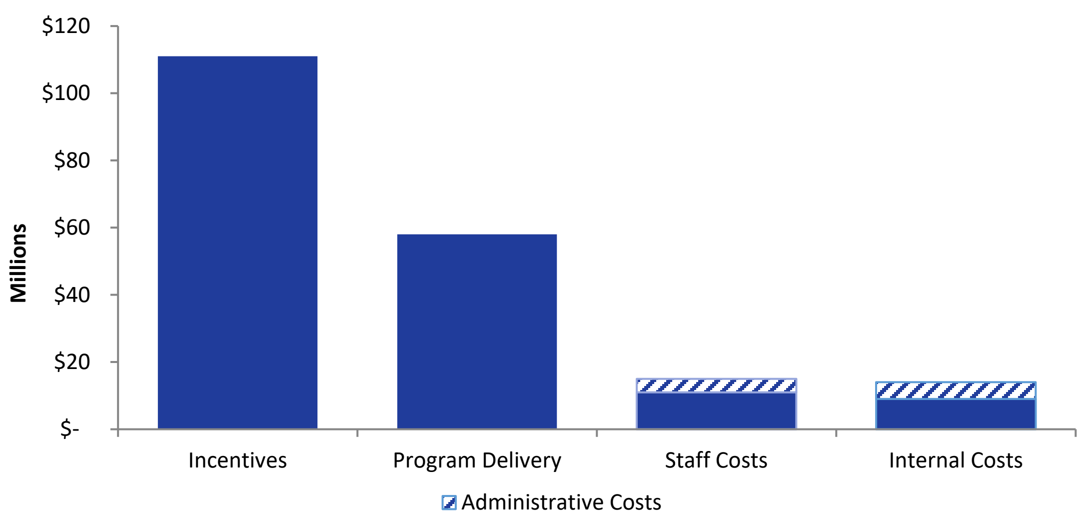
PUC tracks Energy Trust administrative costs to monitor program and organizational efficiency

PUC guidance stipulates that Energy Trust should spend its funds in a manner that produces the maximum benefit on behalf of the ratepayers who pay the public purpose charge and other PUC-approved charges. To enforce this, PUC limits Energy Trust's administrative costs so that the majority of funds are spent on programming and customer incentives, and expects that Energy Trust operate as efficiently and effectively as possible.

The limit is currently set at 8% of revenues received each year. In 2017, Energy Trust spent 5.2% of revenues on administrative costs.

According to Energy Trust's budget, administrative costs are included in the staff costs and internal costs categories. Energy Trust administrative costs totaled $10.1 million in 2017. The remaining portion of staff and internal costs represents internal program delivery efforts.

Figure 6: Breakdown of Energy Trust's costs according to its 2018 budget



Source: Energy Trust

Objective, Scope, and Methodology

Objective

Our objective was to determine whether Energy Trust administrative costs are reasonable and whether PUC has reasonable controls in place to oversee these costs.

Scope

We focused on PUC's oversight of Energy Trust, including controls in place to oversee Energy Trust administrative costs, and the controls that Energy Trust has established to comply with administrative cost requirements.

Methodology

To address our objective, we interviewed PUC and Energy Trust staff in addition to public and private stakeholders. These included representatives from all electric and gas utility companies that help fund Energy Trust, the members of Energy Trust's executive board and advisory committees, representatives from the Northwest Energy Efficiency Alliance and Northwest Power and Conservation Council, and members of trade associations such as the Industrial Customers of Northwest Utilities.

To identify potential best practices, we communicated with administrators from 11 state energy efficiency programs regarding their state practices. These states were selected from the American Council for an Energy Efficient Economy's 2017 State Energy Efficiency Scorecard report. We contacted all states ranked in the top 10 (nine in addition to Oregon), as well as Maine, which operates a structurally similar nonprofit organization. We were unable to speak with one state due to schedule constraints.

We analyzed data provided by PUC and Energy Trust, and reviewed other relevant information including statutes, the grant agreement between PUC and Energy Trust, historical and current Energy Trust financial statements and reports, PUC dockets, and third-party financial and performance reviews.

To gain an understanding of Energy Trust administrative cost controls, we reviewed Energy Trust policies and procedures and interviewed both Energy Trust and PUC staff. To test the controls, we selected two samples. The first sample was judgmentally selected, consisting of 50 administrative transactions from 2016.

The second sample was used to evaluate whether or not administrative costs appeared reasonable. Starting with all administrative transactions from 2016, we removed transactions relating to salaries, employee benefits, and allocated expenses like IT services and taxes, which we judged to be lower risk. This reduced the transaction count from 4,117 to 2,803. From this population, we pulled a statistically valid, random sample of administrative costs. The resulting sample was 338 transactions.

To test the reasonableness of the transactions, we used the Oregon Accounting Manual and Department of Administrative Services (DAS) human resource policies[17] as criteria since PUC has not provided guidance to Energy Trust on how to interpret the grant guideline for

[17] The Oregon Accounting Manual Oregon and Department of Administrative Services human resource policies contain guidance for state agencies on the appropriate use of taxpayer dollars.

administrative costs. This guideline requires Energy Trust to balance the lowest possible administrative costs with overall organizational effectiveness.

We discussed results of this testing with Energy Trust and PUC to gain an understanding of the nature of administrative costs we questioned.

To test the reliability of the data provided by Energy Trust, we compared fields in the data to the source documents for all 338 transactions in our sample and the 50 judgmental transactions. We found no errors in the data and determined the data reliable for our audit purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained and reported provides a reasonable basis to achieve our audit objective.

We sincerely appreciate the courtesies and cooperation extended by officials and employees of the Oregon Public Utility Commission and Energy Trust of Oregon during the course of this audit.

Audit Results

Energy Trust is a nonprofit organization funded through fees paid by utility ratepayers. Because these funds are user fees, not tax dollars, Energy Trust is not subject to state administrative policies. Instead, it complies with requirements set by its grant agreement with PUC. This grant does not provide clear guidance about acceptable administrative costs.

We tested administrative cost controls and transactions to determine whether they were appropriate. We found PUC and Energy Trust have established a reasonable system of controls to monitor and limit administrative costs. Using state guidelines that outline appropriate use of taxpayer funds, we also determined Energy Trust's individual administrative costs are generally reasonable. However, we questioned a relatively small number of expenses related to employee recognition, business meetings, and special events.

PUC is responsible for oversight of Energy Trust's administrative cost spending practices. We found improved reporting and performance metrics would allow for better PUC oversight of Energy Trust administrative costs.

Administrative cost controls are generally reasonable

PUC has established a reasonable control environment to monitor Energy Trust's administrative costs. The grant agreement, public reporting requirements, performance metrics, and third-party reviews inform PUC of Energy Trust's activities and cumulative expenditures. PUC, stakeholders, and consultants provide feedback to Energy Trust, which Energy Trust incorporates into its operations. Energy Trust's internal administrative cost controls supplement PUC's oversight, including written policies and procedures, proper segregation of duties, and internal administrative expense reviews.

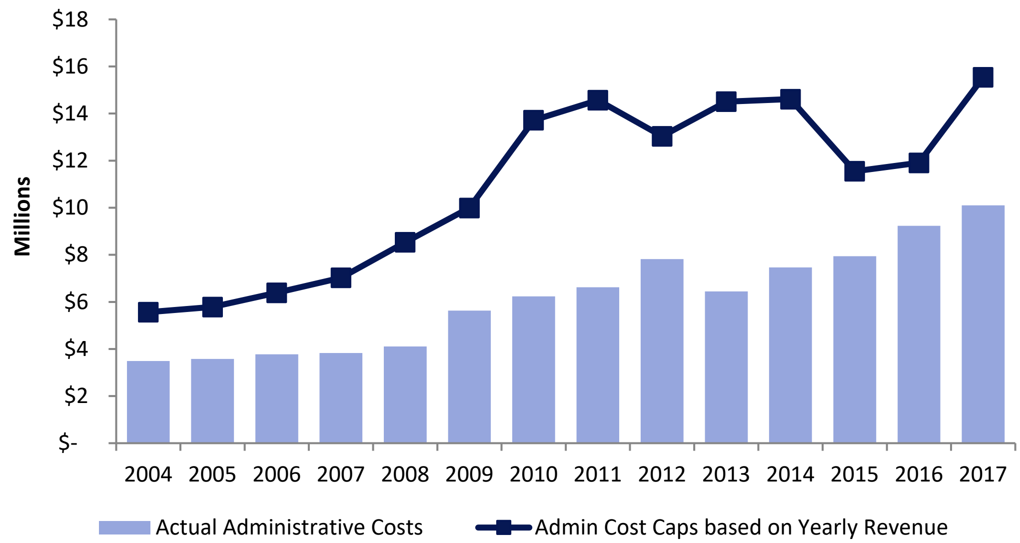
PUC monitors Energy Trust administrative costs using several methods

PUC's primary oversight practices are formalized in a grant agreement. This grant outlines requirements for public reporting and third party reviews and provides guidelines for Energy Trust's administrative cost spending.

PUC also relies on performance metrics, which set minimum expectations for Energy Trust's performance. One of PUC's 19 performance metrics specifically tracks administrative costs. As written, it places a cap on all Energy Trust administrative expenditures, limiting the organization's administrative budget to a set percentage of the revenues received each year. Since the cap is tied to revenues, the actual amount that Energy Trust can spend changes as revenues change.

In 2004, PUC set the cap at 11%, which represented $5.5 million of Energy Trust's $50.6 million revenues. To set the cap, PUC considered the administrative cost limits used by other state energy programs. We found that the 11% cap is also consistent with federal guidelines that govern administrative costs for nonprofit organizations. To reflect Energy Trust spending trends and expectations, PUC has lowered the cap twice, most recently in 2015, to 8% of revenues, which represented approximately $12 million of Energy Trust's $189 million in revenues that year. Energy Trust has always spent below its cap, as demonstrated in Figure 7.

Figure 7: Energy Trust spends less than its administrative budget limits



Source: Energy Trust

Energy Trust accounts for results each fiscal year through public quarterly progress reports, audited financial statements, and an annual budget. The grant agreement states that the budget and financial statements must "contain information that permits the reader to evaluate Energy Trust's total administrative costs and whether such costs may be considered reasonable." PUC staff regularly review these reports.

Grant-required third-party reviews include an annual financial audit by an independent certified public accountant and an independent management review and evaluation that must occur every five years at minimum. The management review and evaluation analyzes Energy Trust's administrative and operational costs and provides recommendations to improve efficiency and effectiveness.

The last management review occurred in 2014. Consultants reported that Energy Trust has a strict approach to measuring cost-effectiveness; that it is a leader in the use of business intelligence software to improve reporting and evaluation; and that its planning and evaluation practices are efficient. That report recommended that, to remain cost competitive, Energy Trust would benefit by bringing additional focus and resources to the efficiency and productivity of its operations.

Public feedback on Energy Trust administrative costs adds an additional layer of oversight

Energy Trust presents its quarterly and annual reports at public meetings. These reports include information on Energy Trust's efforts to meet its goals and associated expenditures, including administrative costs. These meetings inform PUC and stakeholders, including utilities and trade groups, about administrative cost trends. All stakeholders have the opportunity to provide feedback to Energy Trust.

The most significant public planning process concerns the development of Energy Trust's annual budget and action plan. This document sets the energy savings goals and, by proxy, utility ratepayer contributions to Energy Trust funding for the following year. Stakeholders offer formal written comments to which Energy Trust responds. These comments and responses become public record.

We found Energy Trust takes appropriate action in response to feedback. For example, Energy Trust responded to PUC concerns in 2017 about staffing costs by lowering their 2018 staffing costs by 2% and reducing conference travel.

Energy Trust also acts on recommendations from its independent management review. For example, Energy Trust responded to comments in its 2014 review regarding its administrative efficiency by restructuring its residential sector through combining three major programs. This programmatic change will be in effect this year and is intended to increase organizational efficiency and reduce administrative costs.

Energy Trust has processes to monitor administrative costs

In addition to the controls put in place by PUC, Energy Trust has implemented a sound system of its own controls over administrative costs.

Specifically, Energy Trust follows accounting requirements for nonprofit entities. The organization appropriately controls purchasing practices with the following policies and procedures:

- restricted and minimal staff access to credit cards;
- purchase request approval policies that require appropriately increasing scrutiny by price thresholds;
- segregated purchasing functions, including the request, approval, execution, and recording of a purchase;
- approved vendor lists; and
- food purchasing practices for routine staff business meetings.

The combination of PUC and Energy Trust's controls forms a reasonable system to monitor and limit administrative costs.

Energy Trust administrative costs are generally reasonable but a small percentage of purchases appear questionable

We reviewed a sample of Energy Trust's administrative transactions from 2016 to determine whether administrative costs were reasonable and if Energy Trust complies with the controls both the organization and PUC have developed. We identified some questionable costs specific to employee recognition, business meetings, and special events. PUC and Energy Trust should set clear expectations for these types of costs. Nevertheless, we concluded Energy Trust complies with the controls, and administrative costs generally appear reasonable.

Administrative costs generally comply with controls but opportunities exist to lower costs

The grant between PUC and Energy Trust provides an administrative cost guideline that states: "Costs of operating Energy Trust will balance the lowest possible administrative costs with overall organizational effectiveness."

To test whether Energy Trust follows this guideline, we gathered relevant policies and reviewed two samples of administrative transactions. The first sample was judgmental, consisting of 50 administrative transactions, to test the controls PUC and Energy Trust have enacted to comply with this guideline.

While Energy Trust followed existing controls, we identified some costs that appeared questionable. These related to a holiday party and employee recognition expenses for the retirement of the founding executive director. These costs totaled $26,500.

We randomly selected the second sample from a sub-population of Energy Trust's 2016 administrative transactions that we judged to be higher risk. Our testing identified some questionable expenses, but we concluded the administrative costs generally appeared reasonable. For example, of the 338 transactions tested, we questioned only 20, or 6%. The value of these transactions totaled $5,606, or 3% of the value of our sample. The majority of these questionable transactions fell into two categories: employee recognition and meals provided during business meetings.

> **Grant guidelines**
> The costs of operating the Energy Trust will be reasonable and support efforts toward cost-effectiveness. Costs of operating the Energy Trust will balance the lowest possible administrative costs with overall organizational effectiveness.

When projected to the sub-population of Energy Trust's administrative costs for 2016, which was $2.1 million out of total administrative costs of $9.2 million, we would expect questionable costs to amount to $64,000. This represents less than 1% of total expenditures for 2016.

We reviewed additional information for all the expenses we questioned and concluded they occurred because the grant is unclear regarding these types of transactions, and neither PUC nor Energy Trust have established relevant controls. PUC has not provided guidance regarding these types of expenses and Energy Trust policies for employee recognition and business meetings do not contain price thresholds.

For instance, neither PUC nor Energy Trust has a policy in place to provide guidance for party expenses like entertainment or large catering orders for external business meetings. In addition, no policy establishes limits on employee recognition spending. Instead, the application of the grant guideline is largely based on the professional judgment of Energy Trust managers. Due to this, we drew conclusions regarding these questionable costs using the guidance provided in the Oregon Accounting Manual and the DAS human resource policies.

Energy Trust is not a state agency and is not required to follow state rules and guidelines. However, additional guidance would bring clarity to the grant agreement, enhancing Energy Trust's ability to comply with the guidelines of the grant agreement.

Energy Trust executives said these costs are an appropriate practice to recognize staff for hard work, to celebrate completing their annual budget process, and, in the case of holiday and retirement parties, as a way for staff to interact with management and their board. Executives explained the retirement events were a one-time expense related to the retirement of the founding executive director. Energy Trust human resources staff stated employees fund all other events to recognize staff departures.

We discussed these types of expenditures with PUC executive staff, who were not familiar with the details of these transactions. They did not take issue with these transactions, as they told us they believe Energy Trust needs the ability to attract employees, and retain them, to an organization that does not offer state retirement and other benefits.

PUC executive staff also stated that while PUC performs close oversight on Energy Trust's overall spending, mission accomplishment, and operations, they do not monitor specific Energy Trust spending outside of the annual budget review process. Through this process, PUC informs Energy Trust of desired budget actions, and Energy Trust reports on its compliance. For instance, public documents show that Energy Trust decreased travel-related spending in 2018 based on budgetary feedback from PUC.

PUC and Energy Trust could improve the control environment by implementing and following policies similar to those used by state agencies. DAS policies do not allow state funds to be used for events like retirement and holiday parties, and set limits on expenses for employee recognition programs — $50 per employee each calendar year.

Revised performance metrics and financial reporting would improve administrative cost oversight and transparency

PUC places a great deal of importance on Energy Trust performance metrics and financial reporting for oversight purposes. We found current methods for reporting Energy Trust's administrative costs do not clearly reflect actual administrative cost trends.

For instance, the current administrative cost metric does not clearly show that Energy Trust's administrative costs have risen over time, nor does it communicate the reasons for rising costs. Additionally, Energy Trust reporting requirements state report readers should be able to evaluate the reasonableness of overall administrative costs. However, the current presentation of this information does not clearly differentiate between program delivery and administrative costs.

Adjusting these reporting methods can help PUC and stakeholders in ongoing oversight.

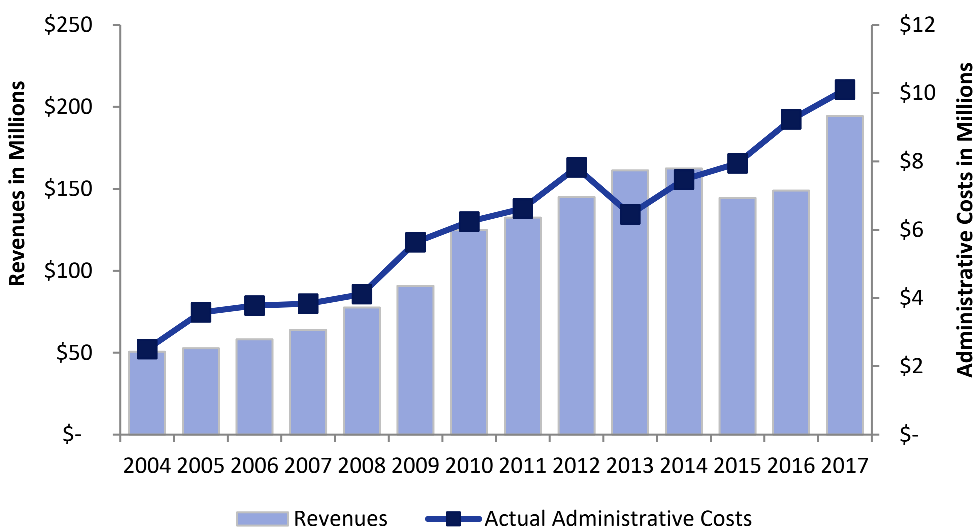
Current administrative cost reporting does not clearly depict rising administrative costs

Energy Trust's administrative cap is currently 8%. Their administrative costs in 2017 were $10.1 million.

Energy Trust's current administrative cost metric designates the percentage of total revenues Energy Trust may use for administrative costs as 8%. This measure allows PUC to monitor whether Energy Trust is operating efficiently and effectively. Energy Trust reports regularly on its performance in relation to this measure. However, the current administrative cost metric does not reflect actual costs, which masks the trend that administrative costs have risen almost every year.

Over time, the rise in administrative costs has been significant. In 2004, Energy Trust's administrative costs were $3.5 million, or 6.9% of revenues. By 2017, the administrative costs had risen to $10.1 million, or 5.2% of revenues.

Figure 8: Energy Trust revenues and administrative costs have increased



Note: Energy efficiency collections were reduced in 2015 and 2016 to spend down reserves from prior years
Source: Energy Trust

Rising administrative costs do not necessarily indicate concern. Energy Trust's revenues have increased almost every year to support organization goals. Program expansion and specialization may lead to administrative cost increases. Energy efficiency programs across the nation have experienced this same trend.[18] However, clearly depicting this trend within the administrative cost performance metric would provide PUC and stakeholders a more complete understanding of administrative cost expenditures.

Additional administrative cost reporting components would increase clarity

Administrative costs touch many aspects of operations, including organizational outreach, staff salaries, human resources, and IT. Currently, Energy Trust's administrative cost performance metric is reported as a percentage of annual revenues.

Energy Trust provides a detailed breakdown of costs in "Action Plans" for its internal and external programs. These Action Plans report what administrative costs are spent on these programs. However, this information provides a fragmented view of spending trends. Reporting spending trends, as well as caps or targets, for specific administrative cost categories within the primary metric would provide stakeholders with valuable clarity regarding administrative cost spending.

California is one of a few states that provide a model for this. The California Public Utility Commission reports multiple categories with standalone caps or targets, such as "marketing and outreach," and "evaluation and monitoring." These caps or targets represent a percentage of the state program's total administrative costs.

We performed a trend analysis of Energy Trust's administrative costs during the period from 2013 to 2017 to gain a better understanding of organizational spending.

Over this period, total administrative cost spending rose 55%, while overall expenditures increased by 40%. A few cost categories comprised the majority of administrative cost spending. The top five categories were staff salaries, IT services, general shared expenses (such as human resources, customer service, and office supplies), media advertising, and benefits (for salaried employees). These accounted for nearly 80% of all administrative costs.

Figure 9 demonstrates the changes in the top five categories over the period of 2013 to 2017.

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[18] Over time, energy efficiency programs around the country have accomplished what the energy industry terms "low-hanging fruit" – high-return energy efficiency efforts such as replacing traditional lightbulbs with high-efficiency lights. While national and regional analyses demonstrate there is still a great deal of cost-effective energy efficiency available, capturing it often requires more specialized programming. This specialization has led to increasing administrative costs in many states. Despite this, energy efficiency remains the most cost-effective energy source.

Figure 9: Top five categories of administrative cost spending 2013-2017

	2013	% of Admin Costs	2014	% of Admin Costs	2015	% of Admin Costs	2016	% of Admin Costs	2017	% of Admin Costs
Staff Salaries	$1,949,573	30%	$2,158,442	29%	$2,506,035	31%	$2,731,517	29%	$3,006,243	30%
IT Services	$1,941,904	30%	$2,029,270	27%	$2,401,864	30%	$2,725,943	29%	$2,854,780	28%
Shared Expenses	$675,771	10%	$673,902	9%	$675,446	8%	$774,249	8%	$830,119	8%
Media Advertising	$254,734	4%	$579,143	8%	$514,594	6%	$391,807	4%	$327,667	3%
Staff Benefits	$324,862	5%	$354,095	5%	$353,528	4%	$398,235	4%	$456,457	5%

Source: Energy Trust

The remaining 20% of administrative costs were distributed among a variety of categories, such as travel, employee recognition, temporary staff augmentation, creative services, and business meetings. These categories did not follow a discernable trend.

Our analysis did not show any areas of concern in regards to administrative cost spending trends. However, it supports the need for a revision to the administrative cost metric to provide stakeholders with a more accessible presentation of organizational administrative costs.

Energy Trust reports administrative costs in compliance with the grant agreement but could improve its reporting format

Financial reporting requirements are another element of PUC oversight. The grant states Energy Trust's budget and financial statements "will contain information that will permit the reader to evaluate the Energy Trust's total administrative costs and whether such costs may be considered reasonable."

> Energy Trust's financial statements must permit the reader to evaluate whether total administrative costs are reasonable.

Energy Trust reports administrative costs within a statement of functional expenses, which is located in budget documents and annual third-party financial audits. In budget documents, the statement of functional expenses lists administrative costs as a percentage of revenue, which is the percentage reported for the associated performance metric.

However, the statement of functional expenses does not clearly define sources of administrative costs. Instead, the statement lists program delivery and administrative costs together and does not include labels. Separating administrative costs from non-administrative program delivery costs would facilitate readers' ability to evaluate their reasonableness. See Appendix B at the end of this report for the 2017 statement of functional expenses as presented in budget documents.

Additionally, the annual budget does not display Energy Trust calculations to determine the percentage used for the PUC administrative cost performance metric. This information would enhance stakeholders' ability to evaluate this information.

National efforts to develop best practices for calculating and reporting administrative costs are underway

One of the challenges we encountered during our audit was the lack of guidance or criteria on administrative cost measurement and reporting for state energy efficiency programs. There are no national standards that define, limit, or provide reporting guidance for administrative costs. This is due in part to the wide variety of state program structures, energy policies, and funding streams.

Several states and a national research group, the Consortium of Energy Efficiency, are currently addressing the need for better guidance. Energy Trust is collaborating with the Consortium of Energy Efficiency on a national project to address administrative costs. Energy Trust staff believe it will help guide their administrative practices and improve the clarity of information they provide.

Other Pertinent Information

In the course of conducting our audit, we identified additional information that, while not strictly within the scope of the audit, is still significant and merits address.

In 2009, press coverage was critical of both the salary of Energy Trust's executive director and the cost of the nonprofit's office space in downtown Portland. Since then, Energy Trust has obtained different office space. We performed a regional analysis and found both expenses currently appear reasonable.

We also identified a risk that Energy Trust's knowledge and operations in the state of Oregon could, in the future, be lost without improved continuity planning. Continuity planning helps agencies prepare for changes that may affect current operations, such as political change or employee turnover. We found that neither Energy Trust nor PUC has adequately planned for the possibility of losing Energy Trust.

Executive director salary and building costs appear reasonable

In 2009, press coverage was critical of Energy Trust for allegedly retaining an executive director with a high salary and for purchasing expensive office space. Our work found the salary of the executive director to be comparable to other executive directors of nonprofits in the Portland region.

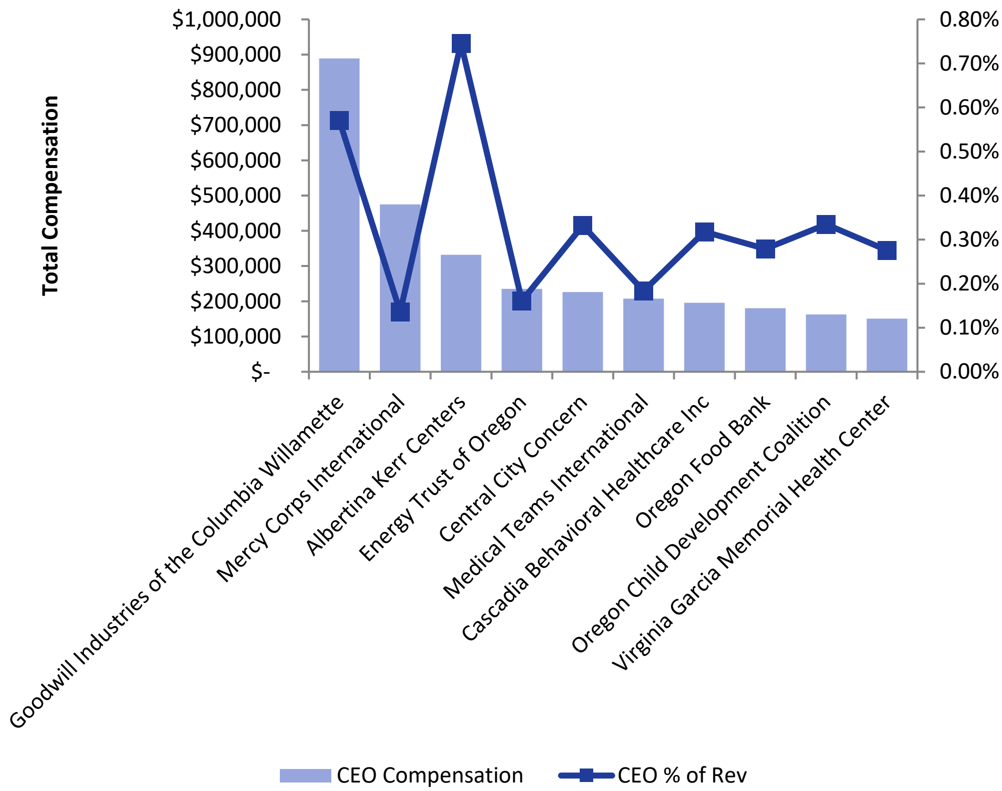
We visited Energy Trust offices and found them comparable to state offices. We also reviewed Energy Trust's rent agreement and found the rent was less than what DAS would charge for office space in downtown Portland.

Energy Trust establishes management salaries in accordance with accepted practices

The current salary of the director of Energy Trust is $196,730. As a privately run nonprofit, Energy Trust conforms to accepted best practices to determine the executive director's salary. It follows IRS practices, which include referencing industry and regional salary surveys. Energy Trust's board of directors determines the salary with support from the human resources department. PUC does not have a role in setting the salary of Energy Trust's executive director.

We compared the compensation of Energy Trust's executive director to those of the top 10 revenue-grossing nonprofits in the Portland region. Energy Trust has the third-highest revenue and the second-lowest ratio of executive director salary to revenue.

Figure 10: Comparison of regional CEO total compensation as a percentage of revenues



Source: IRS form 990s filed in 2016 for each nonprofit organization

Energy Trust office space appears reasonable

In 2009, press coverage criticized Energy Trust for what was perceived as overly expensive downtown Portland office space. Energy Trust officials told us that they relocated to a less expensive office space in 2011 as part of efforts to reduce administrative costs.

Typical office space at Energy Trust. Only a handful of managers have offices.
Source: Energy Trust

Based on our observations, we found Energy Trust office space to be well-equipped but not extravagant and comparable to many state offices. We compared Energy Trust's rental rates to those charged by DAS to state agencies in downtown Portland and found them to be lower. According to a report provided by DAS, lease rates for office space in downtown Portland range from $24 to $38 per square foot, with an average cost of $29 per square foot. Energy Trust's current lease, signed in 2011, costs $20 per square foot.

PUC risks losing expertise necessary to sustain Energy Trust's energy efficiency and renewable energy efforts

Continuity of operation planning guides organizations through significant changes. PUC and Energy Trust have not developed a continuity of operations plan for the potential absence of Energy Trust in state energy efficiency and renewable energy operations or major changes of personnel.

Energy Trust operates under a law that will sunset the electric public purpose charge funding for the organization in January 2026 absent additional legislative action. Using public purpose funds, and other ratepayer charges, Energy Trust has built highly specialized capacity to run Oregon's energy efficiency and small scale renewable efforts. Its operations have helped to define Oregon's energy efficiency and renewable energy standards. The connections Energy Trust has built with regional energy industries play an important role in advancing state energy efficiency and renewable energy efforts. Although Energy Trust publishes its operating policies, the information and practices required to carry out daily operations and accomplish annual goals is not available in a manner that would allow another organization to step in and easily replace Energy Trust.

Continuity planning extends to planning for changes that may affect current operations. As this office discussed in a prior audit, it is important agencies plan to ensure workforce continuity and effectiveness in key leadership and technical functions.[19] Employees with institutional knowledge about Energy Trust operations hold key positions at both Energy Trust and PUC. At Energy Trust, members of management and the board of directors collectively possess critical institutional knowledge. PUC bases their oversight methods in part on the fact that these individuals are extremely knowledgeable about the industry and act in the best interest of Energy Trust and ratepayers.

At PUC, two staff involved in oversight have historically been former employees of Energy Trust. Their institutional knowledge supports PUC's oversight efforts. No comprehensive guide to Energy Trust oversight exists, and only one PUC analyst performs the majority of financial and operational oversight, which silos this operational knowledge within the institution.

The lack of continuity planning on the part of both PUC and Energy Trust creates a risk for the sustainability of efficient and effective state energy efficiency and renewable energy efforts. Were PUC to lose its analyst, or critical staff or board members to leave Energy Trust, it would be difficult for PUC to sustain sufficient oversight.

A continuity of operations plan would require contributions from both PUC and Energy Trust. It should document the knowledge needed to carry out operations and oversight so that new employees or organizations could take over if necessary. Such a plan would help PUC and Energy Trust maintain essential operations and reach state energy efficiency and renewable energy goals in the face of change.

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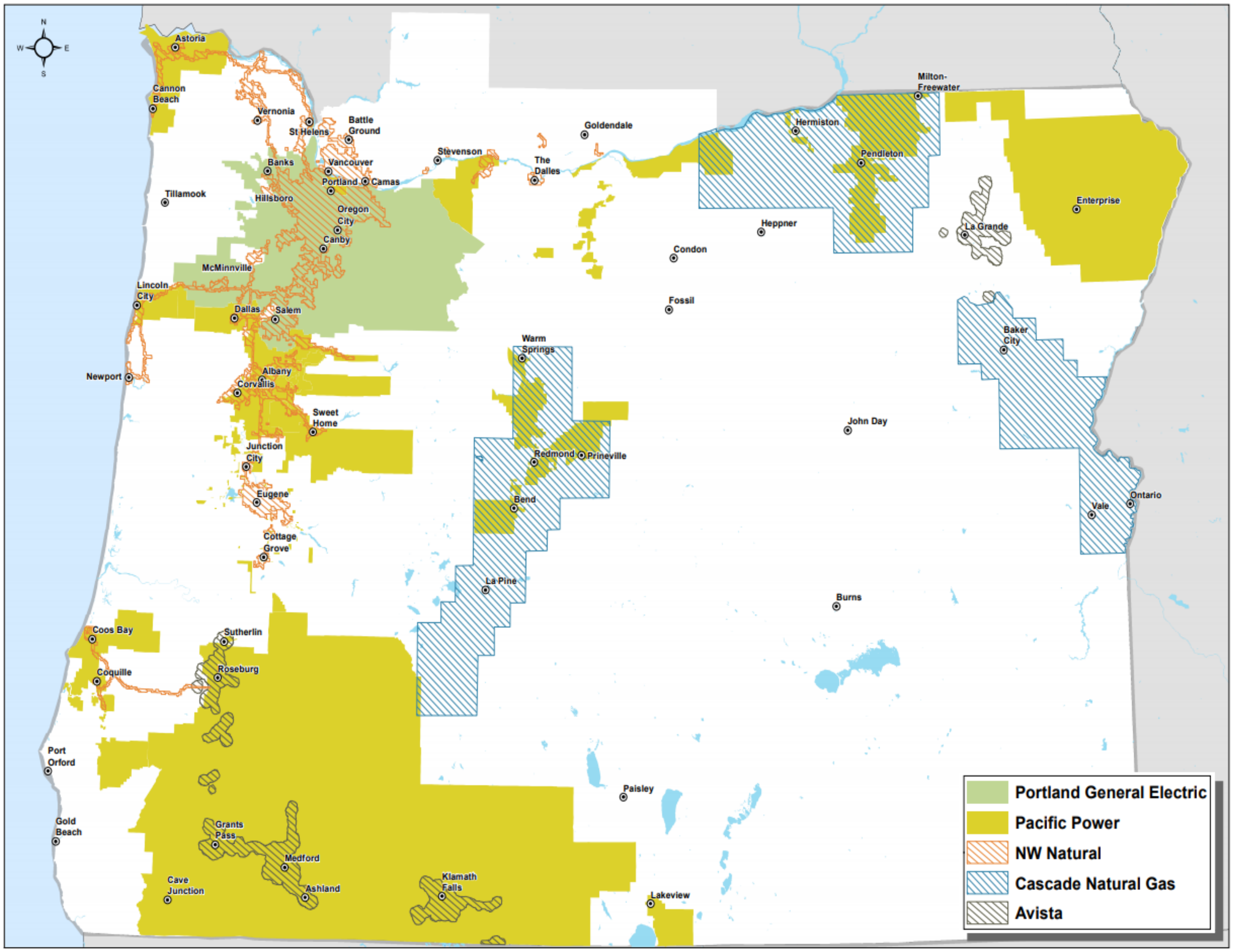
[19] 2017-21: "Department of Administrative Services Should Enhance Succession Planning to Address Workforce Risks and Challenges."

Recommendations

To help PUC and Energy Trust management be more transparent with how Energy Trust spends ratepayer dollars to acquire cost-effective energy efficiency and small scale renewables, we recommend PUC:

1. Define what constitutes reasonable administrative costs.
    a. Consider adopting DAS rules governing expenditures for employee recognition and special events such as holiday parties and retirement celebrations.
2. Revise the administrative costs metric to provide the actual amounts Energy Trust spends on administrative costs.
3. Clarify financial reporting methods so that readers are easily able to determine which costs are administrative. In all public financial statements that include administrative costs, highlight which costs are included in the administrative cost performance metric percentage.
    a. Consider breaking administrative costs into smaller, well-defined categories with associated guidance such as cost caps or targets.

Appendix A: 2017 Map of Energy Trust Services by Utility



Source: Energy Trust

Appendix B: 2017 Energy Trust Statement of Functional Expenses

Energy Trust of Oregon
Statement of Functional Expenses
2017 Approved Budget

	Energy Efficiency	Renewable Energy	Total Program Expenses	Management & General	Communications & Customer Service	Total Admin Expenses	Total
Program Expenses							
Incentives	98,534,665	15,587,377	114,122,042				114,122,042
Program Management & Delivery	57,449,005	454,500	57,903,505				57,903,505
Payroll and Related Expenses	3,675,437	1,176,038	4,851,475	2,657,215	1,717,405	4,374,620	9,226,095
Outsourced Services	5,852,250	949,499	6,801,749	639,500	1,421,000	2,060,500	8,862,249
Planning and Evaluation	2,650,521	159,563	2,810,084	5,910	138,879	144,789	2,954,873
Customer Service Management	460,772	89,673	550,445				550,445
Trade Allies Network	378,869	20,659	399,528				399,528
Total Program Expenses	**169,001,518**	**18,437,310**	**187,438,829**	**3,302,624**	**3,277,284**	**6,579,909**	**194,018,737**
Program Support Costs							
Supplies	12,607	4,049	16,656	12,660	6,218	18,878	35,534
Postage and Shipping Expenses	4,299	1,499	5,799	4,967	1,933	6,899	12,698
Telephone	3,153	2,000	5,152	1,809	1,417	3,226	8,378
Printing and Publications	2,006	1,000	3,006	5,651	4,902	10,553	13,559
Occupancy Expenses	272,396	95,011	367,407	156,294	122,458	278,752	646,159
Insurance	31,526	10,996	42,522	18,089	14,173	32,262	74,784
Equipment	4,442	147,149	151,592	2,549	1,997	4,546	156,138
Travel	67,250	14,000	81,250	61,450	45,000	106,450	187,700
Meetings, Trainings & Conferences	41,500	11,200	52,700	75,850	12,500	88,350	141,050
Interest Expense and Bank Fees				4,000		4,000	4,000
Depreciation & Amortization	25,309	8,828	34,137	14,522	11,378	25,900	60,037
Dues, Licenses and Fees	81,972	6,700	88,672	14,930	16,500	31,430	120,102
Miscellaneous Expenses	860	300	1,160	493	387	880	2,040
IT Services	1,970,446	285,040	2,255,486	468,893	367,384	836,277	3,091,764
Total Program Support Costs	**2,517,767**	**587,772**	**3,105,539**	**842,157**	**606,248**	**1,448,404**	**4,553,944**
TOTAL EXPENSES	**171,519,286**	**19,025,082**	**190,544,368**	**4,144,781**	**3,883,532**	**8,028,313**	**198,572,681**

OPUC Measure vs. 8% **5.8%**

Source: Energy Trust's 2017 Approved Budget

Oregon
Kate Brown, Governor

Public Utility Commission
201 High St SE Suite 100
Salem, OR 97301-3398
Mailing Address: PO Box 1088
Salem, OR 97308-1088
503-373-7394

June 20, 2018

Kip Memmott, Director
Secretary of State, Audits Division
255 Capitol St. NE, Suite 500
Salem, OR 97310

Dear Mr. Memmott,

This letter provides a written response to the Audits Division's final draft audit report titled: "Energy Trust Administrative Costs are Generally Reasonable, but the Public Utility Commission Can Improve Oversight of These Costs."

As an agency, we are proud that the results of this audit demonstrate that over 18 years, the Oregon Public Utility Commission (PUC) oversight has remained disciplined and are honored that the Secretary of State has recognized the PUC's vigilance in its oversight of Energy Trust of Oregon (Energy Trust). We appreciate the efforts of Kyle Rossi and Emily Fiocco, the auditors assigned to this process, who were professional, patient, and thorough throughout the nearly one year process to complete this audit.

We also would like to thank Energy Trust's staff who responded to the auditors' questions and requests for interviews, data, and transactions. The auditors took great care to ensure they understood Energy Trust's role in operating programs to acquire cost effective energy efficiency resources and small scale renewable projects on behalf of customers of investor-owned utilities in Oregon, as well as the role the PUC has in overseeing those efforts. However, due to the nature of audit reports, the audit findings were often disconnected from the larger context of Energy Trust's purpose, programs and results. The following paragraphs before the "Recommendations" section provide more context on the roles of the Energy Trust and PUC's oversight of Energy Trust.

Role of Energy Trust

Energy Trust is a nonprofit organization funded by a grant agreement with the PUC to develop and administer energy efficiency and renewable energy programs in certain utility service territories in Oregon. Energy Trust is a mission-based organization working closely with utilities, nonprofits and government agencies to deliver significant cost effective clean energy benefits to Oregon residents. Between 2002 and 2017, Energy Trust has saved and generated 796 average megawatts (aMW) of electricity and 58 million annual therms of natural gas. It has invested $1.7 billion to help save customers more than $7.6 billion on their energy bills over time, while adding $6.2 billion to the local economy and cutting carbon emissions by more than 22 million tons.

PUC Oversight Comes in Many Forms

As the auditors found, the PUC's oversight of Energy Trust covers many aspects of the organization's operation, budget, and planning. Current oversight includes the following PUC requirements:

- 19 performance metrics reported annually;
- Quarterly and annual reports of revenues, expenditures, and accomplishments presented to the Commission and published publicly;
- An independent financial audit performed annually;
- A management performance audit conducted every five years by an independent contractor;
- Commissioner-held ex-officio position on Energy Trust's board of directors;
- Presentation of draft budget to Commissioners with publicly-available PUC staff analysis for review and comments from the Commission;
- PUC staff participation on board policy committee, strategic planning committee, and Energy Trust's Renewable and Conservation Advisory Councils;
- Ongoing staff engagement where questions are raised about operations and costs, and PUC staff provides guidance to Energy Trust; and
- Quarterly management coordination meetings between the PUC and Energy Trust.

Energy Trust has consistently met or exceeded all performance metrics and requirements. As the report states, **"*both entities have adequate controls in place to ensure that Energy Trust administrative costs are reasonable.*"** The PUC has worked with Energy Trust staff and Board for over 18 years to develop transparent, effective, and efficient use and reporting of ratepayer funds. This audit highlighted our commitment to being good stewards of ratepayer funds and reaffirmed the importance of maintaining diligence in setting proper controls and procedures.

Energy Trust Budgets Tied to Utility Savings Goals

The audit's key findings should be understood within an overall context of a significant increase in savings goals over time. Energy Trust has always spent less than the allowed percentage for administrative and program support costs. While administrative costs have risen in absolute terms over time, Energy Trust's scope and overall budget have also expanded at the direction of state policy and the PUC. Two of the more significant changes were the addition of three natural gas utility service territories through regulatory decisions, and the passage of SB 838 that expanded revenue for electric energy efficiency.

Over time, these and other changes in scope resulted in a significant increase in savings goals and the associated revenue required to achieve those goals. Electric savings and generation goals increased from 13.5 aMW to 67.9 aMW from 2002 to 2017. Gas savings goals increased from 208,223 annual therms to 7.1 million annual therms from 2003 to 2017. From 2002 to 2017, total annual revenue increased from $30.6 million to $194.2 million. As mentioned on page 17 of the report, in 2004 administrative costs were 4.9 percent of revenues and in 2017 they were 5.2 percent, well below what was determined in this audit to be a reasonable cost control of an 8 percent cap, and an amazing achievement given the increase in scope and responsibility.

Administrative Costs are Well Controlled and Reasonable

The audit's first key finding is that Energy Trust complies with the PUC's cost control requirements and that those controls are reasonable. The audit's second key finding is that Energy Trust's administrative costs are generally reasonable. The audit did find a small percentage of administrative costs that do not align with state agency standards or the grant guidelines. As described later in the report, the small percentage is "less than 1 percent," or to be precise, *0.03 percent of total costs*.

Although small in magnitude, we acknowledge that the types of expenses may be worth considering in relation to Department of Administrative guidelines, and we will provide greater clarity in direction. However, we also note that the majority of expenses highlighted in this audit are unique to 2016. In that year, the founding Executive Director retired and the organization was transitioning to new leadership.

Finally, we clarify that Energy Trust is not a state agency for operational and efficiency reasons that are as valid now as they were when Energy Trust was initially established. Fundamental to the PUC oversight of Energy Trust, the PUC's grant agreement guidelines require Energy Trust to "balance the lowest possible administrative costs with overall organizational effectiveness." The fact that a very small percentage of these costs do not align with state standards is not unreasonable. The PUC has a mature system of oversight and will continue to check how Energy Trust expenses are consistent with the guidance to balance low administrative costs with organizational effectiveness. That being said, as described below, we do appreciate the audit recommendation to add more clarity to our expectations and we plan to clarify our expectations.

Our final point of clarification centers on the purpose of Energy Trust. The report does a thorough review of the revenues and expenses for Energy Trust and explains that Oregon has prioritized pursuing energy efficiency and renewable energy sources, but is less direct in explaining why this pursuit is beneficial. The energy efficiency that Energy Trust acquires is the least-cost, least-risk resource option utilities have to meet energy needs. Through 2017, Energy Trust has saved 796 average megawatts that otherwise would have required new generation resources. This is enough savings to displace the need for two new natural gas plants at a very low acquisition cost to customers.

Response to Recommendations

The audit team's recommendations are beneficial to our continual effort to improve the PUC's oversight and operation of Energy Trust. PUC staff has already started the process of implementing changes based on the recommendations received during this audit process.

Below is our detailed response to each recommendation in the audit.

RECOMMENDATION 1 Define what constitutes reasonable administrative costs. Consider adopting DAS rules governing expenditures for employee recognition and special events such as holiday parties and retirement celebrations.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities**	**Name and phone number of specific point of contact for implementation**
PUC and Energy Trust agree with this recommendation.	December 31, 2018	JP Batmale, (503) 378-5942

Although Energy Trust is not a state agency, the PUC will consider Oregon Department of Administrative Services rules and/or other nonprofit best practices governing expenditures in providing guidance for Energy Trust's employee recognition and special events. The PUC will refine what constitutes reasonable administrative costs, and will document these decisions by December 31, 2018.

RECOMMENDATION 2 Revise the administrative costs metric to provide the actual amounts Energy Trust spends on administrative costs.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities**	**Name and phone number of specific point of contact for implementation**
PUC and Energy Trust agree with this recommendation.	In advance of the Commission's adoption of the 2019 performance metric by March 2019.	JP Batmale, (503) 378-5942

The current administrative cost performance metric is quantified as a percentage of revenue. The PUC will add language to this performance metric to specify the dollar cap that corresponds to the percentage cap.

RECOMMENDATION 3 Clarify financial reporting methods so that readers are easily able to determine which costs are administrative. In all public financial statements that include administrative costs, highlight which costs are included in the administrative cost performance metric percentage. Consider breaking administrative costs into smaller, well-defined categories with associated guidance such as cost caps or targets.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities**	**Name and phone number of specific point of contact for implementation**
PUC and Energy Trust agree with this recommendation.	In the 2018 annual report and subsequent reports to the Commission.	JP Batmale, (503) 378-5942

The PUC's grant agreement with Energy Trust requires full transparency in operations. To the extent that data reported can be shared in a more useful manner, we welcome the feedback. The PUC will work with Energy Trust to adapt reporting to better illustrate administrative costs for the 2018 annual report and subsequent reports to the Commission.

Again, I would like to thank your team for their thorough analysis and balanced evaluation of Energy Trust's administrative costs and the PUC's oversight. As the new Commission Chair, my goal is to continue to strive for excellence in our oversight of Energy Trust. The results of this audit recognized the effective and efficient partnership between Energy Trust and the PUC, and identified some helpful areas for improvement. As an agency, we will continue to evaluate our processes to ensure that Oregon residents benefit from our efforts to ensure access to safe, reliable, and high quality utility services at just and reasonable rates.

If you have any questions about our response or would like an update on our progress, please contact me directly at 503-378-6611.

Sincerely,

Megan Decker, Chair
Oregon Public Utility Commission

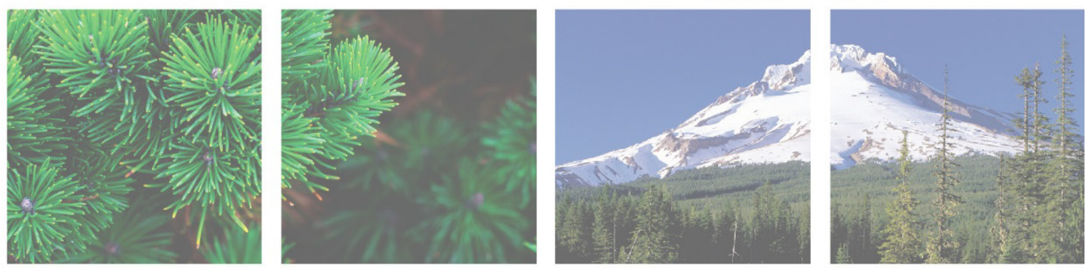
Audit Team

Will Garber, CGFM, MPA, Deputy Director

Andrew Love, Audit Manager

Kyle Rossi, Senior Auditor

Emily Fiocco, MPA, Staff Auditor



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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

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