

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 27, 2019

REGULAR CONSENT EFFECTIVE DATE August 28, 2019

DATE: August 16, 2019

TO: Public Utility Commission

FROM: Anna Kim

THROUGH: Jason Eisdorfer and JP Batmale **SIGNED**

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1158) Additional Performance Measure
Recommendations for Energy Trust of Oregon.

STAFF RECOMMENDATION:

Staff recommends the Oregon Public Utility Commission (Commission or PUC) adopt the proposed performance measures as stated in this memo for evaluating the performance of Energy Trust of Oregon (Energy Trust) in 2020 and approve the minor edits to the 2019 performance measures.

DISCUSSION:

Issue

Whether the Commission should adopt the proposed performance measures for evaluating the performance of Energy Trust in 2020 and approve the minor edits to the 2019 performance measures.

Applicable Law

Energy Trust operates under a grant agreement with the Commission, entered into pursuant to ORS 757.612(3). The grant agreement requires the PUC to establish quantifiable performance measures that clearly define its expectation of Energy Trust's performance. The following statement can be found on page 3 of the grant agreement:

The Energy Trust and the PUC recognized the need for having valid and quantifiable performance measures that clearly define the PUC's expectation of the Energy Trust's performance. The performance measures are developed to clarify minimum expectations for Energy Trust on an ongoing basis and may be adjusted from time-to-time. The Energy Trust will regularly report to the PUC,

comparing actual performance to the PUC established performance measures. Should the Energy Trust fail to meet the performance measures adopted by the PUC, the PUC, at its discretion, may issue a Notice of Concern. In choosing to issue such a Notice of Concern, the PUC will take into account reasonable causal factors and any mitigating actions taken by the Energy Trust.

Analysis

In the last order, Order No. 19-072, the Commission approved Staff's proposal to revisit Energy Trust's staffing measure and to develop a new "diversity, equity, & inclusion" (DEI) measure with stakeholders for application in 2020. This memo describes Staff's proposal for these two performance measures and also revisits the 2019 performance measures with two minor edits.

Staffing

The purpose of establishing staffing metrics is to ensure reasonable staffing costs are maintained. The primary staffing performance measure is calculated as a ratio of staffing costs divided by total expenditures. The ratio is currently set to a three year rolling average cap of 7.25 percent. In 2018 the metric was enhanced by adding a second metric where staffing costs may not increase more than 10 percent from year to year. For 2018, Energy Trust's staffing ratio on a three-year rolling average was 6.8 percent with 8.7 percent growth over the previous year.

In 2018, Energy Trust informed the PUC that based on projections of lighting transformation and other market forces, total expenditures are expected to decline, while staffing costs, consisting primarily of salaries and benefits, will continue to rise.

For the 2020 budget these trends will continue. Two of Energy Trust's lowest cost, highest volume energy savings measures will no longer be available due to Energy Trust's success in transforming the efficient lighting and showerhead markets. Accordingly, savings projections for 2020 and beyond are decreasing. Commensurately, Energy Trust's total revenues and expenditures will decrease because they are linked to savings targets on an annual basis. At the same time, Energy Trust continues to experience a dramatic increase in healthcare costs due to industry and staff utilization trends.

The numbers related to staffing include Energy Trust's activities in Washington and does not include costs allocated to Energy Trust's subcontract for Community Solar. The table below shows staffing costs by category as was represented in past budgets and estimated projections.

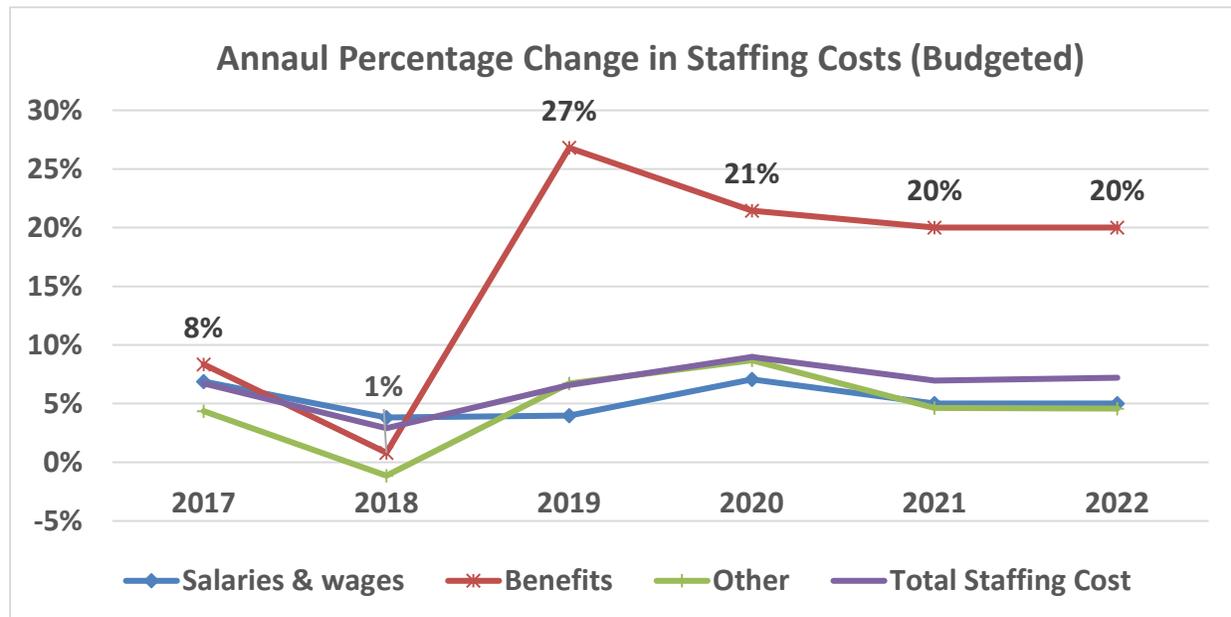
Budgeted staffing costs by category

	2016	2017	2018	2019	2020	2021	2022
Salaries+Wages	\$9,591,432	\$10,250,537	\$10,642,041	\$11,064,754	\$11,846,454	\$12,438,776	\$13,060,715
Benefits	\$1,253,455	\$1,358,182	\$1,369,255	\$1,736,242	\$2,108,778	\$2,530,534	\$3,036,640
Other	\$1,547,792	\$1,615,310	\$1,596,902	\$1,704,377	\$1,852,531	\$1,938,583	\$2,027,512
Total Staffing	\$12,392,679	\$13,224,029	\$13,608,198	\$14,505,373	\$15,807,763	\$16,907,893	\$18,124,868

The “other” category contains:

- Payroll taxes
- 401k
- An accounting for net change in accrued vacation liability
- Fees the organization pays to the 401k and savings plan providers, and
- Employee recognition

Benefits accounted for 10 percent of total staffing costs for budgets 2016 through 2018. In the 2019 budget, benefits increased to 12 percent and in 2020 is expected to rise above 13 percent of total staffing costs. The next graph shows the percentage change from year to year of budgeted costs. The main driver in the high percentage change in benefits is healthcare costs. Healthcare cost increases are expected to remain high for multiple years.



The combination of declining savings projections and increasing healthcare costs put Energy Trust at risk of exceeding the primary staffing metric in 2020, with limited control

over these two factors that impact the staffing metric as currently designed. Staff believes the current metric is no longer providing the information necessary to monitor Energy Trust's performance.

Due to the of uncertainty about staffing costs relative to expenditures in the post-lighting-transformation world, Staff proposes to continue working with Energy Trust and stakeholders over the next two years to devise an appropriate performance measure that will provide the necessary information for the Commission's purposes. In order to maintain flexibility while continuing to apply adequate oversight, Staff has developed the following approach in the interim

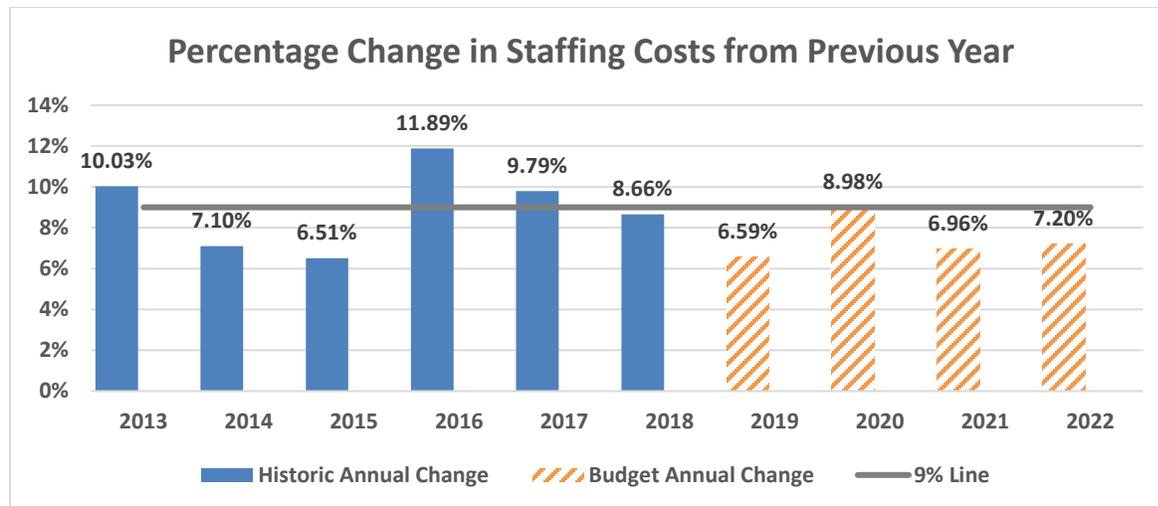
Proposed Energy Trust staffing performance measure

1. For the next two years (2020-21), reduce the annual growth in staffing costs from 10 percent to no more than 9 percent from year to year.
2. Remove the rolling average of staffing costs as a percent of total costs as the relationship between the two cost categories is continuing to evolve.
3. Report to the Commission on staffing trends and provide a recommendation for 2022 performance measures.

Removing the component of the current performance measure that compares staffing costs to total costs will remove artificial downward pressure on staffing levels. During this transition time of declining savings, Staff wish to maintain Energy Trust's ability to develop new opportunities and approaches that will drive up savings potential in future years, and ensure existing programs and services continue to be well-managed and publicly accountable as constrained by the year-to-year percentage growth limit metric.

Staff believes that 9 percent year-over-year growth is an appropriate cap that is one of many ways the PUC Staff monitors Energy Trust spending on staffing while also providing flexibility to address the potential for shifts in resource needs in the near-term. This cap is more restrictive than the previous 10 percent year-over-year cap while pausing the three year rolling average cap of 7.25 percent of total expenditures for staffing costs.

The following graph shows the percentage change in total staffing costs from year to year, including both historic numbers and the current budget forecast. The black line represents 9 percent. Staff's proposal is to apply a 9 percent ceiling starting in 2020.



The increase in 2020 is to fund a new position, the DEI Lead. In discussion with Staff and stakeholders, and through the process of working through its DEI initiative, Energy Trust identified a need to have a dedicated staff person with expertise in the topic to help coordinate its ongoing DEI efforts. While the 2020 forecast is nearly at the maximum 9 percent proposed, this number is not expected to be a long-term trend and can be refined in the budget process later this year.

The DEI Lead is a permanent senior staff position that will provide guidance and strategic focus and support to Energy Trust's current and future DEI activities, including: the implementation of the DEI Operations Plan, coordination of monthly internal DEI Committee meetings, and ongoing support of the externally-facing Diversity Advisory Council (DAC) which will launch in late 2019. This position will also support the activities described in the DEI section later in this memo.

Waiting two years and revisiting the performance measure in 2021 allows time for crucial research that is underway. During this period, Energy Trust will employ greater resolution to timekeeping for areas of particular interest to Staff, such as utility targeted load management efforts, program delivery design innovation, and emerging technology development to replace energy efficiency measures that will exit the portfolio of offerings due to market transformation. Additional time will also allow for incorporating feedback from the 2019 Energy Trust Management Review, which will provide additional recommendations to monitor staffing costs. All these activities will help inform a future Staff recommendation to the Commission at the February 2022 annual performance measure review for application in 2022.

Staff held a workshop on July 3, 2019, to discuss the staffing metric proposal. Stakeholders asked for additional information on historic trends and future projections, which led to the creation and circulation to stakeholders of the graphs above.

Stakeholders appeared receptive to this strategy pending review of this additional background. Since presenting this information, Staff received comments from Avista, suggesting a number of alternative performance measures. Staff will explore these options for 2022.

Staff will continue to provide oversight and work with Energy Trust to maintain appropriate staffing costs. Some notable activities include:

- Energy Trust is implementing recommendations from a 2018 Budget Review, including implementing new budget software and tools to increase efficiency of staff time dedicated to budgeting and planning in future years.
- In its 2020 draft annual budget and final annual report, Energy Trust will publicly report staffing costs for public purpose charge-funded investments (as derived from SB 1149 and SB 838) separately from staffing costs for activities supported by other funding sources (such as Community Solar and NW Natural programs in Washington).
- Energy Trust will continue the practice of biennial third-party salary surveys to ensure salaries are in line with market.
- Energy Trust will complete a five-year Management Review in 2019, as required by the PUC grant agreement, and assess recommendations that support enhanced tracking of staffing costs for activities related to development of future savings measures and new business lines.
- Energy Trust is continuing to implement recommendations from a 2018 Organizational Review, including structure modifications, business planning, decision-making and innovation best practices and change management approaches, which are intended to help the organization become more flexible, adaptable, and nimble with existing staffing resources. Staff is monitoring progress of this work.

Staff proposes that the staffing metric category appear in 2020 as follows:

Category	2019 Performance Measure	Proposed 2020 Performance Measure
Staffing	<ul style="list-style-type: none"> • Total staffing expenditures will not exceed 7.25% of total organization expenditures calculated on a 3 year rolling average for public purpose funded activities in Oregon. • Staffing cost growth is limited to 10% year-over-year increase. 	<ul style="list-style-type: none"> • Staffing cost growth is limited to 9% year-over-year increase.

Staff will continue to work with Energy Trust through the annual budget process to review Energy Trust's staffing costs and collect information on trends that impact overall costs. Staff proposes to hold a workshop annually to review staffing costs and report back in Q1 2022 with findings and a recommendation for the staffing metric.

Diversity, Equity, & Inclusion

After Order No. 19-072 was issued, Staff reached out to different stakeholder organizations interested in Energy Trust's DEI efforts with the help of Verde, Northwest Energy Coalition, and Prisma Point, as well as Energy Trust's existing contacts. Staff is grateful for the participation of many organizations and individuals, both directly as participants in the workshops, and as advisors along the way.

Staff conducted four workshops with stakeholders to discuss the development of a DEI performance measure from April to July of 2019.

Workshop #1—Portland: Staff provided background on Energy Trust's performance measures and described the request for assistance in developing a new measure to support Energy Trust's DEI efforts. In response, stakeholders requested additional background on the data available.

Workshop #2—Portland: Energy Trust presented information on the status of the data available and ongoing data collection efforts. There was discussion among stakeholders on the data collection efforts and need to proceed with developing the performance measure.

Workshop #3—Portland: Staff reflected on the topics that stakeholders wanted to see addressed in the development of a performance measure. These are the major themes:

- The risk of overlooking communities due to statistical methods
- The potential lack of internal Energy Trust resources and expertise to effectively implement DEI goals
- Data integrity and granularity
- Past nature of Energy Trust incentives through residential and multi-family housing programs make tracking impacts difficult (e.g., retail rebates, mid-stream incentives to manufacturers)
- What the focus of the measure will be
- Privacy and data security
- A need to have a comprehensive approach to DEI

Staff then presented some draft options for potential performance measures and received feedback on the pros and cons, as well as what was missing from the

initial round of options. Most stakeholders felt that while the offered options had weaknesses, they had promise.

Workshop #4—Woodburn: This workshop was generously hosted by Pineros y Campesinos Unidos del Noroeste at their Union Hall in downtown Woodburn. At this meeting, Energy Trust provided an update on recent DEI activities. Staff presented revised options for discussion based on the feedback provided at the last meeting.

In collaboration with stakeholders and Energy Trust, Staff determined that there were multiple opportunities for the Commission to support Energy Trust's DEI efforts and recommends four different activities to be listed as performance measures in the category "Diversity, Equity, & Inclusion" for Energy Trust in 2020. This proposal covers a number of different topics discussed with stakeholders that will help establish a starting point for explicit oversight by the Commission. Some are temporary and novel as "performance measures" and Staff expects to revisit progress and options in succeeding years.

Measure #1--Data

Expand and enhance the data used to assess impacts on different communities to ultimately enable the ability to comprehensively assess many of Energy Trust's existing performance measures through a DEI lens. Energy Trust will:

- Explore data collection strategies in existing geographically-targeted projects in coordination with utilities with careful consideration to privacy and data security
- Improve data on diversity among trade allies with careful consideration to data security
- Set aside funds in the 2020 budget for data enhancement which may include external consulting services
- Present periodic updates to Energy Trust's Diversity Advisory Council throughout the year

Stakeholders identified to Staff that the data Energy Trust currently has available is insufficient to support Commission review of Energy Trust's DEI efforts. Energy Trust is already undertaking these efforts and this metric would emphasize the importance of progress. Staff expects that progress will take several years. The DEI Lead described in the staffing section will help direct this project and work with Energy Trust's Diversity Advisory Council (DAC) to refine this metric.

Energy Trust will plan for this activity in its 2020 Budget and Action Plan and Staff will reinforce it as an action item in the budget memo.

Measure #2—Internal Building Blocks

In 2020 Energy Trust will publish and implement its “DEI Lens”—a systemized approach to reviewing significant undertakings for impacts on different communities and groups. This “lens” and its implementation will be approved by Energy Trust’s Diversity Advisory Council.

Staff heard from stakeholders that a single metric would miss the overall perspective that should be applied across Energy Trust’s activities. Staff believes that this is a fundamental step that should be enacted early in order to shape future strategies. Energy Trust is already undertaking these efforts and this metric would emphasize the importance of progress, and that it should be made transparent. The DEI Lead described in the staffing section will work with the DAC to complete this project.

Energy Trust will plan for this activity in its 2020 Budget and Action Plan and Staff will reinforce it as an action item in the budget memo.

Measure #3—Outcomes, Trade Allies

Complete 1,000 projects with trade allies that are minority-owned businesses in 2020. Report on the incentive dollars represented by these projects. Work with the Diversity Advisory Council to define and identify “minority-owned” businesses in 2020.

Staff heard from stakeholders a desire to have a performance measure that can clearly show action. This is a modification of one of Energy Trust’s own internal goals and this metric would emphasize the importance of progress. Stakeholders requested clarification into the definition of “minority-owned” and Staff believes Energy Trust’s DAC with the DEI Lead will be well-suited to clarify this question in 2020.

Measure #4—Outcomes, Rural

Convene a rural-focused workshop in 2020 to continue the dialogue on developing community capacity to serve customers and how to best drive energy efficiency dollars to rural communities for direct local benefit. Funds will be set aside in the 2020 budget for this project.

Staff heard from stakeholders concerns about the needs of rural communities who were not directly represented in the workshops while the energy burden and need for energy efficiency services is great in these areas. Staff felt that at this point it would be beneficial to increase engagement with rural communities and learn more about how to serve them.

Energy Trust will plan for this activity in its 2020 Budget and Action Plan and Staff will reinforce it as an action item in the budget memo.

Staff proposes that the new DEI metric category appear in 2020 as follows:

Category	Proposed 2020 Performance Measure
Diversity, Equity, & Inclusion	<ul style="list-style-type: none">• Implement the data enhancement project as outlined in the 2020 Budget and Action Plan and deliver a minimum of four reports to the Diversity Advisory Council.• Implement and publish the “DEI Lens” project as outlined in the 2020 Budget and Action Plan and approved by the Diversity Advisory Council.• Complete 1,000 projects with trade allies that are minority-owned businesses in 2020.• Implement a rural-focused workshop as outlined in the 2020 Budget and Action Plan.

Together, this mix of activities that will provide the Commission with information on progress towards the initial undertaking of Energy Trust’s DEI efforts. Measures #2 and #4 could be considered temporary in that once they are fully integrated into operations (#2) or completed (#4), they would be removed as performance measures. Measures #1 and #3 have the opportunity to evolve over time to provide more targeted information on progress.

Staff will continue to work with Energy Trust in reviewing and supporting their DEI efforts. Energy Trust continues to report quarterly to the Commission on DEI activities. Staff will review planned DEI activities in the 2020 Budget and Action Plan. Staff proposes to hold a workshop annually to review the DEI performance measure category until a stable metric is established. Additional workshops can be scheduled as needed.

2019 Revision

Staff requests two minor changes to the existing 2019 performance measures. The first is to the staffing metric. In the memo, Staff discussed the planned addition of the 10 percent year-over-year growth cap on staffing costs. This was accidentally left off of the summary table at the end of the memo. The other request is to the Program Delivery Efficiency category, or administrative costs. In the Secretary of State audit last year, it was recommended that actual dollar amounts are listed in the performance measure for clarity. Staff proposes adding the dollar amounts corresponding to the approved metrics.

Staff proposes the 2019 revisions to the Program Delivery Efficiency and Staffing categories appear as follows:

Corrections are underlined>.

Category	Approved 2019 Performance Measure	Corrected 2019 Performance Measure
Electric Energy Efficiency	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> • PGE: Obtain at least 28.5 aMW; Levelized cost not to exceed 3.5 cents/kWh • Pacific Power: Obtain at least 16.8 aMW; Levelized cost not to exceed 3.7 cents/kWh 	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> • PGE: Obtain at least 28.5 aMW; Levelized cost not to exceed 3.5 cents/kWh • Pacific Power: Obtain at least 16.8 aMW; Levelized cost not to exceed 3.7 cents/kWh
Natural Gas Energy Efficiency	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> • NW Natural: Obtain at least 4.4 million annual therm savings; Levelized cost not to exceed 44 cents/therm • Cascade Natural Gas: Obtain at least 0.43 million annual therm savings; Levelized cost not to exceed 48 cents/therm • Avista: Obtain at least 0.30 million annual therm savings; Levelized cost not to exceed 43 cents/therm 	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> • NW Natural: Obtain at least 4.4 million annual therm savings; Levelized cost not to exceed 44 cents/therm • Cascade Natural Gas: Obtain at least 0.43 million annual therm savings; Levelized cost not to exceed 48 cents/therm • Avista: Obtain at least 0.30 million annual therm savings; Levelized cost not to exceed 43 cents/therm
Renewable Energy	<ul style="list-style-type: none"> • For project and market development assistance (part 1), deploy at least \$1.63 million in non-solar project development assistance incentives. Maintain a non-solar project development assistance pipeline in excess of 25 projects. Report number of projects served total dollars spent, and summarize project progress through development stages. • For project and market development assistance (part 2), 	<ul style="list-style-type: none"> • For project and market development assistance (part 1), deploy at least \$1.63 million in non-solar project development assistance incentives. Maintain a non-solar project development assistance pipeline in excess of 25 projects. Report number of projects served total dollars spent, and summarize project progress through development stages. • For project and market development assistance (part 2),

	<p>report annual results, including number of projects supported, milestones met and documentation of results from market and technology perspective.</p> <ul style="list-style-type: none"> • Obtain at least 1.7 aMW of installed generation of standard net-metered Solar program projects. • For solar projects funded outside of the Solar program's standard, net-metered incentive offer, report sources of funding for projects and the criteria for selection. 	<p>report annual results, including number of projects supported, milestones met and documentation of results from market and technology perspective.</p> <ul style="list-style-type: none"> • Obtain at least 1.7 aMW of installed generation of standard net-metered Solar program projects. • For solar projects funded outside of the Solar program's standard, net-metered incentive offer, report sources of funding for projects and the criteria for selection.
Financial Integrity	<ul style="list-style-type: none"> • Unmodified financial opinion 	<ul style="list-style-type: none"> • Unmodified financial opinion
Program Delivery Efficiency	<ul style="list-style-type: none"> • Administrative and program support costs must be below 8% of annual revenues • Administrative and program support cost growth is limited to 10% year-over-year increase. 	<ul style="list-style-type: none"> • Administrative and program support costs must be below 8% of annual revenues (<u>no more than \$14,675,399</u>) • Administrative and program support cost growth is limited to 10% year-over-year increase (<u>no more than \$1,309,717</u>).
Staffing	<ul style="list-style-type: none"> • Total staffing expenditures will not exceed 7.25% of total organization expenditures calculated on a 3 year rolling average for public purpose funded activities in Oregon 	<ul style="list-style-type: none"> • Total staffing expenditures will not exceed 7.25% of total organization expenditures calculated on a 3 year rolling average for public purpose funded activities in Oregon • <u>Staffing cost growth is limited to 10% year-over-year increase.</u>
Customer Satisfaction	<ul style="list-style-type: none"> • Greater than 85% satisfaction rates for: <ul style="list-style-type: none"> • Interaction with program representatives • Overall satisfaction 	<ul style="list-style-type: none"> • Greater than 85% satisfaction rates for: <ul style="list-style-type: none"> • Interaction with program representatives • Overall satisfaction
Benefit/Cost Ratios	<ul style="list-style-type: none"> • Report both utility system and societal perspective annually • Report significant mid-year changes as warranted in quarterly reports 	<ul style="list-style-type: none"> • Report both utility system and societal perspective annually • Report significant mid-year changes as warranted in quarterly reports

NEEA and Market Transformation	Report annually: <ul style="list-style-type: none"> • Savings and costs • Savings strategies • Show Energy Trust direction to NEEA through committee membership • Summary of Energy Trust direction to NEEA • Summary of NEEA initiatives Energy Trust opts out of and why 	Report annually: <ul style="list-style-type: none"> • Savings and costs • Savings strategies • Show Energy Trust direction to NEEA through committee membership • Summary of Energy Trust direction to NEEA • Summary of NEEA initiatives Energy Trust opts out of and why
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Conclusion

Staff has worked with Energy Trust and its stakeholders over the past months to follow through with the recommendations in Order No. 19-072 to develop new performance measures for staffing and DEI. Staff believes that the strategies to measure Energy Trust performance presented here will temporarily provide the appropriate information to the Commissioners on status and progress. Staff proposes strategies that will lead to the improvement and refinement of these performance measures in the next few years.

PROPOSED COMMISSION MOTION:

Adopt the addition of the proposed performance measures as stated in this memo for evaluating the performance of Energy Trust in 2020 and approve the minor revisions to the 2019 performance measures.