

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Planning Assumptions for the 2022 Budget

Each year Energy Trust planning and program staff identify assumptions, including factors influencing the Oregon economy and market conditions influencing customers and programs. Program staff draw on these assumptions as they build up program-specific action plans and budgets. The context section of each program action plan reflects critical economic and market factors influencing that program.

This memo summarizes major factors expected to influence 2022 outcomes for both the State of Oregon and Energy Trust. These areas include changes in employment, population and migration trends, sector-specific impacts, utility avoided cost updates, efficiency measure baseline changes and changes to programmatic realization rates. These factors are influencing the overall direction and content of Energy Trust's 2022 Budget and 2022-2023 Action Plan.

In short, the persistence of the COVID-19 pandemic and new market uncertainty brought about by the delta variant may be offset by a seemingly improving economy and by a robust Energy Trust program pipeline. These conditions are both fluid and unprecedented in Energy Trust's history. Some conflicting indicators are hard to interpret, making future conditions, and resulting outcomes, difficult to predict.

Executive Summary

The ongoing COVID-19 pandemic and its impact on economic activity in Oregon and Energy Trust programs remains uncertain. The COVID-19 pandemic led to a recession that hit Oregon in 2020. There has been a gradual but steady restoration of the state's health, economy and social activities since the beginning of 2021, but significant uncertainty continues due to the ongoing spread of the delta variant and the impact of public health restrictions on spending and supply chains.

As Energy Trust programs began action planning in summer, Oregon was experiencing increasing vaccination rates and the Oregon Health Authority was reporting a reduction in weekly COVID-19 cases across people from all backgrounds in Oregon, with as much as 75% reduction in cases for white Oregonians and nearly a 100% reduction in cases for other groups of people between May and July 2021¹. Various interventions from the government to control the virus and support continuous economic recovery were in place. According to the Oregon Office of Economic Analysis report issued in May 2021:

“Economic growth is surging as the pandemic wanes. Thanks to federal fiscal policy, consumers have higher incomes today than before COVID-19 hit. Now they are increasingly allowed to and feel comfortable resuming pandemic-restricted activities like going out to eat,

¹ Oregon Health Authority, July 19, 2021. COVID-19 Weekly Report, Page 8/39
<https://www.oregon.gov/oha/covid19/Documents/DataReports/Weekly-Data-COVID-19-Report.pdf>

on vacations, getting haircuts and the like. The outlook for near-term economic growth is the strongest in decades, if not generations.

Oregon's labor market is expected to return to full health during the upcoming 2021-23 biennium. With the strong near-term outlook for consumer spending, job growth is front-loaded such that the largest employment gains will occur this summer and fall. Total employment in Oregon will surpass pre-pandemic levels in late 2022 with the unemployment rate returning to near 4 percent in 2023.²

Further, as of May 2021, the overall forecast for the U.S. real GDP in the year 2021 is about 7%, representing the largest increase for the country in almost four decades³.

According to an updated report from the Oregon Office of Economic Analysis in September, although the current delta wave of the COVID-19 pandemic poses some complications to the immediate term, the medium-term trajectory for overall economy remains intact⁴. The September update reaffirms the May forecast that Oregon's economic outlook looks bright although notes some downside risk of supply constraints, a tight labor market slowing business hiring and softer spending if closures related to the delta wave persist. Two of the main contributing factors for the positive outlook include the unprecedented amount of federal aid, which outweighs the impact of pandemic losses, and the near record high asset markets and profits⁵. The latter factor offers a better scenario for tax related revenue as well as potential business growth. According to the Oregon Office of Economic Analysis from May:

“Looking forward into the 2021-23 biennium, the increasingly rosy economic outlook suggests healthy tax collections will persist. A broad consensus of economic forecasters is calling for near-term output growth to be the strongest seen in decades. Given Oregon's unique kicker law, a booming economic outlook requires an equally aggressive revenue outlook to match it. Taxable income is expected to continue to post healthy gains, showing no evidence of the economic shock we are living through. The outlook for General Fund tax collections has been revised up by around 5% over the next few years. This translates into significantly more resources for policymakers.”⁶

1. State of Oregon Economic Impacts

Employment

With the relative optimism associated with economic recovery, a boom in employment is anticipated in 2022 and 2023, surpassing pre-pandemic levels. By 2023, Oregon's unemployment rate is expected to return to 4%, down from the high of 14% recorded in April 2020. Personal income levels are expected to be restored to slightly higher levels than before the pandemic. According to the Oregon Office of Economic Analysis, reduced unemployment also presents potential challenges on the labor market: According to Oregon Office of Economic Analysis in May:

“While the temporary pandemic-related constraints will ease in the months ahead, the labor market is expected to remain tight for the foreseeable future in large part due to demographics and the large number of Baby Boomers retiring. Labor will remain a challenge

² Oregon Economic and Revenue Forecast, May 2021, Page 5/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

³ Oregon Economic and Revenue Forecast, May 2021, Page 5/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

⁴ Oregon Economic and Revenue Forecast, September 2021, Page 6/65, <https://www.oregon.gov/das/OEA/Documents/forecast0921.pdf>

⁵ Oregon Economic and Revenue Forecast, May 2021, Page 6/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

⁶ Oregon Economic and Revenue Forecast, May 2021, Page 6/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

for firms. But a tight labor market also works wonders for employees with strong wage gains and more plentiful job opportunities.”⁷

The prospective economic recovery is expected to be faster than with recent recessions, underpinned by direct federal aid including \$12 billion in recovery rebates, \$12 billion in total unemployment insurance benefits as well as \$10 billion in paycheck protection loans and grants⁸. In Oregon, the projected rebound in income and employment will positively impact consumer spending growth, helping businesses and expanding job opportunities. As of September, the Oregon Office of Economic Analysis projects a full recovery of jobs lost by the third quarter of 2022.

However, for employers, attracting and maintaining workers remains a challenge across most Oregon industries. Contractors in the trades are experiencing severe challenges in hiring skilled labor (many people are either electing to pause working or seeking other job opportunities) and retaining qualified employees. Given these labor shortages, smaller companies may not have the capacity to keep pace with customer demand.

Population

Although Oregon’s Economic and Revenue Forecast shows a projected annual population growth rate of 0.74% between the years 2020 and 2029⁹, the growth rate is expected to remain well below the pre-pandemic average. Further, the pandemic has led to slow population growth as a result of recorded deaths and a drop in birth rates. The result, according to the Oregon Office of Economic Analysis, is that “migration will be solely responsible for Oregon’s population growth.”¹⁰ In the next decade, the population of Oregon is expected to increase by 800,000.

Inflation

As the economy gradually recovers from the pandemic, the inflation rate is rising across all sectors including transportation and hospitality¹¹. If the rate of inflation persists, the federal government could intervene by raising interest rates, which would slow down some of the recent economic recovery gains seen in the past several months. According to the Oregon Office of Economic Analysis, the first interest rate increase is expected in late 2022 or early 2023.

2. Other Influencing Market Factors

Environmental Factors

Oregon is experiencing hotter and dryer summers, which have resulted in extreme heat events and forest fires impacting Energy Trust customers. This creates challenges and opportunities for Energy Trust to respond to emerging needs within our mission and purview. Energy Trust will continue to provide incentives for cost-effective cooling measures and will forge partnerships with other organizations that support populations impacted by these events. Furthermore, Energy Trust will

⁷ Oregon Economic and Revenue Forecast, May 2021, Page 7/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

⁸ Oregon Economic and Revenue Forecast, May 2021, Page 8/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

⁹ Oregon Economic and Revenue Forecast, May 2021, Page 37/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

¹⁰ Oregon Economic and Revenue Forecast, May 2021, Page 37/70, <https://www.oregon.gov/das/OEA/Documents/forecast0521.pdf>

¹¹ Oregon Economic and Revenue Forecast, September 2021, Page 11/65, <https://www.oregon.gov/das/OEA/Documents/forecast0921.pdf>

work with communities and entities that are seeking to build renewable energy and energy efficiency solutions into their planning to help them become more resilient in the face of these threats.

Manufacturing Supply Chains

Global supply chains have been heavily impacted by the pandemic, reducing the availability of some products and driving up prices. Manufacturing is being held up by scarcity of component parts and labor shortages. Shipping and transportation are delayed by bottlenecks and congestion at shipping ports resulting from a shortage of containers, trucks and commercial flights. Labor shortages are impacting the shipping and transportation industries. Prices for shipping are higher for air and sea cargo.

Supply chain issues may have some impact on the availability of products promoted by Energy Trust programs. Examples include:

- **HVAC equipment** has experienced manufacturing supply chain issues and increased equipment costs. Circuit boards are in short supply, with distributors and contractors seeing 5% to 15% cost increases quarterly since summer of 2020 with increases expected. Manufacturing is having trouble keeping up with demand nationally, and distributors indicate that high costs could continue for as long as 18 months. Some distributors will be out of stock of HVAC equipment until January 2022. Flex duct material and heat pump coils are also difficult to find in parts of the state.
- **Insulation** suppliers indicate that fiberglass and foam product shortages could continue through the end of 2022.
- Some HVAC distributors are out of **central air conditioning units** and indicate they may also run out of common sizes of coils and compressors. Demand increased considerably for air conditioning following the June heatwave. Many distributors are backordered or have converted their central air conditioning sales to heat pump sales. Limited supplies of central air conditioners could drive up sales of heat pumps, including for customers with gas furnace systems.

Funding Options for Efficiency Customers

The federal infrastructure bill that was recently passed by the U.S. Senate sets aside billions of dollars for energy efficiency funding to stimulate the national economy and reduce greenhouse gas emissions. Additional House and Senate votes on the bill are expected to take place during the Energy Trust budget process. If the bill is signed into law, it could set aside hundreds of millions of dollars for state energy offices and energy efficiency grants. Current provisions include¹²:

- Industry
 - \$150 million for Industrial Assessment Centers, which help small manufacturing plants identify possible efficiency projects
 - \$400 million in grants for industrial plants to implement projects
 - \$500 million for industrial demonstration projects
- Commercial and residential retrofits

¹² <https://www.aceee.org/blog-post/2021/08/energy-efficiency-funds-infrastructure-bill-should-tee-historic-investments-fall>

- \$3.5 billion for low-income weatherization, a new revolving loan fund supporting commercial building and home upgrades, funds for public school and federal building upgrades and worker training
- Zero energy homes and buildings
 - \$225 million for grants to states and others for implementation of building energy codes

In addition, financing options for efficiency projects continue to evolve and become more widely available. However, availability of financial products has not historically led to widespread demand to help facilitate significantly more projects. According to Energy Trust’s contractor CLEAResult:

“...Residential and commercial segments will benefit from new financing options and increasing choice amongst existing and new market entrants. In the residential segment, we are seeing new financing models emerge that focus on the consumer’s lifestyle and comfort preferences, rather than on traditional energy savings as the value driver. These emerging offers are positioned ‘as-a-service’ similar to other on-demand products that today’s consumer is accustomed to purchasing. In the commercial segments, we are seeing similar trends towards ‘as-a-service’ financing options where third parties invest project capital and energy users pay for upgrades over time. This model effectively shifts energy efficiency upgrades from a capital expense to an operating expense, where most customers are accustomed to paying for utility expenses. Bundling is growing in popularity as well for both segments where efficiency and distributed energy resources such as solar are financed together offering the energy user more attractive economics than is possible with independent projects.”

3. Factors influencing Energy Trust

Below are factors influencing Energy Trust action planning and budgeting for 2022 and 2023. This list does not include program-specific factors. Please see the context section in each program action plan for more information at the program level.

Robust Program Pipelines

The bonuses that Energy Trust offered in 2020 to stimulate project activity at the onset of the pandemic achieved their intended impact. This success resulted in Energy Trust achieving 95% of its electric efficiency goal and 110% of its gas efficiency goal in 2020. Energy Trust also achieved 127% of its 2020 renewable generation goal. The bonuses also resulted in a robust pipeline of commercial and industrial projects leading into 2021, with the total incentives for these potential projects exceeding the 2021 budget. Energy Trust worked closely with utilities and the Oregon Public Utility Commission to increase electric and gas budgets to serve projects in the pipeline. Reductions in incentive offerings and project caps were put in place to ensure that programs managed closely to the increased 2021 budgets. As of the end of quarter two 2021, Energy Trust is forecasting to achieve 101% of its 2021 electric efficiency goal, 118% of the gas efficiency goal and 174% of the 2021 renewable generation goal.¹³ The robust commercial and industrial program pipelines continue into 2022 and are contributing to increased savings compared to what was anticipated for 2022 at this time last year.

¹³ Internal Energy Trust 2021 Q2 reporting.

Diversity, Equity and Inclusion

Energy Trust is continuing to prioritize its DEI initiative which strives to ensure all customers can directly benefit from our services, including people with low and moderate incomes, communities of color and rural communities. Programs and operations have been working toward 10 goals in the 2021 DEI Operations Plan, including customer participation increases, Trade Ally Network diversification and staff diversification goals. Energy Trust is developing a new diversity, equity and inclusion plan for 2022 based on feedback from communities and stakeholders in 2021 and the anticipated focus of the plan is community engagement. Nevertheless, programs and operations will continue to advance initiatives designed to accomplish goals in the 2021 DEI Operations Plan.

Laws Pertaining to Large Electric Customer Spending

In 2021, large customer spending caps in place under SB 838 (2007) were repealed when HB 3141, a bill modifying the public purpose charge, was enacted by the Oregon Legislature and Governor Brown. Large customer spending caps are no longer applicable for 2022 and beyond. Energy Trust will continue to identify all-cost effective energy efficiency from large customers and provide incentives to eligible large customers in alignment with our policies, managing through annual budgets and coordinating with utilities on revenue needs in order to do so. Our planning assumptions for how we serve large customers are not materially changed for 2022. As HB 3141 is implemented, we may receive additional direction for expenditures related to large customers through discussions with stakeholders and OPUC.

Peak Load Management

Interest in peak load management continues to grow as utilities anticipate more load constraints on their entire systems and also at a local level. Energy Trust will continue to engage with Pacific Power, NW Natural, PGE and other stakeholders to design and deliver demand reduction activities that are linked to energy-efficiency and renewable generation objectives. We will also monitor as utilities track how COVID-19 and other evolving market conditions influence the timing and magnitude of peaks. This will influence which efficiency measures are of highest value. These shifts are related to difficult-to-predict impacts of COVID-19 on business and work patterns.

In addition to Energy Trust providing value to help utilities manage their peak loads, there is also a growing interest from utilities in managing carbon emissions. Energy Trust has already engaged in conversations with some of our funding utilities about providing programs to reduce carbon in targeted areas. Energy Trust will continue to explore these opportunities in pursuit of implementation solutions to achieve carbon reduction goals.

Northwest Energy Efficiency Alliance

Energy Trust will continue to fund Northwest Energy Efficiency Alliance in Oregon and will continue to collaborate with other funding partners in pursuit of electric and gas market transformation.

Portland Clean Energy Community Benefits Fund

Energy Trust put together an internal team to facilitate coordination and support project development with nonprofit organizations applying for grant funds as the City of Portland implements the Portland Clean Energy Community Benefits Fund (PCEF). Energy Trust is aware that some nonprofits will pursue projects that also tap Energy Trust incentives and is monitoring the funding opportunities scheduled for release by PCEF to estimate potential demand for incentives and associated energy savings and generation. The first PCEF grants and projects are just starting to be implemented in the

latter half of 2021. The volume of projects coming through PCEF thus far is relatively low, however grant rounds and funding will increase in 2022. PCEF will help drive projects in homes and businesses in communities of color and for customers with lower income; these are customer segments that Energy Trust is seeking to serve and benefit as well. Energy Trust currently works with several community-based organizations on delivery of residential heating and cooling measures and we believe these nonprofits are well positioned for PCEF funding that would expand their work and, therefore, demand for Energy Trust incentives. However, at this time we are not able to accurately forecast the volume of measures and incentives because grant applications and future round funding decisions are still forthcoming.

4. Planning Assumptions Influencing Energy Trust Efficiency Programs

Avoided Costs

Avoided costs for Oregon energy-efficiency measures were updated in 2021 for 2022 measure and program planning.

Oregon Avoided Costs:

Based on the measure mix for 2019 and part of 2020, Oregon saw an average increase in electric avoided costs of 1.4% and an average increase in gas avoided costs of 11%. On average, electric and gas savings in Oregon will have more value per kilowatt hour and therm, respectively, which will help offset increasing savings baselines for some gas measures and will help keep these gas measures cost-effective.

Washington Avoided Costs:

For Washington, gas avoided cost values will remain the same in 2022 as the values that were used to review measures for cost-effectiveness in 2021. This means that measures that have increasing baselines will be relatively less cost-effective than they had been previously.

Prescriptive Measure Baselines

The following information will be used by Energy Trust's Planning team to describe measure changes that would most impact program forecasting and performance in 2022 from a measure development standpoint (e.g. changing baselines, codes, etc.) for measures with high impacts on savings goals.

Key Changes to baselines, codes and standards for measures for program year 2022:

1. Changes to Oregon appliance standards from HB 2062 are changing baselines for a number of measures, notably, commercial food service equipment (fryers, steam cookers, dishwashers) and showerheads. Our fryer measures, which are popular commercial gas measures, will sunset mid 2022 as a result.
2. Increased LED market share continues to decrease per unit savings in the Commercial and Industrial Lighting program.
3. New Buildings will roll out updated Market Solutions, Lighting and Custom track offers for buildings permitted under the 2021 commercial building code. The new lighting code is based on an LED baseline, which will decrease project savings.

4. New residential building codes in Oregon and Washington have increased the baselines for our new homes EPS offerings.
5. Changes are expected to our irrigation savings based on baseline data collected by Bonneville Power Administration and the Regional Technical Forum.

Energy-Efficiency Program Savings Realization Rates

Realization rates are the percentage of savings estimated to have occurred based on post-installation evaluation review. Realization rates from prior years are used to adjust future savings forecasts. The updates below are compared to prior year program-level results. Note that in 2020 we started reporting realization rates at the track level and will compare year-over-year results in next year's memo to these track levels.

Electric realization rates:

- Increased on average for Existing Buildings program
 - Increased for standard track
 - Increased for custom track
 - Decreased for commercial Strategic Energy Management (SEM)
- Stayed the same for existing multifamily
- Stayed the same for the New Buildings program
- Increased on average for Production Efficiency program
 - Increased for custom track
 - Increased for streamlined track
 - Decreased for Industrial SEM
- Vary by measure for Residential program

Gas realization rates:

- Decreased on average for Existing Buildings program
 - Increased for standard track
 - Decreased for custom track
 - Decreased for Commercial SEM
- Stayed the same for existing multifamily
- Stayed the same for the New Buildings program
- Decreased on average for Production Efficiency program
 - Decreased for custom track
 - Decreased for streamlined track
 - Increased for industrial SEM
- Vary by measure for Residential program

Line Loss Assumptions

Transmission and distribution system power losses, or line losses, represent the electric energy lost or wasted as a result of transmitting and distributing energy from a generating source to the location where it is consumed. Line losses for 2022 remain the same as 2021. Residential sites (including multifamily housing sites) will have assumed line losses of 8%, commercial sites will have assumed line losses of 7% and industrial sites will have assumed line losses of 5%.

Summary

The COVID-19 pandemic continues to perpetuate unprecedented economic uncertainty. The resulting recession is unique due to the lack of pre-existing large-scale economic issues or market imbalances. Because this recession was primarily triggered by health-related conditions, economists are forecasting this recession to be shorter in duration than previous events. However, the delta variant has introduced new uncertainty.

Even though there have been large macroeconomic impacts on Oregon's economy, Energy Trust made immediate adjustments in 2020 by launching bonus incentives to encourage program participation and support the market. The bonuses contributed to a robust 2021 pipeline of projects and very high pipelines across sectors. The impacts of this demand on Energy Trust programs will persist into 2022 planning, and programs will need to balance competing goals of managing to revenue constraints with continuing to address underserved markets targeted by diversity, equity and inclusion initiatives.

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Measure Cost-Effectiveness Exceptions Status as of September 15, 2021

In response to the Oregon Public Utility Commission's request to provide the status of Energy Trust requests for cost-effectiveness exceptions, this memo summarizes energy efficiency measures that have received exception approval from the OPUC.

Background

Commission Order No. 94-590 in Docket UM 551 specifies that the Total Resource Cost (TRC) test and Utility Cost Test (UCT) must be used to determine if energy efficiency measures and programs are cost-effective. The same order allows for measures that are not cost-effective to be included in utility programs if it is demonstrated that at least one of the following conditions is met:

- A. The measure produces significant non-quantifiable, non-energy benefits. In this case, the incentive payment should be set at no greater than the cost-effective limit (defined as present value of avoided costs plus 10%) less the perceived value of bill savings, e.g., two years of bill savings.
- B. Inclusion of the measure will increase market acceptance and is expected to lead to reduced cost of the measure.
- C. The measure is included for consistency with other demand-side management programs in the region.
- D. Inclusion of the measure helps to increase participation in a cost-effective program.
- E. The package of measures cannot be changed frequently, and the measure will be cost-effective during the period the program is offered.
- F. The measure or package of measures is included in a pilot or research project intended to be offered to a limited number of customers.
- G. The measure is required by law or is consistent with commission policy and/or direction.

Summary of Measures with Exceptions That Will Be Offered in 2022

The OPUC has granted exceptions for 15 measures that will be offered in 2022 in Existing Buildings (including multifamily), New Buildings and Residential programs. Five more exception requests are pending.

Exceptions that will be active in 2022 are summarized in Table 1.

Table 1 List of Measure Exceptions That Will Be Active in 2022

Program	Measure	Order Number	Date Granted	Expiration Date
Residential	Manufactured home replacement	pending	pending	pending
Residential	No cost DHP pilot	pending	pending	pending
Residential	DHP with supplement fuels	pending	pending	pending
Existing Buildings (multifamily)	DHP zonal heat HZ1	pending	pending	pending
Residential	DHP zonal heat HZ1	pending	pending	pending
Existing Buildings (multifamily)	Ductless heat pumps in heating zone 1	20-105	3/31/2020	3/31/2022
Existing Buildings (multifamily)	Ductless heat pumps with supplemental fuels	20-105	3/31/2020	3/31/2022
Residential	Ductless heat pumps with supplemental fuels	20-105	3/31/2020	3/31/2022
Residential	Floor insulation (electric)	NA – minor	9/26/2019	12/31/2022
Existing Buildings (multifamily)	Floor insulation (electric)	NA – minor	9/26/2019	12/31/2022
Residential	Floor insulation with incentive cap (gas)	NA – minor	9/26/2019	12/31/2022
Existing Buildings (multifamily)	Floor insulation with incentive cap (gas)	NA – minor	9/26/2019	12/31/2022
Residential	Wall insulation with incentive cap (gas)	NA – minor	9/26/2019	12/31/2022
Existing Buildings (multifamily)	Wall insulation with incentive cap (gas)	NA – minor	9/26/2019	12/31/2022
Existing Buildings (multifamily)	Flat roof insulation (hp)	NA – minor	9/26/2019	12/31/2022
Existing Buildings (multifamily)	Flat roof insulation (gas)	NA – minor	9/26/2019	12/31/2022
Residential	Gas heated new manufactured homes	NA – minor	7/16/2020	12/31/2023
New Buildings	Custom and Market Solutions tracks	21-258	9/8/2021	3/31/2024
Residential	Clothes washers (gas-only territory)	NA – minor	9/02/2015	N/A
Multiple	Pilots under \$500,000	15-029	1/29/2015	N/A

Portion of Energy Trust Savings From Measures With Exceptions in 2020 and 2021

The following table represents the portion of total Energy Trust savings from measures with exceptions for 2020 and 2021 (year-to-date through September 15, 2021).

Table 2 Savings and Incentives From Measures With Exceptions in 2020 and 2021 Through September 15, 2021

Program Year	Electric savings (kwh)	% of total electric savings	Gas savings (therms)	% of total gas savings	Incentives (\$)	% of total incentives
2020	3,675,207	0.47%	35,659	0.93%	\$1,993,665	2.65%
2021 year to date	2,278,132	1.16%	23,746	0.54%	\$1,502,871	3.30%

In 2020, with Order 20-018 the New Buildings program was granted a TRC exception for custom and new Market Solutions projects permitted under the 2019 commercial building code. A similar exception was granted in 2021 through 2023. Due to the long lead time of New Buildings projects, only two projects have been completed under this exception to date. Projects completed with these measure exceptions are expected to make up a larger portion of savings and incentives in future years.

Exception History

There are 127 measure exceptions on record granted by the OPUC since 2012 when counted per measure and per program. Past memos reported this value differently.

Of the 127 measure exceptions, 55 are considered minor. A minor exception is one where the total dollars and savings associated with the measure are less than 5% of total annual program activity and TRC is greater than 0.8. Minor exceptions do not require commission approval and are approved by OPUC staff.

Measure exceptions were approved by the OPUC according to the criteria outlined in the Background section above. Table 3 identifies how many exceptions were granted based on each criterion. Some measures meet multiple criteria.

Table 3 Number of All-Time Exceptions Granted Based on Measure Exception Criteria

Exception Criteria	Number of Instances
A	43
B	28
C	54
D	50
E	8
F	8
G	7

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Energy Efficiency Levelized Cost Trends and Managing Future Costs

Levelized cost is defined by Energy Trust as a measure of the average net present cost of the savings from an energy efficiency resource over the lifetime of the respective resource. Energy Trust portfolio-wide levelized costs vary over time due to changes in the mix of efficiency measures and relative expenditures and due to revisions to energy savings and measure lives.

Levelized cost is an incomplete indicator of the value of energy saved because it does not reflect the difference in value energy has during different time periods, such as a peak hour or week. It only shows the cost of savings over the lifetime of the measure. It also doesn't factor in other benefits. However, it is a useful shorthand indicator of cost trends. Levelized cost trends have typically been of interest to stakeholders as Energy Trust's savings portfolio evolves and new strategies and approaches are under development.

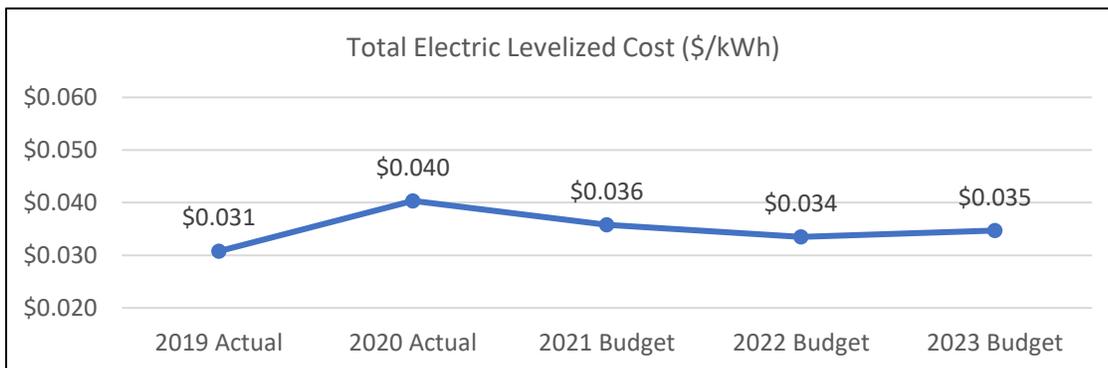
This memo provides detail on levelized costs and identifies actions to manage levelized costs over time.

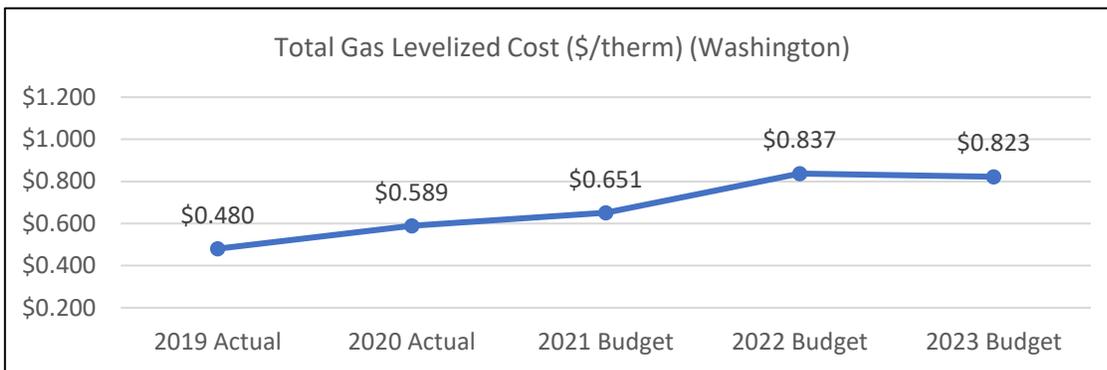
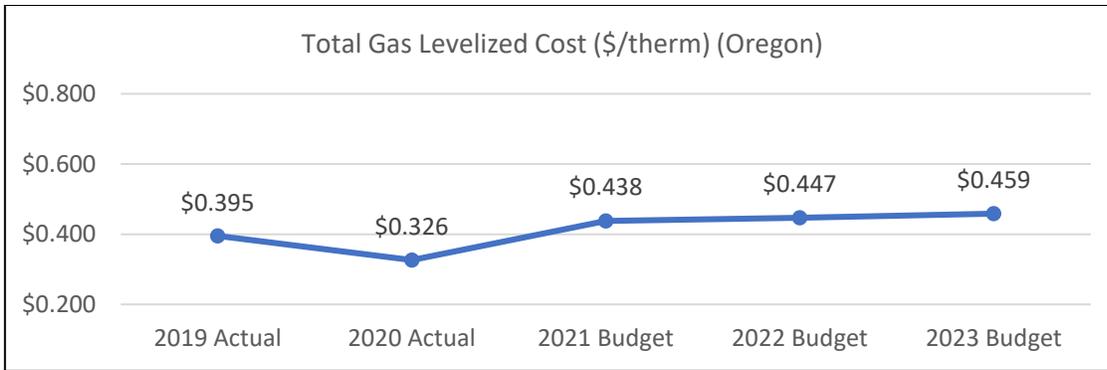
Levelized Costs in Draft 2022 Budget and 2022-2023 Action Plan

The draft 2022 budget delivers electric savings at a cost of 3.4 cents per kilowatt hour (kWh) and 44.7 cents per therm (Oregon only) levelized. This is a small 6% decrease (0.2 cents/kWh) over 2021 budgeted electric levelized costs and a very small increase (0.9 cents/therm) over 2021 budgeted gas levelized costs.

Levelized cost for NW Natural Washington programs in 2022 is 83.7 cents per therm, a 29% increase over 2021 gas levelized costs. Nevertheless, the savings Energy Trust acquires for southwest Washington natural gas customers remains cost-effective.

The 2023 budget projection shows Oregon electric levelized costs increasing slightly to 3.5 cents per kWh. Gas levelized costs are projected to increase slightly to 45.9 cents per therm (Oregon only) in 2023. Projected levelized cost for NW Natural customers in southwest Washington in 2023 is 82 cents, a 2% decrease from 2022.





Levelized Cost Drivers

In Oregon, the relatively small changes in budgeted levelized costs from 2021 to 2022 and 2023 are driven by many factors—there is no dominant driver for the changes. New, more efficient equipment and building standards reduced some program savings, but a portion of those savings will be claimed as market transformation through Northwest Energy Efficiency Alliance. There are several planned changes in the volumes of different measures across programs and some new efficiency measures have entered the portfolio. Evaluation studies employed in savings forecasting increased savings for some measures and programs, and decreased savings for others. NEEA savings are increasing as it progresses in its five-year business plan.

For programs serving NW Natural customers in southwest Washington, levelized costs are up in contrast to Oregon. Energy Trust’s portfolio in Washington only serves residential and commercial customers. In 2022, savings are reduced due to a large commercial project completing more savings in 2021 than 2022 and the impact of new home and building efficiency codes. There is also a significant investment in Strategic Energy Management in 2022 which will result in savings in 2023.

Strategies to Manage Levelized Costs

Managing levelized costs over time requires that we continuously work to find new sources of savings, adjust program design and delivery methods, and ensure efficient and effective operations.

- 1) **Finding new sources of savings**—by conducting and evaluating pilots, participating in the Northwest Power and Conservation Council’s Regional Technical Forum and investing in emerging technology through NEEA—helps us manage levelized costs in the long-term. While these investments may add cost per unit of savings in the short-term, some of these future measures will contribute to a portfolio of reasonably priced, cost-effective savings over time.

- 2) **Adjusting program design and delivery methods** enables Energy Trust to find more efficient methods of reaching and serving customers and unlocks new pathways to acquiring savings from customers, either from customers we have not yet served or those who can invest again for the next increment of savings. Energy Trust periodically solicits proposals for major program delivery contracts to tap the market for new approaches to serve customers and ensure delivery efficiencies for ratepayers. In 2022, Energy Trust will release requests for proposals for two major programs—the Residential program and the Production Efficiency program. Additionally, Energy Trust is currently exploring how partnerships with community-based organizations and other community entities, such as cities and counties, can help engage new customers we have historically underserved. While these partnerships require an investment of time and resources, we believe they will unlock savings that, over time, will contribute to a portfolio of reasonably priced, cost-effective savings.
- 3) **Ensuring efficient and effective operations** enables us to continue processing high volumes of transactions, maintain strong customer service and ensure transparency and accountability through public reporting. Every year we identify system and process enhancements that reduce manual data entry, save time for customers and staff, and streamline administrative processing.

In 2022, we will continue to apply DocuSign to more customer and internal forms and continue multi-year efforts to invest in a more efficient budget system. The Information Technology and Operations Support action plans identify additional activities to improve staff productivity and systems efficiency.

We will also continue to invest in the adoption of improved organizational processes for business planning, budgeting, decision-making and innovation, all driven by the organizational review project completed in 2018. These changes help us make decisions, explore new ideas and develop new program approaches more efficiently. They also ensure we apply limited staff resources to highest priority work.

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Long-Range Forecast for Other Renewables and Solar Projects

Energy Trust’s renewable energy programs provide incentives to generation projects primarily utilizing solar, hydropower and biopower technologies. Because projects take time to construct, the program has contractual incentive obligations that stretch over multiple years. This memo provides visibility into existing contractual obligations.

Other Renewables

The Other Renewables program provides incentives to projects utilizing non-solar renewable generation technologies, primarily focusing on in-conduit hydropower and biopower. These projects often have long construction timelines, requiring Energy Trust to commit and set aside funding several years before projects are completed and begin generating electricity. Incentive payments are usually partially paid upon a project successfully reaching commercial operation, with the rest of a committed incentive paid over the first several years. This results in incentive funds being held in reserve over a period that may last as long as five years from incentive commitment to final incentive payment.

Figures in the following tables reflect forecast data through Q3 2021. Tables may not total due to rounding.

In Portland General Electric service territory, Energy Trust has existing commitments for two generation projects that have reached commercial operation.

Installation Incentive Funding Commitments: Portland General Electric Territory

Project	Generation	Expected payments	Scheduled payment dates
City of Salem— Willow Lake Wastewater Treatment Facility (biopower) <i>Achieved commercial operation June 2020</i>	0.9 aMW	\$949,500 for three additional payments based on reaching generation milestones	December 2021 April, July 2022
Water Environment Services—Tri-City Wastewater Treatment Facility (biopower) <i>Achieved commercial operation July 2021</i>	0.5 aMW	\$800,000 in one payment based on reaching generation milestone	September 2022
TOTAL		\$1,749,500	

In Pacific Power service territory, Energy Trust has existing commitments of incentives for one generation project. This project is under construction and expected to reach commercial operation in Q4 2021.

Installation Incentive Funding Commitments: Pacific Power Territory

Project	Generation	Expected payments	Scheduled payment dates
Three Sisters Irrigation District—McKenzie (hydropower)	0.1 aMW	\$465,000 upon completion Four payments of \$100,000 based on reaching milestones	December 2021
			December 2022
			December 2023
			December 2024
			December 2025
TOTAL		\$865,000	

In addition to contractual commitments of installation incentives, Energy Trust has existing commitments of **project development assistance incentives**. Project development assistance incentives are used for technical studies, feasibility studies and other kinds of pre-development work that helps projects mature to the point where they are ready to apply for an installation incentive.

Project Development Assistance Incentive Commitments for Hydropower and Biopower Projects in PGE and Pacific Power territories

	Q4 2021	2022	2023	2024
Portland General Electric	7 projects \$209,080	4 projects \$369,380 REC registration costs paid to PGE for 4 projects: \$3,540	REC registration costs paid to PGE for 4 projects: \$3,540	REC registration costs paid to PGE for 4 projects: \$3,540
Pacific Power	15 projects \$327,629	7 projects \$199,680	n/a	n/a
TOTAL	22 projects \$536,709	15 projects \$572,600	4 projects \$3,540	4 projects \$3,540

Solar

The Solar program has existing approved projects in various stages of design and construction. Following is a summary of these incentive obligations for both utilities including expected aggregated generation (aMW) and incentive dollars. This table shows commitments as of July 1, 2021 for projects expected to be paid after December 31, 2021. It does not include project commitments expected to be made in the second half of 2021. The generation and the incentive dollars in the table have not been reduced from the total existing applications to reflect expected

project cancellations. Historically, about 10% of residential applications and about 20% of commercial applications result in canceled incentive reservations.

Aggregated Incentive Commitments for Solar Projects

	2022
Portland General Electric	\$1,978,118 0.85 aMW
Pacific Power	\$671,684 0.39 aMW
TOTAL	\$2,649,801 1.24 aMW

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Community Solar Incentive Commitments

Energy Trust currently provides two types of support for community solar projects using public purpose charge funds: development assistance and installation incentives for community solar projects.

Supporting community solar projects helps Energy Trust reach people who do not have access to rooftop solar including renters, low-income families or people whose homes have too much shading for a rooftop solar installation. Following is a summary of these two programs and existing commitments.

Community Solar Development Assistance

In 2019, Energy Trust began to offer community solar development assistance incentives to support public and nonprofit organizations developing community solar projects for participation in the Oregon Community Solar Program as well as private companies developing small community solar projects. The objective of community solar development assistance funds is to increase the feasibility and success of community-driven projects and provide public and nonprofit organizations with additional support so that they have an equitable opportunity to participate in the community solar market. The Renewable Advisory Council advised that these are the types of projects most in need of early-stage assistance.

A project may receive up to \$20,000 for expenses and activities such as staff time needed for pre-development work, permitting, market analysis, site-leasing, grant writing, feasibility studies, pre-design and design work, and other early-stage project development activities that help projects overcome market barriers. This is a critical role that Energy Trust has played for all renewable technologies in the territories it serves.

At this time, Energy Trust has made Solar Development Assistance incentive commitments to eight projects. Following is an aggregated summary. All of these projects are expected to complete their development activities by the end of 2022.

Utility	Project Count	Current committed Energy Trust incentives	Capacity (AC)
Pacific Power	*7 projects	\$70,606	6,118 kW
Portland General Electric	*1 project	\$800	360 kW

*In addition to the projects listed in the table, Energy Trust has received three applications for funding from projects that have yet to make a specific funding request. Two of these projects are in PGE territory and one is in Pacific Power territory.

Installation incentives

In 2021, Energy Trust's Solar program established a competitive solicitation for providing installation incentives for community solar projects under 360 kW in capacity that serve customers historically underrepresented in public processes and solar programs. The objective of the competitive solicitation was to fund as many qualified projects as possible from the budget available for this offering. Projects that met requirements for serving a significant number of underserved customers were ranked, with preference for the smallest incentive requests. Projects that were selected received a preliminary incentive reservation. Projects have six months to finalize their application, trade ally partnership and design in order to secure a two-year incentive reservation. Once projects complete construction and installation incentives are paid, generation from these projects will be included in Energy Trust's quarterly and annual reports.

In September of 2021, Energy Trust announced that five projects have received incentive awards totaling \$533,000.

Utility	Project Count	Committed Energy Trust incentives	Capacity (AC)
Pacific Power	4 projects	\$480,000	1,013 kW
Portland General Electric	1 project	\$53,000	40 kW

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Staffing for Draft 2022 Budget and 2022-2023 Action Plan

Energy Trust's staffing budget balances the cost of the staffing resources needed to accomplish 2022 goals and compliance with Oregon Public Utility Commission performance measures.

This memo provides background and information about staffing planning and considerations in 2022, including staffing cost drivers and compliance with the OPUC minimum performance measure for applicable staffing costs.

1. 2022 Staffing Planning

Energy Trust employees are the basis of the organization's strategic and operations management and accountability. Energy Trust's staffing planning is guided by its 2020-2024 Strategic Plan. The plan envisions a future for Energy Trust that furthers its core mission of energy efficiency and renewable energy resource acquisition through continued innovation and expanded program participation to reach all eligible customers, particularly those that Energy Trust has historically underserved. The plan envisions deeper relationships with customers, communities, utilities, OPUC and policymakers to strengthen Energy Trust's capacity to quickly and effectively provide solutions and respond to opportunities in the evolving clean energy future.

Energy Trust's staffing planning for 2022 takes incremental steps toward establishing an organizational structure and the resources to accomplish work envisioned in strategic plan focus areas. Even with this future focus, Energy Trust is committed to compliance with the OPUC's minimum performance measure for year-over-year staffing cost increases, which caps increases for portions of the budget overseen by the OPUC¹ at 9%.

In planning for the 2022 budget, Energy Trust management undertook an extensive business and staffing planning exercise that began by setting four 2022 organizational goals:

- Achieve savings and renewable generation goals while addressing the needs of customers who experience significant energy burden or are impacted by disaster events
- Expand support for community-led approaches to increase access to clean energy
- Create development capabilities that will allow us to increase funding to deliver more savings and generation and expand our ability to meet changing customer and utility system needs
- Implement new work strategies to adapt and thrive in our changing environment and support staff while managing operating costs

¹ The OPUC oversees the largest portion of Energy Trust expenditures under a grant agreement. That includes all expenditures for programs funded by Oregon customers of PGE, Pacific Power, NW Natural, Cascade Natural Gas and Avista. Energy Trust's expenditures for NW Natural Washington, Oregon Community Solar Program, PGE Smart Battery Pilot and a NW Natural targeted load management pilot are not overseen by the OPUC.

Energy Trust’s proposed 2022 staffing budget is based on identifying priority work to support its 2022 goals and its strategic plan focus areas and matching staffing capacity to that prioritized work. This plan provides program, support and administrative functions for all programs and services Energy Trust delivers in Oregon and Southwest Washington, including the Oregon Community Solar Program subcontract with Energy Solutions and utility-specific contracts for services delivered outside of standard programs.

To minimize staffing cost growth, Energy Trust has taken every opportunity to examine needs across the organization using the business plan as the primary reference. Through this process, lower priority work is eliminated to make room for work that is tied to annual and strategic plan goals. We identify staffing gaps, and managers plan for re-alignment of staff resources as needed. Energy Trust has and will continue to change staffing positions and shift roles and responsibilities consistent with organizational needs and priorities. This process occurs during staffing planning and when any vacant position arises during the year.

The 2022 budget includes expanding the career development process at Energy Trust, which starts with a thorough workforce planning exercise. The workforce planning exercise will evaluate the current workforce’s skills and capabilities against the organization’s future talent needs. Identified gaps in skills or capabilities will inform the career development process, helping ensure the organization is adequately resourced to execute the current and future business strategy.

The 2022 staffing budget includes three new staff positions, proposed primarily to advance and support Energy Trust’s efforts in achieving its diversity, equity and inclusion goals and 2022 organizational goals. More information is provided in the new staff section below.

Energy Trust executive staff applied the organization’s Diversity, Equity and Inclusion Lens to the staffing plan and views diversity, equity and inclusion as a key driver and outcome in both existing FTE shifts and new positions for 2022. More information can be provided upon request.

2. Total Staffing Costs and Cost Drivers for the 2022 Budget

In the 2022 budget, total staffing costs across all major funding sources represent 8.0% of total costs. The increase in total staffing costs across all major funding sources from 2021 to 2022 is 6.7%. Factors contributing to this increase in staffing costs include rising health insurance costs, staff compensation and the addition of staffing resources described below.

The three major funding sources are: Oregon ratepayers under the OPUC grant agreement, Washington programs funded by NW Natural under oversight by the Washington Utilities and Transportation Commission and the Oregon Community Solar Program subcontract through Energy Solutions. The following table provides a breakout of staffing costs by major funding source. Staff costs in administrative and other shared services have been allocated across funding sources.

Staffing Cost by Major Funding Source	2019 Actual	2020 Actual	2021 Budget	2022 Budget	2023 Projection
Oregon PUC Grant	13,465,688	14,788,938	16,130,842	17,170,337	18,229,408
Washington	304,271	342,134	391,283	387,626	400,982
LMI Federal Grant and other	27,179	6,939	0	-	-
Community Solar	139,601	220,149	235,154	278,032	295,484
PGE Storage	-	12,293	50,932	61,236	58,368
NWN TLM	-	-	0	38,718	31,831
Total	13,942,991	15,378,174	16,808,212	17,935,949	19,016,072

Healthcare Costs

Employee healthcare premium increases for 2022 are now estimated to be 8% compared to the 20% increase projected for 2022 in the 2021-2022 budget. Energy Trust took steps in 2020 and 2021 to mitigate cost increases, such as providing different plan options for staff. Healthcare benefits continue to be the largest cost driver in Energy Trust's benefit package. Energy Trust projects a 12% increase in healthcare premiums for 2023 based on discussions with our insurer.

Staff Compensation

The draft budget includes 5% for staff compensation adjustments, which allows for annual increases consistent with budgets prior to 2021. In 2021, compensation increases were held to 3%; merit was prioritized for staff at the lower end of Energy Trust's salary ranges. In addition, promotion raises were reduced compared to prior years. The draft 2022-23 compensation budget reinstates promotions and merit increases needed to compete with a competitive labor market and to accommodate other pay adjustments, if needed, to ensure pay equity compliance.

The draft budget also includes an additional 1.3% to adjust salaries as an outcome of the 2021 market compensation study currently underway at Energy Trust. The market compensation study process analyzes the market data for Energy Trust's existing positions against current pay practices to ensure salaries are competitive within the industry and for the organization's geographical location. This budget will allow the organization to meet the salary expectations of the existing workforce and will help address a decrease in satisfaction in compensation revealed through the 2021 employee engagement survey.

Staffing Shifts

Development Manager

Through the end of 2021, an internal Energy Trust project team is exploring the resource needs to effectively pursue new funding opportunities (development). This team is expected to submit its recommendations in December 2021 to potentially implement in 2022. The recommendations may include a new Development Manager position to oversee and direct development work. Last year, in the 2021 Budget and 2021-2022 Action Plan *Staffing Memo*, Energy Trust identified a vacancy in the Planning team that was being considered for repurposing as a Cross-Functional Sector Lead, pending the results and recommendations of an internal team currently exploring the need to address cross-functional opportunities in the Energy Programs group. Should those pending recommendations not include use of that vacancy, it may be used to fill a Development Manager position. A final decision on this potential staffing shift will be made once the final recommendations on these efforts are submitted and considered.

Communications & Customer Service Restructure

In 2021 the Communications & Customer Service (CCS) group assessed organizational needs and determined that a new structure and changes to existing staff positions would better align the group to support 2020-2024 Strategic Plan focus areas. The outcome of the restructure was a shift of one FTE away from other functions to cover expanding work in outreach, community services and policy services. Other positions and group structures were changed to backfill the shift. These changes increased resources dedicated to building new community-based relationships for serving diverse customers, supporting community-led energy and disaster response initiatives, and responding to information requests from policy makers in an active energy policy landscape.

New Staff

RAY Conservation Diversity Fellow

The 2022 staffing budget includes one additional Roger Arliner Young (RAY) Conservation Diversity Fellow². Fellowship positions, which are two-year, full-time commitments, support Energy Trust's efforts to diversify its staff, bring new perspectives based on diverse life experiences to Energy Trust's energy efficiency program design and delivery, and build a pipeline for future energy efficiency industry leaders. In 2021, the RAY program provided meaningful expertise, training and support to both the RAY fellow and Energy Trust leadership to create and sustain a more inclusive environment. Continuing to host RAY fellows in 2022 will add significant value to Energy Trust's internal and external facing diversity, equity and inclusion efforts. With each of these fellowships lasting two years, Energy Trust will continue to consider adding RAY Fellowship positions within the organization in years to come.

DEI Specialist

The 2022 staffing budget includes budget for a DEI Specialist to increase Energy Trust's focused efforts to integrate diversity, equity and inclusion principles into its services and operations. This newly created position will provide guidance and strategic focus to Energy Trust's current diversity, equity and inclusion initiatives such as the Diversity, Equity and Inclusion Operations Plan, the coordination of monthly inward-facing diversity, equity and inclusion committee meetings, and the externally facing Diversity Advisory Council (DAC) meetings. The new DEI Specialist will support continued implementation of plans to maximize utilization of minority, women, emerging small businesses and service-disabled veterans (MWESB/SDVs) for contracting opportunities with Energy Trust. This new position will also assist with coordinating inter-agency events with our utility partners, the OPUC and other municipalities throughout the region, and planned work to refine the DEI lens and how it applies to existing systems and future processes. Overall, expanding the diversity, equity and inclusion support within the organization will help Energy Trust expand its efforts to sustain an inclusive work environment and serve communities it has historically underserved.

General Ledger Accountant

The General Ledger Accountant performs accounting, analysis of revenue and costs and quality assurance for tax reporting. Energy Trust's focus on new funding sources with unique accounting requirements—such as diversity, equity and inclusion and working with communities—is increasing work in the accounting group. Currently, the General Ledger Accountant role is filled by an agency contractor. Converting this role from

² Inspired by efforts to increase racial diversity in conservation, the Roger Arliner Young (RAY) Conservation Diversity Fellowship Program aims to increase and facilitate conservation-related career pathways for emerging leaders of color. The RAY Fellowship Program is a paid fellowship designed to equip recent college graduates with the tools, experiences, support and community they need to become leaders in the conservation sector—one that, in our visions of the future, fully represents, includes and is led by the diverse communities, perspectives and experiences of the United States.

agency contractor to regular full-time employee is a net savings in cost and will provide the finance function with consistent staffing support needed to meet operational goals.

Total Staffing Costs Detail by Year

The following table provides employee cost drivers in the preceding three years for the total company and details of costs specific to the OPUC grant and the OPUC staffing cost performance measure.

	2019 Actual	2020 Actual	2021 Budget	2022 Budget	2023 Projection
Total Company Employee Cost	13,942,991	15,378,174	16,808,212	17,935,949	19,016,072
Drivers					
Employee count (FTE)	108.5	112	115.5	118.25	118.25
Interns (FTE)	7.5	4	3	4	4
RAY fellows (FTE)			2	3	3
Compensation adjustment pool	5%	5%	3%	6.3%	5%
Benefits rate increase	11%	5%	20%	8%	12%
Oregon PUC Grant Funded Employee Cost and Performance Measure					
Employee Cost	13,465,688	14,788,938	16,126,918	17,170,337	18,229,408
Employee Count (FTE)	107.5	107.5	112	114.5	114.5
Year over Year \$ change	560,838	1,323,250	1,341,905	1,039,495	1,059,071
Year over Year % change	4.3%	9.8%	9.1%	6.4%	6.2%
Maximum % Increase Allowed by Performance Measure	10%	9%	9%	9%	9%
Maximum Increase Allowed by Performance Measure	1,290,485	1,211,912	1,331,004	1,451,776	1,545,330

* The 2021 budget versus 2020 actual increase in Oregon PUC staff cost of 9.1% was due to 2020 actuals spending below plan, with certain positions vacant part of the year.

3. Compliance with OPUC Staffing Cost Performance Measure

Staffing costs in Energy Trust's proposed 2022 Budget and 2022-2023 Action Plan comply with the OPUC performance measure for year-over-year staffing costs increase. The 2022 staffing costs under the OPUC grant increase 6.4% over 2021 costs under the OPUC grant.

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Administrative and Program Support Costs for 2022 Budget and 2022-2023 Action Plan

This memo provides information about the nature and purpose of administrative and program support costs to support stakeholder review of the budget. The first section describes administrative costs as they are measured in nonprofits typically and the benchmarks that are customarily applied to nonprofits. The second section describes administrative and program support costs as they are measured by the Oregon Public Utility Commission and the performance measure the OPUC established to set limits on administrative and program support costs.

SECTION 1: Administrative Costs Defined Generally and Comparable to Other Nonprofits

All organizations, no matter the size or purpose, have administrative costs. Administrative costs are necessary to lead the organization, support the board of directors, execute strategic direction, engage with stakeholders, manage risk, comply with laws and regulations, manage funds responsibly and manage employees, among other things.

Nonprofit entities are required to categorize costs by function, as program, management and general or fundraising. These functional costs are reported in a nonprofit's financial statements and Form 990 tax return. According to generally accepted accounting standards, shared costs such as building rent and technology can be allocated among programs and administration.

What is considered reasonable administrative costs varies by industry, organization size, complexity and development stage. While there is no one right answer, there are benchmarks published by nonprofit watchdog organizations. An example is Charity Navigator's 15% cap, which, if met, qualifies an organization for its highest rating. Charity Navigator uses the management and general and fundraising totals on an organization's 990 tax return to calculate the administrative cost.

Activities Included in Administrative Costs:

Management and General: Providing finance, legal, human resources, office administration and board of directors' administration to ensure general management and operations of the organization. This year, Energy Trust expanded the organizational development cost center to incorporate innovation and program development.

General Communications and Outreach: Ensuring the organization's accountability, accessibility and responsiveness through general communications, quarterly and annual reporting to the board and OPUC, public and stakeholder relations, website management and content, and general outreach and marketing functions.

Energy Trust's 2022 Budget and 2022-2023 Action Plan includes administrative costs of \$11.7 million, or 6% of total expenditure, comparing favorably to the 15% benchmark established by Charity Navigator for similarly sized organizations.

SECTION 2: Administrative and Program Support Costs Subject to the OPUC Performance Measure

The OPUC oversees Energy Trust expenditures for serving Oregon customers of PGE, Pacific Power, NW Natural, Cascade Natural Gas and Avista with energy-efficiency and renewable energy programs.

The OPUC performance measure includes administrative costs and program support costs, which is more stringent than benchmarks for other nonprofits. The performance measure limits this total to less than 8% of utility revenue. The performance measure also caps administrative and program support cost increases to no more than 10% from year to year. NW Natural Washington, Oregon Community Solar, PGE Smart Battery Pilot and NW Natural targeted load management pilot funds are not included in the calculation under the OPUC performance measure.

Under this definition, administrative costs include management and general costs and communications and outreach costs. Program support costs include the program share of office space and equipment, IT services and general expenditures by programs such as travel, conferences and materials.

Detail of Administrative and Program Support Costs Subject to the OPUC performance Measure in Final Proposed 2022 Budget

	Oregon PUC Grant Funded Expenditure		
	Total	Program Costs	Administrative and Program Support
Incentives	114,684,799	114,684,799	-
Program Delivery Contractors	56,675,405	56,675,405	-
Employee Salaries & Fringe Benefits	17,170,337	8,126,476	9,043,861
Agency Contractor Services	2,651,393	1,556,936	1,094,457
Planning and Evaluation Services	3,668,503	3,634,128	34,375
Advertising and Marketing Services	3,639,432	2,287,000	1,352,432
Other Professional Services	7,353,648	6,376,212	977,436
Travel, Meetings, Trainings & Conference	329,870		329,870
Dues, Licenses and Fees	188,074		188,074
Software and Hardware	811,012		811,012
Depreciation & Amortization	370,557		370,557
Office Rent and Equipment	1,052,556		1,052,556
Materials Postage and Telephone	126,143		126,143
Miscellaneous Expenses	11,189		11,189
Expenditures	208,732,917	193,340,956	15,391,961

Historical View of Administrative and Program Support Costs Subject to the OPUC Performance Measure¹

	2019 Actual	2020 Actual	2021 Budget	2022 Budget	2023 Projection
Annual Revenue	183,141,017	175,576,793	184,343,709	196,802,744	210,826,043
Performance measure	8%	8%	8%	8%	8%
Maximum cost allowed per measure 8%	14,651,281	14,046,143	14,747,497	15,744,220	16,866,083
Administrative and program support costs	11,422,288	12,166,182	14,084,001	15,391,961	16,264,685
as percent of revenue	6.2%	6.9%	7.6%	7.8%	7.7%
increase from prior year	613,335	743,894	1,917,819	1,307,960	872,724
increase percentage	5.7%	6.5%	15.8%	9.3%	5.7%

The administrative and program support costs in the 2022 budget are \$15,391,961, or 7.8% of total revenue, and 9.3% higher than 2021 budget.

Costs are compliant with the OPUC performance measures capping applicable administrative and program support costs at no more than 8% of total revenue, and 10% over the prior year.

Administrative and Program Support Cost Management

In 2022, Energy Trust is investing in activities to accomplish annual goals and continue making progress toward the 2020-2024 Strategic Plan. Some of these activities fall under administrative and program support cost centers. Increased investments in some areas were offset by cost efficiencies and reductions in others, such as reduced travel and business expenses due to assumptions about continued COVID restrictions. Nevertheless, administrative and program support costs subject to the OPUC performance measure will increase by \$1.3 million over the 2021 budget.

Specific efforts tied to meeting Energy Trust's diversity, equity and inclusion (DEI) goals and OPUC performance metrics for DEI are driving part of the increase. New expenditures in 2022 associated with DEI goals include:

- Implementing and supporting a supplier diversity tracking system to support Energy Trust's supplier diversity program to contract with more diverse suppliers and to satisfy the OPUC supplier diversity performance measure; the tracking system will enable Energy Trust to track and report on contract expenditures with service providers and vendors that are women-, minority- and/or service-disabled veteran-owned businesses
- Hiring a DEI Specialist to support the organization's progress towards DEI goals and efforts under the direction of the DEI Lead
- Increasing advertising expenditures targeted to build awareness of Energy Trust and its programs within communities of color and among rural customers, where awareness is significantly lower than other customer segments and has been highlighted as a barrier to participation in our customer insights research

Other activities increasing administrative costs in 2022 include:

- Investing in professional services to support the board of directors' evaluation and

¹ The 2021 budget versus 2020 actual increase of 15.8% was due to 2020 actuals spending below plan, with certain projects deferred or costs managed differently.

implementation of board governance and committee structure change recommendations.

- Investing in professional services to begin foundational work to strategically pursue, prioritize and effectively manage a portfolio of grants and other new funding opportunities
- Investing in IT infrastructure that helps the organization continue adapting to working from home because of ongoing COVID-19 and workforce retention considerations
- Implementing improvements in information systems that enable Energy Trust programs and operations to more quickly adapt offers and utilize data for business decisions
- Incurring modestly rising costs for salaries, benefits, and services

MEMO

Date: October 6, 2021
To: Board of Directors
From: Michael Colgrove, Executive Director
Subject: Net Assets for the 2022 Budget and 2022-2023 Action Plan

This memo provides information about the net assets of the organization to provide context and rationale on the 2022 net asset levels.

In 2022 and 2023, Energy Trust has budgeted for the possibility that it may be necessary to borrow from operational contingency reserves to offset spending and revenue shortfall in efficiency programs. If that is the case, funds will eventually be returned to operational contingency reserves. This potential need to borrow from contingency reserves is driven by events in 2020 and 2021, listed below.

Background

Energy Trust maintains four categories of net assets for specific purposes:

- Efficiency Program Reserves by Utility are held to offset additional spending or year-to-year rate fluctuations in rates
- Renewable Program Reserves by Utility are held to ensure funds are available to meet outstanding commitments that will be paid in the future
- Other Funding Source Reserves
- Contingency Reserves
 - Operational contingency reserves are available to further mitigate fluctuations
 - Emergency contingency reserves are available for emergency use

Table 1: Multi-year View of End-of-year Net Asset Balances, Expenditure Coverage Ratio

	2019 Actual	2020 Actual	2021 Forecast	2022 Budget	2023 Budget
Efficiency Program Reserves	34,268,936	20,579,271	14,731,467	9,276,104	5,658,144
Renewable Program Reserves	19,094,978	21,980,488	15,042,007	8,670,700	3,756,344
Washington and Other Programs	526,299	941,119	569,550	885,398	1,327,177
Development Funds	19,216	11,640	401,375	403,120	405,543
Loans for Low Income and Manufactured Homes	1,800,000	2,300,000	2,300,000	2,300,000	2,300,000
Operational Contingency	3,352,208	2,946,818	2,979,976	5,024,669	5,086,730
Emergency contingency	5,000,000	5,000,000	5,000,000	3,000,000	3,000,000
Total Company	64,061,637	53,759,336	41,024,375	29,559,991	21,534,283
Annual Expenditures	186,038,915	189,509,225	206,332,468	212,987,783	223,175,634
Monthly Expenditures	15,503,243	15,792,435	17,194,372	17,748,982	18,597,969
# of months coverage ratio	4.1	3.4	2.4	1.7	1.2

Events Impacting Net Assets in 2022 and 2023

- In 2020, an additional \$500,000 was loaned to Craft3 for manufactured home loans.
- In 2020, net assets fell by \$10 million, as Energy Trust purposefully used program reserves instead of requesting rate increases to meet expenditure needs.

- In 2021, bonus programs put in place during 2020 caused a large upsurge in incentive demand, leading to the need to amend the 2021 budget and work with utilities regarding revenue needs and timing of future tariff changes. The contingency reserves and line of credit helped mitigate the impacts on rate payers.
- In 2021, a loss analysis consultant examined the emergency reserves, revenue flows and insurance provisions, ultimately recommending the emergency reserves could be reduced to \$3 million. A proposal is before the board of directors to move \$2 million to operational contingency reserves.
- In 2021, Energy Trust entered into a \$7 million line of credit agreement with its bank, as a last resort for funding a potential unexpected increase in demand without immediately impacting customer rates. The line of credit will be maintained as needed.

Table 2: Transfers from contingency reserves to cover program needs, and planned return of funds by year

	2021	2022	2023	2024
Transfer to PGE Efficiency Program Reserve				
Return from PGE Efficiency Program Reserve				
Transfer to PAC Efficiency Program Reserve		(4,400,000)	(4,500,000)	
Return from PAC Efficiency Program Reserve			4,400,000	4,500,000
Balance of borrowings from contingency at year end	-	(4,400,000)	(4,500,000)	-
Operational Contingency Balance after borrowings	4,979,976	624,669	586,730	5,086,730