

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 6, 2004**

REGULAR X **CONSENT** **EFFECTIVE DATE** July 7, 2004

DATE: June 29, 2004

TO: Lee Sparling through Ed Busch and Jack Breen III

FROM: Janet Fairchild

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF: Recommendations for Performance Measures for the Energy Trust of Oregon.

STAFF RECOMMENDATION:

Staff recommends that the Commission adopt the attached performance standards, measures and targets to be used in evaluating the performance of the Energy Trust of Oregon (ETO or the Trust).

DISCUSSION:

The purpose of developing performance standards, measures and targets is to clearly define the Commission's expectation of ETO performance. Should the ETO fail to meet the performance targets adopted by the Commission, the Commission would consider issuing a Notice of Concern pursuant to the Grant Agreement between the Commission and the ETO. Development of performance measures at this time does not imply that staff has identified any particular concern with ETO performance to date. Rather, performance measures are being developed to clarify minimum expectation for ETO performance for future reference.

Staff circulated draft performance measures to identified interested parties on June 4, 2004.¹ The draft was also posted on the PUC website. Oral comments were received during a June 14, 2004, workshop and written comments, due on June 25, 2004, were received from Utility Systems & Applications (US&A), RHT Energy Solutions (RHT), the Citizens' Utility Board of Oregon (CUB), the Oregon Department of Energy (ODOE), Portland General Electric (PGE), the Industrial Customers of Northwest Utilities (ICNU) and the ETO.

¹ Staff began soliciting input regarding potential performance measures from the ETO, identified industry experts and the Oregon Department of Energy in February 2004. Staff originally planned to circulate draft performance measures to interested parties in early May 2004, but delayed the process until June to allow ETO staff additional time to confer with its board members on the topic.

Comments:

Comments received at the June 14, 2004, workshop were generally supportive of the overarching performance standards proposed in staff's original draft proposal. Commenters generally supported a performance measure based on an unqualified audit opinion for financial statements, although some participants believe that the measure is unnecessary because the ETO is legally required to meet this standard. Most participants believed that annual or biennial performance audits would be too frequent and suggested either a three-year cycle, a five-year cycle, or holding off on the decision until the results of the first performance audit, scheduled to be completed this fall, are known.

Participants pointed out that customer satisfaction surveys are routinely done as part of program evaluations and those surveys could be used to fulfill the perceived need for a customer satisfaction performance measure. Alternatively, some suggest that questions regarding ETO performance could be added to utility customer satisfaction surveys in order to address how well the ETO is meeting customer expectations.

All participants who expressed an opinion favored an administrative cost measure based on a percentage of ETO revenues as opposed to ETO expenditures. The ETO stated that it could meet staff's proposed administrative cost measures that administrative costs defined by GAAP would not exceed 10 percent of revenues and program support costs would not exceed three percent of program revenues. However, the ETO would prefer that the program support cost measure be excluded.

Participants generally supported the idea of energy savings targets being established based on three measures: the number of aMW or therms saved per year, the cost per average savings measure (MW or therm) and the levelized cost of average savings measures. However, some cautioned the \$/average savings measure could cause the ETO to target shorter lived, cheaper programs that would provide lower long-term benefits. To address this concern, it was suggested that savings measures be based on a three-year rolling average. Also, the establishment of a levelized cost measures would tend to counteract that effect.

The suggested measures do not capture the additional benefit of achieving energy savings during peak demand. Therefore, a cost-benefit ratio was suggested as an alternative savings performance measure. The methodology for calculating this measure is not well defined at this time, and it would not provide an easy point of comparison to utility programs. Therefore, it was suggested that cost-benefit ratios be used sometime in the future, but that the cost per average savings measure be used in the near term.

Participants also suggested that alternative savings measures could be based on volumetric measures such as the number of customers who received ETO assistance or the amount of commercial floor space that is lighted with energy efficient lighting installed pursuant to ETO programs.

CUB states that although it is appropriate for the Commission to establish ETO performance measures, the current Grant Agreement between the Commission and the Trust provides a level of oversight greater than that exercised when the utilities ran their own efficiency programs and that the Trust has its own benchmarks and evaluation processes in place. CUB suggests that the Trust's benchmarks should be incorporated into the Commission's performance measures and that the Trust's board should have an active role in development of the measures.

Although CUB seems to agree that annual financial audits should be conducted, it asserts that performance / management audits should not be undertaken annually or biennially as suggested in staff's draft. It states that these types of audits are costly, time consuming and that they are not frequently done in the normal course of business.

CUB supports the proposed performance target that administrative costs not exceed 10 percent of revenues, but states that although energy savings targets are useful in that they set concrete goals, they can confine the Trust's program efforts.

Finally, CUB suggests that the final performance measures not be incorporated into the Grant Agreement until they have been in place and tested for a few years.

RHT believes that all proposed performance measures are acceptable to incorporate into the Grant Agreement, with the exception of the proposed energy efficiency savings measures. RHT does not believe that the proposed savings targets are realistic. RHT points out that the Trust's production efficiency program exceeds the overall \$1.65 million/aMW savings target proposed in staff's draft; however, the cost of residential and commercial programs would make the target unattainable.

RHT further states that establishing savings targets at this time may be premature since the ETO and many of its program delivery contractors are newly established and have not yet achieved the name recognition that the utilities have. RHT believes that, during the ETO's development years, market transformation and customer participation would be more suitable performance goals. RHT also cautions that the establishment of unattainable savings targets could "give ammunition to those who would like to dismantle" the ETO and return programs to the utilities.

ODOE supports most of staff's draft performance measures. However, it believes that administrative costs should be measured based on the yet to be established common

definition of administrative costs referred to in the memorandum of understanding between PUC, ODOE and the ETO.

While ODOE supports staff's proposed energy savings targets, it cautions that the methodology to be used in calculating savings should be clarified. For example, large industrial projects may not be completed in one year and so the period in which the savings will be attributed should be known in advance.

ODOE also points out that SB 1149 requires a balance of activity between PGE's and PacifiCorp's service territories.² In recognition of this requirement, ODOE suggests that a performance measure be added to require 40 percent of activity to occur in each service territory.

US&A suggests that additional measures for open meetings, public records, public decision-making, conflict of interest and public contracting be implemented to address public accountability. It also suggests that customer satisfaction surveys include not only customers or trade allies who have participated in ETO programs, but also those who have not participated.

In reference to administrative costs, US&A suggests that in addition to a performance measure based on GAAP-defined administrative costs, an additional measure of the funding ultimately delivered to the end customer be established.

US&A believes that a performance measure should be established to address how ETO investments reach PGE, PacifiCorp and NWN customers on the basis of geography, cultural diversity and income level, as well as based on each customer segment. US&A appears to support performance measures that incent the ETO to target program spending to each customer segment at a level commensurate with revenues received from each segment.

US&A also believes that some expectations should be established regarding how energy savings are calculated and documented and that expectations regarding how ETO activities will be considered in utilities' least cost plans should be clarified. Finally, US&A suggests that performance measures should be established not only for the minimum ETO acceptable performance, but also for expected ETO performance.

ICNU supports the establishment of performance measures for the ETO. It generally supports the measures included in staff's proposal, with the following exceptions. ICNU believes that performance audits should be conducted on a three- to five-year cycle (with five years being its preference) rather than on the annual or biennial cycle

² ORS 757.612(3)(d) requires that at least 80 percent of the funds allocated for conservation shall be spent within the service area of the electric company that collected the funds.

suggested in staff's draft proposal.³ It believes that customer satisfaction surveys should include ETO contractors as well as end use customers.

ICNU does not agree with staff's proposal that performance measures should be established for minimal expectations for energy savings and the establishment of renewable resource development. ICNU believes that PUC performance measures should be based on reasonable expectation and should be at least as high as the benchmarks established by the ETO board. In a similar vein, ICNU believes that a ten percent cap on administrative spending is too high given the Trust's current 4 percent administrative cost levels.

Finally, ICNU believes that the performance measures should not be incorporated into the PUC/ETO Grant Agreement at this time. ICNU suggests that ETO programs are still ramping up and that the performance measures could well evolve over the course of the next few years.

PGE suggests that, in order to facilitate utility resource planning and related public initiatives such as the Bonneville Power Administration's Conservation and Renewable Development credits, the ETO be required to report its energy efficiency goals and actual achievements by program within each service territory and customer sector. Such reports should include the number of measures installed, first-year and life cycle kWh savings and the cost effectiveness calculations.⁴

As was discussed in the June 14 workshop, PGE states that customer satisfaction measures are included in its customer research and surveys. It volunteered to include questions regarding ETO performance to its customer satisfaction surveys and to share the results with the ETO.

PGE also suggests that the Commission plan to refine and adjust its ETO performance measures over the next few years as programs become better established.

The ETO supports the PUC role in establishing performance measures for the Trust's performance. The Trust largely agrees with the measures defined in staff's proposal but suggests several modifications to provide greater clarity and to reflect the fact that many Trust programs are still in the "ramp up" phase.

³ ICNU suggests that the PUC retain the right to ask for an out of cycle performance audit if circumstances warrant.

⁴ Staff intends to incorporate these suggestions into discussions with ETO regarding quarterly and annual reports from the ETO to the Commission. Staff does not believe that reporting criteria should be considered performance measures.

Specifically, the Trust suggests that performance audits be performed on a three to five year cycle rather than the one or two year cycle reflected in staff's proposal. The Trust further suggests that a clear distinction be made between the performance audit required by this performance measure and the third party program evaluations routinely obtained by the Trust. The Trust proposes that customer satisfaction surveys be performed as a part of program evaluations, with the results reported in an overall customer satisfaction report.

In the near term, the Trust supports a cost per average savings measure target with the understanding that a cost-benefit target will be established for use over the longer term. The Trust recommends a target of \$2 million per aMW for electricity efficiency programs and a target of \$5.00 per therm for natural gas efficiency programs. The Trust suggests these target levels because programs are ramping up, they are targeting higher cost customer segments that have historically been underserved and because there is a need for flexibility in program design that could require higher spending levels. In the natural gas segment, new and untested programs are being developed. The Trust believes that these programs will be cost effective, but since they have not been tested in other markets, some doubt remains. The Trust suggests that its proposed targets could be lowered as programs become better established.

The Trust does not recommend including a minimum average measure life and suggests that energy savings measures be based on a three-year rolling average rather than on a one-year basis. The Trust also suggests that its savings reflect self-directed conservation measures and savings from reduced line losses.

The Trust believes that a process should be established to revisit and update the performance measures on a regular basis.

Staff Evaluation and Recommendations:

Most commenters believe that it is appropriate for the Commission to set performance measures to assess ETO performance. Yet, many express reservations about whether the Commission should include the performance measures in the PUC/ETO Grant Agreement at this time.

Staff agrees with commenters on these two points. The establishment of performance measures will serve as a guide in the Commission's ongoing oversight of the ETO's stewardship of the ratepayer funds it receives. However, including performance measures in the Grant Agreement at this time is premature. ETO programs are still in their early phases. The Trust recently started receiving evaluation reports on first year program results. As the Trust modifies its programs in response to those evaluations, it will likely be appropriate for the Commission to also modify its performance targets.

Staff recommends that the following performance standards, measures and targets be adopted, at this time, and that they be revisited one year from now. At that time the Commission should consider including them in the Grant Agreement.

Some participants suggest that the performance targets established by the Commission should include expected goals as well as minimum levels for expected ETO performance. Staff disagrees with this suggestion. The ETO's board has established expected goals (benchmarks) as part of its strategic plan. Additional goals developed by the Commission would be redundant and potentially counterproductive. All parties expect the Trust's achievements to be closer to the goals established by its board than to the Commission's minimum requirements established here. The purposes of the two sets of criteria are different. The ETO's goal should be to meet the benchmarks established by its board, whereas, the minimal standards established by the Commission are meant to serve as a clear signal that the Trust is performing at a level that causes serious concern.

Commenters generally agreed with the three overarching performance standards originally proposed by staff, although many disagree with some aspect of the performance measures and targets that would be used to assess whether the ETO was adequately meeting those standards. In the following sections, staff will discuss its original proposed performance measures, the input it received regarding each measure, and its final recommendation regarding each measure.

Proposed Performance Standard No. 1: Financial Integrity

Financial integrity means that funds entrusted to the ETO are accounted for accurately and reported openly. The performance measure for this standard is that the ETO will retain a certified public accountant to perform annual financial audits and that they receive an unqualified audit opinion. The performance target for this measure is also that they meet the performance measure of receiving an unqualified audit opinion. Should the Trust fail to obtain an annual audit, or if it received an adverse or qualified audit opinion, the Commission would issue an immediate Notice of Concern pursuant to the Grant Agreement.

Most commenters agree with this performance standard and the measure used to assess it, although some question whether it is necessary since the ETO is required by law to obtain an annual financial audit.

One commenter suggested that this performance standard should address financial propriety as well as financial integrity. That commenter suggested the standards now in

place for non-profits might not be adequate to ensure that issues such as compensation, benefits, and expense reimbursement are properly addressed.

Staff appreciates the commenter's concerns regarding the importance of financial propriety, but does not believe that it would be appropriate to establish specific performance measures to address these issues. Should expense reimbursements or some employee benefits become excessive, the Trust's administrative costs would increase. Since an individual performance measure for administrative costs is already proposed, this issue has been addressed.

It would be difficult to ascertain the appropriate level of compensation for Trust staff. Since these performance measures are meant to be the upper bound on what the Commission deems acceptable performance by the Trust, establishment of such a measure could incent the Trust to increase its pay scale. Also, in staff's opinion, establishment of such a measure would constitute an inappropriate level of micro management by the Commission.

Staff recommends that the Commission adopt the proposed financial integrity performance standard and the performance measure and target originally proposed by staff.

Proposed Performance Standard No. 2: Operational Efficiency and Effectiveness

Funds entrusted to the ETO should be spent in a manner that produces the maximum societal benefit on behalf of the ratepayers who pay public purpose charges. This means that ETO must operate as efficiently and effectively as possible. There are four performance measures that should be used to monitor compliance with this standard.

Commentors generally agree with this performance standard. Staff recommends that it be adopted. Some modifications to the original proposed performance measures used to assess ETO attainment of the standard are discussed below.

1. *The ETO will retain a certified public accountant or a consultant with demonstrated expertise to perform biennial (or annual) performance/management audits.⁵ PUC staff should have advance*

⁵ For these purposes, staff defines a management or a performance audit as a review of an entity's operating procedures and methods to determine their efficiency and effectiveness. In performing such an audit, the auditor typically examines the entity's policies and procedures to determine whether or not they (1) accomplish the goals of management (that is, their effectiveness) and (2) achieve their goals in the best possible and least wasteful manner (that is, their efficiency). Examples of kinds of questions the audit should address include: is information and advice provided via advisory councils given proper consideration, is the ETO's approach to contracting out work appropriate, should more work be brought in

access to audit plans to determine if the audit objectives will sufficiently address any ETO performance concerns the PUC might have. ETO responses to performance audit recommendations should reflect reasonable efforts to implement program improvements in a timely manner.

Most commenters agree that regular management audits are appropriate. However, most believe that a three to five year cycle is more appropriate than the one to two year cycle included in staff's original proposal. Most cite expense and the commitment of staff time as reasons for a less frequent cycle.

In response to these comments, staff recommends that a five-year cycle for performance audits as established in the Grant Agreement be retained, with the caveat that the Commission may request an out of cycle management audit when it deems appropriate. Based on the results of the performance audit that will be completed this fall, staff may recommend modification to this performance measure during next year's review.

2. *The ETO will retain a certified public accountant or a consultant with demonstrated expertise to perform biennial or annual customer satisfaction surveys either, as part of the management audit identified in No. 1 above, as part of their routine program evaluations or independently. If the results show customer satisfaction levels below the equivalent of a 4 on a 1-to-5 scale, with 5 being superior, the ETO should submit an action plan outlining how it will improve customer satisfaction.*

Commenters generally support customer satisfaction surveys as a measure of ETO performance, but believe that they should be conducted as either part of the independent program evaluations or as part of utility customer satisfaction surveys. Many assert that such surveys should include customers and service delivery contractors as well as both those who participate in programs and those who do not. The ETO suggests that an overall summary report of customer satisfaction surveys could be included in its annual report to the PUC.

Staff agrees that customer satisfaction surveys are well suited to program evaluations and that it would be efficient and effective to include questions regarding ETO

house, should more work be contracted out, does ETO staff adequately evaluate expected energy savings before implementing a new conservation program, are savings from existing programs adequately assessed and are proper corrective actions taken when programs are not providing anticipated savings.

performance in utility customer surveys. Therefore, staff recommends modifying this performance measure to specify that customer satisfaction surveys will be conducted as part of ETO program evaluations. At the utilities' discretion, and subject to ETO concurrence, questions regarding ETO service delivery may be included in utility customer surveys with the results to be reported to the ETO.

Several participants suggested that customer surveys should include both customers and contractors who were provided with ETO services, but also those who were not. Staff agrees with this suggestion and incorporates it into its recommended performance measure.

The ETO suggested that more investigation should be conducted before setting the performance goal for this measure. It points out that an April 2004 Report by Chartwell⁶ notes that the electric utility industry has historically "held within a tight range of a 73-75" on a 1 to 100 *American Customer Satisfaction Index* scale. This is lower than the 80 percent approval rating implicit in staff's draft proposal. Staff believes that the performance measure is meaningless without an associated target, but is persuaded by the Chartwell research that the target should be lowered to a 75 percent approval rating, at least for the near term.

3. *Administrative costs should be kept to the minimum necessary to ensure effective program delivery. It is difficult to determine exactly how much administrative activity is needed to support effective program delivery and the appropriate level may vary over time depending on the mix of program offerings and other factors. Staff stresses that the final target levels should reflect the upper bound on what should be expected and should be set high enough to allow for such variability. A range of administrative cost measures and targets could be considered reasonable. Some alternatives include:*
 - a. *Administrative costs, defined by generally accepted accounting principles (GAAP) for non-profit organizations should not exceed 6 percent of overall ETO expenditures. Based on ETO's 2003 audited financial statements, administrative expenditures comprised 6 percent of total ETO expenditures for the year.*
 - b. *Administrative costs, defined by GAAP for non-profit organizations should not exceed 10 percent of overall ETO revenues. Based on ETO's 2003 audited financial*

⁶ *Customer Satisfaction in the Utility Industry 2004*. Chartwell Inc. Atlanta GA.

statements, administrative expenditures comprised 4 percent of total ETO funding for the year.

- c. Administrative (or support) costs, defined as all costs not included in the ETO's program management, program incentive, program payroll and related expenses, call center, and program outsourced services accounts should not exceed 3 percent of overall revenues. Based on ETO's 2003 audited financial statements, expenditures in these accounts were 1 percent of overall revenues.*

No commenters expressed support for option a. above, which is linked to ETO expenditures rather than revenues. Commenters generally supported option b., although ICNU believes that it should be set at a level less than 10 percent of revenues.

In response to ICNU's comments regarding the 10 percent target level, staff recommends that administrative costs, as defined by GAAP, not exceed 7.5 percent of revenues. This level still provides the ETO leeway to modify its operations as necessary, while keeping these costs below the average for other non-profit organizations.

Because it can serve as a basis for establishing a common definition of administrative costs pursuant to the memorandum of understanding between the PUC, the Trust and ODOE, staff proposes that the Commission adopt both measures b. and c. The Trust has stated that it will be able to meet both requirements and no commenter raised specific concerns regarding measure c.

- 4. Savings targets should be established for both energy efficiency programs and for renewable resource development programs. Targets are set at an aggregated level rather than at a sector level to allow the ETO flexibility to pursue programs in different sectors as market forces and technological advances would dictate. Implicit in these target levels is the assumption that ETO will provide programs for all customer sectors, including those that have historically been underserved.*

- a. Energy Efficiency Programs (Electric): For electricity savings ETO should deliver at least 20 aMW of savings annually at a cost of no more than \$1.65million/aMW, with average savings life of 15 years. (Levelized cost of \$0.0183/kWh).*

The goal should be viewed as the upper bound on reasonable ETO savings.

The ETO has pointed out that the 20 aMW per year included in this performance measure exceeds its board-established goal of 30 aMW over the 2004 through 2005 timeframe. Therefore, staff recommends that the performance measure be modified to 15 aMW per year, on a rolling three-year basis. Inclusion of the three-year rolling average recognizes that some large industrial projects could take several months to install and may cause investment to appear much larger in some years than others. The averaging will also smooth the effects of ramp ups of some programs.

The ETO proposes that the \$1.65 million per aMW of savings be increased to \$2 million dollars per aMW because: a) ETO programs are still building momentum, b) ETO is developing higher than historic volumes of savings, c) delivery of rural programs is more expensive than delivery in urban areas, d) the higher target provides flexibility to pursue longer lived measures and measures that save during peak periods, and e) the higher target will provide latitude to address equity between market segments.

As the ETO points out, the regional average of cost per energy savings is \$2.2 million per aMW. The 10-year average for PGE and PacifiCorp programs was \$1.9 million per aMW, not including lost revenue recovery, incentives and a return on investment. Staff expects the ETO to outperform the utilities and so is somewhat uncomfortable with the proposed increase. However, ETO's arguments are persuasive and staff recommends that the Commission adopt a measure of \$2 million per aMW for 2004 with the caveat that this measure will be modified for 2005. Staff does not recommend that the three-year rolling average apply to this particular measure because it expects that the ETO performance in this area will improve in 2005.

The ETO does not recommend a minimum average measure life be included in the performance measures. It explains that such a measure reduces its flexibility. Staff agrees with this recommendation since the average measure life will be included in the calculation of the levelized cost performance measure.

Finally, the ETO suggests that savings targets should include self-directed conservation and savings from reduced line losses in power delivery. Staff agrees that it is appropriate to include line loss savings in the target. However, self-directed conservation measures are installed independently from the ETO and should not be included as a part of ETO program savings.

- b. Energy Efficiency Programs (Natural Gas): For natural gas savings ETO should deliver at least 700,000 therms of savings annually at a cost of no more than \$2.50/therm and an

average measure life of at least 15 years. The goal should be viewed as the upper bound on reasonable ETO savings. This performance measure is set to reflect a slight improvement over NWN achievements from 1996 through 2003. Over that time, NWN averaged 638,000 therms of savings per year at an average cost of \$2.61 per therm.

The ETO states that the proposed targets of \$2.50/average therm and 700,000 annual therms are not achievable in 2004. The ETO and NW Natural are in the process of developing programs that have no precedent in Oregon, particularly in the commercial sector. The costs and savings levels that can be achieved are speculative. ETO suggests savings targets of 500,000 annual therms at a cost of not more than \$5.00/average therm. Again, staff is uncomfortable recommending savings targets that are below that historically achieved by the utilities. However, the ETO took on natural gas programs relatively recently and is making laudable efforts to expand the natural gas savings measures beyond those taken historically. Therefore, staff recommends that the targets proposed by the ETO be adopted for 2004 with the caveat that they be reconsidered in 2005. Staff recommends that that the target of 500,000 annual therms be based on a three-year rolling average, but that the \$5.00/average therm measure be specific to 2004.

- c. *Renewable Resource Programs: Based on a three-year rolling average, the ETO should deliver an average of at least 15 aMW per year of new renewable resources, from a variety of renewable sources. The ETO's long-term goal is to deliver 450 aMW of new renewable resource by 2012. A target of 35 aMW would be needed to achieve a more conservative goal of 300 aMW by 2012.⁷ However, staff recognizes that the ETO's ability to reach either of these targets by 2012 is highly dependent on factors such as the production tax credit, which are beyond the ETO's control. Therefore, staff's proposes a lower 15 aMW target.*

No negative comments regarding this performance measure were received. Staff recommends that the Commission implement it.

Proposed Performance Standard No. 3: Equitable Distribution of Programs

ETO funding is received from residential, commercial and industrial customers of the largest investor owned Oregon utilities. The availability

⁷ 16 aMW have been achieved to date. 300 less 16 aMW leaves 284 aMW to be obtained over the next 8 years. 284 aMW divided by 8 years is 35.5 aMW.

and penetration rate of cost effective savings programs for each sector varies, so the appropriate number and types of programs delivered to each sector should also vary. However, staff expects at least some level of service to be provided to each sector on an ongoing basis. To allow flexibility while at the same time ensuring that some level of services are delivered to each sector, the ETO should target at least 20 percent of its program expenditures to residential programs, 20 percent to commercial programs and 20 percent to industrial programs each year.

As previously noted, ODOE suggests that a performance measure be added to require 40 percent of activity to occur in each service territory. Staff agrees that it is appropriate to add a performance measure to specify that there be a balance of activity between PGE and PacifiCorp service territories as required by ORS 757.612(3)(d). However, the requirement that forty percent of program activity occur in each of the two service territories would only be valid if PGE and PacifiCorp revenues were equal. Therefore, staff recommends that the additional performance measure simply specify that at least 80 percent of the funds collected from each service territory will be spent on programs provided in that territory.

PROPOSED COMMISSION MOTION:

The attached performance standards, measures and targets be adopted to assess the performance of the Energy Trust of Oregon.

OPUC Staff's Proposed Performance Measures for the
Energy Trust of Oregon (ETO)
June 29, 2004

Performance Standard No. 1: Financial Integrity

Financial integrity means that funds entrusted to the ETO are accounted for accurately and reported openly. The performance measure for this standard is that the ETO will retain a certified public accountant to perform annual financial audits and that they receive an unqualified audit opinion. The performance target for this measure is also that they meet the performance measure of receiving an unqualified audit opinion. Should the Trust fail to obtain an annual audit, or if it received an adverse or qualified audit opinion, the Commission would issue an immediate Notice of Concern pursuant to the Grant Agreement.

Performance Standard No. 2: Operational Efficiency and Effectiveness

Funds entrusted to the ETO should be spent in a manner that produces the maximum societal benefit on behalf of the ratepayers who pay public purpose charges. This means that ETO must operate as efficiently and effectively as possible. Four performance measures are to be used to monitor compliance with this standard.

1. The ETO will retain a certified public accountant or a consultant with demonstrated expertise to perform performance/management audits at least once every five years.⁸ The Commission may require the ETO to obtain such an audit at any time it deems necessary. PUC staff will have advance access to audit plans to determine if the audit objectives will sufficiently address any ETO performance concerns the PUC might have. ETO responses to performance audit recommendations must reflect reasonable efforts to implement program improvements in a timely manner.

⁸ For these purposes, a management or a performance audit is defined as a review of an entity's operating procedures and methods to determine their efficiency and effectiveness. In performing such an audit, the auditor typically examines the entity's policies and procedures to determine whether or not they (1) accomplish the goals of management (that is, their effectiveness) and (2) achieve their goals in the best possible and least wasteful manner (that is, their efficiency). Examples of kinds of questions the audit should address include: is information and advice provided via advisory councils given proper consideration, is the ETO's approach to contracting out work appropriate, should more work be brought in house, should more work be contracted out, does ETO staff adequately evaluate expected energy savings before implementing a new conservation program, are savings from existing programs adequately assessed and are proper corrective actions taken when programs are not providing anticipated savings.

Performance Benchmarks for the ETO
June 29, 2004

2. The ETO will compile the result of customer satisfaction surveys performed as part of routine program evaluations or as part of utility customer surveys for presentation during its annual report to the Commission. Customer satisfaction surveys will be performed by independent entities and will include input from both customers and/or contractors who have received ETO program benefits and those who have not. Overall survey results should reflect a customer satisfaction level of at least 75 percent.
3. Administrative costs should be kept to the minimum necessary to ensure effective program delivery. The appropriate level may vary over time depending on the mix of program offerings and other factors. The final target levels reflect the upper bound on what is expected and are set high enough to allow for such variability.
 - a) Administrative costs, as defined by GAAP for non-profit organizations, should not exceed 7.5 percent of overall ETO revenues.
 - b) Administrative (or support) costs, defined as all costs not included in the ETO's program management, program incentive, program payroll and related expenses, call center, and program outsourced services accounts should not exceed 3 percent of overall revenues.
4. Savings targets are established for energy efficiency programs and development targets are established for renewable resource programs. Implicit in these target levels is the assumption that ETO will provide programs for all customer sectors, including those that have historically been underserved.
 - a) Energy Efficiency Programs (Electric): For electricity savings ETO should deliver at least 15 aMW of savings on a three-year rolling average. The cost of such savings should be no more than \$2 million/aMW in 2004. The levelized cost of electricity efficiency programs, on a three-year average, should not exceed \$0.02/kWh.
 - b) Energy Efficiency Programs (Natural Gas): For natural gas savings ETO should deliver at least 500,000 therms of savings on a three-year rolling average. The cost for therms delivered in 2004 should not exceed an average of \$5.00/therm. The goal should be viewed as the upper bound on reasonable ETO savings and will be revised in 2005.

Performance Benchmarks for the ETO
June 29, 2004

- c) Renewable Resource Programs: Based on a three-year rolling average, the ETO should deliver an average of at least 15 aMW per year of new renewable resources, from a variety of renewable sources.

Performance Standard No. 3: Equitable Distribution of Programs

ETO funding is received from residential, commercial and industrial customers of the largest investor owned Oregon utilities. The availability and penetration rate of cost effective savings programs for each sector varies, so the appropriate number and types of programs delivered to each sector should also vary. However, at least some level of service must be provided to each sector on an ongoing basis.

1. To allow flexibility while at the same time ensuring that some level of services are delivered to each sector, the ETO should target at least 20 percent of its program expenditures to residential programs, 20 percent to commercial programs and 20 percent to industrial programs each year.
2. As required by ORS 747.612(3)(d), at least 80 percent of conservation funds will be spent in the electricity service territory where it is collected.