

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 5, 2004**

**REGULAR**   X   **CONSENT**        **EFFECTIVE DATE**       October 6, 2004      

**DATE:** September 28, 2004

**TO:** Lee Sparling through Ed Busch and Jack Breen III

**FROM:** Janet Fairchild

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

**STAFF RECOMMENDATION:**

Staff recommends that the Commission adopt the performance measures and targets outlined in Attachment A, to be used in evaluating the performance of the Energy Trust of Oregon (ETO or the Trust) during calendar year 2005. Staff recommends that the standards be referenced in the Grant Agreement between the Commission and the ETO, but that they not be incorporated directly into the agreement.

**DISCUSSION:**

As stated in prior staff memos on this topic, the purpose of developing performance 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 expectations for ETO performance for future reference.

Procedural History: Staff circulated draft performance measures to identified interested parties on June 4, 2004. 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.

Based on comments received and prior research, staff presented its recommended performance measures to the Commission at the July 6, 2004, public meeting. Several interested parties expressed concern that they had not had the opportunity to see, or comment on, recommendations provided from other parties prior to the public meeting. Therefore, the Commission directed staff to circulate written comments to identified interested parties.

Comments were circulated on July 7, 2004, and the matter was docketed as UM 1158. A procedural schedule, consisting of an August 5, 2004, deadline for additional comments and an August 17, 2004, public meeting was set. On July 26, 2004, the Administrative Law Judge (ALJ) issued a memorandum requesting that interested parties address five specific questions in their final comments.

On August 5, 2004, additional comments were received from ICNU, ETO, CUB and Northwest Natural (NWN). At the August 17, 2004, Commission public meeting, staff presented additional recommendations regarding ETO performance measures. At the August 17, 2004, meeting, the Commission deferred its decision pending comments from interested parties on additional proposed performance measures to be drafted by Commissioner Savage and circulated by the ALJ.

The Commissioner's proposed performance measures were circulated to interested parties on September 13, 2004. On September 23, 2004, written comments were received from ODOE and the ETO. On September 24, 2004, a workshop was held on the matter. Representatives from the ETO staff and Board, ICNU, CUB, PGE, NWN and PUC staff as well as Commissioner Savage attended the workshop.

Participants at the September 24, 2004, workshop agreed that the performance measures adopted by the Commission should address 2005 ETO performance, rather than 2004 performance. The participants agreed that the following performance measures should be used as minimum expectations for ETO performance for 2005.

2005 Proposed Performance Measures:

*The Commission expects the Trust to obtain electricity energy efficiency savings of at least 20 MWa, computed on a three-year rolling average.*

*The Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle ETO cost of not more than two cents per kWh.*

In prior recommendations, staff recommended electricity savings targets of 15 MWa per year, based on a three-year rolling average at a cost of not more than \$2 million/MWa in

2004. The consensus of the September 24, 2004, workshop was that for 2005, a more aggressive target of 20 MWa was reasonable. Participants also agreed that a shift toward lifetime-levelized costs was more appropriate than a target based on the first-year savings, because it captured the long-term effect of each savings measure and because results reported on a per kWh scale are more comparable to a customer's electricity bill.

In its September 23, 2004, letter, ODOE opines that, based on historic utility performance, the savings target should be more stringent. ODOE states that *"PGE and PacifiCorp combined, averaged 13.3 average megawatts each year from 1996-2000 with less than half the public purpose funding available to the Energy Trust for energy conservation, and 27.7 average megawatts each year in 2001-02 with almost as much funding as the Energy Trust."*

Staff notes that combined PGE and PacifiCorp investment averaged just under \$26 million a year over the 1996 to 2000 time frame, per utility reports. The utilities' reported investment averaged approximately \$32 million per year during 2001-02. In 2003, the ETO received \$33.4 million from PGE and PacifiCorp for electricity efficiency programs. Thus, the utilities achieved 13.3 average megawatts each year from 1996-2000 with reported investment of about 78 percent of the public purpose funding available to the Trust.

Staff also notes that the utilities' reported investment in energy efficiency programs does not include all the costs ratepayers incurred for such investments. In addition to the direct program costs reported, ratepayers also paid lost revenue recovery, incentives, and a return on investment to the utilities. It is also important to note that utility investment was very cyclical, depending on when the utilities' power costs escalated between rate cases, and that the life-cycle cost effectiveness of specific efficiency measures is not reflected in the utility investment totals.

In its letter, ODOE also suggests that, in addition to the annual performance measures, cumulative savings measures be established. Participants at the September 24, 2004, workshop did not express an opinion on ODOE's proposal.

Staff believes that a cumulative savings target would facilitate easy assessment of the Trust's long-term achievements, but if the Trust achieves its annual targets, a cumulative performance measure is unnecessary. Further, if the Trust were to exceed expectations in the early years, it could under-perform in later years and still meet a cumulative performance target. Thus, cumulative performance measures would not necessarily incent the Trust to achieve greater savings over the course of its contract with the Commission. Therefore, staff does not recommend establishing cumulative savings targets at this time.

*The Commission expects the Trust to obtain natural gas energy efficiency savings of at least 700,000 therms, computed on a three-year rolling average.*

*The Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle ETO cost of not more than 30 cents per therm.*

Staff had previously recommended savings targets for natural gas efficiency programs of 500,000 therms at a cost of no more than \$5.00/therm for 2004 performance. Workshop participants agreed that for 2005 performance the target of 500,000 therms was too low and that a minimum target of at least 700,000 therms was reasonable based on NWN's historic performance and the Trust's 2004 natural gas savings to date.

As with electricity savings, workshop participants agreed that a shift to levelized life-cycle savings rather than first-year cost targets was appropriate for natural gas savings.

*The Commission expects the Trust to deliver at least 15 MWa of new renewable resource development annually, computed on a three-year rolling average, from a variety of renewable resources.*

In its September 23, 2004, letter, ODOE suggests that the target should be set, on a cumulative basis, high enough to ensure that the Trust meets its internal 2012 goal for renewable resource development. In response, staff points out that the Trust's strategic planning goals are set by its Board to challenge the Trust to achieve at the highest level possible. It is widely acknowledged that these goals, particularly as they apply to renewable resource development, may be unattainable.

In contrast, the performance measures being set by the Commission serve a different purpose. They are meant to provide guidance as to the minimum level of Trust performance the Commission would accept before considering whether a Notice of Concern should be issued. Staff believes that the 15 MWa target proposed throughout this proceeding is adequate to serve this purpose.

*The Commission expects the Trust to demonstrate its financial integrity by obtaining an unqualified financial audit opinion annually.*

All participants throughout this proceeding have supported this performance measure. In addition, a performance measure tied to the ETO's response to performance, or management audit recommendations has been considered. Participants generally believe that since periodic management audits are required by the Grant Agreement

between the Trust and the Commission, establishing an additional performance measure based on this criterion is unnecessary.

*The Commission expects the Trust to demonstrate program delivery efficiency by keeping its administrative and program support costs<sup>1</sup> below 11 percent of annual revenues.*

In previous recommendations, staff has recommended that this target be set at 10.5 percent, based on prior Trust performance and the performance of other public purpose fund administrators and of other similar organizations. The Trust has pointed out that its Board has recently amended its by-laws to require an annual internal control audit that will cover not only the Trust's operations, but also that of the Trust's contractors and subcontractors. This will add significant additional administrative costs, but will provide additional demonstration of the Trust's financial integrity. Based on this new development, participants at the September 24, 2004, workshop agreed that it is reasonable to move the target from 10.5 to 11 percent of annual revenues.

*The Commission expects the Trust to demonstrate reasonable customer satisfaction rates by surveying its customers as part of its program evaluations. Preferably, the surveys will provide a scale showing the degree of satisfaction with Trust services and allow for open-ended responses. In addition, the Trust will report salient statistics regarding complaints it receives directly or from utility customer services. Findings are to be reported to the Commission.*

Participants at the September 24, 2004, workshop agreed that this performance measure was reasonable.

*The Commission expects the Trust to report the benefit/cost ratio for its larger conservation acquisition programs beginning with its second quarter 2005 report. The Trust staff, Commission staff, customer groups and other interested parties will meet to develop an agreed upon calculation of costs and benefits included in the ratio. An agreed upon definition should be established by mid-May 2005 for incorporation in the second quarter 2005 report.*

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<sup>1</sup> For the purpose of these performance measures, program support costs are defined as all program costs except the following accounts: program management, program incentive, program payroll and related expenses, call center, and program outsource services.

Participants have generally agreed throughout this proceeding that the benefit/cost ratio of major programs was important and that it should be monitored. However, some concern has been expressed that the calculation of a benefit/cost ratio should be clearly defined and accepted by major stakeholders.

*In addition to considering the results of the above-mentioned performance measures, the Commission will also consider the performance of other conservation and renewable resource programs and public comments when making its annual decision to renew its Grant Agreement with the Trust. The Commission will seek comment from the public on such issues as the following:*

- *Is the Trust achieving good results in its conservation and renewable resource programs?*
- *Does the Trust conduct its business in an open and transparent way?*
- *Is the Trust receptive to public input?*
- *Does the Trust monitor program performance and make program adjustments effectively?*
- *Are the benefits of the Trust's programs reasonably spread among customer classes and geographic areas?*
- *Are the Trust's programs appropriately coordinated with related local, state, and regional programs?*
- *Is the Trust complying with the guidelines set forth in the Grant Agreement?*
- *Are there any significant issues that warrant the issuance of a Notice of Concern?*
- *Should the Grant Agreement be renewed for another year?*

Participants at the September 24, 2004, workshop agreed that consideration of public input and the performance of other organizations with conservation and renewable resource programs should be considered with the Commission decides whether to renew the Grant Agreement.

Development of Future Performance Measures: Participants in the September 24, 2004, workshop agreed that performance measures for the ETO's 2006 performance should be established no later than June 1, 2005. Staff will initiate workshops beginning in March of 2005 to meet the June 1, 2005, deadline.

Inclusion of Performance Measures in the Grant Agreement: The Commission has expressed a desire that any performance measures established be incorporated into the Grant Agreement, at least by reference. During the course of this proceeding, staff,

CUB and the ETO have noted that it is appropriate to reference the types of measures and targets that will be used to assess ETO performance in the Grant Agreement. However, given that specific performance measures will be modified, at least in the early years, it will be less administratively burdensome to exclude the individual targets from the Grant Agreement at this time. In staff's opinion, the Commission's performance standards will be as effectively communicated to the ETO and to the public via a reference in the Grant Agreement, as they would be if they were actually incorporated therein.

**PROPOSED COMMISSION MOTION:**

The performance measures and targets outlined in Attachment A be adopted to assess the performance of the Energy Trust of Oregon for 2005.

Attachment A  
Proposed 2005 Performance Measures for the  
Energy Trust of Oregon  
September 28, 2004

The following performance measures and targets are intended to clearly define the Commission's minimum expectation of Energy Trust of Oregon (ETO or the Trust) performance. Should the Trust fail to meet these performance targets, the Commission will consider issuing a Notice of Concern pursuant to the Grant Agreement between the Commission and the Trust.

Savings targets for energy efficiency programs and development targets for renewable resource programs 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.

As part of our ongoing oversight of the Trust, the Commission will evaluate past utility performance and program performance by conservation and renewable resource programs across the country for use as a rough yardstick for Trust activities.

Electric Efficiency Performance Targets: The Commission expects the Trust to obtain electricity efficiency savings of at least 20 MWa, computed on a three-year rolling average.

The Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle ETO cost of not more than two cents per kWh.

Natural Gas Efficiency Performance Targets: The Commission expects the Trust to obtain natural gas efficiency savings of at least 700,000 therms, computed on a three-year rolling average

The Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle ETO cost of not more than 30 cents per therm.

Renewable Resource Development Targets: The Commission expects the Trust to deliver at least 15 MWa of new renewable resource development annually, computed on a three-year rolling average, from a variety of renewable resources.

Financial Integrity: The Commission expects the Trust to demonstrate its financial integrity by obtaining an unqualified financial audit opinion annually.

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Program Delivery Efficiency: The Commission expects the Trust to demonstrate program delivery efficiency by keeping its administrative and program support costs<sup>2</sup> below 11 percent of annual revenues.

Customer Satisfaction: The Commission expects the Trust to demonstrate reasonable customer satisfaction rates by surveying its customers as part of its program evaluations. Preferably, the surveys will provide a scale showing the degree of satisfaction with Trust services and allow for open-ended responses. In addition, the Trust will report salient statistics regarding complaints it receives directly, or from utility customer services. Findings are to be reported to the Commission.

Benefit/Cost Ratios: The Commission expects the Trust to report the benefit/cost ratio for its larger conservation acquisition programs beginning with its second quarter 2005 report. The Trust staff, Commission staff, customer groups and other interested parties will meet to develop an agreed upon calculation of costs and benefits included in the ratio. An agreed upon definition should be established by mid-May 2005 for incorporation in the second quarter 2005 report.

Other Considerations: In addition to considering the results of the above-mentioned performance measures, the Commission will also consider the performance of other conservation and renewable resource programs and public comments when making its annual decision to renew its Grant Agreement with the Trust. The Commission will seek comment from the public on such issues as the following:

- Is the Trust achieving good results in its conservation and renewable resource programs?
- Does the Trust conduct its business in an open and transparent way?
- Is the Trust receptive to public input?
- Does the Trust monitor program performance and make program adjustments effectively?
- Are the benefits of the Trust's programs reasonably spread among customer classes and geographic areas?
- Are the Trust's programs appropriately coordinated with related local, state, and regional programs?

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<sup>2</sup> For the purpose of these performance measures, program support costs are defined as all program costs except the following accounts: program management, program incentive, program payroll and related expenses, call center, and program outsource services.

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- Is the Trust complying with the guidelines set forth in the Grant Agreement?
- Are there any significant issues that warrant the issuance of a Notice of Concern?
- Should the Grant Agreement be renewed for another year?

Performance measures for 2006 ETO performance will be established no later than June 1, 2005.