



Staff solicited comments from the public on this budget and plan and received one written response from Weatherization Industries Save Energy (WISE). Other interested parties provided comments on the budget directly to the Trust and those were also reviewed as part of Staff's budget analysis.

### Overall

This year's budget has been influenced by a number of factors. One is the passage of Senate Bill (SB) 838 which limited the Trust to supporting renewable projects that are 20 MW or smaller. Another is Commission Order No. 07-002<sup>1</sup> which requires that utilities perform an assessment of the total conservation potential in their service territory as part of their integrated resource plans (IRP). If there is additional cost-effective conservation attainable that cannot be achieved through the public purpose funds, the Commission may approve, in rates, funding for the incremental conservation. The practical implementation of this order requires the utilities work closely with the Trust in the determination of the potential, achievable and cost-effective conservation.

In reviewing this budget, Staff considered:

- (1) The Trust's performance compared to its 2007 plan as an indicator of the accuracy of its planning;
- (2) How the action plans were crafted to address the legislative changes;
- (3) How the action plans and targets were crafted in concert with utility partners;
- (4) How proposed strategic changes in program operations (bringing some services in-house for example) are in the interest of ratepayers;
- (5) General trends in ETO headcount; and
- (6) Comments from interested parties.

### Performance Compared to 2007 Plan

- The Trust is on track to meet energy efficiency goals for the year. The only program that hasn't performed as well as anticipated is the Efficient New Homes Program. The Northwest, and the entire country to some extent, has seen a downturn in housing starts.
- Staff had expressed concern about the level of carryover dollars in the natural gas budget from 2006 into 2007. The projection for 2008 is that the carryover from 2007 will be flat. The budget and action plan show a significant consumption of the carryover in 2008 with a projected carryover closer to zero for 2009. This trend reflects the Trust's ability to penetrate the natural gas markets and continued work in the commercial and small industrial sector.
- Performance of the renewables programs requires a longer view than annual performance. Most projects have long lead times. Turbine availability has delayed

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<sup>1</sup> As amended by Commission Order No. 07-047

three community wind projects, interconnection issues are delaying a biomass project, and PacifiCorp decided to not proceed with a utility scale wind project they had planned.

#### Impact of 2007 Legislation

The Trust has appropriately positioned itself to succeed in the environment of SB 838. In this budget they are more aggressively pursuing biomass and biofuels projects. They are now including solar assessments when energy audits are performed in homes or other facilities. They have also proposed additional staff to enable the ramp up of programs when they receive funding from the utilities for acquisition of incremental energy efficiency.

#### Coordination with Utility Partners

Portland General Electric (PGE) and PacifiCorp partnered with the Trust when determining conservation potential for their IRPs. Currently, the Trust, utilities, PUC Staff and Northwest Planning and Conservation Council (Council) are working to converge on a methodology for determining cost-effectiveness and avoided costs.

The calculation of cost-effectiveness is not something the utilities and the Trust have been expected to converge on in the past. To facilitate this convergence, Staff convened workshops (hosted by the Trust) that included participation from PGE, PacifiCorp, the Council, Cascade Natural Gas, and Dave Robison of Stellar Processes. Stellar Processes is the consultant retained by the Trust to assist in the avoided cost analysis.

The first hurdle in this convergence was to come to some agreement on the discount rate to be used in the avoided costs calculation. The utilities are required to use their own utility-specific cost of capital. The Energy Trust isn't acquiring capital and its board chose to use a lower discount rate. The Council uses yet another value in its calculations that is roughly midway between what the utilities and the Trust had been using. The PUC expects energy efficiency and supply-side resources to be assessed on a comparable basis, which points to using the utility's cost of capital.

The above described team came to an agreement that a discount rate of 5.2 percent would be acceptable to them for calculations. The Trust board has not voted on the issue but several members have expressed a willingness to adopt this number provided the Commission updates the performance measures for the Trust to reflect the new basis for calculations. Staff anticipates the proposed increase for cost-effectiveness will be from the current 2.0¢/kWh to a value between 3.0 and 3.5¢/kWh, but additional analysis is required. Even without any change in cost-effectiveness calculations, an

increase in the performance measures is appropriate because the Trust has already acquired much of the lowest cost energy efficiency.

#### New Action Plan Themes for 2008

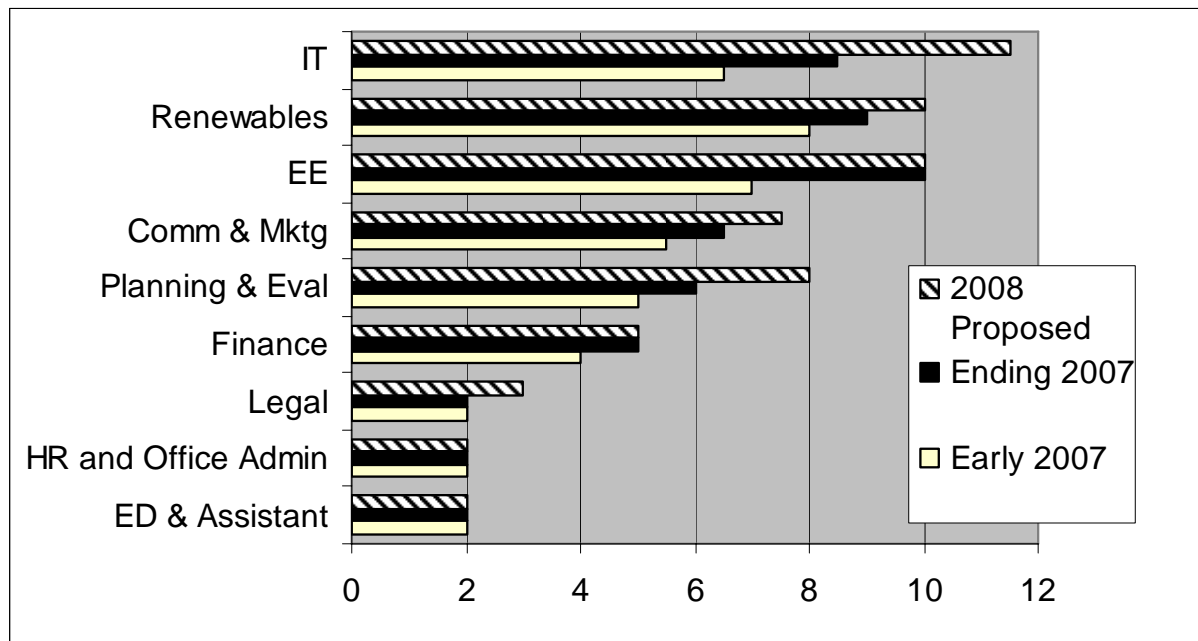
- The Trust plans to market energy efficiency and renewables programs together. For example, the Trust has updated its energy audits to include an analysis of the building for solar or other renewables applications. The message to customers will be that the Trust can offer a complete package of renewable and efficiency options to consider.
- Community energy projects are another approach the Trust is pursuing. It plans to launch a pilot project in March 2008 in Corvallis. The Trust and NW Natural are partnering with the Corvallis Sustainability Coalition, which represents over 60 interest groups in the community. The mayor of Corvallis has endorsed the project as well.
- The Trust is partnering with Oregon Department of Energy (ODOE) to simplify paperwork required to take advantage of the many incentives that are available. Some measures qualify for state and federal tax incentives as well as Trust incentives. Currently, each of those processes requires a unique set of qualifications and application materials. This lack of alignment in requirements and paperwork can be a barrier to participation in programs.
- Bringing trade ally coordination in-house is expected to help the Trust maintain a relationship with and better understand the concerns of subcontractors.
- Management of the Production Efficiency Program was brought-in house based on the recommendations of an independent evaluator. The evaluator suggested that the program management contractor (PMC) added an additional and unnecessary layer of management that acted to distance the industrial customers from the Trust. It is expected that this program will be strengthened by the Trust and industrial customers working more closely.

#### Headcount Trends

In this budget, the Trust proposes personnel additions that would bring its total headcount to 59. This represents a marked increase from the beginning of 2007 when the total headcount was 42. Nine positions were approved by the board and added during the 2007 calendar year. These positions were driven by growth and increased number of transactions. Of the 8 additional positions proposed in this budget, 3 are conversions of contract employees to permanent Trust employees, 2 are additions in information technology (IT) and 3 are to cover increased demands due to SB 838 workload and program demand. To put this in perspective, the table on the top of the next page illustrates how indicators of the Trust's activities have increased by five- to ten-fold while the proposed headcount is an increase less than two-fold.

	2004	2008 Projection
Projects Completed	21,000	112,000
Transactions/Checks Written	12,000	90,000
Program Participants	140,000+	1,500,000+
Headcount	34	59

The additions are shown below (Figure 1) by department and discussed in the narrative that follows.



**Figure 1: Energy Trust Headcount Proposal**

*Information Technology*

The largest increase is in IT. The addition of these positions is a result of recommendations from the enterprise architecture study performed by Moss Adams earlier this year. Moss Adams' suggested staffing level was 13 full-time equivalents (FTE). The Trust considered their recommendation and concluded 11.5 FTE should be able to meet its needs without overstaffing. Only two of the permanent positions are actual additions. The other three represent converting contract workers to permanent

employees of the Trust. The Trust had been subcontracting this work as a way to keep headcount lower. Unfortunately, the Trust experienced a high turnover of contractors compared with its permanent IT staff that was remaining relatively stable. Any progress the Trust was making in its systems was being hindered by constantly training new contractors.

### *Energy Efficiency*

- Two positions in the Energy Efficiency group are the result of bringing management of the Production Efficiency program in-house. This was driven by an independent evaluator's assessment of the program delivery models the Trust uses and customer satisfaction concerns. The evaluator concluded that using PMCs was effective for all of the efficiency programs but suggested the Trust consider other models for delivery of the Production Efficiency Program. The consultant commented that other organizations, similar to the Trust, usually run these programs with a mixed or internal model. The Trust had also received complaints from the industrial sector indicating they felt their projects were large enough to warrant direct interaction with the Trust.
- A third position was added during the year to provide additional support to managing programs in the commercial sector.
- The Trust has not proposed the addition of any positions in anticipation of incremental energy efficiency funding in this area (they have proposed additional FTE under Planning and Evaluation). Staffing for this area will be reviewed as the incremental programs are implemented and ramped up.

### *Renewable Energy*

The proposed position is a result of SB 838. This bill limits the size of the projects the Energy Trust can help fund to 20 MW or less. The reduction in allowable project size will result in the Trust supporting a greater number of smaller projects. The proposed position is to support the growing biofuels program as well as the diversity of proposals coming through the Open Solicitation Program. Earlier in the year, a position was added to support the increasing activity in the solar program.

### *Communication and Marketing*

The Trust is proposing the addition of manager for marketing energy efficiency and renewables in the residential sector. This is consistent with the action plan theme of marketing efficiency and renewables programs together. A position was added during the year to centralize trade ally administration and support. The Trust works with over 700 trade allies throughout the state and it is key for each of those trade allies to carry the same information to customers. Also, the Trust needs to verify that each of the trade allies is licensed, bonded and insured.

### *Planning and Evaluation*

The planning and evaluation functions at the Trust have been strained by increasing demands. This is partially driven by the requirement to partner with the utilities during the IRP process. Another factor is that program formulation and evaluation is more complex as the Trust pushes harder to penetrate markets with new offerings. One of the proposed FTE is to address the additional evaluation activity that is associated with the potential incremental energy efficiency funding. While the staffing in this area is easily justified by the Trust's growth and activities, Staff encourages the Trust to leverage the analysis of the Council and others where possible.

### *Finance*

A position was approved mid year to help with the increased volume of transactions.

### *Legal*

The proposed addition is actually a conversion of a contract employee.

### Comments from Interested Parties

WISE is a trade association of weatherization and HVAC contractors and manufacturers. WISE has been consistent over the past two years in their assertion that they believe the residential sector would be better served with more direct incentives than the Trust currently uses in its residential programs. Where the Trust has indicated it will increase marketing and outreach, WISE would prefer the Trust instead rely on the marketing effect of an incentive driven program. WISE also suggested that the Trust could use window upgrades as a way to attract participants to the program in the multifamily area.

Staff has reviewed WISE's concerns from the perspective of benefits to ratepayers and also relative to the performance measures the PUC has established for the Energy Trust. The fundamental performance question is how much energy is saved for each dollar collected from ratepayers. The Trust continues to meet the performance objectives and is recognized nationwide for the effectiveness of its programs. Nonetheless, Staff will work with WISE and ETO to determine if there are other reliable benchmarks that indicate ratepayers would be better served if the Trust used the approach suggested by WISE.

The Trust solicited public comment on its draft budget through the Conservation Advisory Council (CAC) and Renewable Energy Advisory Council (RAC).

At the CAC, Paul Olson of Oregon Remodelers Association expressed concern about too much focus on market research and marketing and wanted to see more dollars in incentives. However, Lauren Shapton of PGE and Karen Meadows of Bonneville Power

Administration expressed strong support for increased market research and market and program support. They both felt it was the best way to increase or sustain energy savings. The increased focus on the commercial sector was also supported by the CAC. Other members of the CAC encouraged the Trust to maintain some flexibility in the action plan because they suspect 2008 may be a year of changes with implementation of state renewable portfolio standards, fuel price volatility, and uncertainty about the level of housing starts, for example.

Several parties commented that if the Trust were to offer low or no interest loans, it might remove some of the barriers to participation in different programs. Even with incentives from the Trust and potential tax incentives, there is still a significant amount of the cost of a measure that is paid by the participant. This is more of an issue for renewable projects but can also be a problem for large weatherization projects.

Energy Savings and Acquisition Goals for the Proposed Budget

The following tables summarize the budgets and goals for the different programs in energy efficiency and renewables acquisition.

*2008 Energy Efficiency Budget and Goals—  
 Combined Electric and Gas*

<b>Program</b>	<b>Budget \$ (Millions)</b>	<b>Savings ktherms</b>	<b>Savings aMW</b>	<b>2007 Forecast \$ (Millions)</b>
Home Energy Solutions – Existing Homes	13.47	609 - 813	1.8 – 2.4	11.78
Home Energy Solutions – New Homes & Products	11.02	315 - 420	1.9 – 2.5	9.43
Residential Market Transformation - NEEA	1.08	n/a	4.3 – 5.7	1.08
Business Energy Solutions – New Buildings	7.87	246 - 328	1.9 – 2.6	5.30
Business Energy Solutions – Existing Buildings	7.52	394 - 525	3.1 – 4.2	6.78
Commercial Market Transformation - NEEA	1.70	n/a	0.21 - 0.27	1.70
Industrial Energy Solutions	13.37	85 - 114	5.7 – 7.6	12.01
Industrial Market Transformation - NEEA	1.05	n/a	0.9 - 1.2	1.04
<b>Total</b>	<b>57.08</b>	<b>1649 - 2200</b>	<b>19.8 – 26.5</b>	49.12

*2008 Energy Efficiency Goals (Gas) including levelized costs*

<b>Program</b>	<b>Savings Therms (ktherms)</b>	<b>Cost/therm \$</b>	<b>Levelized cost per therm \$</b>	<b>2007 Forecast</b>
Home Energy Solutions – Existing Homes	609 - 813	7.35 – 9.79	.36 - .49	887 ktherms \$.28/therm
Home Energy Solutions – New Homes & Products	315 - 420	6.92 - 9.23	.39 - .52	250 ktherms \$.70/therm
Business Energy Solutions – New Buildings	246 - 328	3.11 – 4.14	.23 - .31	537 ktherms \$.12/therm
Business Energy Solutions – Existing Buildings	394 - 525	3.54 – 4.73	.30 - .39	584 ktherms \$.21/therm
Industrial Energy Solutions	85 - 114	4.38 – 5.84	.44 - .59	n/a (new for 2008)
<b>Total</b>	<b>1649 - 2200</b>	<b>ktherms</b>		

*2008 Energy Efficiency Goals (Electric) including levelized costs*

<b>Program</b>	<b>Savings aMW</b>	<b>Cost/aMW (Millions) \$</b>	<b>Levelized cost per kWh ¢</b>	<b>2007 Forecast</b>
Home Energy Solutions – Existing Homes	1.8 – 2.4	3.1 – 4.1	2.0 – 2.7	2.19 aMW 2.3 ¢/kWh
Home Energy Solutions – New Homes & Products	1.9 – 2.5	3.2 – 4.3	4.3 – 5.7	7.41 aMW 1.1 ¢/kWh
Residential Market Transformation - NEEA	4.3 – 5.7	0.2 - 0.3	0.3 - 0.4	6.03 aMW 0.3 ¢/kWh
Business Energy Solutions – New Buildings	1.9 – 2.6	2.7 – 3.5	2.2 – 2.9	2.17 aMW 1.6 ¢/kWh
Business Energy Solutions – Existing Buildings	3.1 – 4.2	1.4 – 1.8	1.4 – 1.9	4.23 aMW 1.4 ¢/kWh
Commercial Market Transformation - NEEA	0.21 - 0.27	6.2 - 8.3	5.9 – 7.9	0.3 aMW 5.4 ¢/kWh
Industrial Energy Solutions	5.7 – 7.6	1.7 - 1.5	1.7 – 2.3	14.27 aMW 1.1 ¢/kWh
Industrial Market Transformation - NEEA	0.9 - 1.2	0.9 – 1.2	1.2 – 1.6	1.30 aMW 1.1 ¢/kWh
<b>Total</b>	<b>19.8 – 26.5</b>	<b>aMW</b>		

*2008 Renewable Program Budget and Generation Goals*

<b>Program</b>	<b>Budget \$ (Millions)</b>	<b>Generation aMW</b>	<b>Levelized Cost \$/aMW</b>	<b>2007 Forecast</b>
Utility Scale	0.24	49 - 126	0.1 - 0.2	77 aMW
Solar Electric	9.01	0.43 - 0.57	15.8 – 21.15	0.17 aMW \$17M/aMW
Community Wind	5.93	2.75 – 3.93	1.51 - 2.16	no projects
Open Solicitation	8.97	2.07 – 3.18	2.82 – 4.34	0.01 aMW \$514M/aMW
Biopower	10.85	3.78 – 8.78	1.23 – 2.87	no projects
<b>Total</b>	<b>\$35.0 M</b>	<b>58 – 142</b>	<b>aMW</b>	

Summary

Staff has reviewed the Energy Trust’s budget and has found its proposed action plan to have appropriate program and sector balance. Staff urges the Trust to continue to examine the level of incentives in the residential sector and the influence incentives have on energy savings compared with other strategies. Finally, Staff recognizes the drivers for the Trust to increase their staffing levels; however, we encourage the Trust to carefully consider options to adding staff as they look forward.

**PROPOSED COMMISSION MOTION:**

Staff’s comments be adopted as Commission comments on the Draft 2008 Budget and Draft 2008-09 Action Plan for the Energy Trust of Oregon.