

June 25, 2004

Ms. Janet Fairchild – via email
Senior Utility Analyst
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PO Box 2148
Salem, Oregon 97308-2148

Dear Janet,

This letter provides comments from the Energy Trust staff regarding the proposed Oregon Public Utility Commission benchmarks for the Energy Trust of Oregon. We support the OPUC role in establishing benchmarks for Energy Trust performance and commend the collaboration of OPUC staff in engaging Energy Trust staff and the public on this important matter.

The Energy Trust board has established ambitious savings, generation and other goals for our achievements. Based upon discussion with OPUC staff, we understand the OPUC benchmarks to be a complement to Energy Trust goals. Such benchmarks can provide early indications of whether the Energy Trust is performing below expectations, thereby prompting a deeper investigation as to why and whether a notice of concern should be issued by the Commission.

At a high level, Energy Trust staff largely agree with the benchmarks defined in the OPUC staff proposal. We concur entirely with performance standards 1 and 3, and with the major elements of 2. Our suggestions

are offered in the spirit of providing clarity and functionality, especially given that Energy Trust programs are "ramping up."

As indicated in our letter dated June 21, 2004, we have formally requested that the OPUC extend the current timeframe for a final decision to adopt benchmarks. Additional time would allow full involvement of the Energy Trust Board of Directors. Energy Trust staff believe that this investment of approximately one additional month will, in the long run, benefit understanding and coordination between the OPUC and the Energy Trust board. Importantly, it will also allow more time for stakeholders to review and submit comments on the revised version of the staff proposal stemming from the June 14, 2004, work session on this subject.

The following section includes specific Energy Trust comments on the OPUC staff proposed benchmarks:

Performance Standard 1: Financial Integrity. The Energy Trust supports the OPUC staff recommendation. Annual financial audits have been undertaken in previous years and will continue.

Performance Standard 2: Operational Efficiency and Effectiveness. For clarity, we recommend that each of the sections listed below be considered a separate benchmark.

Section 2.1. Performance/Management Audits. We support all aspects of this metric except for the proposed frequency of audits. As mentioned during the public work session, we believe a management audit cycle of every 3–5 years is consistent with both public and nonprofit sector practice and strikes a better balance between time spent on audits and time spent on improvements. To avoid duplication in cost and effort, it would be helpful to distinguish between what will be undertaken through a performance/management audit and Energy Trust independent, third-party program evaluations.

Section 2.2. Customer Satisfaction. We fully endorse the importance of this metric. To best manage costs, maximize customer participation and preserve meaningful and timely results, we propose that customer satisfaction be measured as part of Energy Trust program evaluations. Such evaluations are conducted by independent third party evaluators, with results included in the annual report to the OPUC. Results will include an overall summary of customer satisfaction. We propose that the OPUC review typical levels for such a metric before setting a specific benchmark level. The Energy Trust has research underway to inform this issue.

Section 3. Administrative Costs. We support OPUC staff recommendation 3.b as the clearest and best option to determine and monitor reasonable and manageable administrative costs. This benchmark states: "Administrative costs, defined by GAAP for nonprofit organizations, should not exceed 10% of overall ETO revenues . . ." This approach is consistent with the costs of better-performing nonprofits¹, adjusting for the fact that the Energy Trust does not engage in fundraising/development activities. We will also cooperate with the OPUC to develop a methodology comparing non-program costs of the Energy Trust with other organizations, be they state government, utility, or other system benefit charge organizations.

Section 4. Savings (and Production) Targets: For clarity, the Energy Trust staff proposes that a single benchmark be established each for electric and gas savings. In the short term, we believe the simplest measure is cost/average MW and cost/annual therm.

a. Efficiency (electric). We recommend a benchmark of \$2.0 million/average MW in the short term. This is below regional averages reported by the Northwest Power and Conservation Council of \$2.2 million/average MW. The measure is appropriate because:

¹ See Attachment A.

- The Energy Trust is building program momentum and capacity. Many of the costs in 2004 will result in savings in 2005 and beyond.
- The Energy Trust must deliver a higher-than-historical *volume* of savings.
- Delivery of programs in rural/outlying geographic areas, as a rule, are at a cost higher than delivery in highly concentrated, urban areas.
- This measure would allow flexibility to pursue long-lived measures as well as measures that save energy during peak use periods, thereby providing more ratepayer value.
- Lastly, the measure provides latitude to address equity among and between different market segments.

We do not recommend including a minimum average measure life because it decreases Energy Trust flexibility to pursue the resources with the greatest ratepayer benefit. For example, it may drive us to curtail our efforts to install very cost-effective measures such as industrial conservation (10 year average life) and help with market transformation for compact fluorescent lamps (7 year average life). In the long term, a benefit/cost benchmark as recommended below would incorporate the value of measure life without penalizing inexpensive short-lived measures.

b. Efficiency (Gas). A benchmark of cost/annual therm should be set at a level that recognizes that the Energy Trust, NW Natural and the OPUC are now assessing and determining the potential cost of natural gas efficiency programs. The benchmark of \$2.50/therm proposed by OPUC staff is not achievable in 2004. Instead, we suggest a value of \$5.00/therm for 2004², anticipating decreases over time based upon volume of savings acquired and implementation experience. We

² This value was derived from our 2004 strategic plan analysis. Many of the cost estimates are from supply curves with no local experience to back them up. It may be high, but we have no data that indicates that.

recommend this cost/annual therm benchmark over a volume of savings benchmark because we are currently accelerating programs with no precedent in Oregon, especially in the commercial market.

We recommend that the gas and electric efficiency benchmarks be measured as a rolling average over three years beginning this year, much like the OPUC staff proposal for the renewable energy benchmark. This would adjust for less common yet large energy efficiency projects such as the Blue Heron Paper Company project. Consistent with our reports to date, we recommend that the efficiency benchmarks continue to reflect self-directed conservation and savings from reduced losses in power delivery.

In the longer term, we believe a utility system benefit/cost ratio is the optimal benchmark for Energy Trust program effectiveness. This approach incorporates the value of measure life and savings in peak energy periods, thereby encouraging the Energy Trust to pursue the highest-value resources of benefit to both ratepayers. This comprehensive approach would:

- Provide a direct measure of cost-efficiency and consumer savings per ratepayer dollar invested in present value terms.
- Consider and include the life of savings of measures, adjusted for peak use periods where the cost of energy to the utility system is higher.

Between now and year end, we propose working jointly with OPUC staff to explore and define a benefit/cost approach that can be clearly communicated and applied beginning at the earliest convenience of the OPUC. (A proposed methodology for developing the inputs to benefit/cost ratios is provided in the attachment.)

c. Renewable Resource Programs (production). The Energy Trust staff supports the OPUC staff recommendation. We recommend starting the three-year rolling average in 2003.

Performance Standard No. 3: Equitable Distribution of Programs The Energy Trust staff supports the OPUC staff recommendation. The measure acknowledges equity and is consistent with the Energy Trust strategic plan and corresponding equity policy. This benchmark could be further strengthened by acknowledging the importance of reaching historically underserved markets. This is consistent with our recommendations regarding cost/average megawatt and cost/annual therm.

In conclusion, once the Commission has adopted benchmarks, we believe it is important to include an established process to revisit and update them over time. This would allow the OPUC to adjust benchmarks in accordance with Energy Trust maturity and implementation experience.

Again, we appreciate the thoughtful dialogue we have had with OPUC staff regarding the benchmarks and their value in terms of distilling Energy Trust performance for all those interested. Thank you again for this opportunity to provide our comments.

Sincerely,

Margie Harris
Executive Director

cc: Board of Directors

Enclosures

APPENDIX A: PROCEDURES FOR A UTILITY SYSTEM B/C RATIO BENCHMARK

Methodology. We propose that the methodology for the “Utility System Test” as documented in the Energy Trust cost-effectiveness policy be used. That methodology was developed with PUC staff involvement and follows PUC principles.

Measure Life. No single source of measure life estimates is both the best and most pertinent. Program practices influence measure life. For example, the Home Energy Savings Program uses trained employees to install efficient light bulbs, and has developed instructions that help them put the bulbs in high-use fixtures. This is likely to result in higher hours/year and fewer uninstalled bulbs than would a program that provides efficient light bulbs through retail channels, for consumers to install. The result is more savings/year and fewer years of use, with a net increase in cost-effectiveness.

The recommended solution is to agree to follow these guidelines:

- a. Estimates from the Regional Technical Forum (RTF), should be used where available³ unless there is a documented and defensible reason to do otherwise, as discussed in the next two bullets.
- b. The most recent available sources from Energy Trust evaluations and external sources should also be considered and used instead of RTF estimates when these sources are either more pertinent or more current. Where possible new data should be brought to the RTF to be incorporated into consensus regional estimates. However, given that the RTF cannot do everything at once, the Energy Trust may use data in advance of RTF incorporation. Furthermore, the RTF is driven by the need to achieve a compromise among many regional parties, their recommendations

³ The Regional Technical Forum has focused primarily on residential and small commercial efficiency measures. Because they have a regional process, they add new material slowly, so they do not always keep pace with new research.

- sometimes do not uniformly reflect the best science. The Energy Trust, in consultation with the PUC, may differ from RTF due to a documented argument that the best research points clearly to another answer, or to enough uncertainty that a shorter measure life should be used.
- c. The program design and its influence on life of savings should be considered. For example, if a program installs residential compact fluorescent lamps in high-use locations, the hours/year of use will be higher, but the measure life will be shorter. Also, if that program buys only equipment that meets rigorous extended burn tests for low failure rate, the measure life may be longer.

Energy Savings. The Energy Trust estimates average savings for measures that have fixed incentives (e.g., T-8 bulbs and ballasts, home insulation). The Energy Trust also estimates savings for custom measures (e.g., a unique industrial process improvement) on a site-specific basis. These are aggregated into program savings estimates. Program impact evaluations provide a second view of program savings, based on a variety of techniques that use observations and data from participating and nonparticipating sites. All major Energy Trust programs will receive impact evaluations performed by independent contractors hired by the evaluation manager.

Savings numbers used for the cost-effectiveness benchmark will be based on impact evaluations where these are available.

Cost. Cost data will come from the Energy Trust financial tracking system.

Discount Rate. We propose that the 3% real rate that was adopted by the Energy Trust board be used.

Value of Savings. We propose that the value of electric savings be derived from the NPPC's Procost model, which is based on their Aurora model forecast of hourly value of energy savings for the next 20 years. For gas efficiency, we propose that a forecast be developed that

reasonably corresponds to NW Natural's retail gas price forecast and the NPPC's wholesale gas price forecast. Both electric and gas price forecasts should have a risk reduction value added, since loads served by efficiency have dramatically reduced cost uncertainty once the equipment is installed. This added value will be developed with PUC consultation.