

INDUSTRIAL  
CUSTOMERS OF  
NORTHWEST  
UTILITIES

KEN CANON  
EXECUTIVE DIRECTOR

June 25, 2004

Janet Fairchild  
Senior Utility Analyst  
Oregon Public Utility Commission  
Post Office Box 2148  
Salem, OR 97308-2148

**RE: Energy Trust of Oregon Performance Measures**

Dear Janet,

Industrial Customers of Northwest Utilities (ICNU) appreciates the Oregon Public Utility Commission (OPUC) seriously undertaking its oversight role regarding the Energy Trust of Oregon (ETO). As the ETO was forming, ICNU participated extensively in the development of the Grant Agreement between the OPUC and ETO. At that time, one of our primary interests was in the OPUC having adequate oversight and remedy opportunities given that the ETO is a private entity receiving ratepayer funds pursuant to a mandatory public purpose charge.

We have the following comments on the Specific Performance Standards:

**Performance Standard No. 1: Financial Integrity**

We agree with this standard.

**Performance Standard No. 2: Operational Efficiency and Effectiveness**

1. This proposal should be modified. We would urge that a performance/management audit only be required every three to five years. While we are very interested in operational efficiency, we are more concerned that a one or two year audit cycle will actually diminish effectiveness. Management audits divert management time and attention away from their normal duties and tend to create staff uncertainty. While such audits are appropriate, having them on a continual basis just leads to more staff work and does not create enough time separation to allow changes to be implemented and then measured. We would support a three to five year cycle, with a preference for five years, while retaining to the OPUC the right to ask for a management audit upon a shorter time frame if circumstances warrant.

2. This proposal should be clarified to ensure that customer is broadly defined to also include the contractors that perform much of the groundwork for the ETO.

3. Of the three alternatives listed, we support the comparison of administrative costs to the overall ETO revenues (Option b.) as the most appropriate measure. Year to year variations in ETO expenditures (Option a.) makes this a difficult point of comparison. While we support Option b., we do not support setting a benchmark at 10% when 2003 actuals show a level of 4%. While we understand that administrative costs may see incremental increases as programs are fully ramped up, setting a performance measure at 10% (a 150% increase over actuals) does not send the correct message. The key message is that the OPUC is committed to its oversight role and that a key aspect of that role is to ensure that the ETO's administrative costs are as low as possible. That results in providing the maximum amount of funds to flow to the direct benefit of ratepayers. We would also like to see a requirement that the ETO publish the percentage and dollar amount of its five highest administrative cost categories in its annual report.

4a. We strongly disagree with this performance measure. We see no reason for the OPUC to establish a performance measure that is substantially less than that established by the ETO Board. It's as if a student established a goal of getting straight A's and the parents said, "we're fine with a C average". The ETO Board reviewed much information and independently established a conservation goal of 300 aMW. This is what they sold to the public. If the OPUC establishes a target of only 200 aMW, what message does that send to the ETO and to the public? It tends to undercut the ETO and confuses the public. Does the OPUC not believe the ETO? Is the OPUC setting a lower target such that it reduces the OPUC's oversight obligations? Will this lead to a slackening of the effort at the ETO? Whatever the rationale for this measure, we would much prefer that the OPUC have higher expectations of the ETO than lower.

The combination of 3b. and 4a. sends an interesting message - it is assumed that the ETO will spend more and save less. Surely that is not the expectation of the OPUC.

If the ETO and the OPUC moves to a levelized cost approach as a performance measure, we also would urge both entities to continue to report the simpler dollars per MW saved.

4c. Same comments as in 4a., with the proviso that the target should be adjusted and revert to that established by the ETO Board if the production tax credit is passed by Congress.

### **Performance Standard No. 3: Equitable Distribution of Programs**

We agree with this Performance Measure.

We do not believe these performance measures should be incorporated in the PUC/ETO Grant Agreement. Since the ETO is still ramping up to full program delivery

and since these performance measures are new, it would not be a surprise to see an evolution of the performance measures over the next few years.

We appreciate the Commission's focus on its ETO oversight role and look forward to working with the Commission and the ETO to develop meaningful performance measures that lead to the highest value results for Oregon ratepayers.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken", written in a cursive style.

Ken Canon

cc: Lee Beyer, Chair  
Ray Baum, Commissioner  
John Savage, Commissioner  
Lee Sparling