


PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 4, 2014

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: January 27, 2014

TO: Public Utility Commission

FROM: Juliet Johnson 

THROUGH: Jason Eisdorfer, Maury Galbraith, and Aster Adams 

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

STAFF RECOMMENDATION:

Staff recommends the Commission adopt the proposed performance measures as stated in Attachment A for evaluating the performance of Energy Trust of Oregon (Energy Trust or ETO) in 2014. Staff recommends the Oregon Public Utility Commission Staff (Staff) and Energy Trust work collaboratively with parties during 2014 to determine the appropriate program delivery efficiency percentage target for 2015.

DISCUSSION:

Purpose

The purpose of Energy Trust performance measures is to clearly define the Commission's minimum expectations. Performance measures are not meant to be targets or goals. Rather they reflect a threshold by which regulators can determine the health of Energy Trust programs. They are meant to provide early indicators of poor performance that if not met signal that intervention may be required. Energy Trust sets specific goals, collaboratively developed with utilities and OPUC staff, in its annual budget and action plan. The performance measures are not intended as substitutes for Energy Trust annual goals. Energy Trust provides annual reports to the Commission highlighting the organization's performance relative to current OPUC performance measures, in addition to providing detailed results and performance against goals set during its budget process.

History

The Energy Trust operates under a grant agreement with the Oregon Public Utility Commission (PUC). The grant agreement requires that the PUC establishes quantifiable performance measures that clearly define the PUC's expectation of the Energy Trust's performance. Previously, the Commission adopted performance measures for the ETO in 2004 (Order 04-593), in 2005 (Order 05-920), in 2006 (Order 06-679), in 2007 (Order 07-123), in 2008 (Order 08-529), in 2012 (Order 12-094), and in 2013 (Order 13-070).

Methodology

In Order 12-094 the Commission approved a systematic approach to developing ETO performance measures. Staff and Energy Trust established a formula that ties performance measures to utility Integrated Resource Plan (IRP) targets and Energy Trust's goals for energy efficiency. Staff proposes to continue this approach for 2014 with the modification described below.

During 2013 Energy Trust Staff worked with utilities, PUC Staff, and the Energy Trust Board to develop a new approach to expressing yearly electricity and gas savings targets. In years past, Energy Trust established two targets, a conservative goal and a stretch goal. In 2014, all parties agreed to move from two goals, to a single goal for each utility. Goals will be derived from individual utility IRP targets. The IRP target will consist of the full resource potential and will not include a 15 percent "safe size" reduction as has been the practice in the past. Consistent with the Parties' discussions, Staff is proposing that the PUC performance measures be expressed by utility as a 15 percent variance from the ETO board approved goals, as follows:

1. PUC savings performance measure = ETO savings goal x 0.85
2. PUC savings levelized cost performance measures = ETO levelized cost x 1.15

In the above equations, the ETO savings goal is derived from individual utility IRPs.

Electric and Natural Gas Efficiency Performance Targets

Table 1 shows the total electric and gas efficiency goals as compared to the IRP targets for 2013 and 2014. Under normal circumstances, the Energy Trust aligns utility IRP targets with its goals. In 2014, there are slight differences between the electric efficiency goals and IRP targets, as shown in Table 1. This occurs when late-breaking market intelligence presents energy savings opportunities that were not identified in the

two-year utility IRP review cycle. Utilities are presented the opportunity to fund above the IRP target for that year during the annual funding agreement meetings. Typically, the utilities agree to fund to the higher level and acquire this cost effective conservation resource.

Table 1. ETO 2013-2014 Efficiency Goals and IRP Targets

		<i>Efficiency Goal</i>	<i>IRP Target</i>
2013 Electric *	Savings (aMW)	55.8	45.9
	Levelized Cost (\$/kWh)	\$0.03	\$0.04
2014 Electric	Savings (aMW)	57.7	55.9
	Levelized Cost (\$/kWh)	\$0.029	\$0.03
2013 Gas*	Savings (MM therms)	5.45	4.00
	Levelized Cost (\$/therm)	\$0.44	\$0.50
2014 Gas	Savings (MM therms)	5.8	5.8
	Levelized Cost (\$/therm)	\$0.40	\$0.40

*Note: 2013 IRP targets were set at 15 percent below ETO stretch goal / conservation resource potential

Table 2 shows the efficiency goals for 2014 by utility with the proposed performance measure for each utility.

Table 2. 2014 Energy Trust Savings Goals and Proposed 2014 Performance Measures

<i>Category</i>	<i>2014 Energy Trust Goal</i>	<i>Proposed 2014 Performance Measure</i>
PGE electric efficiency	37.6 aMW at cost not to exceed 2.8 cents/kWh	32.0 aMW at cost not to exceed 3.2 cents/kWh
PacifiCorp (PAC) electric efficiency	20.1 aMW at cost not to exceed 3.2 cents/kWh	17.1 aMW at cost not to exceed 3.7 cents/kWh
Northwest Natural (NWN) gas efficiency	5.33 million annual therm savings at cost not to exceed 39.7 cents/therm	4.53 million annual therm savings at cost not to exceed 45.6 cents/therm
Cascade (CNG) efficiency	0.47 million annual therm savings at cost not to exceed 45.2 cents/therm	0.40 million annual therm savings at cost not to exceed 52.0 cents/therm

Renewable Resource Development

For Energy Trust's renewable energy programs, no performance measures were set for 2012. This was due to the high level of market uncertainty for projects at that time resulting from changes to the state tax credit and because Energy Trust's programs were in transition due to legislative changes that stipulated that ETO could only fund projects less than 20 MW. During 2012 PUC Staff worked closely with Energy Trust Staff to develop a proposal for the 2013 renewable energy performance measure. The agreed upon result is a four-part measure that aligns with the four funding priorities of Energy Trust's current strategy for renewables:

- 1) Project and market development assistance
 - Report annual results including the number of projects supported, milestones met, and documentation of results from market and technology perspective. Report on specific barriers and success in reducing those barriers.¹
- 2) Standard net-metered program projects
 - Obtain at least 85 percent of installed generation goal. For 2014, Energy Trust's goal for installed generation of standard net-metered program projects is 0.82 aMW, so the proposed performance measure is 85 percent of that, or 0.70 aMW.
- 3) Non-solar custom projects
 - Set a three year rolling average of project incentive dollars divided by the total number of renewable energy certificates (RECs) delivered to Energy Trust over the term of the contracts to not exceed the PUC's agreed upon annual dollar per allocated MWh. This category includes qualifying facility projects which receive the standard avoided cost contract price from utilities as well as custom net metered projects.
- 4) Innovative and custom solar projects
 - Report sources of funding for projects and the criteria for selection.

Relative to the first priority listed above, Commission Order No. 13-070 stated:

We directed Staff to ensure that the required reporting for project and market development assistance include information about barriers to the development and the success in reducing those barriers.

¹ In Commission Order 13-070 the Commission specified that when reporting on this performance measure, Energy Trust should specifically include information about barriers to development and Energy Trust's success in reducing those barriers. This is discussed in more detail later in this memo.

Language to that effect is being added to the renewable energy performance metric. Energy Trust typically provides a complete reporting on their performance against PUC established performance measures in April of the following year as part of the annual report presentations. However, as requested by the Commission, below is an initial summary of Energy Trust's success with removing specific barriers through "project development assistance" (PDA):

- a. Barrier: Project owners do not have energy project development experience. PDA is a tool to increase developer capacity in the state. Energy Trust works with many project owners that do not have energy project development experience. To address this barrier, ETO's PDA funding requires project owners to create a detailed scope of work for their development process, meet development milestones, and make necessary adjustments to the projects as milestones are achieved. Wastewater treatment plants are a great example of this type of project. Energy Trust is able to ensure that the treatment plant properly evaluates interconnection requirements, the value of energy being produced, evaluation of technology options, capital costs, and operation and maintenance (O&M) costs.
- b. Barrier: Lack of experienced developers in the state limits projects. PDA lowers the cost of developing small scale renewable energy development in the state, attracting experienced developers from both inside and outside the state. This lowers the barrier to project development in the state. Energy Trust is currently completing funding contracts for development assistance with an out of state geothermal developer. Energy Trust's financial assistance provided the incentive to begin active development of two projects in Oregon.
- c. Barrier: Information gaps. PDA generates market intelligence. There are a lot of information gaps about technology, resource availability, and cost information in the distributed generation space which represents a barrier to development. Where possible, Energy Trust makes the results of PDA available to the public. Where private developers are concerned with project confidentiality, Energy Trust staff benefits from the results of PDA and utilize that information when working with other projects. For example, in 2013 Clean Water Services utilized the results of a PDA Energy Trust conducted with the City of Gresham in 2012 on pricing for grease trap waste as they analyzed the revenue potential from tipping fees for grease trap waste. On the private development side Energy Trust is currently reviewing a PDA proposal from a private developer that utilized a feasibility study Energy Trust co-funded in 2010. The developer received the study from the project owner.

- d. Barrier: Maintaining momentum. Projects often face changing circumstances or unanticipated challenges to their proposed project during the development process. PDA may be utilized by these projects to identify solutions or reconfigure projects to respond to a changing environment.

Relative to third renewable energy priority, non-solar customer projects, in 2013 the cap was set at \$40/allocated MWh. In Order 13-070, the Commission directed Staff to report back on whether the \$40/allocated MWh for use with the non-solar customer projects is an appropriate amount or whether it should be reduced. Staff has reviewed data provided by Energy Trust and is recommending that the cap be reduced from \$40/allocated MWh to \$29/allocated MWh based on a general review of past project incentive levels. Staff will again re-evaluate this cap when the 2015 performance measures are set.

Relative to the fourth priority item listed above, innovative and customer solar projects, in the Staff report accompanying Order 13-070 Staff makes clear that innovative and custom solar projects such as those that could be used by the utilities to meet the Solar Photovoltaic Capacity Standard² will only be funded once funding has been provided for the first three priority areas of: a) project development assistance, b) standard solar projects, such as residential net metering, and c) other non-solar custom projects. In Order 13-070 the Commission adopted Staff's proposed 2013 performance measures for Energy Trust and asked the Staff to report back on "the amount of funds projected to be provided to state mandated solar projects". Staff provided a preliminary reporting at the August 20, 2013, public meeting. Now that 2013 is complete, Staff can provide a more complete answer. In 2013 Energy Trust provided \$700,000 in incentives for two large PacifiCorp solar projects (Stone House Solar and Bevans Solar). These incentives were awarded after Energy Trust funded all other priorities and after two RFPs for projects were issued in PacifiCorp service territory. Staff was kept updated on this process and supports Energy Trust's decision to award the incentives. The \$700,000 represents 3.7 percent of Energy Trust's \$19.1 million activity budget for 2013.

In 2014 Energy Trust has no dollars allocated for additional Solar Photovoltaic Capacity Standard projects. Energy Trust has been approached by more than one developer to fund large scale solar projects in 2014. Energy Trust has told them that they do not have any budgeted funds for such projects. If Energy Trust is unable to identify non-solar projects to fund, they may consider alternative solar proposals for the second half of 2014.

² Described in Oregon Revised Statute (ORS) 757.370

Program Delivery Efficiency

PUC Staff proposes to keep the performance metric for program delivery efficiency the same in 2014 as it was in 2013. The Commission expects ETO to demonstrate program delivery efficiency by keeping its administrative and program support costs below nine percent of annual revenues.

Customer Satisfaction

PUC Staff proposes to keep the customer satisfaction performance measure the same as it was in 2013. Energy Trust should maintain a minimum of 85 percent of customers indicating they are satisfied or very satisfied with a) interaction with program representatives, and b) overall satisfaction.

Financial Integrity and Benefit/Cost Ratios

PUC Staff proposes to maintain the current performance measures for financial integrity and benefit/cost ratios as listed in Table 3 below and shown in Attachment A.

Comments of Other Stakeholders

On January 16, 2014 Staff solicited comments on these proposed performance measures from all parties in the docket. Staff received comments from PGE and PacifiCorp. Below is a summary of comments received and Staff's response to each issue raised:

1. Support changes to savings and levelized cost metric approach

Both PGE and PacifiCorp expressed support for the new approach to the 2014 savings and levelized cost performance measures being tied to a *single number* derived from utility IRPs. PacifiCorp also indicated they support performance measures expressed by utility rather than a combined electric utility level metric because of differences in opportunities and delivery costs between the utility service territories.

Staff response - Staff appreciates this support and appreciates the collaborative effort that went into developing consensus on how the new 2014 metrics would be expressed.

2. Recommendation to create an additional Total Resource Cost metric

PacifiCorp suggests adding a new levelized total resource cost (TRC) metric, expressed as \$/kWh. This would be similar to the current levelized cost metric, but would include the total cost of the measure and not just the portion of the cost paid by Energy Trust.

PacifiCorp suggested it would be helpful to compare both the current and proposed metric to the levelized costs of other resources, including generation. PacifiCorp suggests the new TRC metric could be developed this year and included in the 2015 performance metric update.

Staff response - PacifiCorp made this same suggestion last year when comments were solicited for the 2013 performance measures. Staff maintains the same position as last year and does not support a total levelized cost metric. The total resource cost test is a ratio of total benefit to total cost. Although all measures must pass the TRC (or be granted exceptions by the Commission), reporting just the cost portion of the TRC benefit to cost ratio, is not meaningful. The Energy Trust's cost of acquiring savings (i.e., levelized cost portion of the Utility Cost Test / Program Administrator Test) is meaningful in comparison to the utility's cost of acquiring other generating resources.

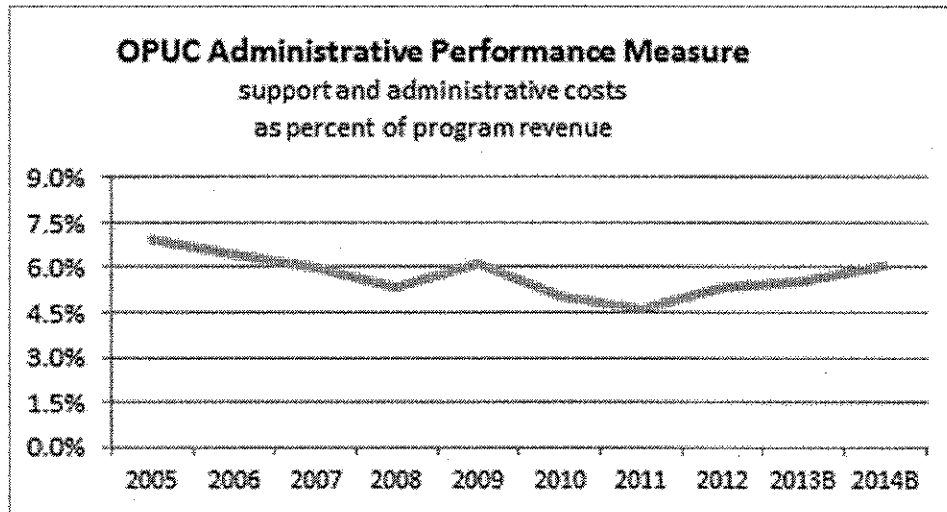
3. Recommendation to revisit nine percent Administrative and Program Support metric

PGE's comments state:

The Energy Trust, to its credit, has consistently spent a fraction of Staff's 9% goal for Administrative and Program Support expenses; the approved 2014 budget allocates about 4% of total expenditures in this area. The distance between metric and actual is so far that it may not serve Staff's purpose in providing an early indicator of a need for the OPUC to intervene.

PGE recommends that Staff move the performance metric for Administrative and Program Support closer to actual experience. Likewise, PacifiCorp recommends reviewing the metric during 2014. PacifiCorp says it does not have an alternative percentage to propose for measuring 2014 performance, but would support a collaborative effort during 2014 to determine the appropriate percentage for 2015.

Staff's response - Energy Trust's approved 2014 budget shows projected administrative and program support costs of 5.9 percent of total costs. Staff is not sure where PGE got the four percent number they cite in their comments. Energy Trust's 2013 budget contained an estimate of 5.6 percent of total costs for administration and program support, so the percent of administrative costs is projected to increase slightly in 2014 over what was projected in 2013. Energy Trust indicates that typically actual administrative costs come in lower than projected by almost a full percent. As such, it is assumed that in 2014, actual administrative costs will be below 5.9 percent. The attached graph shows historical (for years 2005-2012) and budgeted (for years 2013 and 2014) support and administrative costs as a percent of program revenue.



Staff does not recommend reducing this metric below nine percent at this time but is open to PacifiCorp's suggestion to revisit the metric in a collaborative way during 2014 and potentially adjust the metric for 2015.

4. Comment Regarding Renewable Resources Metric

PacifiCorp states, regarding Energy Trust's renewable resources metric, that the metric provides certainty to renewable developers and is a measure against which cost effectiveness may be tested. PacifiCorp supports a declining average incentive for renewable projects to ensure the most cost-effective and ready-to-develop projects are supported.

Staff response - Staff notes that, in line with PacifiCorp's recommendation, the proposed performance metric for average Energy Trust incentive divided by the number of RECs delivered to Energy Trust for non-solar custom projects, was reduced from \$40 to \$29 per allocated MWh in 2014. Staff plans to revisit this metric each year and if necessary adjust based on market conditions. Staff does not support instituting a standardized declining average incentive protocol for renewable projects at this time. The metric as it is currently formulated was first instituted in 2013. Staff prefers to continue to monitor performance against this metric and adjust if and when conditions warrant.

Summary of Proposed 2013 Performance Measures

Table 3 contains the approved 2013 performance measures adopted for the ETO compared with the proposed 2014 measures

Table 3. ETO Performance Measures comparison and proposal

Category	Previous Performance Measure	Proposed 2014 Performance Measure
Electric Energy Efficiency	<ul style="list-style-type: none"> Obtain at least 47 aMW yearly savings Levelized cost not to exceed 3.9 cents/kWh 	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> PGE: Obtain at least 32.0 aMW Levelized cost not to exceed 3.2 cents/kWh PAC: Obtain at least 17.1 aMW Levelized cost not to exceed 3.7 cents/kWh
Natural Gas Energy Efficiency	<ul style="list-style-type: none"> Obtain at least 4.6 million annual therms yearly savings Levelized cost not to exceed 57 cents/therm 	Annual utility savings and levelized cost measure: <ul style="list-style-type: none"> NWN: Obtain at least 4.53 million annual therm savings Levelized cost not to exceed 45.6 cents/therm CNG: Obtain at least 0.40 million annual therm savings Levelized cost not to exceed 52.0 cents/therm
Renewable Energy	<ul style="list-style-type: none"> For project and market development assistance, report annual results, including number of projects supported, milestones met and documentation of results from market and technology perspective Obtain at least 0.66 aMW in installed generation of net-metered standard projects including solar and small wind For non-solar custom projects, the 3-year rolling average incentive is not to exceed \$40/allocated MWh For innovative and custom solar projects, report sources of funding for projects and the selection criteria 	<ul style="list-style-type: none"> For project and market development assistance, report annual results, including number of projects supported, milestones met and documentation of results from market and technology perspective. Report on specific barriers and success in reducing those barriers Obtain at least 0.70 aMW in installed generation of net-metered standard projects including solar and small wind For non-solar custom projects, the 3-year rolling average incentive is not to exceed \$29/allocated MWh For innovative and custom solar projects, report sources of funding for projects and the selection criteria

Category	Previous Performance Measure	Proposed 2014 Performance Measure
A Financial Integrity	<ul style="list-style-type: none"> • Unmodified financial opinion 	<ul style="list-style-type: none"> • Unmodified financial opinion
Program Delivery Efficiency	<ul style="list-style-type: none"> • Administrative and program support costs must be below 9 percent of annual revenues 	<ul style="list-style-type: none"> • Administrative and program support costs must be below 9 percent of annual revenues
Customer Satisfaction	<ul style="list-style-type: none"> • Greater than 85 percent satisfaction rates for: <ul style="list-style-type: none"> • <i>Interaction with program representatives</i> • <i>Overall satisfaction</i> 	<ul style="list-style-type: none"> • Greater than 85 percent satisfaction rates for: <ul style="list-style-type: none"> • <i>Interaction with program representatives</i> • <i>Overall satisfaction</i>
Benefit/Cost Ratios	<ul style="list-style-type: none"> • Report both utility system and societal perspective annually • Report significant mid-year changes as warranted in quarterly reports. 	<ul style="list-style-type: none"> • Report both utility system and societal perspective annually • Report significant mid-year changes as warranted in quarterly reports.

PROPOSED COMMISSION MOTION:

The performance measures, as stated in Attachment A, be used in evaluating the performance of the Energy Trust of Oregon during calendar year 2014. Staff and Energy Trust work collaboratively with parties during 2014 to determine the appropriate program delivery efficiency percentage target for 2015.

Attachment A

Proposed 2014 Performance Measures for the Energy Trust of Oregon January 27, 2014

The following performance measures and targets are intended to clearly define the Commission's minimum expectation of the Energy Trust of Oregon (Trust) performance. In evaluating the Trust's performance against these standards, the Commission will consider mitigating circumstances and efforts made.

Electric Efficiency Performance Targets:

Electric efficiency performance measure targets shall be established by utility and shall be equal to 15 percent below the Energy Trust target as defined in their annual budget and action plan needed to meet utility Integrated Resource Plan (IRP) targets. For 2014 the Commission expects the Trust to obtain net electricity efficiency savings of at least 32 aMW and 17.1 aMW for PGE and PacifiCorp, respectively, inclusive of transmission and distribution (T&D) losses.¹

The electric efficiency levelized cost performance measure targets shall be set by utility as 15 percent above the Energy Trust's annual targets as defined in their yearly budget and action plan. For 2014 the Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle cost of not more than 3.2 cents per kWh for PGE and 3.7 cents per kWh for PacifiCorp.

Natural Gas Efficiency Performance Targets:

The natural gas efficiency performance measure targets shall be established by utility and shall be equal to 15 percent below the Energy Trust target gas defined in their annual budget and action plan needed to meet utility IRP targets. For 2014 the Commission expects the Trust to obtain natural gas efficiency savings of at least 4,530,000 therms for NW Natural and 400,000 therms for Cascade Natural Gas.

The natural gas efficiency levelized cost performance measure targets shall be set by utility as 15 percent above the Energy Trust's annual targets as defined in the yearly budget and action plan. For 2014 the Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle cost of not more than 45.3 cents per therm for NW Natural and not more than 52.0 cents/therm for Cascade Natural Gas.

¹ 2014 performance measures are based on T&D losses of 6 percent for industrial and 10 percent for commercial and residential.

Renewable Resource Development:

The following are performance measures for renewable resource development for calendar year 2013.

- 1) For project and market development assistance, report annual results including number of projects supported, milestones met, and documentation of results from market and technology perspective. Report on specific barriers and success in reducing those barriers.
- 2) Obtain at least 0.70 aMW in installed generation of net-metered standard program projects, including solar and small wind.
- 3) For non-solar custom projects, the three year rolling average of project incentives dollars provided divided by the total number of renewable energy certificates (RECs) delivered to Energy Trust over the term of the contracts should not exceed \$29/allocated MWh.
- 4) For innovative and custom solar projects, report sources of funding for projects and the criteria for selection.

Financial Integrity:

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

Program Delivery Efficiency:

The Commission expects the Trust to demonstrate program delivery efficiency by keeping its administrative and program support costs² below nine percent of annual revenues.

Customer Satisfaction:

Based on Fast Feedback results, over the full calendar year, for applicable sectors and programs, Energy Trust should maintain a minimum of 85 percent of customers indicating they are satisfied or very satisfied with:

- Interaction with program representatives
- Overall satisfaction

² For the purpose of these performance measures, costs associated with program management, program delivery, program incentives, program payroll and related expenses, outsourced services, planning and evaluation services, customer service management and trade ally network management are direct program costs and *not* program support costs that are included in the nine percent.

Benefit/Cost Ratios:

The Commission expects the Trust to report the benefit/cost ratio for its conservation acquisition programs in its annual report based on the utility system perspective and societal perspective. The Commission expects the Trust to report significant mid-year changes in benefit/cost performance as necessary in its quarterly reports.