

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 26, 2013

REGULAR CONSENT EFFECTIVE DATE _____ N/A

DATE: February 19, 2013

TO: Public Utility Commission

FROM: Juliet Johnson



THROUGH: Jason Eisdorfer and Maury Galbraith

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

STAFF RECOMMENDATION:

Staff recommends the Commission adopt the proposed performance measures, as stated in Attachment A, in its evaluation of the performance of the Energy Trust of Oregon for 2013.

DISCUSSION:

The purpose of the performance measures for the Energy Trust of Oregon is to clearly define the Commission's minimum expectations. Performance measures are not meant to be targets or goals. Rather performance measures 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). In page 3 of the grant agreement it states:

The Energy Trust and the PUC recognize the need for having valid and quantifiable performance measures that clearly define the PUC's expectation of the Energy Trust's performance. The performance measures are developed to clarify minimum expectations for Energy Trust on an ongoing basis and may be adjusted from time-to-time. The Energy Trust will regularly report to the PUC, comparing actual performance to the PUC established performance measures. Should the Energy Trust fail to meet the performance measures adopted by the PUC, the PUC, at its discretion, may issue a Notice of Concern. In choosing to issue such a Notice of Concern, the PUC will take into account reasonable causal factors and any mitigating actions taken by the Energy Trust.

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) and in 2012 (Order 12-094).

Methodology

Historically, the PUC established Energy Trust performance measures through negotiations with Energy Trust, the utilities, and other stakeholders. These negotiations were time consuming and performance measures essentially needed to be recreated from scratch each time they were updated. In Order 12-094 the Commission approved a more systematic approach to developing ETO performance measures. Staff and Energy Trust established a formula that ties performance measures to Energy Trust's own goals, referencing in particular the utility Integrated Resource Plan (IRP) targets for energy efficiency. Staff proposes to continue this approach for 2013 and going forward. Energy Trust's energy efficiency performance measures will update yearly based on the following:

- The electric and gas annual *savings* performance measures are equal to the Energy Trust's conservative goal.¹
- The *levelized cost* performance measures are 10% higher than Energy Trust's conservative goal.²

Electric and Natural Gas Efficiency Performance Targets

A substantial amount of work and back and forth goes on each year between the utilities and Energy Trust to develop yearly energy efficiency targets that form the basis of

¹ Electric savings are net and inclusive of transmission and distribution (T&D) losses of 6 percent for industrial and 10 percent for commercial and residential. A discount rate of 5.2 percent is used by the ETO in the annual IRP / conservation targets uses to calculate performance measures.

² Represents average levelized life-cycle cost

Energy Trust's budget and action plan. Rate impacts to customers, IRP targets, maturity of programs, and cost and availability of savings in each sector are taken into account. Energy Trust sets conservative and stretch goals, a 15% range of savings and generation, as part of its annual budget and action plans. These goals are tied directly to utility IRP targets. Under normal circumstances, the Energy Trust aligns utility IRP targets with its conservative goals, the lower end of the range, to provide utilities a high degree of certainty that IRP targets will be met. In 2013, there are slight differences between the electric and gas efficiency conservative goals and IRP targets, as shown in Energy Trust's Board Approved Budget goals and utility IRP targets in Table 1. This is due to the fact that Energy Trust goals are set annually and individual utility IRP targets are reviewed on a two year cycle.

Table 1. ETO 2012-2013 Efficiency Goals and IRP Targets

		Stretch Goal	Conservative Goal	IRP Target
2012 Electric	Savings (aMW)	48.8	41.45	41.44
	Levelized Cost (\$/kWh)	\$0.034	\$0.040	\$0.040
2013 Electric	Savings (aMW)	55.8	47.4	45.9
	Levelized Cost (\$/kWh)	\$0.030	\$0.035	\$0.037
2012 Gas	Savings (MM therms)	5.68	4.83	4.59
	Levelized Cost (\$/therm)	\$0.41	\$0.48	\$0.50
2013 Gas	Savings (MM therms)	5.45	4.63	4.00
	Levelized Cost (\$/therm)	\$0.44	\$0.51	\$0.60

Based on the automatic update methodology described above, for 2013, Staff recommends following efficiency performance measures:

Table 2. Proposed electric and gas efficiency performance measures

	Savings	Levelized Cost
Electric	47 aMW	3.9 cents / kWh
Gas	4.6 MM therms	57 cents / annual therm

Renewable Resource Development

For Energy Trust's renewable energy programs, no performance measures were set for 2012. During 2012 PUC Staff worked closely with Energy Trust Staff to discuss the funding priority for dollars delivered to the Energy Trust from SB1149 public purpose dollars. Staff and Energy Trust agreed on the following funding priorities for use of the SB1149 renewable dollars:

- 1) Fund a project development assistance program that provides financial and technical support for projects during the development stage as well as targeted market research aimed at reducing barriers to development.
- 2) Fund above market costs associated net-metered standard program projects (solar and small wind) for both Portland General Electric (PGE) and PacifiCorp that assures an active program in both service territories.
- 3) Fund above market costs associated with non-solar custom projects, including net-metered, qualifying facilities (QF) under Public Utility Regulatory Policy Act (PURPA), onsite generation, and other negotiated projects, as selected through an established/approved review process.
- 4) Fund above market costs associated with innovative and custom solar projects (including state mandated projects, such as those required to meet solar photovoltaic capacity standard³) as funds are available.

Staff and Energy Trust agreed upon the following four-part performance measure that aligns with the four funding priorities:

- 1) Project and market development assistance
 - Report annual results including number of projects supported, milestones met, and documentation of results from market and technology perspective
- 2) Standard net-metered program projects
 - Obtain at least 90% of the conservative installed generation goal. For 2013, Energy Trust's conservative goal for installed generation of standard net-metered program projects is 0.73 aMW, so the proposed performance measure is 90% of that, or 0.66 aMW.
- 3) Non-solar custom projects

³ Described in Oregon Revised Statute (ORS) 757.370

- Set a 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 to not exceed \$40/allocated MWh.⁴
- 4) Innovative and custom solar projects.
- Report sources of funding for projects and the criteria for selection.

Program Delivery Efficiency

PUC Staff proposes to keep the performance metric for program delivery the same in 2013 as it was for 2012, as listed in Attachment A.

Customer Satisfaction

PUC Staff proposes to keep the customer satisfaction performance measure the same as it was in 2012, as listed in Attachment A.

Financial Integrity and Benefit/Cost Ratios

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

Summary of Proposed 2013 Performance Measures

PUC Staff recommends that Energy Trust's energy efficiency performance measures be updated pursuant to the methodology agreed to in Commission Order 12-094. New renewable energy performance measures are being recommended for 2013. These will be revisited for 2014. Table 3 contains the approved 2012 performance measures adopted for the Energy Trust compared with the proposed 2013 measures. Attachment A contains the complete proposed 2013 Energy Trust performance measures.

Table 3. ETO Performance Measures comparison and proposal

Category	Previous Performance Measure	Proposed 2013 Performance Measure
Energy Efficiency	<ul style="list-style-type: none">• Obtain at least 41 aMW computed on a three-year	<ul style="list-style-type: none">• Obtain at least 47 aMW yearly savings

⁴ \$40/allocated MWh was selected as a ceiling based on a general review of past project incentive levels per allocated MWh and general knowledge of current REC market prices. The ceiling will be re-evaluated when performance measures are established for 2014.

	<ul style="list-style-type: none"> rolling average Levelized cost not to exceed 4.4 cents/kWh 	<ul style="list-style-type: none"> Levelized cost not to exceed 3.9 cents/kWh
Natural Gas	<ul style="list-style-type: none"> Obtain at least 4.5 million annual therms computed on a three-year rolling average Levelized cost not to exceed 52 cents/therm 	<ul style="list-style-type: none"> Obtain at least 4.6 million annual therms yearly savings Levelized cost not to exceed 57 cents/annual therm
Renewable Energy	<ul style="list-style-type: none"> No renewable energy metric set in 2012 	<ul style="list-style-type: none"> M1 – Report develop assistance results M2- Obtain at least 0.66 aMW yearly savings M3 – 3 yr. rolling avg. incentive not in excess of \$40/allocated MWh M4 – Report funding and criteria for selection
Program Delivery Efficiency	<ul style="list-style-type: none"> Administrative and program support costs below 9% of annual revenues 	<ul style="list-style-type: none"> Administrative and program support costs below 9% of annual revenues
Customer Satisfaction	<ul style="list-style-type: none"> Greater than 85% 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% 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.

Party Comments

PUC staff solicited comments from stakeholders and received comments back from PacifiCorp and PGE. Both companies were appreciative of the opportunity to provide comments. Below is a summary of issues and Staff's response:

Issue #1: PacifiCorp recommends electric utility targets be disaggregated into PacifiCorp and PGE components and that performance against each be evaluated.

Staff response #1: Energy Trust tracks and reports performance and targets by utility. However, PUC performance measures are meant to be very simple and high level

indicators of overall performance. For that reason Staff does not believe it is necessary to separate performance measures by utility.

Issue #2: PacifiCorp recommends the levelized cost metric be set at 15% above the conservative target, rather than 10% as being proposed by Staff to better align with the annual budgeting process where utilities fund to the stretch goal.

Staff response #2: Levelized cost is a ratio of savings to cost. As opposed to savings targets, with levelized cost, a lower number is "better". Staff supports the levelized cost metric of 10% *above* the conservative goal. If Energy Trust met stretch goal levelized cost targets, the levelized cost would be 15% *below* the conservative target, not 15% *above*. The 10% above conservative levelized cost target is more conservative than 15% and Staff believes is an appropriate target and early warning indicator.

Issue #3: The current levelized cost metric is based on the money that Energy Trust pays for savings, not the total cost of the measure. In this way it is akin to the utility cost test/program administrator (UCT/PA) levelized cost. PacifiCorp recommends in the future looking at reporting a levelized cost metric based on the total cost of the measure, and not just the utility/Energy Trust portion of the cost. This would align with the total resource cost (TRC) levelized cost. PacifiCorp notes that a total cost metric would align better with the fact that energy efficiency resources in Oregon as evaluated on a total resource cost basis.

Staff response #3: Staff does not support reporting 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. However, Energy Trust's cost of acquiring savings (levelized cost portion of the UCT/PA) is meaningful in comparison to the cost of acquiring other generating resources.

Issue #4: PacifiCorp points out that House Bill 3691 in 2010 clarified that ETO may fund utility-scale solar projects of 500 kilowatt to 5 megawatt capacity. Therefore, they note that funding these projects is an appropriate priority for renewable energy funding. They indicate it may be helpful to provide more guidance regarding what "as available" means when Staff says "Fund above market costs associated with innovative and custom solar projects...as funds are available."

Staff response #4: Staff agrees that it is appropriate for Energy Trust to fund utility-scale solar projects that fit within the criteria of House Bill 3691. However, Staff also notes that utilities are subject to renewable portfolio standards and solar capacity standards through existing Oregon Law, so in a sense, projects to meet these requirements are obliged to happen with or without Energy Trust incentives. To Staff,

“as available” means that innovative and customer solar projects are part of an integrated portfolio of project types.

Issue #5: PacifiCorp suggests that Energy Trust hold off on increasing funding for early project assistance for renewable energy projects in their service territory due to a number of factors.⁵ They suggest a more prudent course would be first running a pilot of increasing funding for early project assistance in PGE’s service territory in 2013 to test the concept and determine projected project default rates before considering a broader application.

Staff response #5: Staff supports Energy Trust providing early project assistance. Staff sees this as an important market gap that Energy Trust can fill with the potential to leverage substantial benefits. Staff also sees early project assistance as something that will continue to develop over time, with results potentially not being clearly evident after one or two years. Staff recommends moving forward with the proposed performance measure related to early project assistance. Staff understands PacifiCorp’s position and recommends that progress toward goals for early project assistance be taken up at regular Renewable Advisory Committee (RAC) meetings going forward.

Issue #6: PacifiCorp urges Energy Trust to consider early project assistance dollars in the total calculation of “above-market” costs so that the Energy Trust will receive a higher proportion of renewable energy credits from project utilizing these funds.

Staff response #6: Staff understands that, for projects which receive early assistance dollars that move to completion, early assistance dollars are included in the above market cost calculations.

Issue #7: PacifiCorp suggests various changes to Energy Trust’s budget segmenting relative to renewable energy. They also suggest Energy Trust prioritize projects that are located in the utility’s service territory for maximum benefit of public purpose dollars in their own communities.

Staff response #7: Staff supports Energy Trust’s current budget categories. Staff suggests PacifiCorp bring these issue up at a RAC meeting for discussion with Energy Trust and stakeholders. Relative to the issue of prioritizing projects within utility service territory, Staff is aware of this issue having been discussed at length in previous RAC

⁵ Reasons cited by PacifiCorp include: 1) PacifiCorp’s budget not having much headroom and competition for dollars is greater than in the past, 2) budgeting more for early project assistance is a new concept for which it is unclear whether there is a demand, and 3) the success rate of projects previously utilizing early project assistance has not been provided.

meetings. Staff understands that where two projects are similar, Energy Trust gives preference to projects located within utility service territory.

Issue #8: PGE notes that as data sharing rules between utilities and Energy Trust are fully implemented, Energy Trust will have more opportunities to do marketing on its own. PGE requests that Energy Trust measure the costs per customer acquired for mass marketing efforts it undertakes, with an eye to using the most cost-effective channels.

Staff response #8: Staff recommends PGE take this issue up with Energy Trust. PUC performance measures are meant to be high level indicators not tools for managing specific nuances of program offerings or delivery.

Issue #9: PGE recommends a 2014 performance measure be added to the ETO report for the cost per kW of installed renewables.

Staff response #9: Staff does not support a cost per kW metric. In 2013 a new metric was added for renewable energy that is cost per Energy Trust allocated kWh. To Staff, this is more valuable than a straight cost/kW metric, particularly for qualifying facilities (QFs) under PURPA, where avoided cost energy payments are required by federal law. Energy Trust is paying for and receiving benefit for only the portion of the above market cost their incentives cover and therefore, that is what the new cost per kWh is based upon.

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 2013.

Attachment A

Proposed 2013 Performance Measures for the Energy Trust of Oregon February 19, 2013

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

Savings targets for energy efficiency programs are set at an aggregate level rather than at a sector level to allow the Trust flexibility to pursue programs in different sectors as market forces and technological advances dictate.

Electric Efficiency Performance Targets:

The electric efficiency performance measure target shall be the same as the Energy Trust's combined electric conservative goal in their annual budget and action plan needed to meet utility Integrated Resource Plan (IRP) targets. For 2013, the Commission expects the Trust to obtain electricity efficiency savings of at least 47 aMW net, inclusive of transmission and distribution (T&D) losses.¹

The electric efficiency levelized cost performance measure target shall be 10% above the Energy Trust's annual conservative levelized cost goal in their yearly budget and action plan. For 2013, the Commission expects the Trust to obtain electricity efficiency savings at an average levelized life-cycle cost of not more than 3.9 cents per kWh.

Natural Gas Efficiency Performance Targets:

The natural gas efficiency performance measure target shall be the same as the Energy Trust's combined natural gas conservative goal in their annual budget and action plan needed to meet utility IRP targets. For 2013, the Commission expects the Trust to obtain natural gas efficiency savings of at least 4,600,000 therms.

The natural gas efficiency levelized cost performance measure target shall be 10% above the Energy Trust's annual conservative levelized cost goal in the yearly budget and action plan. For 2013, the Commission expects the Trust to obtain natural gas efficiency savings at an average levelized life-cycle cost of not more than 57 cents per therm.

¹ 2013 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.
- 2) Obtain at least 0.66 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 \$40/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 9 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 9 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.