STAFF MEMO
Energy Trust Draft 2012 Budget and Draft 2012-2013 Action Plan
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Staff has reviewed the Energy Trust of Oregon's (ETO) Draft 2012 Budget and Draft 2012-2013 Work Plan. Staff recognizes conditions in 2012 are less certain than previous years due to the sluggish economy, changes to state tax credits and pending changes to codes and standards. Staff supports the ETOs approach for 2012 of providing some mitigation to partially close the gap created by changes to state tax credits.

Staff reviewed the budget and action plan through the lenses of providing value to ratepayers, keeping administrative costs low, justification for new positions, meeting PUC performance measures, and the prudence of new initiatives. Overall, Staff supports the draft budget subject to the following conditions:

- We cannot support the new Market Transformation Project Manager position now without more information about the need for the position and the additional benefits it will provide to Oregon ratepayers.
- The Trust should aim to limit carryover to no more than 5% of revenues by utility.
- Once the Commission approves new renewable energy performance measures in the spring of 2012, the ETO's renewables budget and allocation should be broadly revisited.
- ETO shall continue to provide regular updates on the budget, schedule and staffing support required for the Integrated Solutions Project. Once the new system is in place, the ETO should report back on specific ratepayer benefits being realized.

Below is a summary of staff's analysis each category.

PUC Performance Measures

Based on the ETO's budget and projections, ETO should meet PUC performance measures for total electric and natural gas savings, levelized costs of natural gas savings, and administration and program support costs. The ETO may not meet performance measures for levelized costs of electric savings and total renewable energy. Staff understands levelized costs have gone up due to changes to codes and standards and transitioning to harder to access savings. Changes to state tax credits has created uncertainty about how much renewable energy procurement can be expected in 2012. These are independent of ETO's budget and so are not addressed in Staff's

recommendations. Staff will work with the Trust and take these circumstances into account in developing new benchmarks early in 2012.

Administration costs are up 32% and outreach costs up 53% in 2012.[1] Even with these increases, administrative costs represent only 5.8% of annual revenue, well below the PUC benchmark of 11%. Drivers for increasing administrative costs are succession planning for transitions in key positions, developing pathways for development of staff, and streamlining processes that will increase efficiency and program delivery down the road. Staff applauds the Trust for keeping administration costs so low, particularly in a down economy where more savings are coming from low and no cost behavioral and O&M measures that require more administrative and staff time.

Staffing

The ETO strategic plan projects 60% growth in annual electric savings and 80% growth in annual natural gas therm savings over the next three years. ETO proposes to add a total of ten new staff positions in 2012; five contractor positions being transitioned to staff (communications manager, marketing manager, legal assistant/paralegal, government sector account manager, web coordinator), and five new staff positions (industrial program manager, project manager for market transformation, programmer/developer, finance operations analyst, trade ally/training program manager). Staff supports the transition of contract staff to inhouse staff to address concerns brought up in a 2011 State Employment Department audit.

Staff has evaluated the justification for the five new positions proposed and is supportive of all except the Market Transformation Project Manager. Staff cannot support this position without more information about what it does and specifically what it will accomplish that is not being accomplished now, through NEEA, existing ETO staff or existing Program Development Contractors.

Process Improvements

Staff understands that ETO's major information system overhaul, called the Integrated Solutions Project (ISP) has expanded in size and cost, been divided into two phases and the completion date for Phase I pushed to mid to late 2012. Staff recognizes the importance of informational management in ETO's business model and the uniqueness of ETO's operations and computer needs. Staff recognizes that in order for the ISP to be successful, significant ETO staff time will be required. ETO should continue to provide regular updates on the budget, schedule, and staffing support required for the Integrated Solutions Project and once the new system is operational should report back on how the new system is benefiting ratepayers.

[1] Electric and gas efficiency budgets are up 21%, renewables budget is up 28% based on the Draft Budget and Action Plan

Renewable Energy

Staff generally supports the Trust's budget, strategy and work plan for renewables in 2012-2013. In early 2012, PUC Staff will be reworking ETO's performance measures for renewables beyond the current average megawatts of generation. PUC staff will work with ETO staff on the new performance measures. Once new performance measures are in place, ETO and PUC staff should broadly revisit the renewable program budget and allocation based on the revised targets.

Carryover

Staff is interested in as much money as possible going out the door each year to achieve energy efficiency savings and renewable generation for ratepayers. Based on an analysis of ETO's budget, carryover in 2011 has been reduced from what it was in 2010.

The following percent of energy efficiency revenues will be carried over into 2012[2]:

- PGE = 15%
- PacifiCorp = 2%
- NWN Industrial = 21%
- NW Natural = 22%
- Cascade = 2%

The following percent of renewable funds will be carried over to 2012[3]:

- PGE = 27%
- PacifiCorp = 3%

For 2012 energy efficiency PGE and NW Natural's carryover should be reduced to less than 5% of total revenues. For renewables, PGE's carryover, in terms of the activity budget, should also be reduced to less than 5%. If carryover cannot be reduced to less than 5%, justification should be provided in next year's budget submittal.

Summary

Staff has reviewed and supports the Energy Trust's 2012 budget and 2012 and 2013 work plan subject to the conditions described above. Staff encourages the Trust to continue to remain flexible and work with interested parties to attain the greatest savings and renewable energy development during these uncertain and transitional times.

[2] This total carryover to 2012 divided by total revenues collected in 2011 and plus funds carried over from 2010

[3] This is the total uncommitted funds carrying over to 2012 divided by total revenues coming into the renewables program in 2011 plus unpaid carryover funds from 2010