

Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge

Final Report

ECONorthwest

ECONOMICS • FINANCE • PLANNING

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Acknowledgements

This report was prepared by ECONorthwest's Portland office in response to ORS 757.617(b) that requires an independent review of the Public Purpose Charge (PPC) established as part of SB 1149. The report includes policy recommendations to the Legislature for modifications to the PPC requirements under ORS 757.612. ECONorthwest was selected to conduct this review under a competitive bid administered jointly by the Oregon Department of Energy and the Oregon Public Utility Commission. However, ECONorthwest's work was conducted independently of these agencies and the views and recommendations contained herein are those of ECONorthwest. We acknowledge that this work does not necessarily reflect the views of the two administrative agencies and/or any participant in our survey. Dr. Stephen Grover was the project manager for the analysis and primary author of this report. Questions regarding the report should be directed to him by e-mail at grover@portland.econnw.com or by phone at (503) 222-6060.

EXECUTIVE SUMMARY

In July 1999, Senate Bill 1149 (SB 1149) was enacted to introduce competition into Oregon's electricity markets within the Portland General Electric (PGE) and PacifiCorp service territories¹. As part of SB 1149, these utilities were required to reserve 3 percent of their retail electricity sales beginning in March 2002. This public purpose charge is used to fund energy conservation and renewable energy programs and to help provide weatherization and other energy assistance to low-income households and public schools in Oregon.

Oregon has a 30-year history of using ratepayer funding for conservation and renewable programs prior to SB 1149. In the prior system, ratepayer funds were used directly by utilities to provide incentives for conservation and renewable technologies. With the current system under SB 1149, programs are still funded by ratepayers (through the public purpose charge) but responsibility for running these programs has been removed from the utilities and given to several different agencies:

- **Energy Trust of Oregon, Inc.** The non-profit Energy Trust began administering funds in March 2002 and seeks to develop and implement programs that promote energy conservation and development of renewable energy resources within Oregon. The Energy Trust receives 73.8 percent of the available public purpose charge funds; 56.7 percent is dedicated to conservation programs and 17.1 percent is dedicated for renewable energy projects.
- **Education Service Districts.** Oregon's Education Service Districts receive 10 percent of public purpose charge funds to improve energy efficiency and purchase renewable energy in individual schools.
- **Oregon Housing and Community Services.** Oregon Housing and Community Services (OHCS) receives and administers public purpose charge funds for low-income housing programs. 4.5 percent of the public purpose charge funds are dedicated to low-income housing development projects; these projects involve construction of new housing or rehabilitation of existing housing for low-income families through the OHCS Housing Trust Fund. OHCS operates two weatherization programs, and an additional 11.7 percent of total purpose charge funds collected is allocated for low-income weatherization. One program provides home weatherization (for single- and multi-family, owner occupied, and rental housing) and the other provides for weatherization of affordable multi-family rental housing through the OHCS Housing Division.

In addition to projects conducted by these agencies, large commercial and industrial customers can implement their own energy conservation or renewable energy projects. These "self-direct" customers can then deduct the cost of projects from the conservation and renewable resource development portion of their public purpose charge obligation to utilities.

This report has been written to fulfill the requirement in ORS 757.617(b) that states:

¹ SB 1149 is codified in ORS 757.600, et. seq. ORS 757.612 specifically addresses the public purpose charge.

The commission and the department jointly shall select an independent non-governmental entity to prepare a report to the Legislative Assembly describing proposed modifications to the public purpose requirements undertaken pursuant to ORS 757.612.

ECONorthwest was selected in March 2006 by the Oregon Department of Energy (ODOE) and the Oregon Public Utility Commission (OPUC) through a competitive solicitation process to produce this report. In addition to its experience within Oregon, ECONorthwest has been extensively involved in projects in other regions where conservation and renewable energy programs are funded through a public purpose charge. ECONorthwest is currently evaluating several commercial and residential energy conservation programs for the State of California, which are funded by a public purpose charge. ECONorthwest is also assisting the New York State Energy Research and Development Authority (NYSERDA) with the evaluation of its conservation and renewable energy programs. This has been a multi-year evaluation covering 41 programs that are funded annually with over \$100 million in public purpose funds. In California prior to deregulation, ECONorthwest was hired by the California Public Utilities Commission's Office of Ratepayer Advocates to audit and verify all the evaluation work conducted for the investor-owned utilities. This verification involved the review of energy savings estimates for all conservations program that were used to support earnings claims totaling over \$100 million annually during peak years. ECONorthwest was hired to fill a similar audit role and verify savings claims for Enbridge Consumers Gas and Union Gas, the two largest gas utilities in Ontario, Canada. In addition to conservation, ECONorthwest has also researched renewable energy issues throughout the United States to determine market potential and economic impacts for various renewable technologies. Recent renewable energy projects include conducting nationwide market potential studies for commercial solar technologies and small wind applications for the National Renewable Energy Laboratory.

The primary source of information for this report was interviews with the various agencies and stakeholder groups involved with the current public purpose charge system. These interviews ranged from short phone conversations to longer in-depth interviews that lasted up to an hour. Using the interview results and our experience with similar conservation and renewable energy programs in other regions, this report provides policy-level recommendations that we believe will improve the overall effectiveness of Oregon's existing public purpose charge system. The focus of this study is to examine structural issues such as the amount of the public purpose charge, the duration of the program, and the allocation of funds across agencies.

It is also important to note that the recommendations presented in this report focus only on areas where *changes* to the current system are needed. This report does not offer "stay-the-course" recommendations for those areas where we believe no change is needed. This report also does not address how the funds have been spent or the amount of savings achieved. These issues will be addressed in a separate report that will be produced by ECONorthwest for the Legislature on January 1, 2007.

Finally, this study did not examine how well the individual conservation and renewable energy programs are being run by agencies receiving public purpose funds. To address these issues adequately, a separate process evaluation study needs to be conducted for each of the individual programs, which is beyond the scope and resources allocated for this report.

The following questions summarize the proposed recommendations contained in this report.

Should the public purpose rate be changed? Yes, the rate should be increased from 3 percent to 5 percent of retail electricity sales annually. Both the Northwest Power and Conservation Council (Council) and Energy Trust of Oregon (Energy Trust) estimate that there is significantly more cost-effective conservation potential that can be obtained in the immediate future. The Council also shows that there are added benefits in lower long-run costs and reduced system risk by acquiring conservation resources sooner rather than later. Increasing funding for Energy Trust would allow these resources to be pursued more aggressively.

Should the current sunset date of 2012 be changed? Yes, extend the sunset clause by 10 years to 2022. This will help reduce the perceived risk for efficiency and renewable investments by insuring a stable source of funding. A longer timeline will also help foster a more sustainable conservation and renewable industry within Oregon.

How often should the public purpose rate be changed? The OPUC should regularly assess the need to change the public purpose rate based on estimates of energy conservation potential. Changes to the public purpose rate should be limited to approximately once every 5 years (except in extreme circumstances) to coincide with forecasts of conservation potential included in the utility Integrated Resource Plans (IRPs) and the updated Power Plans produced by the Northwest Power and Conservation Council.

Should the distribution of funds be changed across agencies? Yes, the Legislature should consider eliminating public purpose funding of the Housing Trust Fund. We believe that ratepayer funds should be used only for projects that are directly related to energy conservation and renewable energy programs. While there are some energy benefits to the Housing Trust Fund projects, energy conservation is not the primary purpose of these projects and consequently these projects should be funded from sources other than ratepayer funds. This will help make the entire public purpose funding system more consistent so that it is only funding energy-related activities.

Should the current definition of eligible renewable energy resources be expanded? Yes, Energy Trust should be allowed to provide incentives for the above market costs of “direct use” renewable resources, which have significant potential in the region. Direct use renewable resources include solar water heat, passive heating, cooling and ventilation, and direct use of geothermal heat. Currently these are considered as energy efficiency measures and consequently are eligible for less funding.

Should public purpose funds be used for utility-scale renewable energy projects if an RPS is passed in Oregon? No, if an RPS is enacted in Oregon then the responsibility for pursuing utility-scale projects should be transferred from Energy Trust to the utilities. Energy Trust should continue to provide incentives for other non-utility scale renewable energy resources even with an RPS.

Should the restriction that 80 percent of public purpose funds be spent within the same utility district be continued? Exceptions to this restriction should be allowed so that Energy Trust can pursue the very lowest cost conservation resources. The current legislation requires

that 80 percent of the public purpose funds be spent within the same utility service territory from which they were collected. This helps ensure that the ratepayers in each utility benefit from the funds they contribute. However, if the goal of the system is to achieve energy conservation at the lowest price, then Energy Trust should not be restricted to spend funds in the same utility territory from which they were collected as this may increase overall conservation costs. That is, this restriction may limit the types of conservation projects that Energy Trust can pursue and some lower cost conservation opportunities may be lost.

To address this issue while maintaining an equitable level of spending across service territories, we recommend that this restriction be modified to a performance requirement of Energy Trust (monitored by the OPUC) rather than a legislative requirement, with the goal that the 80 percent allocation be maintained on average over a 3-year period (rather than annually). This will allow for exceptions to be made by Energy Trust to take advantage of lower cost conservation opportunities as they become available.

How should the public purpose fund spending be evaluated and verified? A consistent and rigorous evaluation and verification method should be developed for all of the programs funded by public purpose funds. Evaluation of these programs should be overseen by the OPUC and/or the ODOE to ensure consistency and enable comparisons across programs. Currently, different evaluation methods are used for different programs and as a consequence direct comparison of cost effectiveness across agencies is not possible. A more consistent evaluation requirement will ensure that energy savings estimates are rigorously determined and allow policy makers to make comparisons across programs and agencies.

1. INTRODUCTION

PUBLIC PURPOSE CHARGE OVERVIEW

In July 1999, Senate Bill 1149 (SB 1149) was enacted to introduce competition into Oregon's electricity markets within the Portland General Electric (PGE) and PacifiCorp service territories². As part of SB 1149, these utilities were required to reserve 3 percent of their retail electricity sales beginning in March 2002.³ This public purpose charge is used to fund energy conservation and renewable energy programs and to help provide weatherization and other energy assistance to low-income households and public schools in Oregon.

Oregon has a 30-year history of using ratepayer funding for conservation and renewable programs prior to SB 1149. In the prior system, ratepayer funds were used directly by utilities to provide incentives for conservation and renewable technologies. With the current system, programs are still funded by ratepayers (through the public purpose charge) but responsibility for running these programs has been removed from the utilities and given to several different agencies:

- **Energy Trust of Oregon, Inc.** The non-profit Energy Trust began administering funds in March 2002 and seeks to develop and implement programs that promote energy conservation and development of renewable energy resources within Oregon. The Energy Trust receives 73.8 percent of the available public purpose charge funds; 56.7 percent is dedicated to conservation programs and 17.1 percent is dedicated for renewable energy projects.
- **Education Service Districts.** Oregon's Education Service Districts receive 10 percent of public purpose charge funds to improve energy efficiency and purchase renewable energy in individual schools.
- **Oregon Housing and Community Services.** Oregon Housing and Community Services (OHCS) receives and administers public purpose charge funds for low-income housing programs. 4.5 percent of the public purpose charge funds are dedicated to low-income housing development projects; these projects involve construction of new housing or rehabilitation of existing housing for low-income families through the OHCS Housing Trust Fund. OHCS operates two weatherization programs, and an additional 11.7 percent of total purpose charge funds collected is allocated for low-income weatherization. One program provides home weatherization (for single- and multi-family, owner occupied, and rental housing) and the other provides for weatherization of affordable multi-family rental housing through the OHCS Housing Division.

In addition to projects conducted by these agencies, large commercial and industrial customers can implement their own energy conservation or renewable energy projects. These "self-direct"

² SB 1149 is codified in ORS 757.600, et. seq. ORS 757.612 specifically addresses the public purpose charge.

³ HB 3633 delayed the start of the program by 5 months.

customers can then deduct the cost of projects from the conservation and renewable resource development portion of their public purpose charge obligation to utilities.

REPORT PURPOSE

This report has been written to fulfill the requirement from ORS 757.617(b) that states:

The commission and the department jointly shall select an independent non-governmental entity to prepare a report to the Legislative Assembly describing proposed modifications to the public purpose requirements undertaken pursuant to ORS 757.612.

ECONorthwest was selected in March 2006 by the Oregon Department of Energy (ODOE) and the Oregon Public Utility Commission (OPUC) through a competitive solicitation process to produce this report. In addition to its experience within Oregon, ECONorthwest has been extensively involved in projects in other regions where conservation and renewable energy programs are funded through a public purpose charge. ECONorthwest is currently evaluating several commercial and residential energy conservation programs for the State of California, which are funded by a public purpose charge. ECONorthwest is also assisting the New York State Energy Research and Development Authority (NYSERDA) with the evaluation of its conservation and renewable energy programs. This has been a multi-year evaluation covering 41 programs that are funded annually with over \$100 million in public purpose funds. In California prior to deregulation, ECONorthwest was hired by the California Public Utilities Commission's Office of Ratepayer Advocates to audit and verify all the evaluation work conducted for the investor-owned utilities. This verification involved the review of energy savings estimates for all conservations program that were used to support earnings claims totaling over \$100 million annually during peak years. ECONorthwest was hired to fill a similar audit role and verify savings claims for Enbridge Consumers Gas and Union Gas, the two largest gas utilities in Ontario, Canada. In addition to conservation, ECONorthwest has also researched renewable energy issues throughout the United States to determine market potential and economic impacts for various renewable technologies. Recent renewable energy projects include conducting nationwide market potential studies for commercial solar technologies and small wind applications for the National Renewable Energy Laboratory.

The primary source of information for this report was interviews with the various agencies and stakeholder groups involved with the current public purpose charge system. We also relied on secondary literature sources and ECONorthwest's experience with conservation and renewables programs in other states for developing our final recommendations. This report does not address how the funds have been spent or the amount of savings achieved. These issues will be addressed in a separate report that will be produced by ECONorthwest for the Legislature on January 1, 2007.

This report provides policy-level recommendations that we believe will improve the overall effectiveness of Oregon's existing public purpose charge system. The focus of this study is to examine structural issues such as the amount of the public purpose charge, the duration of the program, and the allocation of funds across agencies. It is also important to note that the recommendations presented in this report focus only on areas where *changes* to the current system are needed. This report does not offer "stay-the-course" recommendations for those areas where we believe no change is needed.

Finally, this study did not examine how well the individual conservation and renewable energy programs are being run by agencies receiving public purpose funds. To address these issues adequately, a separate process evaluation study needs to be conducted for each of the individual programs, which is beyond the scope and resources allocated for this report.

The remainder of this report is organized as follows. The next section provides a description of the agencies and stakeholder groups interviewed for this report. Following this are our recommendations for modifying the current public purpose charge system. Each recommendation includes a discussion of why we believe the recommended change will be beneficial to Oregon. Appendix A includes additional pros and cons for each recommendation that are based on the feedback we received during the interviews. This appendix also includes some alternative recommendations that were suggested during the interviews but did not make the final list of recommendations. Appendix B contains the interview guide used during the interviews with the various agencies and stakeholders included in this report. Appendix C contains written comments provided by agencies and stakeholder groups on the draft version of this report.⁴

RESEARCH METHODS

To develop the recommendations presented in this report, ECONorthwest conducted interviews with those involved with Oregon's current public purpose charge system to elicit suggestions for modifications. These interviews ranged from very short phone conversations to longer in-depth interviews that lasted up to an hour. Interviews were conducted with people from the following organizations:

- Energy Trust
- Oregon Department of Energy
- Oregon Public Utility Commission
- Oregon Housing and Community Services
- Portland General Electric
- PacifiCorp
- Northwest Natural Gas
- Associated Oregon Industries (AOI)
- Industrial Customers of Northwest Utilities
- University of Oregon
- Willamette Education Service District
- Beaverton Education Service District
- Oregon State Public Interest Research Group (OSPIRG)
- Citizens' Utility Board
- Fair and Clean Energy Coalition
- Community Action Directors of Oregon (CADO)
- Northwest Power and Conservation Council (Council)

⁴ The final report has been modified to address some of the comments received on earlier drafts. Consequently, some of the comments included in Appendix C are no longer relevant.

- Renewable Northwest Project
- Northwest Energy Coalition
- Oregon Solar Energy Industries Association (OSEIA)
- Horizon Wind
- Weyerhaeuser
- RHT Energy Solutions
- Siltronic Corporation

These interviews produced a multitude of comments and suggestions regarding the current system, some of which were contradictory. To produce our final recommendations, we considered each suggestion along with information from other secondary sources⁵ and our own experience with conservation and renewable programs in Oregon and other states. The final recommendations presented here are made independently by ECONorthwest based on our review of the different information sources discussed above.

From the interviews and review of secondary data sources, several over-arching conclusions can be reached:

1. **Energy conservation provides an overall net benefit to Oregon.** All of the people we interviewed were generally in favor of pursuing energy conservation. In addition, research by the Northwest Power and Conservation Council (Council) staff shows that acquiring energy conservation helps reduce the long-term risks and costs for energy supply.
2. **There is more cost-effective conservation available.** Both the Council’s Fifth Power Plan and Energy Trust’s resource potential study show that there is still significant untapped potential for acquiring additional energy conservation in Oregon, and that these resources can be obtained in a cost-effective manner.
3. **The existing public purpose charge system has been more effective in acquiring conservation resources than prior policies.** Many of the people we interviewed indicated that the current system – particularly through Energy Trust efforts – has resulted in significantly more conservation than what was being achieved prior to SB 1149.

These three general conclusions inform the recommendations provided below. The majority of the recommendations are directed toward modifying the current system so that more energy conservation can be acquired in Oregon at the lowest possible cost.

⁵ In addition to the secondary sources listed in the references section of this report, ECONorthwest also reviewed the OPUC’s legislative concept for modifying the current public purpose charge system. ECONorthwest also considered written comments provided separately by both ODOE and OHCS on an earlier draft of this report.

2. RECOMMENDATIONS FOR MODIFICATIONS

Recommendation #1: Increase public purpose charge from 3 percent to 5 percent of annual retail electricity sales.

Discussion:

Currently the public purpose charge is set at 3 percent of retail electricity sales.⁶ Recent studies and the experience of Energy Trust indicate that this is not enough to capture all of the cost-effective conservation options. In 2005, demand for industrial incentive funds was greater than supply, which indicates that there are more conservation opportunities than can be met with the current level of funding. In addition, according to the Energy Trust conservation potential study, there is currently 360 aMW of conservation that can be obtained within Oregon at a cost-effective rate of 5.5 cents per kWh or less by 2012.⁷

The Council also estimates that a substantial amount of conservation potential exists in the region. In the Fifth Power Plan (2005), the Council estimates that 2,800 aMW of conservation can be achieved cost-effectively at 2.4 cents per kWh over the next 20 years. To maximize the benefit of the conservation resource, the Council recommends that 700 aMW of conservation be obtained in the region by 2009. Higher energy prices today resulted in a significant increase in the conservation forecast from the Fourth Power Plan (1998), which estimated that 1,535 aMW could be obtained cost-effectively at 1.7 cents per kWh in the region over the next 20 years.

In addition to the Fifth Power Plan, research by Council staff shows that there are additional benefits from conservation in terms of reducing price fluctuations to the system. An upcoming paper by Council researchers⁸ shows that the overall power system benefits from conservation through lower system cost and reduced risk exposure to large price increases. The authors also found that the benefits of conservation increase if conservation resources are obtained sooner rather than later. They also found that these benefits are optimized even if conservation is pursued *above the avoided cost of the resource*. The authors also conclude that the overall benefits increase if conservation is obtained sooner rather than later.

To take advantage of these opportunities, we recommend that the public purpose charge be increased to 5 percent of retail electric sales and that the additional 2 percent be given to Energy Trust. Given the current shortage of funding for Energy Trust conservation programs along with

⁶ The interpretation of the 3 percent varied widely across the stakeholder groups interviewed for this project, with the 3 percent viewed as either a minimum or maximum rate depending on the interview.

⁷ From *Resource Assessment* PowerPoint presentation to Energy Trust Board of Directors, May 25, 2006. The full resource potential report *Energy Efficiency and Conservation Measure Resource Assessment* is available on the Energy Trust website www.energytrust.org. The 360 aMW potential estimate from the resource assessment is relative to the case where Energy Trust programs do not exist.

⁸ See *When Enough is Not Enough: The Value of Conservation in an Uncertain World Calls for Expanding System Benefits Charge Funding* by Charlie Grist and Tom Eckman. This paper will be published as part of the upcoming conference proceedings of the ACEEE Summer Study on Energy Efficiency in Buildings, Pacific Grove, CA (August 2006).

the possibility of an RPS being enacted in the near future (discussed below), we recommend that the increase in funds be directed toward conservation rather than renewable programs.

Based on 2005 Energy Trust funding levels, an increase of the overall public purpose rate to 5 percent would amount to an increase of approximately \$41 million annually to the Energy Trust conservation budget.⁹ In 2005, 39.17 aMW of conservation was achieved from funding of \$49,160,135. If Energy Trust continued to acquire conservation at the same rate, then an additional \$41 million in funding would increase this to about 72 aMW in conservation annually.

As discussed below in subsequent recommendations, the 5 percent rate should be reviewed on a regular basis (every 5 years) and adjusted as needed to be consistent with conservation resource potential estimates contained in utility Integrated Resource Plans (IRPs), future Council Power Plans, and other resource assessments. This will limit the risk of providing too much funding if there are no longer cost-effective resources to be acquired.

Recommendation #2: Limit public purpose charge rate adjustments to every 5 years in coordination with available estimates of conservation and renewable resource potential.

Discussion:

As discussed above, both the Council and Energy Trust forecast significant conservation potential for Oregon and the additional research by Council staff shows that the entire system would benefit from acquiring these resources sooner rather than later. This information was not available when SB 1149 originated and when forecasts of conservation potential were significantly lower (see comparison of Power Plan forecasts discussed with Recommendation #1). The changing forecast illustrates the need for a regular review of the PPC rate with adjustments to the rate made as needed to take advantage of new opportunities or react to changing market conditions.

To help improve the coordination between public purpose collections and conservation resource potential, we recommend that the OPUC regularly review the PPC rate and make adjustments to the rate to coincide with forecasts of conservation potential included in the utility Integrated Resource Plans (IRPs) and the updated Power Plans produced by the Council. Having a regular review and adjustment of the PPC rate based on conservation and renewable potential will help keep the system flexible and allow Oregon to keep pace with conservation opportunities identified by the Council or utilities.

Changes to the public purpose rate should be limited to once every 5 years¹⁰ except in extreme circumstances, such as an energy crisis or severe economic recession. Limiting the number of times the rate can be changed to a 5-year period reduces the problem of having the rate fluctuate dramatically over short periods of time, which introduces uncertainty into the system and makes

⁹ This increase is estimated by ECONorthwest based on PGE and PacifiCorp 2005 payments and does not include public purpose funds paid by gas utilities.

¹⁰ The Council Power Plans are scheduled to be completed every 5 years, but historically they have deviated somewhat from this schedule. Power Plans have been published in 1981, 1984, 1991, 1995/1998, and 2005.

it difficult for businesses and supporting industries to make long term plans when funding levels are uncertain.

Recommendation #3: Extend Public Purpose Charge sunset provision to 2022.

Discussion:

Extending the sunset clause of the public purpose charge would remove some of the uncertainty around the current system. For some projects, such as large wind projects or industrial efficiency projects, the planning and construction stages can take several years. If the sunset clause remains at 2012, it will have a dampening effect on investments beginning several years prior to the end date. This effect will increase as 2012 approaches without an extension, as other efficiency and renewable businesses will begin ramping down under the expectation that funding may soon be eliminated. There is also cost-effective conservation that could be achieved beyond 2012, and if the programs begin ramping down these resources will remain untapped. With a longer timeline, the supporting efficiency and renewable industries in Oregon can make long term plans knowing that funding will be stable during this period.

Note that the issue of whether or not the public purpose charge should be extended is scheduled to be addressed in a separate report to the Legislature in 2011. However, for the reasons listed above and because of the later timing of that report, we felt that it was appropriate to comment on the potential benefits of extending the sunset clause in this report.

Recommendation #4: Have utilities (rather than Energy Trust) do utility-scale renewable energy projects if an RPS is enacted. Energy Trust should continue to provide incentives and support for other renewable technologies.

Discussion:

Oregon is currently considering a Renewable Portfolio Standard (RPS), which if adopted would require that a portion of the energy used in Oregon come from renewable sources. Since renewable energy would be a requirement for utilities under an RPS, there will be less of a need for Energy Trust to provide financial assistance for renewable energy projects. Removing Energy Trust from utility-scale projects will allow them to focus on other renewable resources that are less cost-competitive and therefore more in need of financial support. Support for the smaller scale renewables will also help foster a more diverse renewable energy market in Oregon that includes a range of different technologies.

One could argue that with an RPS, there is no need for Energy Trust to support *any* renewables, as they will now be a requirement. However, depending on how the RPS is specified, utilities will likely meet a portion of their RPS obligation by purchasing “green tags” and/or renewable energy from sources outside Oregon. These out-of-state purchases do not provide any direct benefits to Oregon businesses or contractors involved in the renewable energy industry. Additionally, in the near future utilities will likely meet their RPS obligation primarily with wind power and other smaller-scale renewable resources will receive less attention. Having Energy Trust continue to provide incentives for other renewables (such as photovoltaics) will help support these technologies and enable the market for these technologies to develop and grow in the future. Without financial incentives in the short term, the market for these other renewable

technologies will decrease or disappear entirely. As these markets become more established, the need for financial incentives should decrease over time. Having more widespread support by Energy Trust across a range of renewable technologies will help ensure that Oregon can rely on a variety of renewable energy sources in the future. For these reasons, we recommend that Energy Trust remain involved with renewable energy even if an RPS is enacted for Oregon

Recommendation #5: Include “direct use” as a renewable rather than efficiency option.

Discussion:

The current statute allows Energy Trust to pay above-market costs only for renewable resources that generate electricity. Direct use of renewable energy (solar water heat, passive heating, cooling and ventilation, direct use of geothermal heat) was not included in the original bill. As a consequence, direct use renewables are currently covered under Energy Trust’s efficiency programs. As a result, direct uses of renewable energy can be funded only if they pass the cost-effectiveness test that is applied to all measures covered under the efficiency programs. In addition, since there is not enough funding to meet the demand for these efficiency programs, the amount of direct use renewable resources obtained is lower than it would be if it were covered through the renewable energy programs.

We recommend that the current statute be changed so that direct use renewable resources are classified as renewable energy. This would allow greater support for these applications as Energy Trust would be allowed to pay the above-market costs of these resources. This would also lessen the demand for incentives in the efficiency programs.

Recommendation #6: Consistent and rigorous evaluation methods should be developed and applied to all programs funded by the public purpose charge.

Discussion:

The current system does not mandate any level of program evaluation to determine the amount of energy savings being achieved or how well the various conservation and renewable energy programs are being run. Energy Trust does conduct extensive program evaluations and these reports are published on its website. For the schools, housing, and self-direct programs, however, evaluation activities are more limited. Due to the differences in evaluation activities, it is not currently possible to make reliable comparisons of energy savings and cost-effectiveness across agencies.

It would be beneficial for policy makers if all the programs funded by public purpose funds were evaluated using a consistent methodology. This is currently done in New York and California, which are the two states with the largest amounts of efficiency and renewable energy programs funded using a public benefits charge system. In California, the California Public Utilities Commission oversees the conservation program evaluation efforts and has developed protocols to ensure that consistent evaluation approaches are used. In New York, the New York State Energy Research and Development Authority (NYSERDA) is responsible for implementing the conservation and renewable programs as well as evaluating these programs.

At a minimum, evaluation of Oregon's PPC-funded programs should include four different components:

- *An impact evaluation* to determine the amount of *net* energy savings being achieved (relative to the case where the PPC-funded programs do not exist);
- *A process evaluation* to determine how well the programs are being run;
- *Verification inspections* of at least a sample of program installations to ensure that the efficiency measures are actually installed and remain in place; and
- *Cost effectiveness calculations* using a consistent methodology so that comparisons can be made across programs and agencies receiving PPC funds.

Multiple analysis methods have been developed for each of these types of evaluation components, and different methods can yield different results.¹¹ To make the evaluation results consistent across agencies, we recommend that the OPUC or ODOE oversee the evaluation activities for the Energy Trust, schools, housing, and self-direct programs. We also recommend that the level of rigor used by Energy Trust in its evaluations be applied to all of the other programs that receive public purpose funding. The additional evaluation effort will require that more funds be made available for evaluation activities at these other agencies.

The benefit of having a consistent evaluation requirement across agencies is that comparisons of energy savings and cost-effectiveness can be made across programs and agencies. The cost-effectiveness can be a simple calculation of dollars spent per energy saved (\$/kWh) or a more elaborate benefit-cost test such as the Total Resource Cost test or Societal Cost Test that incorporates a broader range of benefits into the cost-effectiveness calculation.¹² A consistent evaluation methodology and cost-effectiveness calculation will allow policy makers to make decisions on how the public purpose funds should be allocated across agencies, programs, and measures.

When developing a consistent evaluation framework and cost-effectiveness measures, it is very important to note that the low-income programs have many benefits in addition to energy savings. The evaluation framework will need to ensure that these additional benefits are adequately addressed so that the full value of these non-energy benefits is included in the cost-effectiveness calculations.

Recommendation #7: The use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.

¹¹ California has published its *Evaluation Framework* that provides a very comprehensive guide to the most current evaluation methods. California is also in the process of finalizing its *Evaluation Protocols* that are based on the framework and set the evaluation requirements for all the energy efficiency programs funded with public purpose funding. The *Evaluation Framework* is available at <http://www.cce1.org/eval/CEF.pdf>.

¹² Chapter 14 of California's *Evaluation Framework* provides a textbook discussion of the Total Resource Cost Test, the Societal Cost Test, and other common measures of conservation program cost-effectiveness.

Discussion:

Under the current system, 4.5 percent of the public purpose funds go to the OHCS Housing Trust Fund. These funds are used in the construction of new housing or rehabilitation of existing housing for low-income households. While these types of projects are important, they are not consistent with the general intent of the public purpose funding system, which is to use ratepayer money to fund energy conservation and renewable energy. To keep the mission consistent, we recommend that ratepayer funding of the Housing Trust be eliminated and these funds be allocated to the other energy programs currently funded by the public purpose charge.

Recommendation #8: Relax the requirement that 80 percent of public purpose funds must be spent within the utility service territory where they were collected. This should be modified to become a performance requirement monitored by the OPUC, with the goal that the 80 percent allocation be maintained on average over a 3-year period (rather than annually).

Discussion:

The current legislation requires that 80 percent of the public purpose funds be spent within the same utility service territory from which they were collected. This helps ensure that the ratepayers in each utility benefit from the funds they contribute.¹³ However, if the goal of the system is to achieve energy conservation at the lowest price, then Energy Trust should not be restricted to spend funds in the same utility territory from which they were collected as this may increase overall conservation costs. That is, this restriction may limit the types of conservation projects that Energy Trust can pursue and some lower cost conservation opportunities may be lost.

To address this issue while maintaining an equitable level of spending across service territories, we recommend that this restriction be modified to a performance requirement of Energy Trust (monitored by the OPUC) rather than a legislative requirement, with the goal that the 80 percent allocation be maintained on average over a 3-year period (rather than annually). This will allow for exceptions to be made by Energy Trust to take advantage of lower cost conservation opportunities as they become available.

A simple example using recent Energy Trust data may help illustrate the potential benefit of this recommendation. Table 1 below shows the differences in costs for conservation in different sectors for Energy Trust's 2005 programs. For this particular year, the residential sector was the cheapest at 0.8 cents per kWh on average and the commercial sector was more than twice the cost at 1.8 cents per kWh. Using the 2005 numbers in a very simple example, if the utility territory requirement caused Energy Trust to forego residential conservation opportunities because of the utility territory restriction, then they would be paying more than twice as much on average for conservation than they would without this restriction.

¹³ Energy Trust also attempts to achieve a balance of funding for residential, commercial, and industrial customers somewhat in proportion to the amount of funds contributed from these sectors, although this is not required in the original statute.

It is important to note that the costs per kWh will vary with the amount of savings being achieved, so the preceding example is somewhat misleading. In practice, as greater levels of conservation are achieved, the average cost per kWh will change. Lower cost savings are usually acquired first and once these opportunities are exhausted then the higher cost opportunities are pursued. Consequently, we would expect that the *average* cost per kWh (shown in Table 1) to increase as the total volume of savings increases. From Table 1, it appears that industrial conservation is more expensive than residential savings. However, the industrial sector has delivered almost twice the savings as the residential sector in 2005 (20.5 aMW compared with 11.67 aMW in the residential sector) so the higher cost is not surprising. Nevertheless, the point of this example is that Energy Trust should be given the flexibility to pursue the lowest cost conservation options first, regardless of which utility territory they are located in.

Table 1: Energy Trust Electricity Savings and Costs (2005)

Sector	Savings (aMW)	Levelized Cost per kWh
Residential	11.67 aMW	0.8¢
Commercial	7.00 aMW	1.8¢
Industrial	20.50 aMW	1.4¢
Total	39.17 aMW	1.3¢ average

Source: Energy Trust of Oregon 2005 Annual Report

In order to minimize the cost of conservation achieved (thereby maximizing the buying power of public purpose funds) we recommend that the formal utility territory spending requirement be changed to a performance goal with the 80 percent level achieved on average over a 3-year period. Energy Trust should attempt to maintain equity across utility sectors (as it currently does across the residential, commercial, and industrial sectors) but this should not be binding if it prevents Energy Trust from pursuing lower cost conservation opportunities. As shown by the Council forecasts, all utility customers benefit from conservation actions that reduce the overall risk and costs to the power supply system regardless of whether or not the conservation activities occur within their service territory.

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APPENDIX A: ADDITIONAL INTERVIEW RESULTS

This appendix provides a discussion of additional pros and cons for the recommendations presented in the main report based on the results of the stakeholder interviews. The vast majority of the pros and cons presented here were made directly by interviewees although some were developed by ECONorthwest based on the underlying themes of these interviews. Most of the recommendations included in the main body of the report were discussed during the interviews and received a wide range of comments, some of which are contradictory.

In addition, several recommendations for changes to the public purpose system were made during the interviews that were not included in the final set of recommendations. These alternative recommendations are also presented in this appendix along with a discussion of why they were not among the final recommendations.

Recommendation #1: Increase public purpose charge from 3 percent to 5 percent of annual retail electricity sales.

Pros:

- Allows additional cost-effective conservation to be obtained
- Would help address Energy Trust funding shortage since demand currently exceeds supply
- Will help reduce system power costs and risk, especially if conservation resources are obtained sooner rather than later.

Cons:

- Increases rates for utility customers (Note: Rates may increase but energy bills may decrease if customers cut back on their energy use.)
- Amount of public purpose funds already increases when rates increase. (Note: Funding will not increase if customers cut back on their energy use and decrease their overall energy bill.)
- Places an additional burden on commercial and industrial customers, making them less competitive.
- Potentially too early to make changes to the public purpose system, should make sure current funding is spent efficiently before it is increased.
- Changing the current system creates more uncertainty, making it more difficult for customers to make investment decisions.

Recommendation #2: Have changes to public purpose rate placed under OPUC control. Limit public purpose charge rate adjustments to every 5 years in coordination with estimates of conservation and renewable resource potential.

Pros:

- Allows greater flexibility to adjust the system and synchronize it with estimates of resource potential.

- Limiting rate changes to every 5 years creates some stability and prevents dramatic changes in funding from year to year.

Cons:

- Stakeholders and other affected parties will have potentially less input on a system that is under OPUC control than with the current system where rates are set by the Oregon Legislature and state representatives are responsible to their constituents.
- Creates some uncertainty in amount of funding as public purpose rate may change.

Recommendation #3: Extend Public Purpose Charge sunset provision to 2022. If an RPS is enacted, make the end date consistent with the RPS target end date.

Pros:

- Prevents ramping down of conservation and renewable project activity as 2012 approaches.
- Provides additional certainty to the system so businesses can make long-term investment decisions.
- Helps sustain conservation and renewable energy businesses as funding is guaranteed for longer period.
- Allows public purpose system to be consistent with RPS policy.

Cons:

- Potentially too early to make changes to the current system.

Recommendation #4: Have utilities (rather than Energy Trust) do utility-scale renewable energy projects if an RPS is enacted. Energy Trust should continue to provide incentives and support for other renewable technologies.

Pros:

- Currently, some wind projects do not have costs “above market” and therefore cannot receive incentives from Energy Trust.
- Utilities will likely do large-scale wind projects on their own.
- Funding constraints on Energy Trust sometimes require that large projects be scaled down to fit available funding.
- Removing utility-scale projects frees up Energy Trust funding for other renewable technologies where there is a greater need for market intervention.
- With an RPS, these projects will be required and therefore should not be eligible for incentives.

Cons:

- Utilities may not pursue utility-scale resources as aggressively as the Energy Trust.

Recommendation #5: Include “direct use” as a renewable rather than efficiency option. .

Pros:

- Would allow more funding for a resource with significant potential.
- Would free up conservation funds for programs that already have excess demand for incentives.

Cons:

- Direct use is not a renewable energy *generation* resource.

Recommendation #6: Consistent and rigorous evaluation methods should be developed and applied to all programs funded by the public purpose charge.

Pros:

- Would ensure rigorous measurement of savings across programs using a common analysis method.
- Would allow comparisons of savings and cost effectiveness across agencies.
- Savings will be measured more accurately for schools, self-direct, and housing projects.

Cons:

- Additional costs involved with more program evaluation.
- Low-income programs provide additional benefits other than energy savings and should not be judged solely on the amount of savings achieved. For this reason, low-income programs should not be compared directly with other programs that are strictly concerned with energy efficiency.

Recommendation #7: The use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.

Pros:

- The Housing Trust Fund is not energy-related, so removing it makes the public purpose fund programs more consistent in scope.
- The Housing Trust Fund is not an appropriate use of ratepayer funds.
- Frees up funds for other conservation and renewable projects.

Cons:

- Low-income housing is important even if not energy-related.

- The Housing Trust Fund is highly leveraged and having the public purpose charge funding enables these projects to secure other sources of funding.
- The Housing Trust Fund receives over 90 percent of its funding from the public purpose charge and removing these funds severely restricts what can be accomplished by this program.

Recommendation #8: Relax the requirement that 80 percent of public purpose funds must be spent within the utility service territory where they were collected. This should be modified to become a performance requirement monitored by the OPUC, with the goal that the 80 percent allocation be maintained on average over a 3-year period (rather than annually).

Pros:

- Allows more flexibility in how funds are spent.
- Increases Energy Trust’s ability to obtain cost-effective conservation resources.

Cons:

- Utility customers benefit less directly from the public purpose funds they contribute.

ALTERNATIVE RECOMMENDATIONS

Alternative Recommendation #1: Keep the public purpose charge rate at 3 percent and the sunset clause at 2012.

Several stakeholder groups indicated that it was too early in the process to consider changing either the 3 percent public purpose charge rate or extending the sunset clause. Others indicated that we should first insure that the current funds are being spent efficiently before we consider expanding the public purpose charge above 3 percent. We agree that funds should be spent as efficiently as possible, which is one of the justifications for Recommendation #6 calling for more rigorous program evaluations. However, the resource potential estimates by Energy Trust and the Council indicate that there is much more cost-effective conservation potential than can be acquired with the current level of funding – even if program administration is improved. For these reasons, we recommend that the funding level be increased and the sunset clause extended, as discussed in the main body of the report.

Alternative Recommendation #2: Allow self-direct customers to reserve the entire 3 percent of the public purpose charge for self-direct projects instead of just the conservation component (approximately 1.6 percent).

This suggestion was made so that large industrial customers would have more funds available for self-direct projects. Increasing the self-direct component to the entire 3 percent would reduce funding for renewable energy, schools, and the low income housing programs. These programs benefit all Oregonians beyond the direct energy benefits, and these benefits are likely greater than those that would occur if funding for these programs were reduced and used for self-direct

projects. (Note that it is exactly this type of question that more rigorous evaluation standards discussed in Recommendation #6 would be designed to address.) For this reason, this recommendation was not included in the final set of recommendations for this report.

Alternative Recommendation #3: Allow public purpose funds going to schools be used for new school buildings.

Currently the public purpose funds going to schools are restricted to rehabilitating existing buildings. However, new school buildings are eligible for Energy Trust incentives and the Business Energy Tax Credit, although actual funding by Energy Trust for school projects has been limited to date. If funding is increased to Energy Trust, then more funds will be available for new school projects. Because there are other funding sources available for new school building efficiency projects (and these funds may increase), we recommend that the current requirement that public purpose funds going to schools be used only for existing buildings be continued. This restriction should be revisited in the future as the number of existing schools that still need to be retrofitted decreases.

APPENDIX B: INTERVIEW GUIDE

General Information

Contact Name:		Phone:	
Title:		Fax:	
Company:		E-mail:	
Street Address:			
City:		Interviewer:	
State:		Call Dates:	
Zip Code:		Completion Date:	

Intro: Discuss purpose of interview and Modifications Report

1. Ask if not obvious: How have you been involved with Oregon's PPC system?
2. Do you having any existing memos or reports that discuss how you think Oregon's current PPC system should be modified? (Arrange to get any reports.)
3. Do you think the amount of funds collected from ratepayers should be changed?
4. Do you think the allocation of funds across agencies should be changed? Are there any additional agencies that should receive PPC funds?
5. Within the current PPC system, are there areas of spending that you think should be increased?
6. Are there current areas of spending that you think should be decreased or eliminated?
7. Should the PPC spending requirements be expanded to include new areas?

8. Are you familiar with the “self-direct” option for commercial/industrial customers? Do you have any suggestions on how this option should be modified?

9. Do you believe that the current PPC system is creating benefits for Oregon? Are these benefits being distributed equitably? How can this distribution be improved?

10. Do you think that the current system allows for adequate stakeholder input and collaboration? Any suggestions how this could be improved?

11. Do you have any suggestions for the reporting requirements for the current PPC system? Is there information on how the funds are spent or the program accomplishments that you would like to have that are not currently available?

12. Do you have any suggestions on how the PPC system should be integrated with other policy options that are currently being considered, such as an RPS or a carbon cap-and-trade system?

13. Are there public benefits systems in other states that you think might work better than Oregon’s current system?

Additional Comments:

If you have any additional thoughts on any of these topics, please feel free to call or email me. Thank you for your time.

APPENDIX C: STAKEHOLDER COMMENTS

ENERGY TRUST OF OREGON COMMENTS

August 31, 2006

Thank you for the opportunity to review the Draft Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge. We have several comments:

First, for purposes of planning for your separate January 1, 2007 report: Our preliminary financial statements for 2006 will be completed the last week in January or the first week in February, 2007. We expect to have a draft financial audit report by the 20th of March (or so). If your report is due on January 1, 2007, we will be glad to work with you. Please just let us know what time period you would like us to focus on, and we will do our best to be responsive.

Pages 4-6, Recommendation #1 (paragraph beginning at the bottom of page 5 and top of page 6): We would advise against extrapolating future performance from Energy Trust's 2005 energy efficiency results. The amount of energy savings we secure in any given year is highly dependent on market conditions; whether performance in 2005 market conditions is a reliable indicator of future results is not clear. Moreover, even if there were an increase in the public purpose charge, unless the increased revenues were allocated differently than is the case under current law, not all of the increase would go to energy efficiency; 17% would go to renewable energy.

Page 7, Recommendation #3: We would note only that because Energy Trust programs involve a large number of parties and multi-year commitments, Energy Trust expects to begin planning in 2008 for a 2012 sunset if the legislature does not extend the public purpose charge.

Page 7, Recommendation #4 (two comments):

The recommendation suggests that if a renewable portfolio standard is adopted, utilities should do utility-scale projects and Energy Trust should support "other renewable technologies." We would replace the quoted phrase with "smaller-scale renewable projects" because utility-scale and non-utility-scale projects may use similar technology (e.g., wind generation), just at different scales.

The discussion section of the recommendation suggests that Energy Trust should focus on "less cost-competitive" resources. It has not been our experience that all smaller-scale projects are necessarily less cost-competitive than all utility-scale projects. Moreover, it would be worth noting that smaller-scale projects may tend to be distributed generation projects that merit special emphasis in light of transmission constraints.

Page 8, Recommendation #6: We agree that evaluation is a critical accountability tool. The Energy Trust uses the following process to assure that evaluations are independent and reliable:

- The Energy Trust evaluation function is part of the Department of Planning and Evaluation, which does not deliver the programs that are evaluated.

- Most evaluations (except modest evaluations of smaller programs) are performed by third-party contractors. While Energy Trust staff defines the scope of work and reviews draft evaluations, the evaluation contractor determines the contents of the final evaluation.
- Draft evaluations are reviewed by an Energy Trust board evaluation committee, whose membership includes independent evaluation experts from the Bonneville Power Administration and Northwest Power and Conservation Council.

We have found that suitable evaluation methods depend on many factors, such as the program in question, the number of participants, energy savings per home, patterns of energy use, diversity of measures, what is already known about the technologies and customers, and consistency of results from past evaluations in the same market. Different methods may be appropriate for the same program at different times in its development and at different scales of operation. Moreover, given the modest scale of programs in Oregon and the cost of evaluation, we have found it important to design evaluations carefully to assure best value.

Should the OPUC desire, Energy Trust would be happy to work with others to develop consistent evaluation guidelines for all three Oregon public benefits providers. Because the appropriate methods vary so markedly with the circumstances, we would urge that any guidelines outline considerations for such evaluations and not prescribe specific methods.

Page 10, Recommendation #8: We have had no difficulty ensuring that at least 80% of our electric revenues are spent in the service area of the company that collected the funds. Our experience has been that having 20% of these funds available to fund projects regardless of utility service territories is ample flexibility to capture good projects.

Thank you very much for the opportunity to comment.

Very truly yours,

Margie Harris

Executive Director

OREGON DEPARTMENT OF ENERGY COMMENTS

September 22, 2006

The Oregon Department of Energy (ODOE) offers the following comments on the August 21st Draft Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge (PPC). We understand that the ECONorthwest report does not reflect the views of our agency and that the recommendations are those of ECONorthwest entirely.

The ECONorthwest report attempts to influence policy level decisions within the state but lacks appropriate quantitative analysis of existing program results. It is based almost entirely on interview results, secondary literature sources, and the contractor's experience with conservation and renewable programs in other states. ODOE believes that specific recommendations raised in this report be analyzed only after the first draft of the 2007 Legislative Expenditures Report is complete. A detailed and complete analysis of program results will assist decision-makers in determining if current policy warrants change at that time.

We strongly disagree with the recommendation to eliminate or reallocate the Housing Trust Fund. There is absolutely no basis for our department to support this recommendation. Housing and Community Services commented on this recommendation on July 27th and their comments clearly demonstrate in quantifiable terms how every Housing Trust Fund dollar leverages an additional \$35. The PPC is the only source of revenue for the Housing Trust Fund. We must also consider that the loss of PPC funds will greatly inhibit the state's ability to create affordable housing, maintain rental housing that is affordable and decrease the energy burden for very low-income Oregonians.

The report suggests that the school, housing and self-direct programs have limited evaluation. Currently, ODOE conducts rigorous evaluations and we use specific reporting requirements that measure energy and cost savings with program performance. The contractor did not request information on internal controls, evaluation protocol, or verification procedures for schools or selfdirect programs. Program evaluation is essential to continuous improvement in procedures and service delivery and we follow this protocol.

While this draft report is designed to influence policy decisions within the state, we recommend that you provide a detailed analysis of program results, include additional references to support your recommendations, and conduct a qualitative analysis of the various programs by sector in finalizing your recommendations.

c. Lee Sparling, OPUC
Rick Crager, OHCS

ASSOCIATED OREGON INDUSTRIES

September 5, 2006

Comments on Draft Report to the Legislative Assembly on Proposed Modification to the Public Purpose Charge

1. This draft report appears to be primarily focused on needs of the Energy Trust of Oregon (ETO), the Oregon Department of Energy (ODOE) and the Oregon Public Utility Commission (OPUC).
2. This draft report lists "key stakeholders" but fails to describe, with any fairness, the diverse opinions held by these key stakeholder groups. This may leave legislators with the perception that the parties are more aligned rather than less aligned.
3. The methodology of this study is described as "interviews with various agencies and stakeholder groups." The researcher fails to describe styles of interviews. For example, the researcher explained to AOI that he would conduct a variety of individual interviews with Energy Trust representatives. The researcher interviewed 10 AOI members during one AOI Energy Public Policy Council meeting for approximately 45 minutes.

The researcher lists an interview with Siltronic. This interview was a very short phone call to discuss one improvement to the Self-Direct program. It should not be characterized as an interview.

The researcher should provide a clearer description of his methodology so legislators can determine the balance of his report.

4. The Self-Direct portion of the Public Purpose Charge Program is only briefly mentioned. The benefits of this program are not addressed. And the ODOE is not mentioned as administering this key and highly beneficial program. Further, it is not mentioned that the many large industrial customers view ODOE programs as more efficient than ETO programs. It seems that legislators faced with a potential decision on a tax increase would be interested in knowing that the ETO's closest competitor appears to better serve customers.

The Self-Direct program is an important program for two key reasons: 1) It facilitates significant energy savings; and 2) It yields important environmental benefits and advances sustainability programs.

Cost-efficient acquisition of capacity: \$1.2 million per average megawatt for Self-Direct conservation versus \$1.5 million per megawatt for Energy Trust conservation.

5. AOI recognizes that ECONorthwest's clients include the Oregon Public Utility Commission and the Oregon Department of Energy. However, this report is intended to be a "Report to the Legislative Assembly on Proposed Modification to the Public Purpose Charge." The style of the report and its findings may not provide enough information to the Legislature, especially in context of the business customers' concerns.

We note that the methodology did not include review of minutes from the Conservation Advisory Committee and Board meetings where diverse opinions were discussed at length.

6. In terms of methodology, we believe the contract and discussion thread with the client should be included in this appendix. In most cases a client sets goals, describes problems and seeks solutions.

This is part of survey design. It would be helpful to know how the client described the study to the researcher. Further, it would be interesting to know why Legislative Leadership was neglected in this study. Since the report is "to the Legislature," it would have been prudent to consult representatives of the Legislature during the survey design. The OPUC, is after all, asking the Legislature to turn over the public purpose charging authority to the Commission.

7. There appears to be a skewed nature regarding those selected to be interviewed. On the customer side there is AOI, ICNU, Weyerhaeuser and Siltronic (see earlier notes). This is more than outweighed by CUB, OSPIRG, FCEC, CADDO, RNP, NEC, OSEIA and Horizon Wind. The first four on the list have a vested interest. We cannot determine why the University of Oregon was interviewed. Their main campus is in EWEB's service territory. There were no commercial customers interviewed.
8. One of the troubling aspects of this report is what ECONorthwest says the report is to do and what the report doesn't do. The report says, "... this report provides policy-level recommendations that we believe will improve the overall effectiveness of Oregon's existing public purpose charge system." The report also says, "This report does not address how the funds have been spent or the amount of savings achieved." Another report does this. If ECONorthwest doesn't know how existing funds have been spent or how much savings have been achieved, how can it make a sound judgment on what will improve the overall effectiveness of the current system? Its overall recommendation is to increase the public purpose charge and extend the life of the Energy Trust. How can ECONorthwest say more money is needed if it doesn't know how well the existing funds are being spent?

Thank you for your consideration of these comments.

Sincerely,

Julie Brandis
Legislative Representative
Associated Oregon Industries

COMMUNITY ACTION DIRECTORS OF OREGON (CADO)

September 1, 2006

Community Action Directors of Oregon (CADO) is pleased to provide you these comments on the Draft Public Purpose Charge (PPC) Modifications Report (“Report”) which was dated August 21, 2006. We also support the comments of the Fair and Clean Energy Coalition and the Northwest Energy Coalition. In general we are very supportive of the recommendations in the Report, so I will address only those items that we believe need modification.

Recommendation #1: Increase public purpose charge from 3 percent to 5 percent of annual retail electricity sales.

CADO strongly supports this recommendation but not the particular point that the additional 2% be solely reserved for ETO conservation programs. The Report documents the need for more conservation funding but fails to also note the need for increased low-income weatherization funding. Utilizing the low-income weatherization funding provided by the PPC, through the Energy Conservation Helping Oregonians program (ECHO), CADO agencies have weatherized over 4,600 low-income homes in the PGE and Pacific Power service areas. In addition, our agencies have provided baseload measures to over 1,000 additional homes. Last year, agencies reported an increase of approximately 27 percent in the cost of weatherization materials (much of which are petroleum-based products), labor and general inflation. This increase in per home cost will reduce the number of homes weatherized each year unless overall program funding is increased. We recommend that the additional 2% instead be allocated to increase both low-income and ETO conservation funds, in the same proportion as in the original law where 13 percent of total PPC funding (net of the allocation for Educational Service Districts) be used to help fund the existing ECHO program.

Recommendation #2: Have changes to public purpose rate placed under OPUC control. Limit public purpose charge rate adjustments to every 5 years in coordination with available estimates of conservation and renewable resource potential.

As pointed out by NWEAC, the PUC already has the authority to change the PPC under Section 3(3)(f), except as applied to customers with loads greater than 1 MW. We agree with NWEAC’s observation that the Report’s discussion on this issue (“only the Oregon Legislature has the power to change the public purpose charge rate,” or, “The current system is not flexible enough to adapt quickly to situations like the energy crisis in 2001...”) is factually incorrect. We support the NWEAC call for broadening this authority to large customers, as well as the recommendation that changes be made generally every five years coordinated with the NW Power and Conservation Council’s Plans.

Recommendation #6: Consistent and rigorous evaluation methods should be developed and applied to all programs funded by the public purpose charge.

There is a subtle implication in this recommendation that current evaluations of programs funded by the PPC are not rigorous. We disagree with this implication. Currently, the Oregon Public Utility Commission oversees the Energy Trust of Oregon (ETO) while Oregon Housing and Community Services oversees the ECHO program. Other Oregon state agencies exercise a

similar function over the programs they direct. For example, the Oregon Department of Energy oversees the self-direction projects that large customers undertake under the PPC umbrella.

Standard conservation evaluation methodology does not measure quality of life impacts. Having adequate heat in the winter has value way beyond any conservation impacts achieved by the weatherization measures. As stated in the Report, “It is also important to note that the low-income programs have many benefits in addition to energy savings. The evaluation framework will need to ensure that these additional benefits are adequately addressed.”

We fail to see a problem with the current PPC evaluation requirements. While improvement can be made in terms of the timing, and reported metrics, of each PPC evaluation we would urge the Legislature to resist a movement toward the development of a ‘consistent methodology’ for evaluating fundamentally different PPC programs.

Recommendation #7: The use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.

Across Oregon, housing prices are moving out of reach for many families and their children, seniors, veterans and people with disabilities. As a result, they are often faced with tough choices between housing, electricity bills and utilities, food, medicine and other basic necessities. Today, funding for affordable housing through the PPC is the only dedicated source of statewide funding used for developing affordable housing for low-income Oregonians.

In addition, we would like to point out that there is, indeed, a strong energy-related component to these investments. New construction must, at a minimum, meet state energy code and some affordable housing projects are built beyond current code as well as following green building and sustainability practices. Without the funding provided by the PPC for the Housing Trust Fund many low-income Oregon families may still be living in substandard housing that is both highly energy inefficient and excessively expensive to heat during the winter months.

Finally, it needs to be reinforced that this component of SB 1149 represented an important compromise among the various parties that yielded an overall legislative package that has provided substantial benefits to Oregon.

CADO strongly supports continued funding for the Housing Trust Fund as it is a central component to helping advance solutions to poverty in Oregon.

I will be out of town next week so please feel free to call Jim Abrahamson at (503) 316-3951 ext 612 if you have any questions or comments on this material.

Thank you for this opportunity to provide comments.

Tom Clancey-Burns, President
Community Action Directors of Oregon

RENEWABLE NORTHWEST PROJECT

August 23, 2006

We at RNP had a brief comment on the draft of the public purpose report. The first paragraph states, "utilities were required to levy a 3 percent fee on retail electricity sales." Describing it as a "fee" is incorrect, though.

Prior to 1149 the funds were already collected from customers and used for conservation and renewables. (Rates for conservation alone ranged from 0 to 5% in years previous to 1149. The 3% was good in that it at least provided some steady, predictable funding.) 1149 does require the funds to be extracted from rates and charged separately on the customer bill. Using the word "fee" implies that it is an extra 3% charge, when in fact the utilities just reserve, or set aside 3% of retail sales. A more accurate representation would be, "utilities were required to reserve 3% of their retail electricity sales."

Let us know if you have any questions and thanks for your work on this.

--

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THE FAIR AND CLEAN ENERGY COALITION

September 21, 2006

The comments below reflect the view of the Fair and Clean Energy Coalition, a statewide collaboration of consumer groups, environmental organizations, human service agencies, labor organizations, communities of faith and other civic and business groups dedicated to Oregon energy policy that protects consumers, preserves the environment and ensures that electricity remains affordable for all Oregonians.

The Fair and Clean Energy Coalition (FCEC) is largely in support of the findings and recommendations in the Report on Proposed Modifications to the Public Purpose Charge, dated August 21, 2006. As key supporters of the creation of the public purpose charge, we are gratified that an independent review finds that the public purpose charge is achieving such a strong record of success in helping Oregon businesses and residential customers reduce energy usage and diversify our energy portfolio by increasing the amount of renewable energy resources in our generation system.

Before we delve into the substance of the report and its recommendations, FCEC would like to comment briefly on the historical overview of the public purpose charge offered in the report's introduction. The report correctly notes that "Oregon has a 30-year history of using ratepayer funding for conservation and renewable programs prior to SB 1149." This is a crucial point. Investment in energy efficiency and renewable resources was not new with the passage of Senate Bill 1149 in 1999. What was new was setting a specific amount (3 percent) over an extended period of time (10 years). Thus, instead of the wild swings in efficiency and renewable investments that occurred in the past, ratepayers, and the conservation and renewable industry private sector partners who are key to delivering these services, are able to count on consistent, predictable investments over the long-term, which is a better and more cost-effective way to achieve efficiency savings and to create renewable resource development. In short, all SB 1149 did was create consistency in how much was going to be invested in energy efficiency and renewables and make sure ratepayers knew that amount. However, even that was remarkable.

Now, more than seven years after the passage of SB 1149 and four and a half years since the bill's implementation, we have a track record on which to base analysis and recommendations for the future. As stated before, FCEC is generally supportive of the recommendations contained in the draft report but wishes to emphasize a few key areas.

- 1) FCEC is in agreement that the public purpose charge needs to be extended beyond its current sunset date of 2012. A 10-year extension is a minimum. We realize that the public purpose charge does not exist in a vacuum and would advocate that any extension be coordinated with any upcoming changes in energy policy, such as the establishment of a state Renewable Portfolio Standard and similar policies.
- 2) FCEC is also in agreement that potentially increasing the public purpose charge should be raised as a topic for serious discussion. For seven years, FCEC has been an advocate for slow and stable implementation of SB 1149, including the public purpose charge. Even in the immediate aftermath of the western energy crisis of 2000-2001, FCEC supported holding the course on the policy established in 1999.

However, after four and a half years of implementation, we have observed very high demand for efficiency services as well as the fact that there is much more cost-effective efficiency that can be captured beyond the capacity of the current 3 percent public purpose charge. It should also be noted that the original three percent level was based on estimates of conservation potential in the NW Power and Conservation Council's 4th Plan, produced at a time of very low power prices. The Council's recently completed 5th Plan identifies almost twice as much conservation as being cost-effective. Additionally, as public awareness and demand grows for renewable resources, funds available for renewable resource development have also experienced increased pressure. Therefore, since we live in a very different energy world today than we did in 1999, FCEC believes it is worth extensive examination on whether 3 percent is indeed adequate to achieve the purposes set out for these funds. And if there is a consensus to increase the public purpose charge, FCEC also believes that there is room for debate in terms of the amount of any increase. The level of 5 percent suggested in the report draft seems to us to be an acceptable number around which to begin a discussion on any increase.

3) Having said that an increase of public purpose funds is a topic worthy of discussion, FCEC would also like to make clear that a discussion of the distribution of the funds is also an important topic. However, it is too early to make a definitive statement about the exact distribution of funds between efficiency or renewable purposes or whether the current distribution should be changed across agencies. For instance, the current allocation of public purpose charge dollars for schools has funded energy audits for almost every school district in the utility service territories from which the public purpose charge is collected. Public purpose charge dollars are now funding efficiency projects identified in those audits and the projects are financed based on the current allocation of public purpose dollars through 2012. It would not be sound public policy to undermine those projects by reallocating those dollars at this time. At the same time, FCEC cannot say that additional public purpose funds could not be well-utilized in the school districts to achieve more energy savings identified in the audits. Or perhaps additional funds could best be used elsewhere.

The public purpose charge, like everything else in SB 1149, was developed through an extensive and collaborative process. Implementation of SB 1149 has been accomplished through similar collaboration. Institutions such as the Energy Trust of Oregon have likewise been set up to operate in an open and transparent manner so that all stakeholders can take part in determining how the public purpose charge is best utilized. The future of the public purpose charge should be similarly discussed and implemented. FCEC supports the spirit and direction outlined in the report but believes that the specifics need further examination and consideration.

In conclusion, FCEC wishes to thank the state agencies identified by statute for taking responsibility for this review and to thank ECONorthwest for undertaking this important examination. We look forward to continuing to work with other stakeholders to craft answers to the policy questions raised by the report. We hope to be part of continuing the accountability we've seen in the allocation and expending the public purpose charge to achieve the successes that have been seen to date.

SILTRONIC CORPORATION

Summary Comments

1. This draft report appears to be primarily focused on and, increasing funding for the Energy Trust programs, and is based primarily on Energy Trust data and input.
2. Conversely, the Self-Direct portion of the Public Purpose Charge Program is only briefly mentioned in this draft report even though industrial conservation projects result in energy reduction at a lower cost. The many benefits of this program are not addressed. And the Oregon Office of Energy is not mentioned as administering this key and highly beneficial program.
3. Increased use of the Self-Directed program is essential to Oregon businesses to: help finance projects for energy efficiency improvement, remain competitive, improve the environment and reduce costs for more secure job retention in Oregon as a part of the global economy.

Summary Recommendations

1. **We strongly oppose any increase in the PPC percentage for Self-Direct customers.** The provisions of Section 3 (3) (f) of SB 1149 are still appropriate.
2. **If, however, the percentage is increased, the additional funds should not be funneled to the Energy Trust as is proposed in this draft report.** Instead, any PPC increase from Self-Direct customers should be available to them for self-directed conservation and renewable projects.
3. **Increase the benefits to the State of the Self-Direct Program by allowing the approximately 40 large Oregon employers that participate in this program the flexibility to use their full 3 percent contribution for either conservation or renewable projects.**
4. **Self-Direct customers should not be precluded from Energy Trust incentives.** Instead of penalizing these customers, they should be treated equitably with other customers and be permitted to choose between the Self-Direct program and the Energy Trust programs on specific projects. This gives both the Energy Trust and Self-Direct customers more options for investing funds into these programs.
5. **Conduct more rigorous and consistent evaluations of the various PPC programs to ensure agreement on approaches and comparability of results.**
6. **Extend the program five years to 2017, not ten years.** A ten year extension is premature. An extension to 2017 still provides ten years of life to this program.

Discussion

Clearly the draft report relied very heavily on Energy Trust input and data. In addition, this report only briefly mentioned the Self-Direct portion of this program. This is an unfortunate omission, especially considering the many benefits this key program element provides to the State of Oregon. A recent Energy Trust Resource Assessment concluded 77 percent more conservation potential in the industrial sector than the residential sector.¹⁴ Currently there are approximately 40 large energy-users that participate in the Self-Direct program. The size of their energy use and the fact that they are participating in this program means that these Oregon businesses are making significant contributions to the sustainability of Oregon's economy and environment. The following discussion includes recommendations to increase these **improvements from which all Oregonians benefit.**

Reason not to increase PPC Percentage for Self-Direct Customers:

The draft report states: "Due to differences in evaluation activities, it is not possible to make reliable comparisons of energy savings and cost-effectiveness across agencies."¹⁵ Therefore, this report recommends that consistent and more rigorous evaluation methods be developed. This effort should be accomplished before increasing the PPC percentage. This systematic approach will yield the information necessary to make a better decision on whether to increase the PPC percentage. As the report states: "The benefit of having a consistent evaluation requirement across agencies is that comparisons of energy savings and cost (\$/kWh) can be made."¹⁶ Currently information does not exist that is reliable enough to make a decision to increase the PPC percentage in general. More specifically, the legislature, in enacting the original legislation, deemed it appropriate that Self-Direct Customers be excluded from changes in the PPC. This approach is still appropriate. **We strongly believe that the PPC should not be increased for Self-Direct customers.**

What to do with a PPC increase if one is passed:

Industry's implementation of electricity conservation measures has been the most cost effective method of acquiring electrical capacity and generation. At 1.3 cents/kWh, industrial conservation cost less than residential and commercial conservation, and much less than the 4.3 to 4.6 cents/kWh for electricity from the grid in 2005.¹⁷ In

¹⁴ "Energy Efficiency and Conservation Measure Resource Assessment: Final Report," page 13, May 4, 2006. 199 average megawatt potential for the industrial sector compared to 112 average megawatts for the residential sector.

¹⁵ "Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge: Draft Report," ECONorthwest, August 21, 2006.

¹⁶ Ibid.

¹⁷ Presentation by Lee Beyer, OPUC Chairman, to AOI Energy Public Policy Committee, slide 8, March 23, 2006.

addition, capacity costs were \$1.2 million per average megawatt for Self-Direct conservation versus \$1.5 million per megawatt for Energy Trust conservation in 2005.¹⁸ Clearly, in the interest of careful investing, industry executes targeted and very efficient capital expenditure programs. Therefore, in order to cost-effectively invest any additional charge, **these funds should be focused on industrial conservation through the Self-Direct program.**

Remove restrictions to allow Self-Direct customers more flexibility:

Only 56.7% of the public purpose charge is available to industry for conservation projects. But, industrial conservation represents larger, easier opportunities and a pollution-free, or better, electrical resource. Similar concepts are associated with industry-acquired renewables, yet only 17.1% of the public purpose charge is available to purchase renewable energy sources. The economic and environmental benefits, reduced global warming, and hence overall societal benefits are at the heart of the Public Purpose Charge program.

Accordingly, to maximize the benefits of this program to the State and “to achieve energy conservation at the lowest price,”¹⁹ self-direct customers should be provided with the **flexibility to direct their full 3 percent** public purpose charge contribution to projects which they determine will provide the highest value. This flexibility will also address the draft report’s proposal for more rapid response to changing energy markets.

Make PPC Program Equitable:

In addition, Self-Direct customers should not be precluded from some Energy Trust incentives as is currently the case. **These customers should be treated equitably with other customers and be allowed to choose between the Self-Direct program and the Energy Trust programs without penalty.** This approach is supported by the draft report which recommends removing “restrictions that may limit the types of conservation projects...to take advantage of lower cost conservation opportunities as they become available.”²⁰

Conduct more rigorous and consistent evaluations of PPC programs:

The draft report correctly identifies a major issue with the current evaluation methods. A common basis for evaluating programs between the agencies does not currently exist. The lack of a consistent evaluation methodology and reliable information makes it

¹⁸ “Report to the Legislative Assembly on Public Purpose Expenditures: Final Report,” Table 22, page 27, ECONorthwest, March 3, 2005.

¹⁹ “Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge: Draft Report,” ECONorthwest, August 21, 2006.

²⁰ Ibid.

premature to decide to increase the PPC percentage or to significantly extend the sunset date. **We strongly support the need for better evaluation methods.**

A five year extension, not ten, to 2017 seems warranted:

As noted above, without good data on the results of the PPC Program, it would be imprudent and premature to recommend a significant extension of the sunset date. **A reasonable five year extension would be more advisable.**

Listing of Benefits of the Self-Direct Program

- I. Economic Benefits of Self-Direct Program
 - A. Conservation Program
 1. Cost reduction allows for increased competitiveness for Oregon businesses
 2. Less demand on available electricity supply
 3. Most cost effective conservation resource at 1.3 cents/kWh in 2005 or a fraction of the typical cost from the grid²¹. This compares to Energy Trust estimates of the cost of future residential conservation at 3.1 cents/kWh.²²
 4. Leaves room on the grid for other growth without incurring cost of new generation at 4.3 to 4.6 cents/KWH in 2005²³
 5. More secure and reliable electricity supply system
 6. Allows for upgrade or replacement of older, inefficient, and more costly equipment
 7. Economic activity for equipment manufacturers, conservation contractors and support personnel

²¹ Presentation by Lee Beyer, OPUC Chairman, to AOI Energy Public Policy Committee, slide 8, March 23, 2006. Slide 8. Note: The 2005 Energy Trust Annual Report indicates that residential conservation has a levelized cost of 0.8 cents/kWh. This value may be due to assuming relatively long lives for these measures compared to other types of conservation projects.

²² "Energy Efficiency and Conservation Measure Resource Assessment: Final Report," page 13, May 4, 2006.

²³ Presentation by Lee Beyer, OPUC Chairman, to AOI Energy Public Policy Committee, slide 8, March 23, 2006.

8. Direct investment and quick processing (Oregon Office of Energy and individual business internal capital approval process)
9. Highly customizable to meet the unique needs of a variety of businesses
10. Cost-efficient acquisition of capacity: \$1.2 million per average megawatt for Self-Direct conservation versus \$1.5 million per megawatt for Energy Trust conservation²⁴

B. Renewables Program

1. More secure and reliable electricity supply system
2. Economic activity for equipment manufacturers, conservation contractors and support personnel
3. Reduced overhead and quick processing (Oregon Office of Energy and individual business internal capital approval process)
4. Highly customizable to meet the unique needs of a variety of businesses

II. Environmental Benefits of Self-Direct Program

A. Pollution-Free or Better

1. Reduced greenhouse gas, or climate change, emissions (CO₂)
2. Reduced acid rain-forming emissions (NO_x, and SO₂)
3. Reduced emissions of human health hazards (CO and VOCs)
4. Reduced ozone forming emissions (VOCs)

B. Conservation of resources reduces impacts on other elements of the environment such as migrating salmon through hydro-electric dams, and the generation of waste

C. Reduces impacts from the production of raw materials (natural gas and coal) for electricity production.

²⁴ "Report to the Legislative Assembly on Public Purpose Expenditures: Final Report," Table 22, page 27, ECONorthwest, March 3, 2005.

PORTLAND GENERAL ELECTRIC

September 22

PGE agrees that there is more cost-effective EE achievable in our service territory than is currently being captured. We also believe that the right place to establish the target is the utility's Integrated Resource Plan. The amount of EE available is subject to change (up or down) and decisions to fund additional EE need to be made within the context of other resource options. There are also a number of funding options that should be considered prior to raising the PPC cap by two percent.

Regarding utility-scale renewables, the portion of the PPC dedicated to renewables was specifically designed to cover the above-market cost of renewables, predominantly utility-scale projects. If customers are going to be asked to pick up the above-market costs of utility-scale projects (in rates) under an RPS scenario, the amount of the PPC being dedicated to renewables needs to be reconsidered, not simply shifted to other renewable initiatives.

PGE does not agree with relaxing the requirement to spend 80% of PPC funds within the service territory where they were collected. In fact, we believe a case can be made for requiring something closer to 100% of the funds collected be returned to our customers over time. There are many direct benefits associated with EE projects that accrue to the host, as well as a reduced need for the host utility to acquire power to serve the customer.

THE HOUSING ALLIANCE

Aug. 31, 2006

The Housing Alliance is a coalition of organizations from throughout Oregon with an interest in affordable housing. Our 44 organizational members include numerous advocacy organizations, non profit developers, housing authorities, and local governments. Our members helped to create the Housing Trust Fund in 1991, and they use it to develop affordable rental and homeownership units throughout Oregon.

We are particularly concerned with Recommendation #7 on page iii and again on page 9 that the Housing Trust Fund not be funded with revenues from the Public Purpose Charge. We strongly disagree with this recommendation for the following reasons:

- First, the current distribution of funds was arrived at through a lengthy legislative process which balanced the needs of all utility ratepayers and resulted in a highly negotiated plan to use the Public Purpose Charge to meet statewide ratepayer needs. This agreement should not be un-done without significant deliberation and more input from affected parties.
- The analysis which underlies the report is limited, and the list of stakeholders consulted does not include organizations representing low income residents of affordable housing or developers of affordable housing. Only 2 of 24 interviewed organizations have anything to do with affordable housing, and it is likely that even with those two organizations the interview focus was on weatherization programs, not affordable housing development.
- Your recommendation number 6, page 8, acknowledges the limited evaluation of the uses of these funds that has been done to date. Without evaluation, it is hard to quantify the benefits of affordable housing or to fully articulate the correlations between affordable housing development and energy efficiency.
- Recommendation #7 acknowledges that “there are some energy benefits to the Housing Trust Fund projects”, but it does not take into consideration the depth of correlation that we do know exists between high energy consumption and existing market housing occupied by many low income Oregonians. Especially in rural areas, this market housing is typically poorly constructed or maintained – little or no insulation, leaky windows and doors, old inefficient heat sources and major appliances. The report seems to recognize the value of weatherizing these energy-wasting units, but not in replacing them with new or rehabbed energy efficient units funded by the Housing Trust Fund. There is a direct correlation between energy efficiency and Housing Trust Fund expenditures.
- Your recommendation suggests that affordable housing should get funds elsewhere. This is a simplistic recommendation not easily implemented. Further, this overlooks the deliberate choice made by the Legislature in SB 1149 to fund affordable housing using the Public Purpose Charge.

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES (ICNU)

September 5, 2006

The Industrial Customers of Northwest Utilities (“ICNU”) submits the following comments.

1. ICNU opposes Recommendation #1 to increase the public purpose charge from 3% to 5% and Recommendation #2 to authorize the OPUC to adjust the public purpose charge for all customers every five years. These recommendations are based on the mistaken premise that the OPUC is currently without the authority to increase the 3% charge. ORS 757.612(f) provides:

The commission may establish a different public purpose charge than the public purpose charge otherwise described in subsection (2) of this section for an individual retail electricity consumer or any class of retail electricity consumers located within the service area of an electric company, provided that a retail electricity consumer with a load greater than one average megawatt is not required to pay a public purpose charge in excess of three percent of its total cost of electricity services.

This provision reflects the legislative finding that large end-users make significant investments in energy efficiency even without the funds earmarked for this use under the 3% public purpose charge. Any increase in the 3% should not be imposed on such customers. ICNU agrees.

ICNU also notes the limitations of this Report. The Report does not address “how the funds have been spent” or “how well the individual conservation and renewable energy programs are being run by agencies receiving public purpose funds.” Draft at ii. Given these limitations, it is premature to conclude, even if there is more cost-effective conservation available, that the public purpose charge is the best means to capture these savings. Without this information, it would be imprudent to increase the 3%.

2. ICNU opposes Recommendation #3 which would extend the sunset from 2012 to 2022. This is beyond the scope of this Report and is also premature. As the Draft concedes, this issue is scheduled to be addressed in a separate report to the legislature in 2011. This reflects a judgment that 2006 is too soon to know whether the public purpose charge and the Energy Trust are working effectively. In fact, Trust programs have been in place for only four years. At most, ICNU would support moving the report date on this issue up from 2011 to 2009.

3. ICNU opposes Recommendation #4 which advocates, if there is an RPS, that the 17.1% of the 3% for renewables be continued and dedicated to renewables that cannot compete against utility-scale renewables in the RPS. If an RPS is imposed, then the RPS should replace the component of the public purpose charge dedicated to funding out-of-market renewables, i.e., the 17.1% of the 3% should be eliminated. Utility customers should not be burdened with the costs of an RPS and the additional costs of supporting the development of small-scale renewables that cannot compete. If such economic development is a state goal, then it should be funded by a mechanism other than a tax on utility customers.

4. ICNU opposes Recommendation #5 which would allow conservation which is characterized as “direct use” renewables to be funded as out-of-market renewables. “Direct use” renewables are conservation; they do not generate electricity but avoid an energy use (e.g. solar water heating). As conservation, “direct use” renewables generally are not cost-effective and thus, are not funded by the Trust. While such projects may be beneficial, they do not fit within the goals of the public purpose charge—to fund cost-effective conservation and to fund renewable resources that deliver MWh to the grid.

5. ICNU supports Recommendation #7 to eliminate the 4.5% of the 3% that goes to the Housing Trust Fund. ICNU agrees that this use of public purpose charge funds is “not consistent with the general interest of the public purpose funding system, which is to use ratepayer money to fund energy conservation and renewable energy.” Draft at 9. If the legislature decides to continue this funding of the Housing Trust, it should be funded by some means other than a tax on energy.

6. ICNU agrees, with modifications, with Recommendation #6 that there should be a consistent and objective evaluation of all funded programs. The 3% funds should be used to achieve the largest number of MWh savings at the earliest time and at the least cost. To direct the funds in this manner, programs must be evaluated, selected, and verified in an objective and fair manner consistent with this goal. Levelized costs alone do not capture the benefit of early MWh savings (particularly when there are concerns with measure life assumptions) and it is early MWh savings that will allow deferral or avoidance of new generation acquisitions. ICNU recommends that the OPUC in conjunction with the Oregon State Energy Office, rather than the Trust, directly undertake this responsibility and begin a review process to develop appropriate standards consistent with this goal.

7. ICNU agrees, with modification, to Recommendation #8 which advocates that at least 80% of funds collected from a utility be spent on average in a three-year period in that utility’s service territory. PGE customers should not subsidize Pacific Power customers; nor the reverse. The 80% standard for conservation is established by statute. A three-year average allows some flexibility to capture low-cost opportunities that might otherwise be missed.

This statutory standard is not to be confused with the so-called “equity” standard imposed by the Trust. Within each service territory, funds should be used in aggregate to capture the highest MWh savings at the earliest time and at the lowest cost available from any sector. This goal, however, requires a fair and objective evaluation and verification of project savings and, as stated above, ICNU has concerns with the current evaluation and verification methods and recommends that the OPUC in conjunction with the Oregon State Energy Office directly undertake this responsibility.

8. ICNU supports Alternative Recommendation #2 which would allow self-direct customers to retain the full 3%. For those customers who self-direct, we believe this is the best use for the entire 3% or, alternatively, allow customers that can show investments in conservation above 3% to be exempted from the charge.

Finally, ICNU has a concern with the source base for the Draft Report. The “primary sources” were interviews. Draft at i. The interview list is heavily biased against those

who pay the 3% charge. Only two industrial end-use customers and only two organizations that represent industrial and commercial end-use customers were interviewed. A broader inquiry may have produced a more balanced basis from which ECONorthwest may have reached different conclusions.

Sincerely yours,

Michael Early

NW ENERGY COALITION (NVEC)

August 25, 2006

NW Energy Coalition (NVEC) is pleased to provide you these comments on the PPC Modifications Report (“Report”). We also support the comments of the Fair and Clean Energy Coalition. In general we are very supportive of the recommendations in the Report, so I will address only those items that we believe need modification.

Recommendation #1: Increase public purpose charge from 3 percent to 5 percent of annual retail electricity sales.

NVEC strongly supports this recommendation but not the particular point that the additional 2% be solely reserved for ETO conservation programs. The Report documents the need for more conservation funding but fails to also note the need for increased low-income weatherization funding. Certainly with increased energy costs, the need for low-income funds has not been reduced. We recommend that the additional 2% instead be allocated to increase both low-income and ETO conservation funds, perhaps in the same proportion as in the original law.

Recommendation #2: Have changes to public purpose rate placed under OPUC control. Limit public purpose charge rate adjustments to every 5 years in coordination with available estimates of conservation and renewable resource potential.

We pointed out in an earlier e-mail that the PUC already has the authority to change the PPC under Section 3(3)(f), except as applied to customers with loads greater than 1 MW, so the Report’s discussion on this issue (“only the Oregon Legislature has the power to change the public purpose charge rate,” or, “The current system is not flexible enough to adapt quickly to situations like the energy crisis in 2001...”) is factually incorrect. However we support broadening this authority to large customers, as well as the recommendation that changes be made generally every five years coordinated with the NW Power and Conservation Council’s Plans.

Recommendation #6: Consistent and rigorous evaluation methods should be developed and applied to all programs funded by the public purpose charge.

While at first glance this recommendation seems innocuous, it deserves more discussion and research before accepting the underlying finding that current evaluation methods are inadequate. In fact, we disagree that there is even a problem, and including this recommendation implies to the reader that current evaluation is not rigorous.

Currently the ETO is overseen by the Commission which already requires a high degree of evaluation. The state agencies that direct the low-income and other funds exercise a similar function. These programs, we should point out, have tremendous non-energy benefits that must be included if a consistent evaluation method is required. Finally, the self-direction projects that large customers may undertake are overseen by ODOE. We fail to see a problem here, and before such a recommendation is offered it is incumbent upon the authors to document where the inadequacies are.

Recommendation #7: The use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.

It is somewhat presumption of the authors of this Report to assume they know what the “general intent of the public purpose funding system” is. While NWECC did not support this particular section of the bill, it is also true that there were other parties who did. It is most likely true that *every* party had to accept parts of the final bill that were not to their liking. The careful compromises that lead to this bill’s passage and its overwhelming success and continued support by the many parties involved is evidence, in our opinion, that it is a balanced product.

We simply cannot endorse reaching in to one important compromise and asserting that it is not consistent with the general intent of the bill. We do not support eliminating the portion of public purpose funds that goes to the Housing Trust Fund.

Given that caveat, however, we would support a recommendation that public purpose funds that go to the OHCS Housing Trust Fund be targeted to improving the energy efficiency of new or rehabilitated low-income housing. These funds should be used primarily for such purposes.

Recommendation #8: Relax the requirement that 80 percent of public purpose funds must be spent within the utility service territory where they were collected. This should be modified to become a performance requirement monitored by the OPUC, with the goal that the 80 percent allocation be maintained on average over a 3-year period (rather than annually).

NWECC supports the recommendation, but we would like to point out what might be seen as a misreading of the data on sector savings that is cited here. Table 1 gives the impression that some sector conservation is more expensive than others. What needs to be understood is that much of the conservation in every sector is done because it would otherwise be a “lost opportunity.” That is, when a new building is constructed, it is important to include conservation measures that would be much more expensive, or indeed impossible to acquire after the building is finished. Some of those measures may be at a higher cost, but they avoid much higher costs later. Presenting a simplistic cost comparison can lead to misleading conclusions.

Thank you for this opportunity to provide comments.

Steven Weiss
Sr. Policy Associate
NW Energy Coalition
503-851-4054
steve@nwenergy.org

THE COMMUNITY DEVELOPMENT NETWORK (CDN)

September 1, 2006

The Community Development Network (CDN) is an association of nonprofit community development organizations in Multnomah County located in Portland, Oregon. CDN strives to strengthen nonprofit community development organizations and to provide a collective voice for healthy, diverse communities. Our 19 member organizations provide affordable rental housing to over 5,000 working families, seniors and people with disabilities in Multnomah County, as well as providing affordable homes for ownership to 304 households.

One of the crucial resources that allow CDN's member organizations to develop affordable rental and ownership housing is the Housing Trust Fund. In this light, CDN and our members are very concerned about ***Recommendation #7: The use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.***

In order for Oregonians to succeed and be prosperous, having the stability and security that comes with a place to call home is essential. Unfortunately, the cost of housing in the private market is making 'home' a less and less attainable reality for so many in our state. Certainly the limited incomes of seniors and people with disabilities are no match for an average cost for a rental apartment. But even those who are gainfully employed in retail, custodial services, the health care industry and food services are increasingly being left out in the cold by our inflating housing market.

Currently, the funding from the PPC is the only dedicated source of statewide funding used for developing housing for affordable to Oregonians left behind by the private market. To discontinue this dedicated revenue source for housing at a time when so many Oregonians are making choices between paying rent and putting food on the table is simply wrong.

Further, the connection between the often substandard private market housing in which seniors, people with disabilities and working families are forced to live due to affordability constraints, and the goal to use PPC funds to provide greater energy affordability is clear: Newly constructed affordable housing by code must meet state energy efficiency requirements. Funding new, needed affordable housing provides Oregon families with lower heating and cooling costs.

Please maintain the dedicated portion of PPC to the Housing Trust Fund, and help more Oregonians have the success that comes with home.

Sincerely,

Martha McLennan
President, Board of Directors

WILLAMETTE EDUCATION SERVICE DISTRICT (WESD)

September 21, 2006

Willamette Education Service District (WESD) is pleased to provide you these comments on the PPC Modification Report (Report). In general we are very supportive of the recommendation in the Report, so I will address only those items that we believe need modifications.

Recommendation #1: Increase public purpose charge from 3 percent to 5 percent of annual retail electricity sales.

WESD strongly supports this recommendation but not the point that the additional 2% be reserved solely for the ETO conservation programs. The report documents the need for additional energy conservation funding but fails to address the need for additional funding for schools. We recommend that the additional 2% be equally allocated to all programs in the original law.

Recommendation #6: Consistent and rigorous evaluation methods should be developed and applied to all programs funded by the public purpose charge.

We believe that currently there are consistent and rigorous evaluation methods in place for each of the programs. We do not recognize a problem with the current systems in place and are not in favor of changes.

Respectfully,

David McKay
Senior Project Manager

PACIFICORP

Consolidated PacifiCorp comments

Page 4. Recommendation #1.

While it is true current energy efficiency demand for industrial funds is greater than current availability, this condition may not persist over the life of the organization and is subject to market and economic changes. In addition, the estimates of available cost effective conservation are subject to revision as the lower cost opportunities are acquired. As such, the proposed increase from 1.7% to 3.7% (for energy efficiency), or 3% to 5% (overall) of revenue may be too high, especially if set in advance and locked in for five years.

PacifiCorp proposes that forecasted expenditures for cost-effective and board approved programs, subject to OPUC review and agreement, be used to set collection levels (up or down) with two primary goals.

- Expenditures and collection should be within 10% of one another every other year
- Public purpose charge should not be adjusted (up or down) more frequently than every two years.

The allocation between energy efficiency and renewables would likewise not be set arbitrarily, but instead be based on forecasted program uptake. This methodology would account for an RPS, if enacted, in conjunction with available conservation opportunities.

Page 6. Recommendation #2.

PacifiCorp would support moving the responsibilities for changes to the public purpose rate from the Oregon Legislature to the OPUC provided there are boundaries placed on the frequency (increases or decreases) and magnitude (increases) of the proposed adjustments, and the OPUC stringently evaluates program cost-effectiveness (existing and proposed) prior to granting requested adjustments. As stated in response to Recommendation #1, PacifiCorp proposes an adjustment frequency of no more than every two years, but less than the proposed five years.

Page 8. Recommendation #6.

PacifiCorp supports the use of consistent evaluation methodologies for all programs funded by the public purpose charge so that program performance comparisons are more transparent. PacifiCorp recommends the California Evaluation Framework as referenced (with minimal changes) be formally adopted. Since the Oregon Department of Energy is a program administrator for programs funded through the public purpose charge, it would be a conflict for them to manage the evaluation framework. The company recommends this task be the responsibility of the Oregon Public Utility Commission.

Page 9. Recommendation #7.

PacifiCorp supports the recommendation to eliminate the use of ratepayer dollars to fund the Housing Trust Fund. The public purpose funds should be used to fund energy conservation and renewable energy projects. PacifiCorp recognizes the need to provide services to households

with limited income and would be in favor of transferring these monies to alternative low-income conservation projects and/or increasing the percentage of funding that is allocated to OHCS for their low income weatherization program that serves single and multi-family housing occupied by owners or renters.

Page 10. Recommendation #8.

PacifiCorp agrees that the current 80% language, as worded, is too restrictive. However, PacifiCorp feels strongly that the requirement remain, but that the OPUC and the Trust be afforded the latitude, as proposed within the recommendation, of a longer period in which to align expenditures and collections (e.g. 2-3 year average).

OREGON HOUSING AND COMMUNITY SERVICES

August 31, 2006

Oregon Housing & Community Services (OHCS) has reviewed your August 21 draft “*Report to the Legislative Assembly on Proposed Modifications to the Public Purpose Charge.*” Your controversial findings and recommendations are of great concern to our Department and many others—and run counter to the very essence of public purpose charges as they were designed by the legislature. If followed, your recommendations would not only undermine the fabric of the public purpose legislation, they would have very serious and unacceptable consequences on communities throughout the state.

The latest draft of your report ignored many important issues and trivialized others specifically outlined in our July 27, 2006 letter. We will again reiterate some of the important facts relating to OHCS public purpose funds with the hope that the concerns raised will be included in your report.

Public Purpose charges for Affordable Housing Development

ORS 757 (SB 1149-1999) clearly delineates outcomes for public purpose funds that include the reduction of energy consumption, the creation of affordable housing, and decreasing the overall housing and energy burden on low-income Oregonians. Energy efficiency was only one of the designated missions of the public purpose funds established through utility deregulation. The legislative intent that established these public purpose funds should not be ignored.

The formulas and legislative language crafted in SB 1149 were reached after a tremendous amount of negotiation with the utilities, state agencies, and policy maker. The resulting statutes state their view on the best use of the public purpose funds.

One of the key components of the public purpose resolution was the funding of affordable housing from the electric utility company profits. Recognizing that this was an important public purpose, the statute dictates that the Housing Trust Fund (Housing Development and Guarantee Account) receive 5% of the 3% profits set aside for public purpose funds after the school portion of the public purpose funds is allocated. This means that roughly one tenth of one percent of utility company profits are reserved for the development of affordable housing. While this is a small percentage of profits, it provides critical funding for affordable housing projects. The public purpose charge is the primary source of revenue for the Housing Trust Fund, comprising 91% of the Housing Trust Fund dollars available.

The investment of the Housing Trust fund is generally limited to \$100,000 per project, enabling the funds to assist more projects throughout the state. The 2005 public purpose expenditure final report illustrated that the investment of \$5,407,552 in Housing Trust Funds provided for the construction or rehabilitation of 1,594 affordable units. The Housing Trust Fund investment leveraged \$159.5 million in other resources. (Historically, every Housing Trust Fund dollar leverages roughly \$35 in additional funding.)

Housing Trust Fund dollars are usually committed early in the development process and enable developers to acquire resources from other funders, making more projects possible. Ratepayers (and taxpayers in general) benefit from every dollar in the Housing Trust Fund, as it provides

necessary affordable housing for their communities at a fraction of the cost that they would have to pay for this housing otherwise.

Housing Trust Funds leverage much more than just funding. The Housing Trust Fund provides the added benefit of more energy-cost efficient housing to those who need it most. Low and very-low income tenants often live in substandard housing that is energy inefficient with high monthly heating costs. With affordable housing provided through the Housing Trust Fund, residents pay a maximum of 30% of their income for rent and utilities. This means that they are able to pay their heat bills and perhaps have money left at the end of the month for other necessary expenditures. The use of the Housing Trust Fund lessens the on-going energy burden for lower-income households. For many low-income households, the savings can make an important difference in meeting their basic household needs.

Most affordable housing projects funded by the Housing Trust Fund are developed with more energy efficient conservation measures. The projects are built to last and are well maintained. Housing Trust Fund projects decrease the energy consumed by their residents every year of the project's 30-40 year expected life.

In summary, the public purpose charges allocated to the Housing Trust Fund:

- Constitute one of the important statutory missions of the public purpose funds—the development of affordable housing. Not only is this a valid use off public purpose funds, it is one of the several stated primary objectives of the public purpose initiative;
- Are virtually the only source of revenue for the Housing Trust Fund;
- Leverage an average of \$35 in other resources, resulting in cost savings to ratepayers (and taxpayers in general), providing necessary affordable housing for their communities at a fraction of the cost that they would otherwise have to pay for this housing;
- Lower the on-going energy burdens of low-income households, some of our most vulnerable citizens; and
- Provide energy efficient housing development that returns energy savings over the 30-40 year life of each affordable housing project.

Determination of Public Purpose Charge Rates

Currently, public purpose charge rates (3% of electric utility company profits) are set in statute. These rates are scheduled to sunset in 2009. the ECONorthwest Report suggests that the sunset should be extended for 10 years and that the Oregon Public Utility Commission (OPUC) should determine purpose charge rates (from 3 to 5% of electric utility company profits).

OHCS supports the extension of the sunset, as Oregon continues to face the same public purpose needs it faced when the public purpose initiative was established. Furthermore, as all of the public purpose areas designated in statute continue to be of concern, OHCS supports the

continued allocation of public purpose charges in the same proportion as currently listed in statute.

The determination of public purpose charge rates should be made with consideration of the electric utility company's financial position, ratepayer tax burden, public purpose needs, and the ongoing welfare of Oregon in general. If ample attention is given to all of these areas fairly, appropriate rates will follow.

The allocation of public purpose charges from rates, however, should be made in keeping with the direction given in statute. No new mission should be created and no primary mission should be ignored when allocating public purpose funds.

It would be inefficient to create an entirely new distribution system for allocating funds. OHCS administers a wide range of anti-poverty programs, including energy-bill-paying assistance, education, weatherization and conservation programs. In most instances, community action agencies, or their designees, offer this energy assistance in a holistic "wrap-around" service package that has proven to be the most effective service model to promote self-sufficiency. In addition, wrap-around services are a cost-efficient way to administer programs. Administrative costs are spread over a number of programs and low-income residents receive a host of coordinated and integrated benefits. If funding through OHCS were reduced or eliminated, remaining energy services would be less efficiently and less effectively distributed.

Following these principles, OHCS supports the fair establishment of rates and allocation of funds, whether by the legislature, the OPUC, or other regulatory body.

Evaluation of Public Purpose Charge Programs by the ETO

The ECONorthwest report recommends that consistent and rigorous methods should be developed and applied to all programs funded by the public purpose charge—and that the Energy Trust of Oregon (ETO) oversee this evaluation.

OHCS strongly agrees that programs must be evaluated to insure accountability and continuous program improvement, but disagrees that the Energy Trust is in the best position to manage those evaluations.

The primary missions of the public purpose funds, as designated in statute, are not solely focused on energy savings. Each public purpose area has its own stated objectives, and some are far-reaching.

For example, OHCS measures and evaluates the results of its weatherization programs against the program objectives of increasing energy savings, reducing household energy burden and preserving Oregon's low-income housing stock. In addition, OHCS is preparing to evaluate even more quantifiable non-energy benefits of its weatherization program, including increased property values, reduced incidence of fire, reduced utility arrearages, increased federal taxes generated from employment, increased income generated from indirect employment, and avoided costs of unemployment benefits.

There is a value in moving toward consistent evaluation of energy savings between programs. However, energy savings alone does not provide a complete evaluation of program savings, effectiveness, or efficiency. A better recommendation might be to ask the ETO, OHCS, and the Oregon Department of Energy to work together to create common overall evaluation criteria to improve the shared energy aspects of its specific programs. Each program should also provide outcome measures and results on its unique objectives. Evaluation responsibilities should be assigned to a third party with broad knowledge of the full array of approaches and outcomes the legislature fully intended in establishing the public purpose initiative.

Conclusion

As we have stated, OHCS takes strong issue with the underlying premises of your report on public purpose charges. Elimination of the Housing Trust Fund allocation ignores the historical basis of the public purpose initiative and ignores the law itself. Any narrowing or redefining of the prescribed missions of public purpose funds is the role and responsibility of the legislature.

It is important that any analysis of public purpose programs contain a full review of its prescribed mission, costs, activities, and benefits. In the case of affordable housing development, your analysis did not even attempt to address these issues. Consequently, your recommendation to eliminate public purpose fund allocations to the Housing Trust Fund has no foundation. The analysis has not assessed the consequences of your recommendation or its affect on ratepayers and Oregon citizens in general. Elimination of public purpose Housing Trust Fund allocations will eliminate significant community savings and lead to greater social costs in many areas.

We have also mentioned important consideration that should govern the determination of public purpose charge rates and the allocation of the resulting public purpose funds.

We urge your immediate reconsideration of these issues and recommendations. If these recommendations are not revised, we ask that you include (not summarize) our comments with your report.

Sincerely,

Rick Crager
Acting Director

COMMUNITY ALLIANCE OF TENANTS

The Community Alliance of Tenants (CAT) is Oregon's only grassroots, tenant-controlled, tenant-rights organization. CAT educates, organizes and develops the leadership of low-income tenants to directly challenge unjust housing policies and practices. CAT's mission is to educate and empower tenants to demand affordable, stable and safe rental homes.

CAT addresses the impact Oregon's decreasing supply of decent, affordable housing and absence of meaningful tenant protections has on low-income tenants. One major challenge for tenants in Oregon is the lack of decent, well maintained, suitable habitable housing that is affordable to families earning low wages, and people on fixed incomes, such as seniors and people with disabilities. Oftentimes, units that are affordable are un-insulated, have inefficient heating and cooling systems, and therefore are very bad for tenants in terms of utility costs. In some worse case scenarios in which a tenant's economic limitations force choices between paying for food or the utility bills, tenants go without heat or electricity, which in turn greatly increases health hazards from the resultant mold and other environmental challenges that emerge from sub-standard housing.

One solution to these affordability based challenges to tenant well-being is newly constructed affordable housing that by law must meet state energy efficiency code requirements.

With these tenant health and habitability concerns in mind, the Community Alliance of Tenants is in opposition to **Recommendation #7: the use of ratepayer dollars to fund the Housing Trust Fund should be reconsidered.**

PPC funding is the only dedicated source of statewide funding used for developing new healthy, energy efficient housing for affordable to Oregon tenants. To cut off this funding does not make sense for the health and well-being of Oregon renters.

Please maintain the dedicated portion of PPC to the Housing Trust Fund, and help more Oregon tenants stay healthy and thrive.

Sincerely,

Ian Slingerland
Executive Director