

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



Senate Bill 1149 Energy Surcharge: Unrealized Savings on Energy and School Utility Costs

Summary

Passed by the Legislature in 1999, Senate Bill 1149 (SB 1149) restructured Oregon's electric power industry. In addition to changing how electricity markets are regulated, SB 1149 created a 3% surcharge on electricity bills to fund energy conservation programs, renewable energy resources, low-income weatherization, and energy conservation in schools. Currently, only Portland General Electric and PacifiCorp customers are subject to the charge.

In 2009 and 2010, schools received a total of \$15.7 million for energy efficiency measures (measures). In 2010, 111 school districts received energy surcharge funds for 815 eligible school buildings. These funds first must be used for energy audits, then can be used for energy efficiency measures such as energy efficient lighting, boiler efficiency upgrades and insulation.

The objective of our audit was to determine whether school districts have utilized energy surcharge funds to implement measures with the highest paybacks. While the section of SB 1149 addressing schools does not explicitly direct districts to consider cost-effectiveness when selecting measures for implementation, the program guidelines establish this focus by setting a standard that school districts first complete all measures with a payback of 20 years or less.

Our analysis of 6,859 energy efficiency measures from 2002-2010 found that school districts did not consistently implement the most cost-effective measures or realize the greatest energy savings. We estimate that, had districts implemented the top-ranked measures instead, they could potentially have achieved almost \$40 million more in anticipated district utility bill savings and gained an additional 70% energy reduction over the collective lives of the measures compared to the estimated results of those measures that were actually implemented.

Many of the buildings that consume the most energy had few measures implemented. Of the total measures identified for these high energy usage

buildings, about 29% were implemented. Additionally, school districts chose some measures that had longer payback periods than their expected lives.

Furthermore, some districts have been slow to use their energy surcharge funds, accumulating balances exceeding 60% or more of the funds they have received. As of December 2010, the balance of unused SB 1149 funds with no measure claims pending totaled approximately \$14.4 million for all school districts.

We learned in interviews with business office and building directors that their measure selection decisions involve other factors beyond cost-effectiveness or energy savings. Several districts cited capital needs, such as replacing aging equipment. School district officials also mentioned that they considered other factors such as better learning environments, safety, and the availability of other incentives.

Some school district officials were hesitant to take on new debt for measures. The SB 1149 distributions could be used to service the debt, with districts able in some cases to redirect their utility bill savings to other needed expenses. However, the officials were concerned about the future availability of surcharge funds, as well as public perceptions about spending priorities.

The allocation method in statute does not prioritize energy savings in the distribution of funds to districts. Instead, energy surcharge funds are allocated to school districts based on the average daily student attendance information for schools located within PGE or PacifiCorp territories. As a result, districts with more energy efficient buildings may receive similar amounts of energy surcharge funds as districts with a larger number of inefficient buildings.

During our audit work, we also found an issue with the energy surcharge distribution formula one utility used. A misinterpretation of the rule resulted in an over-allocation to conservation and renewable programs managed by the Energy Trust of Oregon and an under-allocation to Oregon Housing and Community Services and school districts. Upon notification, the misallocation of about \$800,000 was corrected.

We recommend that the Legislature consider:

- conferring stronger authority to the Department of Energy or another entity to review and approve school districts' planned energy measures;
- providing more specific guidance on cost-effectiveness results or other desired outcomes for the measures; and
- revising the methodology for allocating energy surcharge funds to prioritize high energy use school buildings or providing the Oregon Department of Energy (ODOE) with authority to reallocate future

funds from districts with large balances to districts with more high energy use school buildings.

We also recommend the Oregon Department of Energy revise the payback methodology in the SB 1149 Schools Program Guidelines to incorporate a measure's expected life.

Agency Response

The agency response is attached at the end of the report.

Background

In 1999, the Oregon Legislative Assembly passed Senate Bill 1149, which restructured the electric power industry in Oregon to promote greater competition in electricity markets. In addition to changing how electricity markets are regulated, SB 1149 created a separate energy surcharge to fund cost-effective energy conservation, renewable energy sources, market transformation, low-income weatherization, low-income housing, and energy conservation in schools. Electric utilities collect the energy surcharge from all retail electricity customers within their service territories. The charge is generally equal to 3% of total revenues collected by investor-owned utilities for electricity services.

SB 1149 gave the Oregon Public Utilities Commission (OPUC) rulemaking authority to determine how utilities distribute these funds. Statutes and administrative rules provide for the following allocation:

- Energy conservation in schools – 10.0%
- Local and market transformation conservation – 56.7%
- Above-market cost of new renewable energy resources – 17.1%
- Low-income weatherization – 11.7%
- Low-income housing – 4.5%

The energy surcharge applies to customers of investor-owned utilities, currently Portland General Electric and PacifiCorp. The surcharge went into effect on March 1, 2002 and is due to sunset in 2026. From March 2002 to December 2010, a total of approximately \$62 million was made available to fund school energy audits and energy efficiency measures (measures).

Energy Surcharge Disbursements (millions of dollars in calendar years 2009-2010)

Recipient	Disbursement Source		
	PGE	PacifiCorp	Total
Energy Trust of Oregon	\$69.3	\$42.1	\$111.4
Oregon Housing & Community Services	16.1	9.5	25.6
Schools	9.9	5.8	15.7
Total*			\$152.6

*Total excludes energy surcharge payments retained by self-directing customers.

Source: ECONorthwest, *Report to Legislative Assembly on Public Purpose Expenditures: January 2009-December 2010*. http://www.oregon.gov/PUC/electric_restruc/indices/33110finalppc2yr.pdf.

Other Programs

Most energy surcharge funds are not directed to school energy audits and efficiency measures. The Energy Trust of Oregon receives over 70% of the funds for energy conservation, market transformation, and new renewable energy resources in four sectors: Homes, Businesses, Industry and Agriculture, and Renewable Energy. For example, the Energy Trust uses the funds to encourage more energy efficient home appliances. Oregon Housing

and Community Services also receives funds to install weatherization improvements for low-income households and to develop and retain affordable housing.

Surcharge Pays for Energy Measures in Schools

School districts receive energy surcharge funds to pay for energy audits and energy efficiency measures in schools. In some cases, any resulting savings in utility bills are retained by the districts and can be used to pay for other operating costs such as teacher salaries. In other cases, the expected savings must first go towards paying back loans used to install energy efficiency measures before they can be retained by districts.

Senate Bill 1149 requires the utilities to distribute energy surcharge funds to Education Service Districts (ESDs) using a method that is based on the average daily membership (ADM) of students in the ESD's service area during the prior year. ESDs then distribute the funds to school districts that have eligible schools served by PGE or PacifiCorp. The table below shows the total number of ESDs, school districts, and school buildings eligible for energy surcharge funds in 2010.

Districts & Schools Eligible for SB 1149 Funds During 2010

Education Service Districts	16
Eligible School Districts	111
Counties with Eligible School Districts	27
Eligible School Buildings	815
452 in PGE territory	
363 in PacifiCorp territory	

School districts must complete an energy audit on each school building before any energy surcharge funds can be used to implement energy conservation measures. The law also requires school districts to coordinate with the Oregon Department of Energy (ODOE) and incorporate federal funding into measures along with energy surcharge funds. However, SB 1149 did not provide ODOE or any other agency with explicit authority to oversee the use of energy surcharge funds in schools.

For its part, ODOE entered into intergovernmental agreements with the ESDs that resulted in the ESDs requiring school districts to meet program guidelines in order to receive reimbursement for eligible projects from their energy surcharge funds. Working with representatives from various school districts and ESDs, ODOE developed the SB 1149 Schools Program Guidelines to facilitate implementation of SB 1149 provisions that apply to schools. Originally devised in 2002, the guidelines were updated in 2005 and 2008.

The guidelines address a number of eligibility requirements for the school building, specifying that it must:

- be served by PGE or PacifiCorp;
- be a public K-12 instructional school building;
- be owned by the school district;
- have an ADM established by the Oregon Department of Education;
- not be scheduled for closure within two years; and
- undergo an energy audit that meets ODOE standards.

Some school buildings, such as newly constructed school buildings in their first two years of operation, are eligible for a waiver from the energy audit requirement.

There are three types of audits with the simplest, Level I, being a walk-through of a building and general assessment. The most complex is Level III, which entails a review of capital intensive measures with detailed analysis, calculations, or modeling to determine the potential interactive effects of energy efficiency measures.

The type of energy audit a school is required to conduct depends on a building's energy usage index (EUI), which is calculated as energy usage (BTU) per square foot per year (sf/yr). As shown in the table below, the program guidelines established baseline EUI ranges for instructional buildings, depending on whether the building is an elementary, middle, or high school and whether it is located in Western Oregon or Eastern Oregon.

Energy Usage Index Target Ranges for School Buildings

Region	School Type	Target Range	Typical Operating Hours
Western	Elementary School	37,800 - 43,200 BTU/sf/yr	2,400 Hours
	Middle School	39,900 - 45,600 BTU/sf/yr	2,600 Hours
	High School	44,800 - 51,200 BTU/sf/yr	3,200 Hours
Eastern	Elementary School	47,600 - 54,400 BTU/sf/yr	2,400 Hours
	Middle School	46,900 - 53,600 BTU/sf/yr	2,600 Hours
	High School	46,900 - 53,600 BTU/sf/yr	3,200 Hours

For a school building with an EUI that falls within the applicable target range, the guidelines allow the school district to waive the audit requirement or to conduct a Level I Energy Audit. Energy audits are mandated for schools with an EUI that exceeds the target range, with the particular type of audit dependent on the amount of excessive energy consumed. Guidelines also require schools to update energy audits that are over three years old if energy consumption increases by 10% or more. Once all eligible buildings within a school district meet the audit requirement, the district should complete an implementation plan before undertaking any of the measures.

Implementation plans must include the measure description, costs, projected savings, funding sources, and timeline. Once completed, plans should be approved by ODOE.

Guidelines also require school districts to first complete all measures with an estimated simple payback of 20 years or less. The estimated simple payback is calculated as the measure’s estimated total cost divided by the dollar value of the estimated energy savings in the first year. The table below includes an example measure from the Reynolds School District. The estimated cost to install a building automation system at Walt Morey Middle School was \$152,576, with expected energy savings of \$9,441 for the first year. The resulting estimated simple payback is 16.2 years.

After a district has completed all measures with a payback less than 20 years, it can begin implementing measures with paybacks over 20 years, use the funds to make energy efficiency upgrades on non-instructional buildings (e.g., district offices) or implement other eligible measures. Table 1 below illustrates some examples of the types of energy efficiency measures implemented using energy surcharge funds.

Examples of Energy Conservation Projects

School District	School Building	Project Description
Dayton School District	Dayton Grade School	Install efficient ballasts with T8 or T5 lamps.
Reynolds School District	Walt Morey Middle School	Install a building automation system/direct digital energy control system.
Crook County School District	Ochoco Elementary School	Tune up boiler by adjusting air-fuel ratio.
Salem-Keizer School District	Hoover Elementary School	Insulate ceiling.

The 2011 Legislative Assembly passed House Bill 2960, which provided additional financing options for energy efficiency improvements in schools throughout the state. Among its provisions, the bill directed utilities to remit SB 1149 energy surcharge funds directly to eligible school districts, bypassing the Education Service Districts.

Districts Are Not Choosing Measures with the Highest Energy Payback

Under SB 1149, one of the goals of the energy surcharge is to “fund new cost-effective local energy conservation.” To assess whether the energy surcharge funds distributed to school districts were used to implement the most cost-effective energy efficiency measures, we reviewed 6,859 measures that were identified in energy audits prior to 2010, or implemented by school districts from 2002 to 2010. A total of 1,701 measures were implemented by school districts during this period.

We ranked each school district’s measures from highest to lowest by their estimated simple paybacks. However, because estimated simple payback does not account for a measure’s expected life, we also ranked each district’s measures by three additional payback methods:

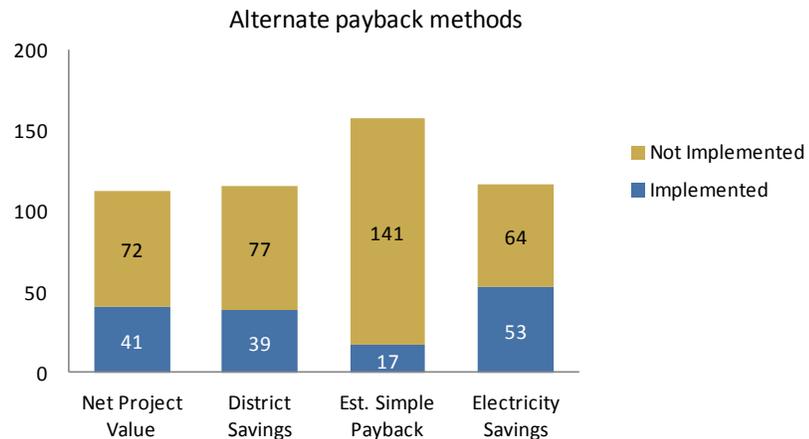
- *Net Project Value* – Calculates the total energy cost savings over the life of the measure and then subtracts the measure’s estimated cost (estimated annual cost savings times expected life minus estimated cost);
- *District Savings* – Calculates the total energy cost savings over the life of the measure without subtracting the measure’s estimated cost (estimated annual cost savings times expected life); and
- *Total Electricity Savings* – Calculates the total electricity savings in kilowatt-hours over the life of the measure (estimated annual electricity savings times expected life).

Only 23% of High Payback Measures Were Implemented

Among the 6,859 identified measures, 1,316 were ranked in the top five for a district by one or more of net project value, district savings, estimated simple payback, or total electricity savings. Of these, only 299, or about 23%, have been implemented. Instead, districts completed 1,402 measures that were ranked outside the top five.

We also evaluated whether each district had addressed the top measure as ranked by each payback method. We found that districts had implemented less than half of the top-ranked measures, regardless of which payback method was used.

Measures Ranked #1 by District



Only Half of the Highest Energy-Use Buildings Got Upgrades

We also evaluated whether energy surcharge funds have been targeted to the eligible school buildings that use the most energy. Using the EUI standard established in the program guidelines, we focused on school buildings with the worst energy efficiency: buildings that used at least 40% more energy than the target set by ODOE for at least half the years they reported their energy use.

The following table shows the total number of districts with high energy usage school buildings and the number of these buildings with identified measures, as well as the number of these districts and school buildings with more than one implemented measure.

	Districts with High Energy Usage Buildings	High Energy Usage Buildings with Identified Measures
Total	66	219
With >1 Completed Measure	38	115
% With >1 Completed Measure	57.6%	52.5%

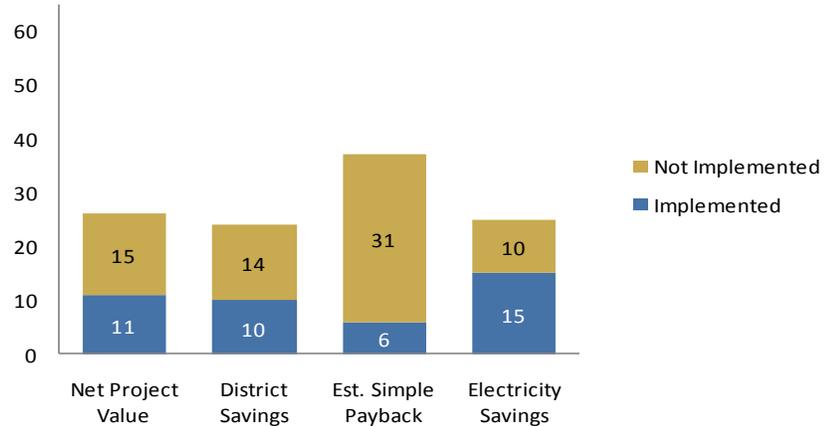
About half of districts with high energy usage buildings have implemented more than one measure in those buildings. For example, Phoenix-Talent School District completed measures in all of its five buildings, whereas Bend-La Pine School District only addressed one of its seven buildings. Similarly, about half of high energy usage school buildings in Oregon have implemented more than one measure using energy surcharge funds. However, of approximately 1,859 identified measures for these high energy usage buildings, only 531, or about 29%, have been implemented.

Using three of the payback methods described previously, we looked at how many of the top-ranked measures were identified for high energy usage schools and how many of those measures had been implemented. For the

measures ranked number one, we found that districts had implemented less than half of the measures for each of the payback methods except total electricity savings.

Measures in High Energy Use Buildings

Ranked #1 by District



Lost Savings in Energy and School Utility Bills

By not implementing the most cost-effective measures, districts save less energy or spend more to achieve a given level of energy savings.

In order to examine how the districts' decisions have affected the overall value and level of savings they achieved, we compared the estimated costs and results of all implemented measures to measures with a net project value ranking of 1 to 12. While the estimated costs for both groups of measures are about the same, the estimated returns for each group differ considerably regardless of the way cost-effectiveness is calculated, as indicated in the table below.

Implemented Measures vs. Most Cost-effective Measures

	Implemented (1,701 Measures)	Most Cost-effective (1,190 Measures)
Estimated Cost (\$millions)	\$50.9	\$50.0
Net Project Value (\$millions)	\$25.0	\$65.5
District Utility Bill Savings (\$millions)	\$75.9	\$115.4
Total Energy Savings (Million BTUs)	6,029,186	10,446,514

Based on the estimated costs and savings data, districts could potentially have improved the overall value of measures over their collective estimated lives by \$40 million, or achieved almost \$40 million more in district utility bill savings, and reduced energy needs by roughly 70% had they instead chosen to implement the 1,190 top-ranked measures. It should be noted that some districts may not receive sufficient SB 1149 funds to implement all of their

twelve highest ranked measures, which would reduce the amount of potential savings. Additionally, the energy savings from the measures districts implemented, taken together, meet the electric efficiency performance target of 3.5 cents per kilowatt hour the OPUC has set for the Energy Trust of Oregon.

Some Payback Periods Exceed the Expected Life of the Measure

School districts are also using SB 1149 funds for measures even when the estimated simple payback periods exceed the expected lives of the measures. These measures are expected to lose money, since they are estimated to cost more than the energy savings realized over their expected lifetimes. For example, Newberg School District installed insulated roofing panels at Mabel Rush Elementary School in 2005 that had an estimated simple payback of 110.5 years and an expected life of 25 years. The panels were estimated to cost \$84,200, but were only expected to generate \$762 in energy savings each year, for a total of \$19,050 in energy savings over 25 years. In sum, the measure is estimated to lose \$65,150 over its expected life.

We found that approximately 30% of the eligible energy efficiency measures identified by energy audits have an estimated simple payback that exceeds the measure's life by one year or more. If these measures are all implemented, they are estimated to collectively cost about \$95 million more than the energy savings realized. Moreover, districts have actually implemented 333 of these measures, at a cost of about \$19 million. The measures are estimated to have total energy savings of \$12.8 million before needing replacement, resulting in an estimated net loss of approximately \$6.2 million.

Some School Districts Are Not Using Funds in a Timely Manner

Some school districts have been slow to utilize the funds, accumulating balances of more than 60% of all funds they had received since the program began in 2002. As of December 2010, the balance of unused SB 1149 funds, with no claims pending, for all eligible school districts totaled approximately \$14.4 million.

Our analysis indicates that, as of December 2010, 15 of the 111 eligible school districts have not undertaken any of the measures identified by energy audits. In our interviews with school districts, we asked what factors allowed them to utilize their energy surcharge funds. Ten of the 16 districts we contacted cited access to bond funds or other funding sources to finance the measures as a significant factor in using their funds.

Various Factors Reduce Energy Savings

Statutory Allocations Are Not Targeted to Highest Energy Needs

Energy surcharge funds are allocated to school districts based on the ADM information for schools located within PGE or PacifiCorp territory. The

allocation method does not prioritize energy savings. As a result, districts with more energy efficient buildings may receive similar amounts of funds as districts with a larger number of inefficient buildings. For example, the Gresham-Barlow and Medford school districts have similar average daily attendances of about 11,700 and have received about the same amount of energy surcharge funds. However Gresham-Barlow has only 1 high energy usage school whereas Medford has 9.

District Decisions Involve Non-Energy Factors

In order to determine how school districts prioritized the measures they implemented, we interviewed finance or buildings managers from 16 school districts that vary in size, location, and several other characteristics. None of the districts we interviewed cited cost-effectiveness, the payback period, or energy savings as the sole factor when selecting measures to implement. Key factors mentioned by 13 districts included cost-effectiveness or energy savings, while 9 districts cited capital needs, such as the need to replace aging equipment. Districts also mentioned factors such as improving the classroom learning environment, reducing operating costs or maintenance requirements, safety considerations, and availability of other incentives.

No Clear Oversight Authority Established

One factor that likely contributes to school districts not implementing the most cost-effective measures is that SB 1149 does not grant formal oversight authority to the Department of Energy or any other entity to ensure that measures implemented by school districts are cost-effective. The law only requires school districts to coordinate with ODOE “to the extent practicable.” So, although ODOE developed the SB 1149 program guidelines with input from school district staff and other stakeholders, it lacks statutory authority to require compliance with the guidelines. Moreover, the section of SB 1149 addressing the energy surcharge funds for school districts does not explicitly indicate that districts should consider cost-effectiveness when implementing measures.

The passage of House Bill 2960 also affected ODOE’s ability to compel school districts to implement measures with better paybacks. Under SB 1149, PGE and PacifiCorp remitted the energy surcharge funds for schools to Education Service Districts (ESDs), which reimbursed school districts when measures were implemented. Each of the ESDs receiving energy surcharge funds had signed intergovernmental agreements with ODOE in which they agreed to ensure that all the school districts within their territory adopt and follow the program guidelines. Now that HB 2960 directs the utilities to send the funds directly to school districts, the ESDs no longer have a role in working with ODOE to make sure the districts are following the guidelines.

Better Payback Methodologies Are Needed

As mentioned previously, the program guidelines use estimated simple payback to evaluate a measure’s overall cost-effectiveness. However,

estimated simple payback does not take a measure's expected life into account. Thus, a measure could meet the guidelines with an estimated simple payback of less than 20 years, but the payback could still exceed the expected life of the measure. In that case, the measure would not pay for itself within its useful life and would ultimately cost more than it saves.

Additionally, the payback calculation depends on the measure's costs and energy savings as estimated in the energy audit. However, if the estimates are inaccurate, the district expands the scope of the measure, or if equipment or other costs increase, the estimated simple payback can change substantially. For example, if the actual costs significantly exceed the estimated costs, the resulting payback will be underestimated. ODOE's contracts with energy auditors specify measure cost estimates should be within 30% of actual measure costs. We found 79 implemented measures where actual costs exceeded the estimated costs by at least 30% and by \$50,000 or more. For these 79 measures, actual costs were roughly \$9.6 million higher than the estimated costs. Additionally, 46 of these measures had estimated simple payback periods that, when re-calculated using actual costs and assuming no changes in energy cost savings, became longer than the estimated lives of the measures.

Some Districts Are Reluctant to Leverage Funds

When talking with school district and ODOE staff, we heard that some school districts are hesitant to take on new debt for measures, even though their SB 1149 distributions could be used to service the debt and, in some cases, their utility bill savings could be redirected to other needed expenses. Staff from one district indicated that they would not borrow against their balance of energy surcharge funds because there is no guarantee the funds will continue to be available. They were concerned that the legislature could redirect the school district energy surcharge funds to other uses and did not want to burden the district's general fund with debt should the energy surcharge funds no longer be available. Staff from another district stated that the public would not understand why the district was borrowing funds for energy efficiency measures at the same time staff positions are being cut, even though the district realized that the energy savings from the measures would provide additional funding for positions.

Misallocation Detected and Resolved

During our audit work, we found an issue with the energy surcharge distribution formula used by one utility. Some customers, called self-directing customers, are eligible to receive credits against their energy surcharge for installing qualified conservation or renewable energy measures. Beginning in 2005, the utility changed its method of accounting for credits earned by self-directing customers. When making this change, an erroneous interpretation of administrative rules led to an ongoing over-allocation to conservation and renewable programs managed by Energy Trust of Oregon and an under-

allocation to Oregon Housing and Community Services and the Education Service Districts.

By the time we discovered this, the cumulative misallocation over more than six years had grown to about \$800,000. Once we raised the issue, the utility and the Energy Trust of Oregon took timely steps to make correcting distributions. The utility also revised its process to assure that the allocation of future distributions was consistent with statute. Additionally, the Oregon Public Utility Commission updated its administrative rules to clarify how the utilities account for self-direct credits.

Matters for Legislative Consideration

We recommend the Legislature consider the following actions to improve how school districts utilize the energy surcharge funds:

- Confer stronger authority to the Oregon Department of Energy or another entity to review and approve the energy measures that school districts plan to implement.
- Provide more specific statutory direction regarding the cost-effectiveness or other desired outcomes of measures eligible for implementation. This could include determining what payback method should be utilized by school districts and what payback standard a measure must meet in order to be eligible for implementation.
- Revise the allocation method for energy surcharge funds to prioritize distribution to districts with more high energy use school buildings or provide ODOE with authority to reallocate future funds from districts with large balances to districts with more high energy use school buildings.

Recommendations

To improve how school districts utilize the energy surcharge funds, we recommend the Oregon Department of Energy revise the payback methodology in the SB 1149 Schools Program Guidelines to incorporate a measure's expected life. This could include, but is not limited to, using a different payback method or making a measure ineligible for energy surcharge funds if its estimated simple payback exceeds its expected life.

Objectives, Scope, and Methodology

The objective of our audit was to determine whether the energy surcharge funds distributed to school districts led to implementation of eligible conservation measures with the highest payback returns as identified by contracted energy audits.

To accomplish this objective, we utilized records of conservation measures, school energy usage, and school eligibility data contained in the Oregon Department of Energy's Schools Interactive Database (SID). We conducted data verification tests on the SID data and found minor problems. However, information entered into the SID for estimated measure cost, estimated cost savings, estimated energy savings and estimated simple payback comes from the energy audits performed by energy auditors. We relied on the accuracy of these energy auditors' estimates for our analyses and nothing came to our attention during our audit work to suggest that the data in SID does not significantly match the results of the energy audits. However, to the extent that the energy auditors' estimates are inaccurate, our conclusions could change.

We first reviewed records of 7,309 measures identified in energy audits through the end of 2009. We then compared the 7,309 measures against the school eligibility data in SID and excluded unimplemented measures that were identified for ineligible school buildings. We also excluded measures that were implemented outside of 2002 to 2010, measures implemented without using energy surcharge funds, and measures with a negative estimated simple payback that were not implemented. Overall, we excluded a total of 450 measures, leaving 6,859 measures.

Our analysis of these measures started with ranking the measures for each district by each of the four different payback methods: net project value, district savings, estimated simple payback, and electricity savings. We then looked at the number of those measures ranked number 1 to see if districts had generally implemented most of these measures. We conducted the same analysis on measures identified in eligible school buildings that use the most energy. Specifically, we focused on buildings that exceeded the energy usage index targets in the SB 1149 Schools Program Guidelines by 40% or more for at least half the years in which energy usage data was reported. We also looked at how many districts had implemented measures for which the estimated simple payback exceeded the expected life of the measure.

School districts may not indicate in the SID when measures with estimated costs of \$0 have been implemented because the districts would not need to use energy surcharge funds in order to implement them. We found that 107 of the 6,859 measures we used in our analysis had estimated costs of \$0. Since including these measures only affected the rankings using the estimated simple payback method, we only excluded these 107 measures from the simple payback analysis.

To discover what factors school districts used when deciding which measures to implement, we conducted interviews at 16 school districts. We selected these districts based on several different criteria. The criteria included whether any of the districts had: measures with actual costs that significantly exceeded the estimated costs; not implemented any measures; measures with paybacks that exceed their estimated lives; measures implemented with long estimated simple paybacks; implemented all measures identified by energy audits; and implemented measures that were mostly ranked in the bottom 50% by net project value, district savings, or estimated simple payback. We then gave further consideration to ensure the districts selected included representation from various counties, different sized school districts (by ADM), both PGE and PacifiCorp territories, and eastern and western state regions.

During the interviews, we talked with business office directors, buildings directors, and others, by phone or in-person. We asked a variety of questions relating to the factors that allowed their districts to utilize their energy surcharge funds; the factors they considered when determining which measures to implement; their experiences working with outside project managers, third parties, and the Department of Energy; and how they are managing their energy surcharge funds after the passage of HB 2960. The business office director for one district was unavailable by phone and instead responded in writing.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Oregon

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May 8, 2012

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Dear Mr. Blackmer:

Thank you for the opportunity to respond to the findings and recommendations in the Secretary of State Audit Report *Senate Bill 1149 Energy Surcharge: Unrealized Savings on Energy and School Utility Costs*.

Since the beginning of the distribution of public purpose funds, the Oregon Department of Energy (ODOE) has provided program tools and technical energy efficiency expertise to schools that receive SB 1149 funds. ODOE is currently engaged in a stakeholder process that will lead to improvements to the Program Guidelines and the list of pre-qualified energy auditors. ODOE concurs with the audit recommendation to incorporate a measure's expected life in the payback methodology. The agency will incorporate that change when it distributes revised Program Guidelines in September 2012.

ODOE would like to offer an additional observation about this report. The legislative recommendation to revise the allocation methodology to focus on high-energy use schools may create a potential unintended consequence. Several schools have leveraged SB 1149 funds by combining this revenue stream with energy savings to repay loans that finance energy efficiency improvements. The energy savings achieved through these investments often extends beyond the duration of the loan repayment period, and can ultimately lead to more funds going back into classrooms. This is one of the goals of the Governor's Cool Schools Initiative. Modifying the allocation methodology may negatively affect the continued success of schools that have already or that may want to leverage SB 1149 funds as well as the Governor's Cool Schools Initiative.

In closing, I would like to express appreciation to the audit team who worked on this report for their collaboration and professionalism throughout this process.

Sincerely,

Bob Repine
Acting Director

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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The courtesies and cooperation extended by officials and employees of the Oregon Department of Energy during the course of this audit were commendable and sincerely appreciated.