Briefing Paper

Draft Competitive Process for Custom Project Incentives

November 30, 2011

Summary

We estimate that in 2012, Energy Trust will receive more applications for Pacific Power custom incentive funding than we are able to fund. This paper proposes a new concept for a competitive process for us to use in 2012 for awarding Pacific Power custom project incentives. Energy Trust staff is requesting feedback from the RAC on the process and five categories of scoring criteria outlined below. Feedback received at the November 30th meeting will be used to revise this proposal and help us move ahead with a plan in place for 2012 competition.

Background

Energy Trust's first-come, first-served system for providing incentive funding to custom projects has worked effectively in the past because funding levels have been adequate to cover nearly every project that made a request and met program requirements and standards. This practice has allowed us to work with projects on their schedules, as they are ready to move forward with development. Only when projects are able to fully fill out our applications with enough detail so that we can evaluate the above market cost do we begin the incentive review process. There has not been a need for a competitive method for distributing dollars for either utility as we have historically closed each year with a surplus that has been used to augment budgets in subsequent years.

Through strong outreach efforts, the word of mouth created by successful projects, and several years of increased state and federal tax incentives, the pipeline of projects and the number of successful projects has increased to the point where Energy Trust has used its accumulated surplus in Pacific Power territory. We expect that in 2012, Energy Trust will receive more applications for Pacific Power custom incentive funding than we are able to fund. Therefore, staff is planning to implement a competitive system for distributing funding for these projects.

Developing this system has proved challenging because the typical competitive process raises three chief concerns for us:

1. Typically, competitive processes have set application due dates, after which the ability to work back and forth with the applicants to clarify pieces or request additional information has to be very limited so that the process is considered fair. Although this "arm's length" type of approach is standard practice, we have concerns about its ability to fit with our recent transition to focus on early stage market and project development. Over the past year, our emphasis has shifted away from project incentives as the greatest benefit we bring to the market to a focus on project development assistance and improving project readiness.

2. Determining a project's above-market cost requires full vetting and review of not just capital expenditures but also forecasted costs and benefits of the system over its life. Because of this added complexity, it's often the case that we work

closely with each project after they've submitted their application to make sure we thoroughly understand how they are evaluating their project.

3. Typical competitive processes need to have very strict guidelines and requirements which can end up ejecting projects from the process because they have an incomplete application or misunderstood the requirements and provided the wrong information. Since we often work closely with custom projects from early on in the development process, we foster relationships and can be seen as a project ally, helping to fill in gaps in knowledge along the way. Our goal is to help projects become viable and improve markets. The rejection of a project must lead to a path toward potential improvement and the possibility of future acceptance.

To address these three issues, we looked for a variation on the typical competitive process that could better align with our early stage support and our data needs for above market cost review. In doing so, we realized that a process that allows us to continue working with projects closely throughout early development and design stages would work best for us and for projects. We need a bridge between arm's length and playing favorites.

Proposed Process

In developing the process, we are trying to meet several objectives.

- Complement our shift to emphasis of project and market development
- Efficiently gather and analyze detailed project information necessary for determining above market cost and financial viability
- Result in defensible and transparent choices
- Selected projects need contribute to overall portfolio goals while supporting the best projects within each technology
- The process must not be a hardship for staff in terms of the time or finances required

Given these objectives, we propose the following process with one option.

"De minimus" and standard projects
Projects requesting $150,000 in project incentives or less will be approved as they always have been: on a first-come, first-served basis subject to budget availability.

In addition, the small wind and solar standard incentive programs for both Pacific Power and PGE projects will not be part of this competitive process. Only custom Pacific Power projects needing more than $150,000 will be impacted.

Custom projects requesting more than $150,000

Step 1: Invitation to apply
The major difference between our proposal and a typical competitive process centers on how projects enter the competition. We recommend that projects be **invited** to compete in the process by Energy Trust program managers. Although we will set a date by which all materials must be submitted, there will not be an open announcement to any projects to apply. The major elements of the invitation process include:

- Projects will be invited to participate in an upcoming competitive process for a limited pool of project incentive funds. Competitions will take place 1-2 times per year depending on funding and interest.
- Only projects that have already been working with us and meet the following threshold eligibility criteria for project incentives will be invited.

    - Experienced, committed and qualified project team
    - Proof of community support
    - Site control
    - Interconnection underway
    - Applicable permits attained or in process as necessary
    - Able to start construction within 12 months
    - Business plan in place and project pro-forma with reasonable expected return
    - Meets threshold criteria for financing (DSCR, ROI, DTE) or has financing in place

- The first review period will begin at a specified application date that provides enough internal review time for meeting a specific board meeting date for approval of >$500k awards. All projects in the competition must have a full application and project pro-forma submitted by that application date (For example, a February 15th deadline would give enough time for internal review so that the March 28th or May 23rd board meetings could include project approvals).
- **OPTION:** If stakeholder feedback is not receptive to the invitation-only concept, we could open up the application period and those projects that do not clearly show they meet the threshold criteria will not make it to the next level of competitive review.

Step 2: Review

Each application will be reviewed by the lead RE staff member and at least two other RE program staff members. The lead RE staff member will create an internal review document that explains the project's goals, finances, team qualifications, and technology. The document also includes initial scores in the following categories:

Incentive $ per aMW relative to technology	20%
Efficiency of system, performance relative to other similar projects	20%
Above market cost $M per aMW relative to technology	20%
Persistence – O&M considerations/plans	20%
Contribution to meeting portfolio diversity goals (both geographic and technology/resource diversity	20%

Details on these scoring categories are in Appendix A.

The five scoring categories mirror our renewable energy portfolio priorities which include;

- Support small renewable development <20MW with above market cost
- Encourage installations of systems
- Result in diversity of resources and geography
- Develop high functioning business infrastructure
- Provide persistence of performance
- Grow a healthy pipeline of future projects

Step 3: Ranking
A multi-disciplinary team consisting of the custom RE staff along with representatives from legal and planning & evaluation will meet as a group to discuss and rank the projects and make funding decisions using the scoring sheets as a starting point. Staff may recommend funding all, some, or none of the projects. Staff may ask some projects if they can move forward with smaller incentives. Some projects may be asked to reapply if they do not receive funding.

Step 4: If funds remain after the first batch of applications are reviewed, another announcement for application review will be released for a second round of reviews within the budget year.

Next Steps

- At the November 30 RAC meeting, staff will gather feedback from members specifically regarding the concept of invitation only and the five proposed scoring categories.
- Pending any necessary changes as a result of the feedback, staff will begin to map out a schedule for competition in 2012, including total available funds allocated to the competition.

Appendix A – details on scoring categories

Incentive $M/aMW: Scored relative to similar projects/technologies. This metric drives projects to secure other sources of funding and minimizes ratepayer contribution while still be an effective piece of the financing.

- below (best – 20%)
- on par (mid – 10%)
- high (worst – 0%)

Efficiency of system/performance: Scored relative to similar projects/technologies. Encourages innovations in system design that optimize energy conversion process.

- more efficient (best-20%)
- on par (mid-10%)
- less efficient (worst – 0%)

Above market cost $M per aMW: Scored relative to similar projects/technologies. Encourages healthy, sustainable cash flows throughout the life of the project, rewarding additional revenue streams of co benefits, and projects that are able to secure other sources of funding (grants, tax credits).

- lower (best-20%)
- on par (mid- 10%)
- high (worst – 0%).

Persistence: Score based on project plan for addressing O&M throughout the life of the project. The minimum level of attention to O&M is required through our regular due diligence review.

- diligent (best – 20%)
- minimum expectation (mid – 10%)

Diversity: Score relative to the existing portfolio characteristics by location (up to 10%) and technology (up to 10%).

- Location – 10% for counties least represented, 0% most represented
- Technology 10% for least represented, 0% most represented.