

MEMO

Date: July 29, 2009
To: Board of Directors
From: Margie Harris
Subject: Transmittal of Revised 2009 Budget, 2010 Budget Projection and Corresponding Action Plan Update

At our December 2008 board meeting, we agreed to more closely monitor our 2009 budget and report to the board any necessity for proposed changes. This understanding stemmed from current economic conditions and the challenges of anticipating impact on our 2009 programs and activities. Using a variety of market indicators and projections to year-end, staff completed a mid-year review of program activity. This resulted in a revised 2009 budget and 2010 budget projection and revised, updated 2009-2010 action plan for your review and consideration at the upcoming board meeting on Wednesday, July 29, 2009. Due to time constraints, only 2010 revenues were adjusted and 2010 expenditures remain the same; these will be adjusted as part of preparing the 2010 budget later this year.

The changes reflected in this 2009 budget update incorporate the following:

- The addition of several new program activities, including services for NW Natural Industrial customers, services to commercial customers of participating Bonneville Power Administration public utilities, and preliminary work to serve residential and commercial customers of NW Natural in Washington.
- Final carryover figures for 2008.

Also reflected is the impact of economic factors on Energy Trust operations. These are particularly focused on very recent revenue reductions at a time when demand is still increasing for key programs. As indicated to the board at the June planning retreat and prior, this is especially the case for NW Natural customers.

In cooperation with NW Natural and OPUC staff, we have knowingly continued to make investments to serve growing customer demand, understanding that rates would need to be adjusted to address a revenue shortfall. The combination of activity increases and revenue reductions has resulted in a gap of approximately \$4.8 million in the current year. NW Natural has verbally agreed to pursue a rate adjustment this fall to make Energy Trust "whole" and to continue program activity and services. For the first time, staff recommends temporarily using Energy Trust reserves in combination with our line of credit to maintain program momentum and acquire continued savings this year. A formal process with NW Natural and the OPUC has

been initiated to address this situation going forward, intended to meet IRP goals and plan for corresponding rate requirements over a two-year horizon.

Highlights of the changes between this 2009 revised budget and the version approved by the board on December 19, 2008 are:

- A reduction of carryover available from NW Natural of \$2.5 million
- A reduction of revenue anticipated from NW Natural of \$1.0 million.
- An increase in gas industrial revenue of \$750k
- An increase in \$200k in contract funds to support preliminary work in Washington
- An increase in carryover in PGE service territory of \$1.9 million
- A reallocation of \$1.7 million in previously dedicated interest earnings back to reserves
- A reduction in renewable generation of 15.3 aMW due to delays in project completion and a variety of other factors, including difficult financial markets and pending/new legislation
- Net changes in expenditures, delay in electric efficiency savings and an increase in gas efficiency savings projections as identified in the table below:

Sector/Program	Budget	Savings AMW Stretch	Savings Annual Therms Stretch
Commercial	\$-2.7 million	-3.4 aMW	+156 thousand
Industrial	.5 million	n/c	+172 thousand
Residential	1.7 million	.3 aMW	+ 358 thousand

This material is further described in the accompanying power point presentation (Tab 1) in this budget binder.

No new positions are proposed in this mid-year budget revision, with the exception of a temporary project manager to complete development work in anticipation of NW Natural activity in Washington. The position is fully funded through the contract with NW Natural specifically for this purpose. Should the Washington Utilities and Transportation Commission approve expansion of services through Energy Trust, we expect to return to the board with a formal permanent FTE request.

Sue Meyer Sample and I will check in with each of you prior to the board meeting to review any questions you may have on these proposed changes and actions. You may also contact Sue at 503.445.7612 or me at 503.445.7605. As always, I appreciate your time and look forward to seeing you at our upcoming board meeting.

Energy Trust of Oregon
2009-10 Revised Budget
and Action Plan
Board of Directors
July 29, 2009





Agenda

- Provide snapshot of current budget and projections to year-end
- Identify proposed budget reallocations based upon economic market indicators and program activity levels
- Focus on NWN revenue needs and options



Snapshot of '09 Approved Budget

- Added new program activities for:
 - NW Natural Industrial customers
 - Services to commercial customers of participating Bonneville Power Administration public utilities
 - Preliminary work to serve residential and commercial customers of NW Natural in Washington
- Adjusted for final carryover figures for 2008
- Reflected impact of the economy on program activity



2008 Carryover Changes

Energy Efficiency (in millions)

Utility	Forecasted	Actual	Difference
PGE	\$14.8	\$16.7	\$1.9
Pacific Power	-2.9	-2.6	.3
NW Natural	4.9	2.4	-2.5
Cascade	.4	.6	.2
Avista	0	.1	.1
Total	\$17.2	\$17.2	\$0.0

Renewable Energy (in millions, accounting basis)

Utility	Forecasted	Actual	Difference
PGE	\$24.2	\$25.1	\$0.9
Pacific Power	14.3	14.8	.5
Total	\$38.5	\$39.9	\$1.4



Efficiency Progress Toward Goals

- Revised stretch savings goal for electric EE is 38.5 aMW, down from 41.6 aMW
 - 7.3% (3.05 aMW) lower than original 2009 goal due to:
 - Shifts OSU CHP project to 2010; reduced 2009 goal 3.5 aMW
 - Net increase in 2009 savings from core programs slightly offsets delay in OSU project
 - On track to achieve 88% of revised stretch goal
- Increased gas savings goal 27%, adding 685,777 therms
 - Strong program reception in NWN and CNG
 - Expansion of NWN programs
 - Firm and interruptible industrial customers in Oregon
 - Currently on track to achieve new higher stretch goal
 - Assumes strong rate of uptake for new programs and rural efforts



Renewable Progress Toward Goals

- RE stretch goal reduced from 19.9 aMW to 4.6 aMW (accounting basis) due to:
 - Uncertain status of Warm Springs Biomass (>14 aMW)
 - Delay of several projects to 2010
 - Financial uncertainties
 - Delayed stimulus funds
 - Pending and new legislation
 - Slowing markets

Still tracking toward OPUC benchmark of 3.0 aMW



Proposed Budget Adjustments

Proposed expenditure reductions			
New Buildings			\$4.4 M
New Homes			1.0 M
Renewable Programs			1.2 M
Included in above reductions:			
Planning and evaluation	800 k		
Program communication and outreach	350 k		
IT	800 k		
Mgmt and General	120 k		
Total reductions			\$6.6 M

Proposed expenditure increases			
Existing Buildings			\$1.6 M
Existing Homes			2.3 M
Production Efficiency			.5 M
NEEA			.6 M
Open Solicitation			.8 M
Included in above increases:			
Corporate communications and outreach	400 k		
Total increases			\$5.8 M



Summary

- Sufficient funding through year-end for Cascade Natural Gas
 - Initiating conversations regarding future rate adjustments
- Sufficient funding through year-end for PGE and Pacific Power
 - Mechanism and process in place for potential increase in supplemental funding (SB 838)
- Insufficient funding through year-end for NWN
 - Anticipate rate adjustment to address current year funding shortfall and plan for the future
 - Requires bridge financing until early 2010



NW Natural Detail

- Carryover shortfall \$2.5 M
 - June '09 rate adjustment \$.5 M
 - Proposed 14% rate decrease (Dec 09) \$.5 M
 - Spending increase \$ 1.3 M
- Shortfall: \$ 4.8 M



NW Natural Chronology

Summer 2008

- NWN announced projected 30+% rate increases, effective fall 2008
- Jointly designed and delivered enhanced programs
- Planned increased joint marketing campaign

Fall 2008 through Winter 2009

- Greatly accelerated and maintained momentum through co-marketing
- Promoted and retained higher level incentives throughout heating season
- No dampening effect experienced from a downturned economy
- Identified 2008 expenditures as \$2.5M above budget, depleting carryover by this amount
- Activity greatest in Existing Buildings (\$1.3M), Existing Homes (\$.8M), New Homes and Products (\$.4M)
- Secured unprecedented savings of 2.6 million annual therms, 110% of goal



NW Natural Chronology, con't.

Spring 2009

- First alerted board to potential shortfall in NWN revenues for the year (February)
- Presented analysis to NWN and OPUC, projecting a \$4.4M shortfall by year-end 2009 (March and April)
 - Recommended solutions including earlier rate adjustment of additional 1.25% to address shortfall and fulfill forecasted activity through 2011
 - Agreed NWN would file annual rate adjustment in August, effective November 1st
 - Identified need for bridge financing through Q1 2010 when 45% of annual revenues would be collected and reduce shortfall
 - Requires alternative funding mechanism
- Addressed trade ally concerns to retain momentum in the marketplace



NW Natural Chronology, con't.

Summer 2009

- Continued discussions with NW Natural and OPUC
- Updated board at June retreat
- Ended marketing campaign
- Discontinued higher incentives
- Adjusted revenue forecast based on:
 - Declining receipts
 - Early rate adjustment and refund
 - New 14% rate decrease proposed for 11/1/09
- Prepared new scenarios for discussion with NW Natural and OPUC
- Initiated new process with NW Natural and OPUC to review IRP and funding requirements each year to allow planning on a two-year horizon
- Refined financial management controls



Budget Management Tools

- Require PMC and program use of:
 - Early warning system, including monthly incentive variance reporting
 - Enforce contractual limits on incentive budget and commitments
- Employ reservation system for large projects
- Create budget caps for key vendors installing multiple projects
- Perform frequent analysis using market indicators, specific program trend and other data



Recommended Actions

- Review scenarios with NWN and OPUC
- Pursue rate adjustment effective November 1
 - Explore several options with NWN and OPUC staff intended to:
 - Backfill 2009 \$4.8M shortfall
 - Adjust for additional revenue reductions
 - Stay on track to meet Integrated Resource Plan trajectory
 - Provide modest cushion
 - Range of adjustments under consideration
 - Consider change to “flat rate” funding vs. percentage
- Approve use of reserves and line of credit as bridge financing through early 2010
- Closely monitor program activity and adjust as needed



Reserves for 2009

	Approved Budget	Revised Budget	Difference
Interest Income	\$5.8 million	\$5.2 million	-\$0.6 million
Reallocate interest		1.7 million	1.7 million
Adjustment to Reserves		\$ 6.9 million	\$1.1 million

