

Board Meeting Minutes—132nd Meeting

November 5, 2014

Board members present: Susan Brodahl, Ken Canon, Melissa Cribbins (by phone), Dan Enloe, Roger Hamilton, Mark Kendall, Debbie Kitchin, Alan Meyer, John Reynolds, Anne Root, Eddie Sherman, Dave Slavensky, Warren Cook (ODOE, special advisor)

Board members absent: John Savage (OPUC *ex officio*)

Staff attending: Margie Harris, Ana Morel, Hannah Hacker, Debbie Menashe, Amber Cole, Steve Lacey, Peter West, Courtney Wilton, Fred Gordon, Elaine Prause, Jay Ward, Scott Clark, Karen Chase, Ted Light, Kim Crossman, Phil Degens, Betsy Kauffman, Diane Ferington, Mia Hart, Sarah Castor

Others attending: Jim Abrahamson (Cascade Natural Gas), Don Jones, Jr. (PacifiCorp), Lauren Shapton (Portland General Electric), John Charles (Cascade Policy Institute), Susan Stratton (NEEA), Beth McQueston (NEEA), Juliet Johnson (Oregon Public Utility Commission), Elizabeth McNannay (Resource Consultants), Bob Stull (CLEAResult), Celeste Becia (CLEAResult), Christina Cabrales (Conservation Services Group), Verlea Briggs (Portland General Electric), Heather Beusse-Eberhardt (public)

Business Meeting

President Debbie Kitchin called the meeting to order at 12:15 p.m.

General Public Comments

There were no public comments.

Consent Agenda

The consent agenda may be approved by a single motion, second and vote of the board. Any item on the consent agenda will be moved to the regular agenda upon the request from any member of the board.

MOTION: Approve consent agenda

Consent agenda includes:

- 1) October 1 Board meeting minutes

Moved by: John Reynolds

Seconded by: Ken Canon

Vote: In favor: 10

Abstained: 0

Opposed: 0

Susan Brodahl joined the meeting at 12:20 p.m.

President's Report

President Debbie Kitchin announced Energy Trust ranked third in Business Oregon's awards for 100 Best Nonprofits to Work for in Oregon in 2014. Last week, Debbie attended the Portland Business Journal's Manufacturing Awards Breakfast of which Energy Trust was a sponsor. The breakfast recognized small, medium and large manufacturers for innovation and strategic evolution. Oregon's manufacturing industry is diverse and an economic driver for the state. The largest sector is computer and electronics, followed by food manufacturing and wood products. The manufacturing industry provides skilled, higher-paid job opportunities and brings money into the region. Debbie showed graphs specifying manufacturing employee hourly compensation, including wages, salaries and benefits, which are greater than employees in non-manufacturing industries. The manufacturing industry also provides about 20 percent of total employment and one-half of the nation's investment in research and development. Manufacturing industries are important to the economy by providing higher wages and

helping address inequities in society. Energy Trust programs can help those businesses be more competitive, especially by helping to offset pressures when going overseas. It was noted the manufacturing sector is both energy intensive and energy sensitive. The board discussed what causes industries to locate in Oregon, including energy reliability and materials supply.

Board Appointments

The board postponed action on Resolution 723, electing Heather Beusse-Eberhardt to the board.

Election of Edmund Pat Sherman, John Reynolds

John R. introduced Resolution 724, electing Edmund (Eddie) Pat Sherman to the board. Rick Applegate recently retired from the board and the resolution nominates Eddie to fill Rick's remaining term and complete a full successive term. Eddie is principal with Against the Current Consulting Group of Portland and serves on the board of the Native American Youth and Family Center. He is a member of the Navajo and Omaha Nations. Eddie will bring expertise in communications and development, and his leadership and involvement in the Native American community will assist the board as it guides Energy Trust in serving all eligible utility customers.

RESOLUTION 724 ELECTING EDMUND PAT SHERMAN TO THE ENERGY TRUST BOARD OF DIRECTORS

WHEREAS:

- 1. Rick Applegate has retired from his position on the Energy Trust board. His term expires in February 2015.**
- 2. The board nominating committee has reviewed candidates for the open board seat and nominates Edmund Pat Sherman, Principal with Against the Current Consulting Group of Portland, Oregon to fill Mr. Applegate's remaining term and complete a full successive term.**

It is therefore RESOLVED:

That the Energy Trust of Oregon, Inc., Board of Directors elects Edmund Pat Sherman to the Energy Trust Board of Directors to a term expiring February 2018, subject to all requirements of the Bylaws of Energy Trust.

Moved by: Alan Meyer

Seconded by: Roger Hamilton

Vote: In favor: 11

Abstained: 0

Opposed: 0

Eddie thanked the directors for the opportunity to serve on the board. He has dedicated most of his career to work with Native American communities locally and across the country to improve their quality of life, and sees overlapping issues with the energy industry. He looks forward to the opportunity to learn and provide a different perspective.

Northwest Energy Efficiency Alliance Annual Update

Susan Stratton, Executive Director of the Northwest Energy Efficiency Alliance (NEEA) provided an update on NEEA activities for Energy Trust. As a NEEA board member, Margie worked closely with Susan over the past year as NEEA developed its 2015-2019 Strategic and Business Plans. Margie mentioned NEEA's core work focused on emerging technologies, codes and standards and regional data collection and analysis as being of particular importance for Energy Trust to meet savings goals at a very low cost. Margie and staff also look forward to initiating gas market transformation activities with NEEA in 2015.

Susan described NEEA's role as a four-state regional alliance funded by Energy Trust, Bonneville Power Administration (BPA) and approximately 100 other regional electric utilities. NEEA provides market leverage, economies of scale and risk pooling in the areas of emerging technology and other market transformation efforts. Susan showed a graph to visualize the goal of market transformation, which is moving the market to higher efficiency products and services that are then locked in with state and federal codes and standards. NEEA and partner investments collaborating to move the market has resulted in measurable savings of 1,024 average megawatts (aMW), equivalent to two power plants. In 2013, savings were largely from residential markets and less in commercial, industry and agriculture. Energy Trust currently provides about 20 percent of NEEA's funding to acquire low-cost electric energy savings for PGE and Pacific Power customers.

Susan described NEEA's collaboration with Energy Trust in the areas of emerging technology, market development, codes and standards and initial natural gas market transformation efforts. She mentioned there are about 15 opportunities currently being worked on together, and NEEA is looking for additional areas of collaboration. She noted initiatives need to be complementary and coordinated while remaining cost-effective for utility customers.

NEEA's 2015-2019 Strategic Plan directs the nonprofit to fill the energy-efficiency pipeline with emerging products, services, practices and approaches, and create market conditions that will accelerate and sustain their adoption. Filling the pipeline includes bi-weekly meetings with Energy Trust and coordinating product testing. Susan provided a list of related initiatives underway across the residential, commercial and industrial sectors.

The board asked whether products available in the Pacific Northwest are unique only to the region. Susan mentioned NEEA has a long-term working relationship with major manufacturers and gains insights into what and when products will be brought to the region. She cited NEEA's success with ductless heat pumps and heat pump water heaters is leading to current efforts with heat pump dryers.

Susan noted creating market conditions for energy efficiency includes working upstream to increase product availability and affordability while coordinating program offerings. Susan provided a list of initiatives underway to create market conditions for energy efficiency across the three sectors.

Susan described a recent change in NEEA's delivery of program offerings for its funders. Through the development of its five-year business plan this summer, some funders raised the concern that not all offers are suitable for their particular service territories. All funders share in their desire to support market transformation and identified customization as a valuable approach given differences across and within states. In response, NEEA's next five-year business plan allows funders to opt out of certain initiatives and customize their funding levels. Energy Trust opted out of industrial technical training as the capability to deliver this service exists within Energy Trust's current program. Susan noted most members are signing up for the majority of other offerings.

Susan clarified the residential sector will continue as the sector with the highest percentage of delivered savings in 2015 due to work in consumer markets. NEEA will still have strong efforts on the commercial side. Margie noted Energy Trust's overall funding for NEEA is less in the upcoming 5-year funding cycle from 2015-2019.

The board commented that 40 percent of Energy Trust funding to NEEA goes to commercial sector initiatives but the commercial sector is only about 10 percent of savings. Margie noted market transformation savings take multiple years to be realized.

The board noted there are no NEEA strategies to integrate renewable energy and load balancing, and asked Susan what research NEEA has on distributed generation and avoiding peak power plants. Susan

noted vigorous discussions with the NEEA board over the past year on what kind of research NEEA could undertake on topics like distributed generation, load management and technologies that deliver at peak load times. The NEEA board asked staff to stay with only energy-efficiency technologies and preferred that utilities work in those areas. Susan mentioned some of the areas NEEA works on may support such utility efforts.

The board commented on NEEA's success in driving new standards, and noted the lack of such standards in smart meters and other demand-side management technologies. They discussed how setting standards in this area could be a leadership opportunity for NEEA.

The board asked what is communicated to consumers so they know what energy-efficient products to purchase, especially as product standards are established. Susan mentioned NEEA is not visible to the consumer at the time of purchase, and is continuing to push the standards to higher efficiency levels through efforts with retailers to stock higher efficiency products, which puts good energy-efficient products on the shelf to purchase. The board discussed how manufacturers respond to increasing efficiency levels.

The board asked how NEEA counts energy savings. Susan noted her appreciation of the question, especially for efforts integrated between NEEA and Energy Trust, and the importance of not double counting savings. When NEEA looks at how a market has moved, it first looks at big picture savings and then subtracts Energy Trust funding to determine NEEA-only savings. This is an area where NEEA is very diligent.

Susan described the proposed scope for the natural gas market transformation business plan. The scope includes five technology initiatives, scanning for new technologies, research and evaluation. There will be an advisory committee, which will evaluate the plan at mid-cycle during the five-year cycle. The budget is approximately \$18 million compared to \$169 million of electric market transformation, and the funds are covered entirely by Energy Trust and gas utilities. All funding commitments are expected year-end to begin efforts at the start of 2015. Gas market transformation will operate as a new stand-alone effort, and is not yet integrated into overall NEEA efforts, until NEEA reaches a comfort level with funding gas utilities.

The board asked what natural gas products will be pursued first. Susan mentioned gas-fired heat pump water heaters, some residential hearth products and some commercial products. NEEA is also working with the Gas Technology Institute. Susan mentioned NEEA strives to remain fuel neutral in its activities, an approach undertaken since NEEA formed and one which will continue with the new focus on the gas market transformation.

Susan mentioned how NEEA strives to balance urban and rural equity. Funding levels by utility are determined by the number and types of customers, load and other factors. NEEA will continue to provide non-market transformation services that benefit from a regional approach, including data collection and sharing services, an online collaboration platform called Conduit, regional stock assessments for each sector and an annual energy efficiency conference. For the 2015-2019 period NEEA's budget is approximately \$33 million/year vs. \$40 million/year for the current five-year period.

Management Review Implementation Plan

Courtney Wilton and Margie Harris presented a preliminary staff response to the independent Management Review completed by Coraggio Group and adopted by the board in October. Earlier this week, Ken Canon, Margie and Courtney presented the Management Review during a formal hearing of the Oregon Public Utility Commission. The presentation included the process used to complete the analysis, a list of 16 recommendations by Coraggio Group, and preliminary Energy Trust staff responses to the recommendations. .

Margie provided an overview of the draft staff responses to the recommendations. After receiving feedback from the board and incorporating the OPUC's feedback, staff will develop final responses and corresponding actions and add specific timing for implementation. Next year, staff will bring back to the board updates on progress made addressing the recommendations.

Margie highlighted three recommendations that will not require action or changes to operations, noted as recommendations 2, 6 and 7 in the board packet paper.

Margie noted recommendations 1, 3 and 10 are currently underway or are planned to begin at Energy Trust, specifically continuing IT system improvements, changing the forecasting and budgeting process, and developing metrics for continuous improvement projects in 2015.

Recommendation 11 suggests implementing continuous improvement for all core processes. Staff suggests applying continuous improvement strategies not to all core processes but to those processes that affect the most people and hold the potential for the greatest gain.

Margie reviewed the remaining recommendations. The board asked if the OPUC would agree with the Management Review reporting recommendations. Margie mentioned the meeting focused on administrative issues and no formal decisions were made. However, she thought there appeared to be support from the Commissions on the proposed approach. The board mentioned staff could set decision-making rules that determined the level of reporting undertaken. For example, if results are within a range of savings, the decision could be to report in detail or in summary. The board mentioned this is an area to redirect staff time in a productive manner.

For recommendation 14 on expanding the span of control by management levels, the board mentioned staff could also look at span of control as budget authority and could do an analysis on that for additional information to consider when looking at this recommendation. The board discussed span of control at Energy Trust. The board commented there are always opportunities for improvement, and staff should not feel compelled to determine an arbitrary span of control guideline. The board encouraged staff to look at implementers, such as Program Management Contractors and Program Delivery Contractors (PMCs and PDCs), versus utilities to benchmark this recommendation. The board noted poor span of control is typically visible by large administrative costs, whereas Energy Trust has low administrative costs and was recently recognized as the third best nonprofit to work for in Oregon. The board also noted there are a lot of recommendations staff is responding to and the topic of span of control is a lower priority. Reflecting board discussion, staff will look at some comparisons against PMCs and PDCs.

The board noted that although there are 16 recommendations, Coraggio Group was clear in the delivery of the report that these are nuances in an organization that is operating effectively now. During Coraggio Group's presentation to the board in October, it noted these are fine-tuning recommendations. The board noted this is a credit to the management of Energy Trust over the years.

The board indicated comfort with the approach staff proposed and looks forward to hearing a progress update in 2015.

The board took a break from 1:50 p.m. to 2:03 p.m.

Draft 2015 Annual Budget & Draft 2015-2016 Action Plan

Margie presented on the draft annual budget and two-year action plan. The development of the draft budget is a cross-organizational effort, starting with utility Integrated Resource Planning and program concept presentations with each utility in the summer and leading into annual energy-efficiency and renewable energy goals, and sector and program strategies. Margie thanked Programs, Finance, Planning, Legal, Executive and Communications and Customer Service staff for their work on the budget and action plan drafts.

Margie provided a brief overview on Energy Trust and programs delivered to acquire affordable, cost-effective energy efficiency, invest in renewable energy technologies, support local contractors and businesses to reach and serve customers, and support market transformation activities. She summarized how Energy Trust operates, including our goal-oriented environment with accountability and transparency to the board, OPUC, utilities, customers and state legislature. Program offerings are designed for all customers in residential, commercial and industrial sectors.

Margie summarized projected 2014 results, including a forecast ranging from 96 percent to 113 percent of energy-efficiency goals by utility for the year. Generation results are lower than expected due to delayed and cancelled projects. Margie noted Energy Trust has minimal influence on custom renewable energy project completion dates.

Margie highlighted progress to the current 2010-2014 Strategic Plan goals, with expectations to exceed the electric savings and natural gas savings goals, while falling short of the renewable energy generation goal. In this strategic plan, the goals set in 2009 were ambitious and put the organization on track to double savings over the previous five years, which the organization did accomplish. The renewable energy generation is behind on the five-year goal for a variety of important reasons, including the loss of subsidies especially Oregon Business Energy Tax Credits, the economic downturn, and low natural gas prices.

The draft 2015 annual budget is built on the success achieved over the years, including 2002-2013 results of 436 aMW saved, 112 aMW generated, 33 million annual therms saved, \$1.7 billion saved on participant utility bills, \$3.1 billion added to Oregon's economy and 10 million tons of carbon dioxide avoided. Energy Trust activities are a contributing factor to Oregon ranking as the third most energy-efficient state in the nation, tied with Vermont and Rhode Island, by the American Council for an Energy-Efficient Economy. The board suggested the words "since 2002" be added to the slides detailing results.

Margie reviewed the approximately six-month budget development process and the four building blocks used in preparing the draft budget and action plan. The board commented that the areas of emphasis slide note on developing and changing the renewable energy market, as written, does not clearly align with the charge to lower above-market costs and could be clarified and reframed.

Margie highlighted the top takeaways of the draft 2015 budget, including lower revenue collections for 2015, lower spending, utilizing reserves, a more sustainable rate of savings acquisition, greater emphasis on support for renewable energy project completion and lower costs, largely flat staffing costs and low administrative costs. Overall, the draft 2015 revenues are \$148.2 million, which is \$20 million less than 2014 while still delivering significant benefits.

Dependent on OPUC acknowledgement, there will be no rate changes for Cascade Natural Gas and there will be rate decreases for the other three utilities. The decreases are due to factors like Energy Trust meeting previous annual savings goals at lower-than-expected costs, utility revenue received in 2014 being greater than forecasted due to the cold weather conditions, and staff budgeting in a tighter fashion for the next year by referencing actual historical spending patterns and by shifting to a reliance on new utility specific program reserves if needed. The board requested rate impact by utility over a three-year period to be able to answer questions they might receive related to 2015 revenues. Staff will follow up once the OPUC approves the rate changes. The board expressed appreciation for the budgeting approach and resulting benefits to ratepayers.

The draft 2015 expenditures of \$167.8 million will be approximately 5 percent less than 2014 due to lower costs for NEEA and the Existing Homes program, a different delivery model for residential products and the closer budgeting approach taken by staff. It was noted the difference between budget and expenditures will be covered by drawing down on program reserves.

Margie described the most significant difference in planned 2015 expenditures compared to 2014 is the drop in incentives due primarily to budgeting more closely and aligning with actual expenditures. In addition, there is a shift of commercial Strategic Energy Management (SEM) costs from incentives to delivery as the initiative utilizes a Program Delivery Contractor (PDC) model next year. The modest increase in program delivery costs is due to the commercial SEM cost change. Costs for internal program delivery, communications and customer service, and management and general will stay roughly the same as 2014. The board noted the pie chart could misconstrue the actual overall operational costs. Staff noted the OPUC definition of administrative costs is based on revenue and not expenditures. The slide can also be clarified.

Peter reviewed the 2015 electric savings by program, with the majority of savings from business customers. The overall savings goal is 52.9 aMW at 3.1 cents per kWh levelized. There is a drop in savings compared to 2014 when a megaproject was completed. There is an expected rebound in the New Buildings program leading to savings going back up again in 2016 as projects in a record high pipeline are completed.

Peter highlighted NEEA initiatives, including a budget of \$6.5 million, savings of 4.84 aMW at less than 3.5 cents per kWh levelized and the launch of a gas market transformation plan.

Peter reviewed the 2015 natural gas savings by program. The overall savings goal is 5.8 million annual therms at 34.4 cents per therm levelized. This small drop in savings compared to 2014 stems largely from cost-effectiveness constraints.

Peter mentioned that overall on the business side there is an increase in industrial and commercial projects. However, average savings per project are down. For example, savings are down 20 percent on industrial projects and 23 percent on commercial projects. Programs are experiencing customers who undertake more incremental investments, reflecting tighter budgets and an approach to manage risk while ensuring a return on investment. Peter also mentioned that as Energy Trust reaches further into a market, programs are then driving measures into more marginal segments where there is not as big of a "bang for the buck" as before. As we drive further into the market, programs work with more people who would have invested in energy efficiency on their own. Energy Trust removes those types of customers, called free riders, yet programs still need to drive deeper into the market to reach those customers who would not have participated. This level of effort increases the cost per unit saved.

Peter showed a summary of goals, budget and levelized costs by utility. He clarified the Pacific Power Integrated Resource Plan (IRP) goal is lower than the energy goal for the utility, as the utility is in progress of updating its IRP.

Peter reviewed the renewable energy generation goal of 3.46 aMW at 4.0 cents per kWh levelized. The generation goal is 23 percent less than 2014. In 2015, there will be more generation from the Other Renewables program due to delayed 2014 projects moving into 2015. The Solar program will continue its focus on lowering soft costs of solar installations by working with trade allies on their sales model and other initiatives. Peter noted the renewable energy sector is largely dependent on the availability of other federal and state subsidies.

Margie reviewed the two-year action plans and highlighted three focus areas. The emerging technologies focus area includes investment in NEEA, pilot programs and expanded project support for renewable energy projects. The focus area of expanding participation includes using utility data and research to target customers and broaden participation, serving moderate-income customers and small businesses, and expanding staff presence in rural and outlying areas. The board suggested IT might be able to help with analyzing data to support targeting efforts and keep costs lower. The third focus area is on operations, including cost management, benchmarking with utilities and continuous improvement pilots.

Overall, the budget keeps staffing cost increases under 2 percent; overall, below 7 percent of total budgeted expenditures. Staffing costs include a request of two new full-time positions, a planning engineering manager and an industrial technical manager. There is also a request to convert two existing agency contractors to full-time staff, an industrial program coordinator and a Communications and Customer Service coordinator/analyst. Staff will work with the OPUC on a measure of total expenditures related to staffing.

Margie reviewed the overall takeaways of the budget and described the expected benefits for customers and Oregon. The full budget outreach schedule was reviewed. Comments on the budget are welcome from the public through November 19, a revised budget will be posted on Energy Trust's website by December 4, and presented to the board on December 12 for review and consideration for approval.

The board discussed the staffing cost increases even though savings will be realized from lower healthcare costs.

The board commented on the trend of more projects bringing in fewer savings, the focus areas of emerging technologies and expanding participation, and the relatively stable staffing costs. The board discussed sensitivity to implementing process improvements, quantifying productivity gains and using continuous improvement pilots all while setting a goal of keeping staffing costs flat. To the board, this shows a dichotomy. Staff clarified there is not a goal of keeping staffing costs flat yet it is a sensitive issue. The board discussed the downside of squeezing more productivity out of already highly productive staff. Margie mentioned the right measure is not a number of full-time employees and is the level of savings and the cost of those savings. This will be explored further with the OPUC as discussions begin around developing a staffing metric. Margie mentioned staff are added modestly and with great consideration. The board asked to see a graph of staffing costs and leveled costs over the years. The board mentioned it would be worth seeing revenue and savings over time as well, potentially at a Strategic Planning committee meeting.

The board asked what will happen after the three-year time horizon to reduce reserves. Margie clarified there will still be negotiations with each utility annually on funding levels, including after the three-year timeframe.

Committee Reports

Evaluation Committee, Alan Meyer

The committee reviewed the method to calculate free ridership rates for measures and programs. The calculation directly impacts program offerings and savings achievements. The committee's discussion centered on having a large enough sample size to ensure no anomalies in the calculations that could result in negatively affecting program offerings. The committee also reviewed a lighting shelf space survey that indicated stocks of LEDs and halogen lights increased while stocks of compact fluorescent light bulbs and incandescent light bulbs decreased. A Nest pilot evaluation was completed. The board commented on what looks like a high number of Nest pilot sites being eliminated at the evaluation stage when the sites could have been more rigorously selected. Staff mentioned sites were selected through Home Energy Reviews. The site characteristics may have changed throughout the process or site information gathered during the Home Energy Review was incorrect. The committee also reviewed a market lift pilot and an evaluation of an energy management system and energy information system pilot.

Finance Committee, Dan Enloe

At the last meeting, the committee reviewed much of what was covered in the draft budget presentation. It was noted reserves are at \$115 million (absent commitments) and the budget strategy to lower reserves is a sound strategy. The typical busy last few months of the year have begun. The committee noted a variance in marketing expenditures, which largely is because the majority of the annual

marketing budget was spent in one quarter. The committee commented how the financial reports are structured where one can find such variances.

Compensation Committee, Dan Enloe

The committee selected the current healthcare provider for services next year at greatly reduced costs.

Adjourn

The meeting adjourned at 4:00 p.m.

The next regular meeting of the Energy Trust Board of Directors will be held Friday, December 12, 2014, at 12:15 p.m. at Energy Trust of Oregon, Inc., 421 SW Oak Street, Suite 300, Portland, Oregon.

 /S/ Alan Meyer
Alan Meyer, Secretary