EnergyTrust of Oregon, Inc.

Policy Committee of the Energy Trust Board of Directors

Nov. 13, 2007, 3:00-5:00 pm

Attending: Jason Eisdorfer, Tom Foley, John Reynolds (by telephone), Caddie McKeown (by telephone) Margie Harris, Fred Gordon, Sue Meyer Sample, Steve Lacey and John Volkman

1. 2008 performance objectives, grant agreement and REA rulemaking comments: The Renewable Energy Act is likely to occasion several related changes in the OPUC performance measures and grant agreement. Staff has discussed with the OPUC staff a schedule for developing 2008 performance measures and revising the grant agreement. The OPUC expects to take action on performance measures and allow automatic extension of the grant agreement at its December 4 meeting, and act on revising the grant agreement in early 2008.

The energy efficiency performance measures are expected to raise the levelized cost metric for savings to around 3.4 cents/kWh, even using a 5.2% discount rate. It might be even higher recognizing that the avoided cost is in the vicinity of 6 cents. A 5.2% discount rate would recognize the need to make Energy Trust cost-effectiveness analysis more consistent with the analysis the utilities do in their integrated resource plans, which will be the basis on which the OPUC and the utilities make decisions about supplemental energy efficiency funding under SB 838. Once the OPUC makes decisions about performance measures, Energy Trust can consider changing the 3% discount rate in its cost-effectiveness policy. In budget development, staff is displaying numbers assuming both discount rates.

We expect no other significant changes in the performance measures.

Staff is proposing several changes in the grant agreement:

- Increasing the term of the agreement from three to four years (section 4.a);
- Increasing the trigger for OPUC notice of third-party contracts from two years to three years (sections 3.a.vi and 5.c);
- Acknowledging the "constructing and operating" language in SB 838 in a general way (section 5.d)

OPUC "constructing and operating" rulemaking: The OPUC has proposed rules interpreting the "constructing and operating" to mean that public purpose funds may be used to pay the cost of developing, building and operating *specific renewable projects*. Public purpose funds for the cost of Energy Trust renewable *program* services that are not tied to specific projects are outside this definition. Program costs are to be addressed in the grant agreement. Comments on the OPUC proposal are due November 27. Staff's draft comments, which are meant only to clarify our understanding of the proposed rule, were reviewed.

The committee discussed the utility filings for supplemental efficiency funds under SB 838. Pacific Power's filing seems likely to move more quickly than PGE's. Margie noted that Energy Trust has PGE carryover funds, and so we do not need supplemental efficiency funds as soon in 2008 as the PGE filing proposes. Phasing in supplemental PGE funds would make sense from Energy Trust's perspective. For both utilities, supplemental efficiency funding will initially go to ramping up programs, and savings will take longer to see.

Some of the issues that are slowing the PGE filing have to do with how PGE and Energy Trust would coordinate efforts, including in areas such as home and business energy audits. The Pacific Power filing seems unproblematic, but the committee would like to be sure that any contractual arrangement with the utility preserves the existing relationship between the parties. Energy Trust should not be subject to requirements under SB 838 funding that differ significantly from those under SB 1149 public purpose funds. Energy Trust can distinguish supplemental SB 838 funding from SB 1149 in reporting, but this should be worked out so that it works for Energy Trust, the OPUC and the utilities, not contract-by-contract.

2. Carbon credits: At the June board retreat, Bill Nesmith suggested that we hold a further discussion of how Energy Trust should approach carbon credits. The strategic planning committee convened a discussion on October 14 that included Bill, Tom Foley, Al Jubitz, Lori Koho, Sean Penrith (Earth Advantage) and staff. The discussion focused on this question: *should Energy Trust claim the potential value of greenhouse gas (GHG) credits attributable to energy efficiency measures?* There are several ways to do this in forms and contracts, ranging from claiming ownership to a non-binding disclaimer. If such language were adopted, it could become an issue with some program participants. Whether it makes sense to do this depends on two questions: (1) Are ETO efficiency measures entitled to GHG credit; and (2) if so, is protecting this value warranted? Staff's analysis, which was confirmed in the October 14 discussion, is that Energy Trust energy efficiency measures probably do not qualify for carbon offset value. If climate change legislation is passed creating a system of allowances to different sectors (energy, industry, transportation, etc.) for GHG emissions and trading among allowance holders, it is harder to predict.

The committee thought that it is important to protect the integrity of carbon markets, and to ensure that ratepayers don't end up paying twice for GHG emissions reductions. The issue warrants further discussion with knowledgeable parties. Jason and John Volkman will organize a further meeting.

3. Rough & Ready contract: Because of delay in the PacifiCorp interconnection process, Rough & Ready faces a significant cash flow problem. For at least one quarter, they will make equipment and financing payments, but will not receive payments from Energy Trust (at $42/MWh) or power sales revenue (an average of $65/MWh, based on the published tariff) from Pacific Power. We are proposing to address this problem by amending our contract with Rough & Ready to provide our first two quarterly payments at the beginning of each operating quarter rather than at the end of these quarters. The first payment (of $127,975) would be made right after we are satisfied that the project is completed and capable of commercially operating. The second payment would be made three months later. The committee had no concerns about revising the contract to allow two quarterly payments in advance of energy production.