EnergyTrust of Oregon, Inc.

# Policy Committee of the Energy Trust Board of Directors

January 22, 2008, 3:00-5:00 pm

Attending: Jason Eisdorfer, John Reynolds, Caddy McKeown (by telephone), Margie Harris, Fred Gordon, Steve Lacey, Peter West, Betsy Kaufman and John Volkman

1. Information items

Jason reported that the OPUC approved PacifiCorp's tariff for supplemental efficiency funding today.

The committee discussed a complaint that has been filed at the OPUC from an inspector who contends that Energy Trust is assigning too much work to a larger contractor and not enough to smaller contractors. Staff is investigating and evaluating.

Margie reported that PGE is filing a tariff for supplemental efficiency funding without funds for low income or schools, and without a cost-recovery mechanism. The utility expects to continue to negotiate these items with interested parties and address them next year.

2. Utility data transfer agreements

The utility data transfer agreements and the Energy Trust information/confidentiality policy pose certain obstacles to effective customer service, administrative operations, program marketing and green tag reporting. In discussing the increased level of collaboration that will be required with SB 838 supplemental efficiency funds, staff mentioned this to PGE, PacifiCorp and OPUC staff, and suggested that we discuss ways of streamlining the agreements and policy. The committee discussed the type of information that we would like to get from or provide to the utilities. Jason observed that it will be important to understand OPUC concerns in this area early in the discussion.

3. Treatment of interest income

OPUC staff has raised concerns about how Energy Trust treats interest income. As you know, interest income is the primary source of funds for Energy Trust's reserve account and unexpected program needs. As first formalized by the board in the action plan approved in December, 2006, we use these funds to meet organizational needs regardless of the source of the principal. Current interest income, moreover, has been ear-marked to meet various organizational needs over the next couple of years. The OPUC has not proposed anything formally, but it is possible Energy Trust would be asked to track interest separately by utility, renewable versus efficiency, and SB 838 supplemental efficiency fund interest versus SB 1149 electric fund interest. The concern is that this would eliminate flexibility to meet urgent or unexpected needs, increase accounting complexity, cost more in banking fees and reduce investment returns. The committee explored options, e.g., accounting for interest in three categories (SB 1149, gas and SB 838 funds) going forward. Another option would be to develop a board policy ensuring that Energy Trust is cognizant of the source of interest earnings when these funds are allocated. Staff will discuss this further with OPUC staff and keep the committee apprised.

4. Swalley project

In August, the board approved a resolution to provide up to $916,386 for the 750-kilowatt, $10,436,585 Swalley Irrigation District hydropower project, expected to be completed in mid-2008. The board resolution provided that payments would be made over 15 years. Swalley has asked that Energy Trust instead pay all of the funds upon project commissioning. Swalley has agreed to the standard payback provisions we require for an upfront payment. The change would not change the amount of funding provided, just the timing. The only financial impact on Energy Trust would be that there would be no interest from escrowing the funds. Staff anticipates taking this matter to the board in February. The committee expressed no concerns.

Staff anticipates briefing the RAC tomorrow on a similar but much larger project (3.27 megawatts, $1 million incentive) with the Central Oregon Irrigation District.

5. Avoided cost/discount rate

Staff would like to ask the board in February to revise the cost-effectiveness policy adopt a 5.2% discount rate. The background: In recent months, staff has been talking to the OPUC and utilities about avoided costs, levelized costs, discount rate, and other factors. The goal has been to increase analytical consistency between Energy Trust and utilities, which helps the OPUC in integrated resource planning. Subject to further discussion with NW Natural, we think we have achieved a reasonable resolution regarding values that the Energy Trust can use for program planning, B/C analysis, and reporting:

1. We would use a 5.2% discount rate
2. Avoided costs would:
    - Include T&D investment and avoided power delivery losses
    - continue the 10% conservation advantage
    - include a new hedge factor for electric efficiency, based on Power Council analysis (5 mills for retrofit and 10 mills for lost opportunities)
    - be fairly close to values used by utilities for IRP
    - flat load shape avoided cost are based on the PGE and PacifiCorp average
    - differences in value by electric load shape and gas avoided costs are based on Power Council values (the gas companies are comfortable with those values); and
    - include a forecasted cost of carbon emissions

Even with a higher discount rate, the avoided levelized cost and net-present value (NPV) of avoided cost are higher than those we use now, which means that most efficiency programs are more highly valued. The only exceptions are certain long-lived gas measures.

We are still discussing OPUC performance measures, but are waiting for the OPUC analysis of costs in other resource plans. The OPUC staff understands that we need higher levelized cost performance measures in order to develop more aggressive programs. We have every expectation that the OPUC will adjust the levelized cost performance measures upward, which should make efficiency programs more attractive.

Revising the cost-effectiveness policy to adopt a 5.2% discount rate would allow us to use the new avoided costs to analyze new measures and initiatives and work on new supply curves. If we wait for agreement on performance measures, we would have to informally calculate values

using the new assumptions and use the old values in formal communications and stakeholder discussions. We think this would be confusing.

The committee had no concerns about staff taking this matter to the board.

6. Briefings:

- January 9 carbon credit meeting. The committee has discussed on several occasions whether Energy Trust should protect for ratepayers the potential value of greenhouse gas (GHG) reduction credits attributable to Energy Trust energy efficiency measures. Jason and staff organized a meeting on January 9 to discuss this with utilities, the OPUC, ODOE and Climate Trust. The meeting was well timed (the week the Western Climate Initiative was meeting in Portland), and well attended. It did a good job of focusing people's attention on the role of efficiency in climate policy. There was no consensus that Energy Trust should or should not take steps to preserve rights in greenhouse gas emissions credits, but generated a number of ideas and options. The committee concluded that the legislature is likely to clarify key questions in this area, and the question can be tabled until the legislative picture is clearer.

- NW Natural service in Washington. NW Natural would like Energy Trust to serve customers in Clark County. The proposal is different from that of Cascade's 2007 proposal in that Clark County is contiguous with our current service territory, and would require only an incremental expansion of our programs. Jason has the impression that at least one of the Washington Utility and Transportation Commissioners views the idea favorably. NW Natural needs to discuss the proposal with the OPUC.

- Strategic planning. The longer time horizon of the public purpose fund and changes in Energy Trust's mission due to the Renewable Energy Act mean that the 2007-2012 strategic plan is no longer current. Staff is evaluating areas in which the plan might change, and spent a day brainstorming strategic planning issues on Jan. 15. We would flesh these issues out in 2008 and propose actual changes in 2009. The committee thought this process was fine, but was not sure that taking a full two years to change the plan would meet board expectations.

- West-Coast Initiative. Oregon, Washington, and California PUC commissioners and executives of conservation delivery organizations asked their staffs to explore ways to coordinate efficiency and on-site renewable energy initiatives. Staff participated in these discussions and has developed four prospectuses to prompt discussion and analysis: prospects for zero-net-energy buildings, zero-net-energy homes, accelerated appliance efficiency and LED lighting. These initiatives could significantly accelerate savings, but may require regulatory or policy changes, and all would involve significant activity, coordination and risk. The potential energy benefits are greatest from the most difficult initiatives – the zero-net-energy initiatives. The schedule and decision-making process are as yet unclear. The prospectuses are available for review. Jason observed that we need a clear framework for determining when and how much to invest in longer-term prospects such as these, as opposed to investments with shorter-term but possibly more modest payoff. Fred noted that in a recent brainstorming session with BPA, there was a high priority on establishing long-term relationships with trade allies and efficiency contractors, and on a more strategic approach to research and development.

- Grant agreement. The OPUC is working on a mark-up of the grant agreement, based on proposals Energy Trust staff submitted earlier.

- ODOE board advisor. Bill Nesmith has left ODOE and the board will need to consider a replacement.