EnergyTrust of Oregon

Policy Committee of the Energy Trust Board of Directors

February 16, 2010, 4:00 – 5:15 pm

1. Strategic Utility Roundtable. The committee discussed reactions to the first utility roundtable. Margie has circulated a list of issues for roundtable participants to prioritize for future meetings.

2. Self-Generators policy (three-year review). Background: Those who produce electric energy and use it on site (self-generators) do not pay public purpose charges on their own generation. In 2003, the question arose how to treat large energy users that self-generate and seek large incentives from Energy Trust. The board adopted a policy (Attachment 1) allowing self-generators incentives up to $500,000 per site/calendar year on the same basis as others; but assigning them lowest priority for incentives over $500,000. Issues: The policy poses three concerns: First, it applies to entities that self-generate in any amount, it is not limited to those who generate large amounts. In theory, a large energy user that pays public purpose charges on 99% of its energy and self-generates 1% would be disadvantaged for large incentives. Second, since the policy was adopted, the board developed another policy that allows incentives for combined heat and power ("CHP") projects (facilities that use a fuel for industrial processes that also generate electricity). That policy specifically incents self-generation. With the two policies, Energy Trust now both encourages and discourages self-generators. Finally, the policy is administratively awkward -- we have no systematic way to track large users' projects across Energy Trust programs by site and by year. Recommendation: Staff recommends that the policy, which has apparently never been invoked, lapse. Another board policy requires board approval for incentives over $500,000, which staff believes to be an adequate check on large incentives for large self-generators. The committee suggested that the proposal be brought to the board at the April meeting, and the CAC be briefed on it between now and then.

3. New renewable services. Energy Trust funds renewable project pre-construction feasibility studies, and pays above-market costs of projects after construction is completed. Other subsidies, including federal and state tax credits and grants, are also post-construction. Studies commissioned by Energy Trust (Summit Blue (November 2008) and Blue Tree Strategies (December 2009)) suggest that the pre-to-post-construction funding gap is a significant obstacle to projects. These studies suggest that Energy Trust consider bridging the gap by, e.g., paying for performance bonds, bridge and/or construction funding, taking an equity position, 3rd-party technology and underwriting-criteria reviews and lender training. Other programs around the country are also considering becoming involved in some of these ways. Staff outlined a process to explore these issues, with the objective of developing an implementation plan that would be brought to the board later this year (Attachment 2). The committee would like to understand risks and benefits of particular services or products, and what particular obstacles would be overcome by a given approach. The big risk is investing in a project that is never built. RAC feedback will be helpful. The committee would like to see risk-benefit analysis, including ETO resources at stake, benefit to the industry -- and a sense of what the market doesn't do and

whether we are in the best position to play this role. We should consider at what point the OPUC should be brought into the process. Staff will outline these issues to the RAC at the February 17 meeting.

4. Multiple dairy digester project. Although market studies have shown there is considerable energy potential for dairy biogas projects, economic factors have made it difficult to get projects moving. Recently, staff has been working with a company that proposes a single project involving four biogas plants at four different dairies. To achieve economies of scale, they seek a standard incentive -- $350,000 per site. Each site has different energy and cost characteristics, but the incentive would be less than the average above-market cost for the four sites. Incentives would be paid as each site is completed. This approach resembles ProLogis, in which Energy Trust offered a single incentive for the installation of systems at multiple sites. The developer has a BETC precertification for a single project; it is not clear how the proposed new BETC law would affect this. If this works, the developer would bring in more projects in the future. Staff will present this to the RAC on February 17, and propose it to the board at the April meeting.

5. Risk Assessment. Jason gave a status report on a small-group trial run of the risk assessment approach that the committee discussed in 2009. The trial run is still underway. The objective is to determine if a replicable procedure would be worthwhile.

6. Management review. After the last board meeting, staff have met further with TKW, the management review contractor, and asked for further substantiation of the analysis and recommendations. This included requesting a clearer analysis of how we compare to other organizations, and pointed to questions that the review does not address. TKW will report on the final management review at the April board meeting. We will need to determine whether a more in-depth analysis of how we compare to other organizations is warranted.

7. Boardman. PGE is exploring early shut-down of the Boardman coal plant (see Attachment 3). To satisfy environmental requirements would cost PGE an estimated $500 million, which could buy a lot of energy efficiency and renewable energy. We already have aggressive strategic plan goals; what other approaches could we take? Energy Trust will meet with PGE to explore these options at the appropriate time, if relevant.

8. RAC members. Bonneville Environmental Foundation has asked to substitute Margie Gardner, CEO of BEF, for Angus Duncan. Robin Straughan is proposed to replace Carel DeWinkel, who retired from the Oregon Department of Energy. (See Attachment 4). The committee agreed.

Attachment 1

4.16.000-P Self-Generators Policy

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	December 17, 2003	Approved (R236)	December 2006
Board Decision	December 13, 2006	Approved (R420)	December 2009

SELF-GENERATION POLICY

WHEREAS:

1. **Energy Trust routinely reviews its board policies every three years to see if they warrant continuation, revision or termination.**

2. **The self-generation policy addresses eligibility for Energy Trust programs of industrial firms that generate power on-site and also are connected to the grid and pay public purposes charges.**

3. **The policy provides that customers that generate more than a megawatt or seek more than $500,000 in incentives per year across all programs will be accorded lower priority than customers that do not self-generate.**

4. **The board's Policy Committee has reviewed the policy and concluded that it continues to serve a useful purpose.**

It is therefore RESOLVED that the Energy Trust board authorizes continuation of the Self-Generation policy with the following revisions to improve clarity:

The Energy Trust of Oregon, Inc., Board of Directors directs staff to employ the following policy with respect to self-generators.

1. **This policy applies to Oregon customers of Pacific Power and PGE who generate power from nonrenewable sources at a site, whose generation capacity at the site is one megawatt or greater, and who pay a public purposes charge, either on power purchases, standby charges, or both. These customers are defined for this policy as "self-generators." This policy has no bearing on efficiency services for natural gas conversion.**

2. **For Energy Trust electric energy efficiency or renewable energy technical assistance and financial incentives with a combined value of up to $500,000 per site per calendar year, self-generators will have the same access to Energy Trust efficiency programs as other Oregon customers of PGE and Pacific Power and will be subject to the same program rules.**

3. **The Energy Trust may, in its sole discretion, provide more than $500,000 per year in technical analysis services and financial incentives to self-generators consistent with the rules of individual programs. However, Pacific Power and PGE customers who are not self-generators have priority over self-generators for this additional funding. This means that, should funding be available from a program for only one project requiring more than $500,000, and both a self-generator and a non-self-generator have projects that meet the program criteria for such large projects, the project of the non-self-generator will be funded.**

4. **The $500,000 threshold in this policy was set to conform to the incentive cap in the Production Efficiency program. This $500,000 threshold also applies to activities under all Energy Trust programs combined. Should the threshold for the Production Efficiency program be moved, staff may move the threshold in this self-generation policy to conform to the Production Efficiency program threshold.**

Attachment 2
New Renewable Services

Timeline

- 2/16/10 Policy Committee Introduction
- 2/17/10 RAC - introduce concept at RAC meeting, provide more detail on the recent Blue Tree study, key findings and pose list of questions we need to ask as we review new product ideas.
- March Policy Committee: Return with analysis, recommendation and options
- March RAC: present recommendations and options
- Continue the cycle until known direction
- Board briefing on a plan for implementation

Analysis

a. Start with known criteria: no additional funding sources to seed, above market cost definition remains
b. Assess our budget – available funding by program
c. Expand Example Product Matrix (below)
    i. Definition
    ii. Possible role
    iii. Examples
    iv. Impact on overall project barriers – will this product make a difference?
    v. Additional costs/benefits, what are the risks, resources/skills needed and how to get them?
    vi. Multiplier effect – how many projects could be impacted, how many are needed to reduce risk?
    vii. Eliminate some right away

New Products	Description	Potential Roles	Added Risk/Considerations
Construction Financing	Funds paid out to project over construction timeline periodically as milestones are met	1. Cover interest payments only. Project works with lender, we compensate them for cost of financing as part of incentive payment. In addition, we could fund a 3rd party review of underwriting criteria needed by lender to add comfort 2. We become the lender and set up the agreement with them to disperse funds through construction with interest. Hire financial manager to check milestones, invoices paid as appropriate, etc. - Use revolving loan fund set aside - No interest charged, not a revenue generator - Put aside $500k-$1M to fund and test idea.	1. Minimal cost upfront through interest payments, removed from incentive/AMC calc. Low risk but is this a useful role? Higher interest rate from other lenders than we may have been able to charge. 2. Very new role, not our specialty, can hire a "PMC" lender to administer with our funds

Bridge Financing	Funds paid as one sum in the amount of state and federal incentives to be received post project completion with interest only payments periodically and full payback to us when resources (state and fed, etc) are paid to project	1. Cover interest only, project works with lender, we compensate them for cost of financing as part of incentive payment 2. We become the lender and set up the agreement with them to disperse funds through construction with interest. - Use revolving loan fund set aside - No interest charged, not a revenue generator - Put aside $500k-$1M to fund and test idea.	Same as for construction financing but added issue of one lump payment needed, not dispersed over construction timeline. Most likely smaller than construction loan but one lump, not dispersed.
Performance Bonds	Surety bond-insurance product to give lenders comfort	Energy Trust could fund the 2.5-5.0% project cost expense of the bond	Not sure of the need for this product – is it value added? What types of projects would benefit from this? We could deduct the cost from the AMC and incentive payment.
Loan Guarantees			Would require us to commit/tie up a large amount of funding in case project defaults. Would need a large portfolio of projects to balance risks and much more in funding to cover.

Attachment 3

Portland General Electric Company
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James F. Lobdell
Vice President
Power Operations and Resource Strategy

January 14, 2010

Via e-mail and US Mail

Lee Beyer, Chairman
Ray Baum, Commissioner
John Savage, Commissioner
Public Utility Commission of Oregon
550 Capitol St NE #215
PO Box 2148
Salem OR 97308-2148

RE: Role of Boardman Power Plant in PGE IRP

Dear Commissioners:

Portland General Electric submitted its most recent Integrated Resource Plan (IRP) to the Commission on November 5, 2009. Our recommended portfolio within that resource plan calls for installation of extensive emissions control retrofits on the Boardman Power Plant. These controls would allow its continued service to customers through 2040, with reductions in regulated emissions as required by new rules from the Environmental Quality Commission (EQC).

I am writing to inform you that PGE has decided to pursue an alternative operating plan for the Boardman Plant. Our intent is to reach out to customer groups, environmental regulators, and other stakeholders to develop and seek acknowledgement of a plan under which the plant will either cease operations in 2020 or discontinue the use of pulverized coal as a fuel source.

It is important for the Commission to understand our reasons for seeking an alternative plan for Boardman: We are doing this because we are committed to seeking the best plan to provide reliable, responsibly generated and reasonably priced electricity for our customers.

Development of this alternative plan is not a simple matter. We expect to spend approximately two months completing our analysis and engaging stakeholders to gain support for a transition plan. We need to assure that the resulting proposal is achievable and preferable to the options available under current state and federal rules. Once that process is complete we will work with Commission staff and the parties to this proceeding to determine the most appropriate mechanism for us to introduce the alternative plan to the Commission for your consideration and acknowledgement as part of our IRP.

We are notifying you of our intent at this time because we believe strongly that the additional time needed to evaluate the role of Boardman in our resource portfolio should not delay

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Commission evaluation of the other components of our IRP. This evaluation is critical if we are to make the necessary resource decisions to ensure a reliable, reasonably priced power supply for our customers.

More than a year ago we proposed alternative timelines for operation of the Boardman plant to the Department of Environmental Quality (DEQ), including closure in 2020. Although the EQC did not incorporate those timelines into its Regional Haze Rules, further analysis conducted in support of our IRP indicates that an alternative plan could be the best path forward for this resource.

- Preliminary data suggests that a 2020 closure could be accomplished at a favorable cost and reduced risk to customers.
- Numerous stakeholders have expressed support for closure on a 2020 timeline and have urged PGE to consider alternative resources.
- We have met with DEQ staff and they have confirmed that, under the Regional Haze Plan, they are willing to allow PGE to request a rule change if a decision is made in the future to close the plant.
- Closure of the coal plant in 2020 or use of an alternative fuel would provide a major carbon reduction benefit in anticipation of as-yet-undecided greenhouse gas emissions limits.
- PGE would have time to plan for and implement a reliable resource replacement strategy if the plant is closed.

At the same time, significant obstacles must be overcome to allow PGE to move forward with an alternative plan for Boardman. We need to obtain stakeholder support in the face of conflicting priorities, stringent requirements under the Regional Haze Rules, possible regulation of other emissions under National Emission Standards for Hazardous Air Pollutants (NESHAPs) requirements, and legal challenges over past and current operating standards for the plant.

Presuming we are able to work with stakeholders to develop an alternative plan with an appropriate schedule and process and obtain approval from the EQC, we also will need to work with the Commission on acknowledgement of this plan and a new depreciation schedule for recovery of the remaining investment in Boardman. While an alternative plan is our preferred option, if we are not able to reach agreement we will continue to seek approval for installation of emissions controls and continued operation of the plant – the best option available to our customers under the current rules.

PGE does not believe closure in 2011, 2014 or 2017 – the other options available under current DEQ rules – are practical or in the best interest of our customers. Closure in 2011 or 2014 would

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challenge the reliability of our supply portfolio because of the uncertainty, difficulty, and high cost of building or obtaining replacement power resources in such a short period. It would also

have unacceptable rate impacts due to the loss of one of our lowest-cost resources and extremely accelerated depreciation of the plant. Closure in 2017 after the required installation of significant new controls in 2014 presents an even more unfavorable economic case with unacceptable rate impacts.

As you know, we are scheduled to provide an overview of our IRP at the Commission's January 19 meeting. Because of our decision to seek an alternative plan for Boardman, we expect to devote most or all of our presentation to consideration of other elements of our IRP. Given that the assessment of Boardman operations included in our plan may be superseded by new developments in the coming months, we recommend deferring detailed discussion of Boardman until we are able to conduct further study and engage stakeholders regarding an alternate proposal.

We commit to setting a meeting in March to update the Commission on our progress on an alternative plan, and request that comments on the Boardman component of our IRP be deferred only until after that meeting and a new schedule for the decision on Boardman emissions controls is established.

Sincerely,

James F. Lobdell
Vice President
Power Operations & Resource Strategy
Portland General Electric
121 SW Salmon Street
Portland, OR 97204

Attachment 4

To: Energy Trust policy committee

From: Betsy Kauffman, Senior Program Manager

Date: February 3, 2010

RE: Changes to RAC membership

Energy Trust renewable resources staff are recommending two changes to the RAC membership:

1. Robin Straughan would take the place of Carel DeWinkel who retired from the Oregon Department of Energy.
2. Margie Gardner, Chief Executive Officer of Bonneville Environmental Foundation, would take the place of Angus Duncan.

Brief bios are below.

Margie Gardner has 26 years of experience in electricity issues, particularly energy efficiency. Previously, she was executive director of Northwest Energy Efficiency Alliance (NEEA), growing it from inception into a nationally recognized energy efficiency group. Prior to NEEA, Margie served for 13 years as senior conservation analyst for the Northwest Power Planning Council, where she was responsible for analyzing and promoting cost-effective conservation in the Northwest. Before that, she was a research associate at the Natural Resources Defense Council. She has a BS in Conservation of Natural Resources and has done work toward her masters in energy and resources from the University of CA, Berkeley. Margie has served on a variety of community and national associations, including the Board of Directors of the American Council for an Energy Efficient Economy.

Robin Straughan works at the Oregon Department of Energy in the Energy Policy Development Division (formerly the Renewable Energy Division). She serves as staff for the Governor's Renewable Energy Working Group, lead staff on wind and geothermal energy issues, and works with utilities in areas of integrated resource planning, wind integration, demand response, smart metering, interconnection, and voluntary green power programs. Additionally she serves as the agency's Sustainability Coordinator. Her educational background includes a B.S. in geology from the University of Notre Dame and a Certificate of Public Management from Willamette University. Before joining the Department of Energy, she worked in agricultural research, hydrogeology, environmental site assessment, and natural resources conservation.