Board Meeting Minutes – 104th Meeting
via teleconference
March 30, 2011

Board members present: Rick Applegate, Julie Brandis, Dan Davis, Dan Enloe, Roger Hamilton, Julie Hammond, Jeff King, Debbie Kitchin, John Klosterman, Caddy McKeown, Alan Meyer, Bob Repine (ODOE special advisor) and John Reynolds

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

Staff attending: Hannah Hacker, Margie Harris, Nancy Klass, Steve Lacey and Sue Meyer Sample

Others attending: Grant Jones and Mark Schuessler, Perkins & Co.

Business Meeting

President John Reynolds called the meeting to order at 12:03 p.m.

Minutes

MOTION: Approve February 9, 2011, meeting minutes. There were no proposed corrections.

Moved by: Debbie Kitchin Seconded by: Roger Hamilton

Vote: In favor: 12 Abstained: 0

Opposed: 0

General Public Comments

There were none.

Audit Committee

Resolution 581, acceptance of audited financial report. Julie Hammond, Chair of the Audit Committee, introduced the resolution. Julie said the financial report, including two recent amendments, resulted in an unqualified audit opinion by Perkins & Co. for Energy Trust in the year 2010.

Grant Jones and Mark Schuessler, Perkins & Co., reviewed the results of the annual financial audit they recently completed. Grant briefly described the report. He said the audit went well, staff was very cooperative and Perkins had no difficulties conducting the audit. There are no items in the financial statements necessary to discuss in further detail. Grant mentioned the auditors focused on working with Energy Trust staff to develop methodologies that better document accounting practices involving Renewable Energy Credits (RECs); this audit period represents the first time Energy Trust has attempted to make a formal valuation of the amount of accumulated credits held by Energy Trust.

Renewable Energy Credits
Mark Schuessler discussed one item to be added to note 2 in the footnotes to the financial statements. It regards the organization's policy around Renewable Energy Credits. Specifically, the footnote will reference Energy Trust's intent regarding RECs, the form of the asset and Energy Trust's position on valuing and reflecting (or not reflecting) RECs in financial statements.

Julie Hammond clarified this is an accounting change, not a policy change, for Renewable Energy Credits.

Mark Schuessler continued that RECS were originally viewed as financial assets, and ultimately concluded they can be more accurately defined as intangible assets from a financial perspective. He said as of the end of 2010 and early 2011, there is not an active market for these credits. There may be more activity at the end of 2011 as Oregon utilities begin to comply with the first Renewable Portfolio Standard benchmark. Mark said RECs were categorized as Level 3 Fair Value measurement under Generally Accepted Accounting Principles (GAAP) as there is significant management judgment exercised when identifying the value.

Energy Trust's RECs are classified into two categories. The first are derived primarily from smaller, solar projects. The cost of registering these with WREGIS is very expensive, far greater than any potential proceeds. The second REC category is derived from the larger renewable energy projects. These create a scenario where the potential proceeds from selling any RECs could be in excess of the cost of gathering the information and completing the reports. Hence, the cost range for these RECs was estimated to be between $0 and $180,000 with the wide range due to uncertainty in the market including prices, sellers and buyers. These factors create risk. Based on such factors, such RECS were not material to the financial statements. Therefore the value was not reported in the financial statements. Instead a description of the determination criteria will become part of the footnote disclosure in Note 2, Summary of Accounting Policies.

Roger Hamilton mentioned that before we start claiming Renewable Energy Credits, we need to be sure we are not obligated to retire them. Julie Hammond confirmed that the Policy Committee will discuss this to determine whether a change in the Green Tag policy is necessary as a result of financial statement valuation issues.

Julie Hammond clarified that the amount of RECs is therefore not reflected in the balance sheet and will be disclosed in the financial statements, further describing what the organization's policy is with respect to Renewable Energy Credits. She said Energy Trust has about 120,000 certificates and the ongoing question has been about their value and how to disclose this value. Perkins and Co. looked at the market demand for RECs, their value and how Energy Trust should record the value. A separate policy issue will be how to invest the Renewable Energy Credits and this question will be addressed by the Policy Committee.

Grant Jones said what was critical at this time was to determine that the value of the credits is intangible. Julie Hammond said the notes in Section 2 will be updated to reflect this.

Dan Enloe mentioned it might be helpful to use benchmarking to estimate the value of the credits. Mark Schuessler said the valuation technique included securing quotes from Oregon utilities. He added that the cost required to register the Renewable Energy Credits is uncertain and makes pursuit of RECs cost-prohibitive for some projects. This was why Perkins separated the valuation into two groups — small solar projects and larger projects.

Roger Hamilton asked for clarification on the market boundary, citing that the market value in California has been much higher than in the Pacific Northwest ($5-$8). Schuessler said the market participants identified in the evaluation model were Oregon utilities required to participate in the Oregon Renewable Energy Standard. There was no measurable activity right now to incorporate into the evaluation model.

Debbie Kitchin asked what the deadline is for submitting the financial report to the OPUC. Grant Jones said the deadline is April 15, 2011, and he expects to have the additional language resolved by that deadline.

Pacific Power overpayment of funds

Julie Hammond explained that amendments to the original Resolution 581 in the Board packet reflect an overpayment of public purpose funds to Energy Trust by Pacific Power during the past several years. The overpayment was discovered through an Oregon Secretary of State performance audit, and was the only outstanding issue identified from the audit.

Margie Harris explained the overpayment of public purpose funds by Pacific Power to Energy Trust stemmed from Pacific's interpretation of administrative rules through the OPUC and the Oregon Department of Energy relating to large commercial and industrial customers who can self-direct. The overpayment was approximately $777,000 and occurred from 2005-2010. She said the overpayment will be reconciled between Pacific Power, Energy Trust, Oregon Public Utility Commission (OPUC), and the Secretary of State auditors next week. Because of carryover funds stemming from Pacific Power revenue and the delay of two renewable energy projects in Pacific Power territory, Energy Trust has sufficient funds to cover this deficit.

Pacific Power will redirect the repaid funds to both the Education Service Districts and to the Oregon Department of Housing and Community Services consistent with SB 1149 allocations. Revenue calculations will be calculated differently on a going forward basis and the issue is resolved. The language proposed in Resolution 581 reflects this repayment obligation in a transparent manner. Energy Trust is not a party to how Pacific Power calculates the fund payments. However, we are the recipient of that funding.

Julie Hammond clarified this overpayment will show as a reduction in revenue.

Grant Jones said Energy Trust needs to make the adjustment to revenue, and does not need to call out the revenue impact in the financial statement footnotes. This is because it was a condition that was not known before final publication of the financial statements. Revenue will be reduced by $777,000 and there will be an increase to the liability; net assets will therefore decrease. This reduction will be reflected in the 2010 revenues as we now know it is related to the 2010 revenues. Best practice is to record the amount properly since the report has yet to be submitted to the OPUC. So far there is no public disclosure by Pacific Power or the OPUC of the error. Margie Harris suggested the OPUC may clarify the rules to avoid such an instance in the future. This overpayment will be included in the Secretary of State's audit, which is expected to be finalized in September of this year

Julie Hammond said the financial report will be adjusted accordingly, no footnote will be added.

Discussion then ensued on whether or not to highlight the adjustment in some manner on the financial report.

Grant Jones said this adjustment falls under the rules for Loss Contingencies as Energy Trust received the funds from a third-party, the funds do not belong to Energy Trust and Energy Trust is now returning the funds to the third-party. The implication of putting a footnote is implying the mistake was made by Energy Trust, which is not the case.

John Reynolds asked about including a footnote that reflects the comments made by Grant Jones. He said it seems more concerning to not have a note.

Caddy McKeown thought it important to use an abundance of caution in respect to this. Dan Enloe said to be as transparent as possible about the change.

Margie Harris read the resolution, including the amendments that describe the overpayment.

John Reynolds asked why we would not want a footnote in the audit. Sue Meyer Sample and Grant Jones said they were not sure there would be a benefit. Grant Jones said in his professional opinion, a footnote is not required.

Alan Meyer said a footnote would clarify that Energy Trust did not make the mistake, and that it was only because of a misinterpretation of the rules by Pacific Power.

Board members asked about any downside of including a footnote. Sue Meyer Sample mentioned it the footnote could harm our relationship with Pacific Power, and that they had made an unintentional error when interpreting the rules. Debbie Kitchin agreed, and said a footnote just highlights that Pacific Power made a mistake.

Grant Jones said his professional opinion is to treat it as a loss contingency recorded in the financial statements. It does not need to be footnoted; however, he would prepare such a disclosure if Energy Trust chose to do so.

Dan Davis mentioned the resolution amendments clarifies that there is a reduction in revenue stemming from Pacific Power's corrected calculation.

The board received a preparatory memo March 30, 2011, from Margie Harris that described the amendment in greater detail:

"At the board audit committee meeting this morning, the resolution to accept Energy Trust 2010 audited financial statements was discussed and an amendment proposed. The amendment acknowledges two forthcoming changes:

1. A reduction in Pacific Power revenues from prior years of approximately $777,000, resulting from their re-calculation of Energy Trust revenues stemming from large self-directing customers under SB 1149. This matter came to light based upon a Secretary of State inquiry into the Oregon Department of Energy rules and corresponding Pacific Power interpretation and methodology used to calculate ETO funding. This resulted in an overpayment by Pacific Power to Energy Trust from 2005 through 2010. Energy Trust will revise the financial statements to reflect this revenue reduction. Sufficient carryover exists and remaining funding is adequate to cover this reduction. Energy Trust will be meeting with Pacific Power, the OPUC and the Secretary of State's office representatives next week to discuss repayment. It is our recommendation to issue repayment to Pacific Power who in turn will provide funding due to the Oregon Department of Housing and Community Development and to the Education Service Districts/Oregon Department of Energy, making them "whole."
2. The manner in which Energy Trust reflects Renewable Energy Credits will be disclosed as part of our financial statements."

The board concluded that the reason for Pacific Power revenue overpayment is clear with this supplemental information and the amendments made to Resolution 581.

Julie Hammond made a final mention that a footnote in Section 2 of the financial report will be added to disclose how Energy Trust tracks Renewable Energy Credits; and recapped that it is a change in financial practices, not an Energy Trust policy change, to treat Renewable Energy Credits as an intangible asset.

Dan Enloe said that at one time there were aggregators for Renewable Energy Credits, and asked if Energy Trust can approach them to come up with a value for the credits. This will be taken up by the Policy Committee.

RESOLUTION 581
ACCEPTANCE OF AUDITED FINANCIAL REPORT

BE IT RESOLVED: That Energy Trust of Oregon, Inc., Board of Directors accepts the audited financial statement report, including an unqualified opinion, submitted by Perkins & Company, P.C. for the calendar year ended December 31, 2010, understanding that before submitting audited annual financial statements to the OPUC by April 15, 2011, the statements will be revised to reflect prior year revenue reductions stemming from Pacific Power's corrected calculation of Energy Trust funding and that Energy Trust's accounting policy regarding renewable energy credits will be disclosed.

As this resolution was presented by the Audit Committee, no move or seconded needed.

John Reynolds asked for a roll call vote:

Vote: In favor: 12 Abstained: 0

Debbie Kitchin disclosed to the board that her company, Interworks LLC, became an Energy Trust of Oregon trade ally contractor. The board will defer to Debbie Kitchin to disclose any conflicts of interest for future meetings.

Adjourn

The meeting adjourned at 12:50 p.m.

The next regular meeting of the Energy Trust Board of Directors will be held Wednesday, May 4, 2011, 12:00 p.m. at Energy Trust of Oregon, Inc., 851 SW Sixth Avenue, 12th Floor, Portland, Oregon

Caddy McKeown, Secretary