

## Finance Report

June 9, 2004

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### Finance Committee Notes

The Finance Committee met on May 27 with committee members John Klosterman, Treasurer and staff controller Sue Sample, and contractor Monica Gruher. Cheryl Perrin and Margie Harris were absent.

The attendees discussed the staffing of the accounting department which includes Sue Sample as returning controller and new hire Thuong Ho as senior accountant. Monica Gruher reiterated her position as only in a part-time contracting capacity and that she has not been performing in the role of Director of Finance and Operations since April 1. Monica further noted that her role as contractor focused on transition to the controller, she is no longer privy to the types of information previously associated with her position, and that the board should not rely on her in that capacity. She indicated that Margie Harris was managing the recruitment of a CFO and working with a recruiting company to assist in the process. The controller is in charge of the day-to-day accounting processes and internal control until the CFO position is filled.

The committee reviewed the first quarter financial results which are summarized below.

The committee also discussed the status of a finance committee charter. Monica provided a draft for John's review which had been previously reviewed by the committee last fall. John indicated that he would need to clarify the various responsibilities and differences between the finance and the audit committee with Steve Schell to ensure a clear understanding of the roles of both committees.

The committee also discussed the importance of this understanding given the changing responsibilities of staff and the Treasurer under potential Sarbanes Oxley provisions if adopted by the board.

The committee deferred a discussion of the financial benchmarks pending information to be received from Margie Harris.

### Summary of Financial Results

#### **Balance Sheet**

Cash – Cash reserves increased by \$2.2 million due to timing shifts in program expenditures. An escrow account in the amount of \$475,000 was funded for the city of Albany small-scale municipal hydroelectric renewable resource project. These funds will remain in escrow until the terms of the contract are met for fund disbursement, at which time, the amount will be expensed and will then show up on the income statement. Since there is a temporary timing difference between when contractual commitments are made and related expenditures occur, Energy Trust considers this balance to be committed to outstanding contractual obligations. Current remaining contractual commitments total approximately \$46 million.

Fixed Assets – primarily reflects investment in software and hardware to sustain and support the heavy data, reporting, and communication needs of the organization. The balance includes capitalization of program tracking software, related customizations, servers, data security, and desktop hardware. The amortization of the FastTrack software will commence on April 1 which will begin to expense as monthly amortization expense, the development costs of the software.

### **Income Statement (Statement of Activity) for the period January 1 – March 31, 2004**

**Carryover funds available**– Cumulative accrual carryover of funds at March 31 was \$36 million. The budget calls for use of the existing carryover funds in this calendar year of activities or funding escrow accounts for programs like renewables. Since the timing of related expenditures is erratic and difficult to estimate or control, the exact period of time for “hitting” the income statement cannot be determined with precision. That is, there are many pending participant commitments in the various energy efficiency programs, but the exact payout for related incentives is not within our control. This is very evident for renewable programs where there may be a lot of staff activity during the year, but the actual expenditures (i.e. for commissioning of a project) will tend to be a large hit in one month.

**Revenue** – Public purpose distributions from PGE, PacifiCorp, and NW Natural were in line with expected per the budget for the quarter.

#### **Energy Efficiency Program Expenditures.**

*Production Efficiency Program* - Incentives to participants in this program originally budgeted at \$2.1 million are under-spent due to projects delayed until later quarters. Program delivery for this program had a board-authorized budget adjustment during 2004 which is not reflected in the original approved budget numbers.

*Efficient New Homes, New Products and Nexus Programs* - Program management expenses are less than budget for these programs which were rolled out later in the quarter.

*Building Efficiency and New Bldg Efficiency Programs* - Expenditures for these programs are on track with budget projections. Program evaluation costs reflect an expected increased cost during Q1 due to the impact evaluation of the commercial buildings portion under the utility transition program.

#### **Renewable Resource Program Expenditures.**

Significant activity continues in each area, but expenditures are less than budgeted in general. Budget variances are expected as the year progresses due to the difficulty of determining exact timing of a renewables project in a particular quarter. Some supporting expenses of doing a project such as planning, contracting, evaluation, etc. are spread evenly across the year, but may shift among quarters resulting in timing variances.

##### *Utility-Scale Wind*

Expenditures budgeted for Q1 to support the PGE large wind program will be delayed until Q3 due to the contracting process.

##### *Small Wind*

The launching of this program is taking longer than planned. We planned to start a series of market analyses during Q1 for determining market barriers and related actions for overcoming such barriers. These activities will take place in Q2. Efforts are underway at BPA for activity as well as

with a PUC Qualifying Facilities docket which would affect the design of the program. Therefore, we decided to slow the program down to enable the program to be in sync with any resulting conclusions of the QF.

#### *Solar Incentives*

Incentives are under-spent in Q1 primarily due to a new solar RFP that has taken longer to contract with the awardee in working through the municipal government contract processes. Project participation in the solar program appears to be adequate without the necessity of additional awareness spending. Therefore the variance of unspent funds is expected to get redirected for direct incentives later in the year if project participation continues to be good without additional outreach.

#### *Open Solicitation*

The Q1 budget included \$120k in incentives for two projects that fell through because the municipalities decided not to proceed with their projects. These funds are estimated to remain unspent for open solicitation and will likely be considered for redirection to other renewable project areas.

#### *Biomass*

Timing variance for expenditures of \$25k as a study currently underway will be reflected as an expense in Q2 rather than Q1.

### **Management and General (Administrative Expenses)**

Expenses in this area are closely aligned with budget timing for Q1 (i.e. slightly under budget).

### **Communications and Outreach (Administrative Expenses)**

Expenses in this area are lower than budget due to an under-expenditure of \$90k for outsourced services. The timing of the professional services and other marketing efforts is difficult to predict in advance, therefore these types of expenditures are spread evenly for budget purposes. This may result in periodic timing variances from quarter to quarter.