

Board Meeting Minutes

November 3, 2004

Board members present: Rick Applegate, Jason Eisdorfer, Tom Foley, Julie Hammond, Debbie Kitchin, John Klosterman, Vickie Liskey, Bill Nesmith (*ODOE special advisor*), Cheryl Perrin, John Reynolds, Steve Schell

Board members absent: Rick Kroon, John Savage (*ex officio*)

Staff attending: Kacia Brockman, Kathleen Cannon, Tara Crookshank, Diane Ferington, Fred Gordon, Margie Harris, Nancy Klass, Steve Lacey, Mike Laney, Anna Parry, Maureen Quaid, Linda Rudawitz, Sue Meyer Sample, Char Rollier, Andy Saleh, Adam Serchuk, Jan Schaeffer, Greg Stiles, John Volkman, Peter West

Others attending: Carol Brown, PGE Energy Services; Janet Fairchild, OPUC; Lois Gordon, Ecos Consulting; Nathan Phelps, Willamette University student; Lisa Rehbach, PECL; Anthony Roy, Portland Office of Sustainable Development; Bob St. Amand, Aspen Systems; Jennifer Williamson, Ecos Consulting;

Business Meeting

President Steve Schell called the meeting to order at 12:10 pm.

Agenda. Steve Schell asked Diane Ferington to describe the CFL light bulbs provided to each board member. She said they were purchased to distribute to SHOW customers and are meant for outdoor use. She asked board members to try them and give her feedback.

Minutes of September 8, 2004, board meeting. Julie noted a correction on page 12, second paragraph. The last clause should read: "...Energy Trust directors and officers liability insurance." Steve Schell noted on page 13, item 1 in the resolution should read: "The board adopts the following amendments to the Energy Trust bylaws."

Steve noted he and Nancy Klass discussed the redlined draft bylaw changes included with these minutes. Nancy will make a final version available for the board handbooks.

Minutes of October 6, 2004, board meeting. Steve Schell asked staff to change the second clause, first sentence to read: "...staff is encouraged to inform board about major issues and shortcomings in programs as they are detected."

MOTION: Approve minutes from the September 8 and October 6, 2004, board meetings as corrected.

Moved by: John Reynolds Seconded by: Rick Applegate

Vote: 10 in favor 0 opposed 0 abstained

Executive Director's Report

In lieu of presenting highlights from her report, included in the packet, Margie made three announcements. She noted the Blue Heron contract has been signed, thanks to the hard work of Tara Crookshank, Energy Trust's contract manager, and Jim Deason, attorney for Energy Trust.

Margie added that Energy Trust will move into its new offices in the Pacific First building at SW 6th and Yamhill on Jan. 7, and acknowledged the work of John Volkman and Mike Laney on the lease.

Lastly, Margie said that the CHP workshop date has been changed to November 30 in Salem, 10 am – 1 pm in the main hearing room of the OPUC.

President's Report

Steve said the board met in executive session this morning about personnel matters, staff/board relations and the management audit. No decisions were made and all decisions will be made in a public meeting. He noted the board does not intend to release the draft management audit document to the public until board members have had more time to consider it. Julie Hammond said the audit committee intends to slow the audit review timetable.

Ex-officio/Special Advisor Comments

None.

General Public Comment

None.

Energy Efficiency Program

Ecos Consulting contract amendment. Jason Eisdorfer introduced this topic. He noted the contract extension was first discussed during the special board meeting on July 29, 2004. The proposed resolution would extend the Ecos contract through June 30, 2005. The extension would add costs and savings. Margie noted it is important to look at the total program costs and savings, while this resolution considers only a 6-month snapshot. She noted that, compared to similar utility programs, the Home Energy Savings program is performing well.

Steve Lacey noted the 6-month program budget is \$7,091,609, but – since some incentive funds in the existing contract remain unspent – the additional amount needed for the contract is \$2,057,260.

He explained the savings numbers in the contract extension reflect the impact of “true-up” engineering adjustments, market experience and a 25% confidence factor. The adjusted savings projections show the program operating during the six-month extension at \$3.7 million per average megawatt and \$5.90 per annual therm, compared to the \$2.3 million/aMW and \$4.12

per annual therm projected in July. The six-month extension would capture 1.2 aMW and 360,000 therms.

John Reynolds and Tom Foley asked about the size of the effect of the true-up in reducing savings per dollar spent. Fred Gordon explained that historically weatherization programs have experienced similar high-impact true-ups. Even after 20 years of experience with energy efficiency programs, the prospect remains that discrepancies between initial savings projections and evaluated results will remain. This was exacerbated by elements of our program being new, and because our initial assumptions were overly optimistic.

Julie Hammond asked if the board will receive data from the impact evaluation before we enter into a new contract, allowing reconsideration of program design before issuing an RFP and retaining a contractor. Fred said the earliest we will have impact evaluation results is June 2005. Enough post-installation energy use data from completed projects is needed to support the impact evaluation.

Steve Schell commented that he expected the program to produce 7 aMW when it was approved, and he now finds it will achieve only 3.6 aMW in 2003-2004. How can he explain this to ratepayers? Fred said the difference is caused by true-ups and reduced market response. He also said that the 7 aMW projection was for commitments, and the 3.6 aMW is installed savings. Ecos also has about 2/3 of an aMW of commitments in the pipeline and hopes to have about that much by the end of the contract.

Ecos president Lois Gordon said one factor is the 6-month time needed to complete projects. She noted it has taken longer than anticipated to launch program elements and build up a robust trade ally network. Fred said the program began with some poor data about measures. Ecos came up with a proposal for doing things differently than has been historically been done, viewed as necessary to move a market forward that had been tapped out by historical weatherization programs. It has proven difficult to accurately predict results of the novel elements.

Margie said she appreciates the board's struggle with this information, and said the staff has struggled as well. She said she is confident about the revised plan, and in Ecos' capability to meet the revised projections. Diane noted there are a significant number of committed projects, which will create savings when completed.

Jason expressed concern about the way the resolution reads, and it was agreed to revise the resolution during a break. Tom Foley noted the relatively large portion of the \$2 million earmarked for program management. Steve Lacey pointed out this is because of unspent incentive dollars that are also part of the six-month budget for the extension period. The incentive amount, including the available unspent amount, is \$4,538,500 out of a total 6 month program budget of \$7,091,610

Following a meeting break, the following resolution was approved:

RESOLUTION EXTENDING ECOS AGREEMENT

WHEREAS:

1. The current Amended and Restated Energy Efficiency Program Agreement by and between Energy Trust of Oregon, Inc. (“Energy Trust”), and Ecos Consulting (“Ecos”) will terminate December 31, 2004.
2. Ecos is program management contractor (“PMC”) for Energy Trust’s Home Energy Savings program.
3. In a special board meeting July 29, 2004, the board authorized staff to negotiate an amendment to this Agreement to extend the termination date from December 31, 2004, to June 30, 2005.
4. The board determined it should subsequently consider and approve proposed terms of the contract extension, including costs and savings, in accordance with the prevailing contract approval process.
5. For the whole electric portion of this program including the proposed six-month extension, the utility system benefit cost ratio is 2.2 with a levelized cost to the Energy Trust per kilowatt hour of \$0.020. The societal benefit cost ratio is 1.4.
6. For the whole gas portion of the program with the proposed extension, the utility system benefit cost ratio is 2.8 with a levelized cost to the Energy Trust of \$0.27 per therm. The societal benefit cost ratio is 1.7.

It is therefore RESOLVED:

1. That the Energy Trust of Oregon, Inc., Board of Directors hereby approves amending the Amended and Restated Energy Efficiency Program Agreement dated as of December 1, 2002 (the “Agreement”) by changing the termination date of the Agreement from December 31, 2004, to June 30, 2005.
2. *Over the six-month period*, this amendment is estimated to achieve an additional 1.2 average megawatts (11,000,000 annual kWh for the extension) of electric energy savings and an additional 360,000 annual therms of gas energy savings for the Home Energy Savings Program, and the board authorizes an expenditure of an additional \$2,057,260.
3. *The total amended contract amount is \$14,126,019, and the associated revised savings is 3.6 aMW and 1,100,000 therms.*

4. **The total six month program budget is estimated to be \$7,091,609. The additional expenditure authorization of \$2,057,260 is the net of the \$7,091,609 six month budget less \$1,362,770 in Energy Trust costs and \$3,671,579 of unspent funds from the current contract.**
5. **That the executive director is authorized to sign the amendment provided the amendment has substantially the same terms as those reviewed by the board and such other terms as the executive director deems appropriate.**

Moved by: Jason Eisdorfer Seconded by: Tom Foley

Vote: 10 in favor 0 abstained 0 opposed

Adopted on November 3, 2004, by the Energy Trust of Oregon, Inc., Board of Directors.

Draft 2005-2006 Action Plan and Draft 2005 Budget Narrative

Margie acknowledged the contributions of Mile Laney and Sue Meyer Sample in preparing the budget. She noted the budget and action plan are drafts, and that board comments will be integrated prior to submitting the documents to the Oregon Public Utility Commission by November 15.

Margie made a power point presentation about the budget and action plan. Recapping 2004, she noted we received \$52.1 million in revenue, had program expenses of \$40.3 million, administrative costs of \$2.4 million and a carryover into 2005 of \$9.4 million. She noted that projections of savings are being completed for the end of the year. On the efficiency side, we expect to be at 97% of the electric goal, and we will be close to achieving the gas goal. On the renewables side, we will not achieve our goal because the federal Production Tax Credit only recently was re-approved by Congress.

Steve Schell noted board members presented ideas at the Finance Committee meeting in October, and since the notes from that meeting are not included in the packet, he wanted to reiterate one of these – the question whether the aggressive budget will preserve stability in program delivery and results.

Margie noted the staff did not include \$2 million for CHP in the 2005 proposed budget because the funds are needed to ensure (the stability of) existing programs. She has confidence that our new tracking system will provide timely information to staff and the board to monitor program progress and achievements, allowing reallocation as necessary over the course of the year so that program commitments can be fulfilled.

Continuing her presentation, Margie noted the 2005 budget would direct \$10,612,478 of the \$52.6 million incoming 2005 revenues to renewable energy and \$42,062,040 to efficiency programs. She covered the distribution of budget by service territory: \$6.7 million to NW Natural's territory, \$24.6 million to PacifiCorp territory and \$52.7 million to PGE territory – roughly proportional to receipts from customers of these utilities. Against total revenues of \$83.9 million, (including carryover from prior years) 66% of planned expenditures would be

directed to energy efficiency programs, \$25.2 million to renewable energy programs, 2.6% to management and general, and 1.1% to communications and outreach.

Rick Applegate asked what the effect in 2006 would be of spending most of the carryover funds (in addition to incoming revenue) in 2005. Margie distributed draft numbers prepared by Fred projecting savings by program in 2005 and 2006. Margie presented a range of projected costs and savings for 2005, from “confident” to “aggressive,” by sector. Responding to a question by Tom Foley, Fred said the numbers reflect true-ups.

Margie presented cumulative electric efficiency savings since 2002. She predicts that by the end of 2005, we expect to achieve 35% of our 2012 electric goals. On the gas side, we expect to achieve 16% of the 2012 goal. She reviewed the proposed renewable budget, and said we expect to achieve 10.6% of the renewables goal by the end of 2005. Steve Schell asked what if anything the board should do in recognition of the fact the production tax credit will expire again at the end of 2005. Peter said that this deadline creates pressure for Pacific Power and PGE to complete new turbine farms currently in negotiation. He does not know whether it would be possible to accomplish additional projects next year as the supply of turbines from manufacturers may be limited..

Margie showed a bar chart comparing incentives paid and forecast from 2002 through 2005. The projected incentive budget (paid and forecast) for 2005 is over \$50 million, more than double the amount paid and forecast for 2004. She added that this is an indication of programs maturing and delivering benefits to ratepayers, as envisioned.

Steve Schell said he believes the OPUC cost and savings benchmarks should be regarded by Energy Trust as no more than a floor. He believes we need to keep aggressively pursuing the board’s goals, which exceed the benchmarks significantly. Margie noted the range of achievements we project exceed OPUC’s, even at the “confident” level. Steve said he opposes OPUC’s plans to adjust benchmarks annually.

Margie noted our budget and action plan were developed in light of considerations about our operating environment, including legal compliance, financial certification requirements, partnerships and leverage, OPUC performance measures, the state’s draft Global Warming Task Force plan, the NW Power and Conservation Council’s Fifth Power Plan and the draft management audit. Steve suggested including “our share” in the latter two plans in the action plan narrative.

Margie noted the connection between activities in the draft budget and possible findings of the management audit, now in draft form. She said the budget provides for additional training for program management staff, organizational development activities, cross-program referral “spiffs,” staff positions, information technology and management reporting improvements, and a salary survey.

Steve noted the board has not released the draft management audit because the board review is not complete. Julie said the new expected date for a final report is mid-January.

Margie posed nine questions to guide the board discussion of the budget, asking the board if they:

- Agree with the overall investment strategy for energy efficiency? Renewable energy?

- Agree with rate of progress toward goals?
- Have comments on individual programs or investment strategies?
- Agree with equity distribution across sectors?
- Support plans for combined heat and power?
- Concur with economic development budgeting?
- Approve operational emphases and staffing priorities?
- Endorse increased amount and potential use of the line of credit?
- Move toward a two-year action plan and bi-annual budget?
- Other topics?

Steve invited questions from the board. He noted that last year, at the December meeting, the board addressed a list of issues one by one and made decisions. Margie noted the outreach and public meeting schedule in the packet, and a list of appointments Margie has made with key stakeholders to review the draft action plan and proposed budget. Julie Hammond asked Jan Schaeffer about meetings held in Corvallis and Medford, and publicity plans for the Bend region.

Topics for discussion mentioned by board members included:

- Better description of non-repeating budget elements that will not recur in 2006 (Tom)
- Determination of whether PMC model is the best (Tom)
 - Not in 2005; planned for 2006
- Pros and cons of the use of the line of credit (Jason, Cheryl, Debbie)
- What's changed compared to 2004 and why?
- Four questions related to one-pagers on each program (John R)
- "Bang for buck" in Home Energy Savings, Solar Water Heating (Steve S)
- Wrong numbers? i.e. \$23 million/aMW for Solar Water Heating (Steve S)
 - Fred said we are awaiting an evaluation; know we need to retool it
 - Numbers are incorrect (Tom)
 - It's a fair question (Peter); we have the same concerns
 - Don't treat it as an approved program (Steve S)
 - Note at beginning of 2005 goals section that the program is being reconsidered
- Have board delegate to Margie the determination of how many staff positions are needed, so long as OPUC benchmarks are met (Steve S)
- Be certain you can spend the \$50 million in incentives (John K)
- How are we going to deal with overspending (in Pacific Power service territory) (Julie)
- Identify program implications for non-repeating items (Rick A)
- What are the priorities among the requested positions?
- Move to a two-year plan next year; identify how 2005 budget impacts 2006 programs (Debbie)
 - Make this a discussion topic in remaining public sessions
- Flexibility to add funding for CHP projects in 2005 depending on outcome of Nov. 30 worksession (Tom)

Margie noted the intent to use line of credit only for short-term cash-flow needs. Other options to close such a short-term gap include using interest earnings (estimated to be \$900,000 by the end of 2005); re-allocating funds from underspent programs; temporarily "backfill" revenues from one utility to another within energy efficiency only; reductions in program or other budget categories. Staff recommends increasing the current line of credit from \$1 million to \$4 million.

Regarding CHP, she said that to add funds for CHP projects would, at this time, require taking it from some other program activity.

Steve Schell asked the board to consider policy issues such as 1) staffing, 2) ability of staff to move funds from one program to another.

Regarding the latter, Tom suggested having staff propose program changes in consent agendas. Steve suggested that approved programs should be considered as continuing programs, and – within dollar ranges – staff should have the ability to make changes and communicate these to the board on the consent agenda. Jason articulated a concern that the proposed consent agenda approach may not succeed if staff assumes all changes would go through this process. Steve Lacey said the intent of program action plans is to provide the board with enough information for them to be comfortable approving the program to continue in 2005. Julie noted the problem with the action plan write-up for solar water heating; Steve said that was a draft and will be updated.

John Reynolds expressed concern about the possible effect of spending \$80 million in 2006 compared to \$40 million in 2004 and \$50 million in 2006. He would not wish to continue the historical roller coaster of funding levels for energy efficiency that has occurred over the years.

Regarding the board role in approving staff positions, John Klosterman and Vickie Liskey argued against board involvement in such details. Rick Applegate noted OPUC and ODOE opposition last year to new positions, and the need to communicate clearly with them on these issues. Julie Hammond thinks we're in a different position this year than last, with more programs delivering more results, and can defend new positions if they will help us accomplish more. Jason supported Rick's observations, and suggested staffing levels must be defensible. Cheryl said she strongly believes determination of staff size should be up to the executive director. Margie noted that having adequate staff helps sustain productivity and relieve the contribution of stress and overwork on staff turnover. Jason suggested the possibility that, since OPUC set a benchmark for administrative costs, they may no longer have concerns about staffing levels if the Energy Trust stays within the overall 11%.

Tom Foley expressed concern about adequacy of PMC staffing levels given proposed increases in incentive levels. Steve Lacey said an observation to this effect in the draft management audit was tied to the situation a year ago when the 4 cents/kwh "kicker" boosted participation in the Production Efficiency program at year's end beyond Aspen's capability to process applications as quickly as they normally do. The "kicker" was reduced, demand is more steady, and Aspen Systems has assured us they can bring on extra staff if needed.

There was more discussion about CHP, and whether to add funds to the budget for projects. Fred noted it is unlikely a project would be developed and completed in 2005 so any incentive would likely be paid in 2006. Steve Schell observed a problem in the budget format – that it doesn't present alternatives for the board to choose among. In addition to CHP, he mentioned the possibility of an Energy Trust role in green power portfolio promotions. Jason suggested providing choices would be useful for public comment sessions as well as for the board. Tom asked for staff to include the assumptions on measure life and levelized costs to be explained in order to allow comparison of one option against another.

Debbie suggested, and the board concurred, that the staff-board ad hoc committee will report out with its recommendations on the cycle of board-approved programs and reviews by the February meeting.

Margie suggested staff provide answers to the board questions listed today and send them to board members for consideration. She requests comments on the draft budget back from the board before Thanksgiving.

Adjourn

The meeting adjourned at 3:45 pm.

Next Meeting

The next meeting of the Energy Trust Board of Directors will be held from noon – 5:00 p.m. on Wednesday, December 15, 2004, at the Portland Building, Second Floor Meeting Room C, 1120 SW Fifth Avenue in Portland.