

Finance Committee Notes

March 17, 2008

The finance committee met at 3:30 pm on March 17th, with John Klosterman, treasurer; Debbie Kitchin, secretary; Margie Harris, executive director, Sue Sample, chief financial officer, and Pati Presnail, controller, in attendance. Alan Meyer and John Reynolds were not able to attend.

Revised 2008-2009 Budget and Projection

Sue presented excerpts from the budget revisions for the 2008 budget. The budget was revised primarily to reflect increased activity made possible through the supplemental funding provided via SB 838 from the two electric utilities. The 2008 budget reflects partial years for both PacifiCorp and assumptions for anticipated funding from PGE. The funding agreement for PacifiCorp has been completed and funding began in February. The tariff rate filing agreement for PGE is pending before the OPUC and hence, the funding agreement is not yet completed. For purposes of the revised 2008 budget, staff estimated PGE funding to begin in August 2008.

Resources available were adjusted based upon other items including additional 2007 carryover beyond initial projections, revised electric utility forecasts and adjustments made to interest income to reflect the decline in interest rates available for investments. In total, resources increased by \$13.4 million when compared with the approved 2008 budget.

Planned expenditures in the revised 2008 budget increased by \$11.3 million with the bulk of the increase in electric efficiency utility programs. There were some modest interactive effects in NW Natural and some allocation changes in renewable energy programs causing minimal changes in those areas.

The net savings increase amounted to 7.9 aMW for best case and annual therms increased by about 97,000 best case in 2008.

For 2009, resources increased by \$27 million reflecting a full year of supplemental funding from both electric utilities and expenses increased by almost \$23 million as compared with the approved 2009 projection. Total budgeted revenue will be over \$90 million in 2009. Electric savings increased by 13.6 aMW for best case and annual therms increased by about 375,000.

There were no anticipated changes in renewable energy generation for either year.

Draft 2007 Audited Financial Statements

The committee had previously been sent the draft audited financial statements for 2007. It appears Energy Trust will receive an unqualified audit opinion again this year, consistent with one of our OPUC minimum performance measure requirements. Work is still being completed on some of the audit procedures and the final report will not be available until that is complete.

Year to Year Pattern of Variances

Pati presented an analysis she and Amanda prepared outlining year to year variances in financial line items. This was in response to a question raised by John K. regarding continuing variances in certain line items which often occur each year. Revenues are consistently over budget and expenditures consistently under. John thought this might cause concern about the credibility of our budgeting process.

The analysis showed general improvement in the variance amounts over the past three years in most categories, with renewable energy incentives having the most variability. It frequently seems that there are variances in professional services as well. Sue commented that having revenue variances in excess of budget is desirable on a small scale, for it allows for gradual program adjustments vs. major fluctuations

due to revenue shortfalls. Most major expense categories reflect an estimate of the timing of payments. Some of the less critical categories may be evenly distributed over the course of a year, as estimating the timing is futile.

John believed it was important for us to all understand and explain causes of variances and to use that information for subsequent budget improvements, as appropriate. The forecasting process and reports provide better and more current information and are not used to report variances as they are not officially approved by the Board.

Possible Requirement to Track Interest Income

John requested an update on this potential requirement originally discussed at the previous board meeting. Sue responded that we have not yet been asked by the OPUC to implement this change. Both Sue and Margie would like to maintain Energy Trust's flexibility in managing its interest income and reserve requirements without the additional complexity of managing multiple pools of funds and reserves.

Plan for Board Training on Net Present Value (NPV)

This topic arose at the last Board meeting during discussion of calculations for a renewable energy project. Because there was some confusion about what the Board may want on this topic, John will confirm the request at the next Board meeting.

The methodology used for above market cost calculations provides for net present value computations when determining the internal rate of return and above market cost. The model used is both intricate and complex. Peter has offered to provide a training session on it if that is what the Board would like. In the meantime, Peter is planning on presenting a matrix of factors and risks considered in assessing potential renewable energy projects at a future Board meeting. This is intended to help address Alan Meyer's questions regarding fiscal role on these projects.

If John determines that some members of the Board would simply like a training session on net present value in general, Sue will schedule a time for any interested group to participate.

January 31, 2008 Financial Statements

Sue presented the January financial report, using a new format to portray variances from budget. She asked for feedback from the committee as to the helpfulness of the new format in understanding the variances. Feedback was positive. For January, overall revenue was very close to budget. However, expenses were 47% below budget. Over 80% of the expense variance in January was in incentive payments with the bulk of that in the renewable energy program. A number of factors restricted incentives, including ramped up selling activities, project delays and project drop offs.

Administrative plus program support costs came in at 5%.

Line of Credit Renewal

Sue reported that Bank of the Cascades has approved the renewal of the \$4 million unsecured line of credit for another year; the interest rate is prime minus .50%. The final documents will be brought to the Committee for their review at the next meeting.

Next Meeting

The next Finance Committee meeting is scheduled for April 21, 2008 at 3:30 pm. The meeting adjourned at 4:30 pm