

CONSERVATION ADVISORY COUNCIL

Notes from meeting July 13, 2005

Attending from the Council:

Carol Brown, PGE
Debbie Kitchin, Energy Trust board
Matt Northway, EWEB
Steve Bicker, NW Natural
Syed Rezvi, OPUC
John Reynolds, Energy Trust board

Others attending

Kim Burt, West Linn Paper
Bill Darden, Harris Group
Terry Egnor, Microgrid
Brian Hedman, Quantec
Jeff King, NWPCC
John Martin, Pacific Energy Systems
Alan Meyer, Weyerhaeuser
John Ryan, WSU
Lauren Shapton, PGE

Attending from the Energy Trust of Oregon:

Tom Foley, Energy Trust board
Fred Gordon
Steve Lacey
Michael Laney
Elaine Prause
John Reynolds, Board of Directors
Jan Schaeffer
John Volkman

1. Introductions and Announcements

Steve Lacey welcomed attendees, and asked for self introductions.

2. Board Retreat Update

Fred presented information discussed with the board at their June 6-7 retreat.

Budget trends show surplus of funds at year's end. Projections through 2012 show us exceeding gas savings projections but falling short of electric savings goals (230 aMW instead of 300 aMW). He noted it's very difficult to project savings from the Alliance's efforts. We made a conservative assumption, therefore; but Alliance programs could achieve greater savings and help close the gap. Potential adjustments include shifting resources among programs, and reductions in program incentives.

Board feedback: continue current programs managed to maximize results. Seeking additional funding is a future possibility. No need to change the overall direction on equity. However, consider cutting back on some of the planned and existing higher-cost equity investments.

Fred reported levelized costs as of now. Industrial savings are costing the most at \$.019/kWh (\$.020 excluding NW Alliance). Commercial costs are \$.017/kWh (\$.015/kWh without NW Alliance). Residential costs \$.010/kWh (\$.016/kWh excluding the Alliance). Levelized cost for gas residential programs is \$.20/therm, and for commercial programs is \$.19/therm.

Fred presented a list of equity initiatives and related levelized costs/kWh. Especially costly initiatives include municipal water and sewer (\$.031/kWh), existing manufactured homes (\$.053/kWh) and others. Gas initiatives all appear to have good value.

He discussed market transformation opportunities, including additional funding for regional efforts. Ken Keating noted the region possibly could put another \$1-\$1.5 million into an ENERGY STAR PC power supply initiative through the Alliance.

Fred noted the board was unwilling to lower goals, even if staff does not have a plan to meet the electric efficiency goal. On the gas side, Fred noted furnaces may be included in the 2008 residential code. This could affect our savings.

Fred noted over the next few months we will be working on the 2006 budget. We will draw on the board feedback from the retreat as presented here.

Carol Brown questioned a graph of budget trends. She thinks staff should be able to adjust incentives and focus of efforts to get the trend (showing lack of funds) to change. Steve noted we are revising residential and industrial incentives in order to make programs more cost effective without dramatically changing distribution equity. Carol says based on her limited knowledge, markets are changing rapidly and some incentives may be able to go away.

Ken noted Energy Trust spending is influenced by first-year costs, not levelized costs.

Bill Darden expressed concern about measure life for industrial measures. His gut feel is we're not taking enough credit. Steve said we are researching measure lives in the region. Mat noted it's very hard to predict measure life of industrial measures. They vary considerably. Some last 25 years or more. Mat uses 10 years in calculating unit cost of savings. He suggested looking at actual projects to create an average.

Steve asked for comments on whether to stay the course on equity or not. Carol suggested examining each program/initiative and rank them by cost/savings. Tom Foley asked if we seek feedback from the CAC on measures that are becoming free-riders. Steve said no, we rely on impact evaluations for this.

3. CHP

John Volkman presented on this topic for Energy Trust. He noted Energy Trust's current policy is that we provide incentives for renewable CHP and small (less than 500 kw) fossil-fueled CHP. After a year of discussion, we still don't have large CHP projects – largely, he thinks, because the larger projects tend to be facilities that pay industrial gas rates and the window for those projects in the existing policy is so narrow. He noted Energy Trust cannot support gas industrial efficiency (not in the contract with NW Natural) nor can we support generating power from a nonrenewable source (doesn't reduce consumption). We do have incentives for reducing electrical load. Our current policy covers this.

He noted the PUC held a workshop in November 2004. In May, the Department of Justice issued an opinion that CHP can be defined as conservation if it's used on-site but not if power is sold to the grid. DOJ also opined that Energy Trust may use electric funds for industrial gas CHP, since conserving on the gas side has the effect of holding prices down on the electric side.

In light of this, John said we are thinking about a policy that – in addition to the existing policy of supporting direct end-use electric efficiencies – would provide incentives for generation from fossil fuels if it's more cost-effective than grid power and used on site. We would not offer to subsidize gas improvements using electric monies, and so would limit eligibility to on-site generation that reduces Pacific or PE electric loads. We would administer this initiative through

our Production Efficiency and Building Efficiency programs. The incentives we'd offer for on-site generation CHP would be offered at a lower level – 80% -- of what we'd offer for other large projects, due to risk of grid sales and losing generation as energy market prices change.

He noted the devil is in the details, and we don't have all the details worked out. We expect to develop rules and detailed incentive structures this fall, if the board approves, in order to have a CHP offering up and running in January.

Alan Meyer asked if you could sell the power to a utility and buy the equivalent back. John said the DOJ opinion would allow this and there is a certain logic to it.

John Ryan argued against reducing the incentive to 80%. Fred responded that we need to cover our risk that the CHP project may in the future begin selling power to the grid, etc. He is certain we will receive proposals for projects that provide value.

Brian Hedman noted the fact that lower incentives correlate with higher free-ridership, and vice versa. He cautioned against assuming too much free ridership among CHP installers.

Terry Egnor questioned the effect of deferring utility generation by supporting on-site generation. He noted expanding the range of possible industrial projects with CHP raises the possibility that levelized costs in this program may increase.

Fred provided more detail to flesh out the concepts John presented. He showed diagrams outlining how we might calculate incentives for a hospital or a pulp mill at 8 cents/kWh and capping the incentive at \$500,000. Projects with projected incentives over \$500,000 would be negotiated rather than calculated.

He reviewed our proposed work plan, which involves estimating costs of typical large CHP projects; developing eligibility rules, procedures and cost-effectiveness methodology; report it to the board and begin implementing in 2006.

Alan Meyer said he thinks we are moving in the right direction. He hopes we won't get too prescriptive and remain flexible. Fred noted Production Efficiency is an all-custom program. Kim Burt said he appreciates all the hard work put into this and it looks as though we've made a lot of good progress and it's headed in the right direction. Steve confirmed that the policy will be presented again to the CAC next month and take it to the board in September. Kim said he will take the policy back, look at it and see if he has additional questions or comments.

John Ryan noted his program at WSU can offer CHP analysis services at no cost.

John Reynolds made the point that Energy Trust support for CHP will supplant other industrial projects; we are not adding money to the program to cover CHP.

Terry Egnor suggested looking at the effect of supporting CHP projects on the cost of natural gas, based on reduction of supply of gas. Steve Bicker said the projects would offset gas turbine plants. Fred said we will model the load shape and source to compare it to the CHP plant. Kim Burt said using the more efficient energy source reduces pressure on the gas market. There was further discussion on the topic.

Steve welcomed comments on the policy to be sent to John Volkman (john.volkman@energytrust.org). They are due August 1. He said next month we will also talk about the proposal to implement community-based programs.

Adjourn

Steve adjourned the meeting at 3:55 pm.