

RENEWABLE RESOURCE ADVISORY COUNCIL

Notes from meeting on March 15, 2006.

Attending from the Council:

John Reynolds, UO & Energy Trust Board
Doug Boleyn, Cascade Solar Consulting
Jeff King, NW Power and Conservation Council
Justin Klure, ODOE
Chris Taylor, Horizon Wind Energy
Troy Gagliano, RNP
Lisa Schwartz, OPUC
Angus Duncan, BEF
Debra Malin, BPA

From the Trust:

Elizabeth Giles
Adam Serchuk
Alan Cowan
John Volkman

Others attending:

Kevin Swanson
Stacey Kuster (for Virinder Singh)
Stan Hitt, USDA NRSC
Mark Hughey, USDA NRSC

I. Welcome and Introductions

Adam Serchuk convened the meeting at 9:36 am.

The January meeting notes were adopted with no changes recommended.

Troy Gagliano added that RNP's response to January's waste-based biomass discussion will be ready for the April 19th meeting.

2. Reauthorization of Open Solicitation Procedures

Alan explained that every two years, Energy Trust revisits the review and approval process for its programs. This time has come to revisit the Open Solicitation program procedure. Currently, any project under \$50,000 can be approved by the executive director with a summary provided to the RAC and Board, \$50,000-\$125,000 must be placed on the consent agenda for the board, \$125,000 to \$500,000 must be presented to the board for action and greater than \$500,000 requires that the contract terms and conditions be reviewed by the board prior to approval. Staff is recommending that the Open Solicitation procedures be reapproved as written.

Chris Taylor asked how many projects have come through the Open Solicitation program since it began. Alan replied that there have been between twelve and fifteen, eight of which received funding.

Jeff King noted that the Board Resolution from two years ago indicates there was some controversy at the time of the adoption of these procedures. John Reynolds said that he recalled the debate was over the level of funding the executive director should be empowered to sign off on. Angus recalled that the considerations were regarding the open-ended nature of the program itself.

Troy asked for more detail about the projects that were not approved and funded by the program. Alan explained that many projects that come through are looking for grants for experimental technologies and some had no above-market cost.

Justin Klure asked about the budget status for Open Solicitation. Alan responded that the PacifiCorp budget has been removed for 2006-07, but PGE remains intact. Adam added that since there is now a specific Biomass program, some of the projects that depended on Open Solicitation have a new landing place. Alan added that the hope is that this will also be the case for small wind and large solar in the future.

3. Biopower Program Update & Lessons Learned

Adam explained the history of the Biomass program to date. The response to the 2005 RFP was surprisingly strong. By the end of 2005, five finalists were designated and contract negotiations entered into. Several of the non-finalists presented strong but immature project concepts and Energy Trust offered to assist with the cost of feasibility studies. The City of Portland submitted a proposal for their 1.75 MW WWTP project at Columbia Boulevard. The first year would operate at approximately 60 percent capacity, and the second year at 80 percent capacity.

Energy Trust is in active negotiations with the remaining four projects, all of which are mill waste. At least one of the projects may be able to go forward without a financial contribution from Energy Trust. We have ceased negotiations with another project which staff felt was incompatible with Energy Trust policy and, not in the interest of rate payers. All of the projects are Biomass cogeneration, ranging from 1.2-17 MW nameplate.

Angus asked if negotiations continued with Warm Springs. Adam responded that negotiations are continuing. Warm Springs submitted proposals for a large and small scale project. Since then, they are leaning toward the larger version, perhaps as a result of a 20-year agreement they signed with the BLM and Forest Service to provide fuel from forest thinning and waste.

Adam explained that the market is moving, which challenges Energy Trust to think creatively about its role in developing these opportunities. Four of the ten projects in Round Two of the RFP showed no above-market costs: both of the dairies, one landfill gas and a mill. Angus questioned whether one of the dairies was Three Mile Canyon. As this information has already been made public, Adam said it was. He further explained that with the PTC, the utility buy-back rates and BETC, the finances are favorable. However, cost isn't the only issue. For instance, interconnection remains a consideration for these projects. He noted that the Douglas County Forest Products project, which was supposed to be on line by December 2005, is now projected for August 2006 due, we understand, to interconnection issues.

Lisa Schwartz questioned the final statement in the briefing about waiting for QF issues to be resolved. Adam agreed that a standard interconnection agreement for QF is currently available, and asked Lisa if out-of-territory projects could use it. Lisa agreed that this was an issue under consideration at OPUC, but responded that there is nothing precluding a project from coming in now. Perhaps the contract terms would improve with the QF docket. Neither Idaho Power's nor PGE's parties have encountered problems in this area.

Adam continued that, based on the experiences thus far, Energy Trust may be ready to discontinue offers for landfill gas projects as the ones we have examined appear not to have above-market costs. For example, the Columbia Ridge project appears to be going forward without Energy Trust assistance. Chris said that may be premature because high gas prices are

likely driving the favorable finances currently. He recommended a sensitivity analysis of the situation that would look at a variety of market and gas prices, and identify the breakeven point. Adam responded that the projects Energy Trust has seen were not cogeneration, therefore they are more likely to be driven by electricity than gas, and since they use the standard QF contracts, they can be insulated over at least 15 years from fluctuations in electricity prices due to gas market volatility..

Jeff King said he is concerned that projects may not happen, even when the above-market cost indicates they do not need funding assistance. Perhaps there is additional criteria not currently included in the evaluation process that should be included. Adam responded that the law allows Energy Trust to pay only up to the above-market cost. He noted that we had indeed funded a feasibility study for the Dry Creek project, which now appears to be going forward without an incentive.

Angus recalled there is a significant price differential between projects built with the intention to recover gas and those that have to retrofit. In some cases, such as the Arlington project, it is cost prohibitive and physically impossible. He recommended that landfill gas not be excluded from Energy Trust attention, particularly in the case of retrofits. Adam agreed. He added that the Finley Butte landfill that came in through the RFP was not designed with recovery in mind, but nevertheless appears to be below market.

Adam reminded the RAC that there is a process evaluation for the Biopower program in progress. In a preliminary conversation, the evaluator said that the availability of the RFP alone appears to have impelled potential project developers to look more closely at the financial opportunities available and, in some cases, lead them to realize that they did not need the Energy Trust incentives with the PTC and BETC. The outreach associated with the RFP appears to have moved many projects forward, even when there wasn't money on the table.

Adam continued, saying that the final element that appears to be driving the behavior of the program is the treatment of green tags by the applicants. Current Energy Trust policy requires programs to take and hold in trust green tags in proportion with the percentage of the above-market cost covered. One way of characterizing Energy Trust's operations is that we purchase the green tags as a commodity at non-market prices. The price paid is constrained by the analysis of above-market cost. Projects today are looking at the value of tags elsewhere and the possibility of a RPS in Oregon, and their expectations are making them reluctant to part with these green tags. The question for Energy Trust is whether an offer can be structured in a way that gets the tags for rate payers while sharing their potential future value with the developer.

Lisa asked if tag values were to become \$50, would Energy Trust cap the amount paid. Angus said there were several ways you could structure this: share the upside with the developer, or pay back the difference with some imputed rate of interest. Regardless, since Energy Trust is a quasi-public entity, it may not belong in the compliance market. Adam responded that this could also be done with a buy-out at a given price and an imputed rate of return for the rate payer. Either way, the rate payer should not have to buy the same tags twice.

Lisa asked how this would help meet RPS standards if Energy Trust released tags for profit. The return would have to be high enough to replace the same tags without a loss. Chris said that a RPS could have a provision that tags acquired through Energy Trust activities would count toward the utilities' RPS requirements.

Angus said that if Energy Trust's goal is to acquire the largest amount of renewable energy for the least cost, he would argue that the Trust should hold onto all their green tags and roll them

over to the utilities. That way the rate payer will pay the lowest price for tags when there is high demand and low supply. He added that if developers are willing to forgo Energy Trust money in return for keeping their tags, and still go forward with their project, then everyone should be satisfied because that project happened without an investment from the Trust.

Chris added that the payback scenarios being discussed are a very rich deal for a developer. The current situation is no different than the risk associated with standard bilateral negotiations with utilities. Adam responded that there is a difference between the entities that do biomass projects and the mature wind industry. Biomass lacks the base of eager developers that wind has.

Lisa asked about the front loading of green tags done in the solar program. Could that be done with biomass? Adam said it was doable, but the interest for these investors is in the far future, which would not be addressed by front loading.

Angus asked if projects are really not happening due to this issue. Jeff responded that these decisions are being driven by speculative fervor, and perhaps it is best to wait. Adam agreed that much of this is overreaction, and noted that there was therefore less to Energy Trust to signing a contract that allowed a buyout if prices were dramatically higher. Angus added that he is seeing tag values decreasing elsewhere.

Adam continued, saying that all of the mill projects in the RFP have contemplated using forest waste in the future.

With respect to future directions, Adam noted that it is unclear how much money the program is going to have in the future, due to ongoing negotiations from the 2005 RFP. He recommended moving forward with a new program approach that behaves like an RFP but operates more like the Open Solicitation program. New projects will be evaluated as they come in. Angus said that this is a great idea because biomass projects happen in their own timeline. Allowing them to apply when they are ready will lead to better projects.

Lisa said the Justice commented on what was meant by 'waste' and 'non-toxic.' What is permissible is strictly a legal issue, and if we want to resolve the legal question, a rulemaking is in order. She will be organizing the session and is looking for feedback on what should be included and when it should happen.

4. Pacific Power Master Agreement

John Volkman updated the RAC on the status of the Pacific Power Master Agreement. Negotiations and conversations commenced last autumn, and the next meeting is scheduled for March 23rd. The major areas of discussion have involved the milestones in the Agreement that Energy Trust requires.

Jeff King asked how a Master Agreement works. John explained that Energy Trust agrees to reserve several million dollars for projects with a given utility and sets forth a procedure with milestones the utility must meet to assure the Energy Trust that the projects are progressing in a timely manner. These also serve to justify the retention of funding that could go to other projects. Adam clarified that this is specifically for utility-scale projects. Chris asked about the duration of the agreements, and John responded that they were six or seven years. The procedures are meant to be long-term, but the money is only tied up for 18 months at a time.

John Reynolds added as background that the RAC was asked to transfer \$900,000 from other programs into this agreement. If the Master Agreement isn't forthcoming, he will be moving to take the money back and redistribute it to the programs. Lisa said that the Commission would likely support the redistribution of funds as well.

Troy questioned the protracted negotiations. John replied that it is taking longer than Energy Trust would like. Lisa added that PacifiCorp agreed to have the Agreement done by October 2005 as part of their integrated resource plan. The pressure being applied is appropriate under the circumstances.

Stacey Kuster said that Pacific Power is working to resolve the issues and they are prepared to release the funding if an agreement cannot be reached.

5. Community Wind RFP

Alan Cowan provided an update on the Community Wind program to date. Energy Trust has begun providing tall, 50-meter anemometers and recently published a Community Wind Guidebook (available on the website). The program element was the incentive offering. The RFP was released on March 3rd. It is a single stage, two-track RFP in which interested individuals can respond with projects that will be installed either before the end of 2007 or in 2008 and later. This allows the program to build a pipeline of projects for the future in addition to assisting those that are ready to go. The RFP was announced at the Harvesting Clean Energy and Windustry's Community Wind Energy conference in Iowa.

An evaluation team for the RFP is being assembled in anticipation of the application deadline April 14. The program has worked to address the perceived barriers to success, including turbine acquisition. Alan spoke with Clipper and Suzlon while in Iowa about becoming active in Oregon. John Deere can also supply turbines on projects that it provides financing on. Energy Trust will be determining what a turbine manufacturer requires to come to the Northwest.

Lisa asked if Alan was still hoping to acquire turbines through the program. Alan replied that the hope is that Energy Trust would provide a line of credit and help fund the purchase of turbines. Chris added that there may be some European manufacturers interested in breaking into the US market.

Adam asked if the program expected projects to qualify for the PTC. Alan responded that the equity partners would need to have a tax appetite. Adam added that this means there is the same urgency to install by the end of 2007 that biopower feels. Alan agreed.

Angus asked why the Energy Trust required a significant financial investment by a local community member. Lisa responded that, unlike OPUC, Energy Trust has requirements for economic development. Angus replied that Klondike brought great economic benefits to that community, and the local ownership requirement may be an additional constraint that will limit projects. Angus agreed that as the Community Wind RFP is already public, that this issue could appropriately be tabled for reconsideration in future program offerings.

Chris asked what Alan expected the costs to be. Alan replied that between interconnection and transmission and other issues, it is unknown. That is why Energy Trust decided to do an RFP instead of a standard offer.

Adam said that if a satisfactory Master Agreement is not reached by March 23rd, this is a program that could benefit greatly from additional funding.

Chris asked about the PURPA and Renewable Energy Credit (REC) treatment of these projects. Lisa replied that standard contracts are available for 10 MW and less. Until a rulemaking happens to define exactly what is meant by market costs, the developers keep the RECs for any project under 10 MW.

6. Public Comments

Lisa announced that there will be a follow-up net metering workshop the week of April 17th. The OPUC is requesting informal written comments by April 3rd.

Adam adjourned the meeting at 11:30 AM.