

**RENEWABLE RESOURCE ADVISORY COUNCIL**

Notes from meeting on May 17, 2006.

**Attending from the Council:**

John Reynolds, UO & Energy Trust Board  
Jeff King, NW Power and Conservation Council  
Frank Vignola, UOSRML  
Troy Gagliano, RNP  
Lisa Schwartz, OPUC  
Thor Hinckley, PGE  
Kyle Davis, PacifiCorp  
Debra Malin, BPA  
Alan Meyer, Weyerhaeuser & Energy Trust Board  
Justin Klure, ODOE

**From the Trust:**

Elizabeth Giles  
Adam Serchuk  
Kacia Brockman  
Alan Cowan  
Peter West  
Phil Degens  
Anna Parry  
Elaine Prause  
John Volkman  
Sue Meyer Sample  
Margie Harris

**Others attending:**

Jeff Bush, Sempra Energy Solutions  
Dave Tooze, City of Portland Office of Sustainable Development (OSD)  
Jon Miller, OSEIA  
Michael Armstrong, OSD  
Buzz Thielmann, RHT Consulting  
Natalie McIntyre, RNP  
Jeff Bissonnette, Fair and Clean Energy Coalition  
Michael Early, ICNU  
Jason Eisdorfer, Energy Trust Board

**1. Welcome and Introductions**

Peter West convened the meeting at 9:30 am.

Peter introduced Kyle Davis, the new council member for Pacific Power.

**2. Strategic Planning Board Retreat**

Elaine Prause explained that Energy Trust's current Strategic Plan spans the years 2002-2007. It has provided ongoing guidance for the organization when allocating resources and making decisions. This document needs to be updated by the end of 2006 to cover the years 2007-2012.

Strategic planning is an organized effort to determine the fundamental decisions and actions that shape and guide what we are, what we do, and why we do it. This effort will result in many outcomes for the organization with one required outcome being the 2007-2012 Strategic Plan Document.

The process began in February with planning and mapping the process and timeline. It moved into data collection from staff and management about where we are and what is changing. The

data from these sessions was synthesized and compiled, and strategic issues identified to be presented to RAC/CAC and Board.

The strategic issues that emerge will be divided into three categories:

1. short term operational issues and an accompanying 2007/8 action plan,
2. longer 2007-2012 strategic issues, and
3. long-term visioning.

Ultimately, a strategic plan for 2007-2012 will be written.

The SWOT (strengths, weakness, opportunities and threats) brainstorming issues focused on defining the current status of Energy Trust. Action issues came from these discussions, including: improving communication with participants, stakeholders, board and others about the long term value of Energy Trust and our business philosophy and organization; managing the budget effectively with internal streamlining and external transparency; managing the programs efficiently; and remaining nimble to respond to developments.

*Strategic Issues.*

#### Management

- What level of priority should be placed on management and accountability before new endeavors? There are limited resources to pursue either one, and we need to prioritize.
- Should Energy Trust put more emphasis on planning for scarcity of funds?

#### Efficiency Program

- Should Energy Trust explore alternatives to the current business model? Currently, Energy Trust uses a PMC model, and this may not be the best option.
- Should Energy Trust explore a more active role in GHG mitigation markets?
- How should Energy Trust plan for continuing to add value with the growing role of government and market forces in energy efficiency?

#### Renewable Program

- If Oregon adopts an RPS, how should Energy Trust's role change?
- Should Energy Trust explore alternative to the current business model?
- How should Energy Trust define its role in the green tag industry?

#### Cross Program

- Should Energy Trust focus investment where it will generate the greatest system economies by deferring or avoiding new transmission and distribution or peak generation investments?

Buzz commented on the cross program issue of T&D, which could be an enormous opportunity for improved efficiencies. In his experiences, T&D losses were regularly estimated at 10%, but could sometimes be upwards of 30%, which represents megawatts of loss. There should be more focus on these T&D losses.

Frank said that these are diverse issues that will require a diverse set of solutions in the long term. Diversity needs to be retained and the value of different technologies evaluated and considered along with the financial costs. Peter replied that currently the strategic plan for renewables has two elements – finding and acquiring new potential resources, and maintaining a balance that does not give more than 50% of the budget to one resource.

Thor said that greenhouse gases are a key issue and they should be a serious consideration for the Energy Trust, exploration of partnerships, namely with the Climate Trust, will be crucial. Dave Tooze commented that OSD is recognizing the value of GHG mitigation through a contract with the Climate Trust. The approach agreed upon is that the customer will own conservation GHG credits. They then specifically pass ownership to the City, who then passes them to the Climate Trust.

Peter explained the current green tag policy has Energy Trust share the tags that come from a project in proportion to the amount of the above-market cost covered. We are finding that some participants are objecting to this model, specifically in biomass. They believe it will be possible to go into the voluntary market and obtain better prices than the Energy Trust offers. In an RPS, markets would move from voluntary to compliance and impact everything we are doing.

Lisa asked Peter to describe a scenario in which an RPS exists and Energy Trust continues to support small projects. Adam replied that that theoretical future is approaching fast. On the biomass side, the expectation is for higher prices for biomass tags in the future. In Washington, utilities can meet their RPS requirements from tags generated anywhere in the northwest. Should that occur, Energy Trust will be competing outside the state. Lisa asked what policy changes we would want to consider. Peter replied that we have an Oregon preference for the electricity as well as the tags, which cannot be separated. Adam said that this growing market may require things like future buy-backs for tags, which current policy may not allow us to meet. Energy Trust's role will change if an RPS in Oregon is developed.

Buzz said that he would prefer for the Board to be left to consider this question, rather than asking for a decision. He wants to see two price scenarios: one for when Energy Trust takes the tags, and another for when it does not. This issue is a huge bottleneck for the biomass program and there needs to be more flexibility to do what is best and necessary to allow the programs to advance.

Kyle said that if the purpose of the RPS is to address climate change, than the carbon must stay wedded to the rest of the attributes.

Jason said that he believes an RPS will change everything. One of the purposes of Energy Trust's renewable programs is to create a market. An RPS will create its own market, and the role of the Energy Trust will be to make sure the customers get the benefit of the public purpose charges they pay. Using public purpose funds to make a project happen and not delivering the environmental benefits to the ratepayers is amiss. Thus, the value being purchased by the customer is going to meet RPS standards. Supply and demand argues that green tags are going to be valuable, so they should be held onto now.

Peter commented that the data strongly suggest that the RPS market is for large-scale projects and does not work for mid- and small-scale projects without a PPC. Adam summarized that the RAC feels these strategic issues are complex and vital to how Energy Trust does business in the next five years, and are all worthy of consideration by the board.

Kyle asked if Energy Trust has a mechanism in place for tracking unregulated tags in the market. Peter replied that there are meters on all projects. Lisa said the OPUC will require, starting January 2008, that tags for portfolio rate options be certified by the Western Renewable Energy Generation Information System.

John commented that he would like to see more attention focused on the scarcity of resources. Solar water heating and passive solar are currently treated as efficiency measures, even though they are based on a renewable energy source that would be very valuable in a sudden scarcity situation. Adam replied that our definition of a renewable technology is based on legislative statute, making it difficult to be flexible on that issue.

### **3. Electricity Service Supplier Criteria**

Peter explained that Energy Trust has received two applications to support purchases of wind power off-site. In these cases, the customers would buy the wind energy from specific projects under contract through electricity service suppliers (ESS), who are alternatives to PGE or Pacific Power. In both cases, the proposals are to have a long term contract with an ESS that will be buying all of the power from dedicated wind projects of approximately 50 MW to serve 100% of the customers' load.

SB 1149 anticipated this opportunity by opening up an alternative for nonresidential consumers to select "direct access" and purchase electricity through an alternate supplier, or ESS. The alternate supplier must be certified with the OPUC if it wants to sell electricity to more than one direct access consumer. The ESS also must meet utility requirements such as creditworthiness and data exchange. Consumers selecting an ESS still continue to receive distribution delivery services from PGE or PAC, who will receive a charge for the use of their distribution system, as well as any imbalances in use. The ESS customer must still pay the PPC, just as if they remained a customer of PGE or PAC.

Energy Trust's Policy Committee has directed staff to solicit feedback on these applications in general and on the broader question of whether proposals involving an ESS should be treated in a different way.

Staff feels that if you are contributing to the PPC, you are entitled to apply for funding. If this was an on-site generation project, there would not be an issue. This could be an opportunity for those that do not have great access to renewable resources at their location to participate in renewable generation somewhere where it is more viable.

Staff have employed seven screening criteria for on-site projects for an application for funding. Depending on the program, customers must meet a set of criteria designed to ensure viable projects are installed for the long-term benefit of ratepayers. Staff is asking for feedback from the RAC on whether these are the correct criteria that can also apply to off-site projects.

#### *ESS Criteria*

1. Owned or contractually controlled by the applicant.
2. Considered a long-term resource, typically with an expected life of at least 15 years.
3. Priced at customary and usual costs for the installation or able to show significant demonstration value for higher than normal costs.
4. In need of Energy Trust support, defined through the above-market policies and methodologies.
5. Able to comply with Energy Trust's green-tag policies.
6. A completely new project or a new addition or upgrade to an existing project that provides expanded generation.

7. Capable of being operated and maintained by the owner or on behalf of the owner for the life of the project.

Frank questioned who the owner is for purposes of the first criteria. Peter replied that the owner is the developer. There are a lot of players to ensure that the project will function for the life of the installation. In the case of the City of Portland, Sempra is contractually obligated to deliver 100% of the load of the City from the project, and there are separate contracts between PPM, PowerEx and Sempra for the delivery of that load.

Natalie asked what pool the PPC funds go into when a customer is buying their electricity through an ESS. Peter replied that the funds are paid through the utility that provides the distribution services (PGE or Pacific Power) and at the same levels as all other customers.

Dave Tooze explained why Portland is interested in this opportunity. The City has always had a vested interest in clean air and water with a policy that has grown to meet these needs. Staff has chosen to benchmark movement towards sustainability issues by measuring CO<sub>2</sub> emissions. Under the renewable energy track is the goal to be 100% renewable by the year 2010. OSD began strategizing how to achieve this goal over two years ago. On December 3<sup>rd</sup>, 2005, they issued a request for information to the private sector to glean ideas for reaching this target.

One path to meeting goals to reduce emissions of global warming gasses (GHG) is to support renewable energies that have little or no GHG emissions. However, renewables have other attractive benefits for the city: bridging rural/urban divides and financial stability since they are not tied to a fuel-cost economy.

OSD released an RFP eleven months ago which attracted a proposal from Sempra energy and their partners, PPM and PowerEx. Sempra and Portland will have an agreement, behind which will be the agreements with PPM to develop a wind farm in the Gorge to meet the City's needs.

This is a groundbreaking project. OSD is not aware of a sizable customer that has tried to connect a large-scale renewable through an open-access connection. The City could have opted to meet its goals through green tags alone. However, while a green tag product brings a premium price, it loses out on the other benefits. OSD feels that their goals and objectives are in line with those of Energy Trust, and would like to partner on this project.

Jeff Bush continued that Sempra is a large, direct-access service provider. They currently serve commercial and industrial loads for manufacturing, retail, etc. Sempra is encouraging the development of a specific project that will be dedicated to meet the needs of the City. One of the challenges with renewables is meeting the load when you need it. By bringing together these parties, there are a number of risks: financial, regulatory and contracting. However, Sempra is a very strong investment type company with a market cap of \$8 million. Debra clarified that Sempra would be entering into a PPA with Sempra and PowerEx

Lisa questioned what investment the City will be making toward the project's above-market costs, along with Energy Trust. Dave replied that there has not been any financial commitment at this point, only conversations. Ultimately, the contract terms with Sempra will be taken to Portland City Council, where it may be accepted, turned down or changes suggested.

Jeff King asked about the stability in pricing in the agreement. Dave replied that currently the agreement gives Portland a fixed price for most of the product, which is all-inclusive to the utility's interconnection point. There is variability with the annual escalator of about 10%.

Lisa asked how an ESS developed project is different than a utility scale project. Debra said it depends on how the electricity is shaped and stored. The energy produced by the project must meet the load annually for BPA. Adam asked Debra if she feels this should be a consideration for Energy Trust. Natalie suggested that Energy Trust only support the renewable portion of the generation. Alan Meyer said he is concerned about the precedent that would be set. If Energy Trust supports the above-market cost for the City at 16 MW, there will be others interested which will put a lot of demand on the available funding. Michael said that there will be no shortage of projects, and opening this door will lead to the demand outstripping the supply, as is currently the case for Energy Efficiency. This may not be the best way to distribute limited funding.

Thor said this project has been a point of discussion internally at PGE and they have supported the City since the beginning. The main issue is equity—if this is a utility scale project, it should be compared on a balance sheet with any project PGE or PAC would do. The other concern is ownership of the tags when the dollars are being provided by PGE customers.

Natalie agreed with Thor and said if the City can figure out how to do this, it will be a great model. However, if you can be green for free, everyone will want to participate. Energy Trust policy is that the Trust owns the tags in proportion with the above-market cost covered, thus the City will not be owning the greenness and it will likely not count toward their benchmarks.

Kyle said that in order to be fair, it needs to be compared to other sizable projects. What is the prevailing direct access price? If funding comes from a state resource or measure, the green tags are assigned back to the assigning measure. If you do not do this, the customer is getting a windfall.

In response to a question about why the City did not opt to self-direct, Dave said that self-direction applies to 1 MW and larger accounts, which would limit the City to two of their meters.

Lisa said that Commission staff is generally supportive of Portland's proposed project, but the proportion of Energy Trust funding vs. city funding of the above-market costs is important, as well as the relative cost of the project vs. others competing for utility-scale funds. Assuming the Trust tag policy stands, it raises the question of what the City will be acquiring in terms of greenness.

Jeff King asked how Energy Trust proposed to ensure that they and the ratepayers are getting a deal that compares well with utility acquisition of resources. Peter responded that the question is really what criteria the RAC would use. Do you use the same cap you would for a utility project?

Michael said that if PGE asked for an incentive for Biglow Canyon, we would compare that against the cost of new generation. The renewable cost should be measured against other resources in the market, not PGE's embedded cost.

Deb said that Energy Trust needs to know more about storage, shaping and cost before it goes forward. Frank agreed that this type of proposal depends on the shaping, which needs to be discussed and considered. Sempra should be seeking the assistance from Energy Trust, so that the shaping is not an issue.

Thor said that there needs to be understanding of utility plans. PGE expects to use a fair amount of the Energy Trust utility-scale funding. Therefore, the cost-effectiveness test needs to be used to ensure a more cost-effective opportunity is not lost. Frank said that if the customer

can get more for their money through an ESS, than it is worth it. Adam reminded the group that in the long-term, Energy Trust is willing to pay more for some projects because they have long-term value. If an ESS project has long-term value, are we willing to pay more? Jason said that the length of the attribution to the customer has a value. There is a big difference between a 15 year contract and a life-time, dedicated resource. Cost-effectiveness is not the only issue.

Buzz said that there are other options for the City, and sees this as opening Pandora's Box. He wants to see funding go to the development of a resource, not for the compensation and reallocation that would go into this scenario. It is inevitable that there will be impacts on PGE, which will trickle down to rate adjustments at the OPUC.

Natalie said that we do not know whether ESS projects will count toward an RPS for customers that remain with PGE and Pacific Power. Therefore, PGE and Pacific Power customers may be paying for the above-market cost of this resource and not getting the benefits. If ESS PPC funds were put into a separate pot, it may solve this issue. Lisa added that an implicit assumption being made is that an ESS will need to comply with an RPS. Michael asked whether PPM will go forward with the project without the City as a purchaser. Dave responded that Portland's deal is critical to whether PPM goes ahead and builds the site. They have proposed two potential sites and are holding their options open. Comparison of Portland's project with utilities is not equitable. The City is taking on a lot of risks aside from the above-market cost. The marketplace is what brought this project to the table.

Jon asked if there was a ballpark figure for the above-market cost, and whether Energy Trust can afford it. Peter said that the above-market cost for the project is between \$1-\$8 million. Michael said that there is nothing preventing every city in the state coming to Energy Trust tomorrow. Peter replied that demand was a consideration for each of the programs, and it was managed in every circumstance. Alan said that it sounded like the City would be going ahead with this project regardless of Energy Trust investment. Energy Trust is meant to make projects happen, not reward those who are doing the right thing.

Lisa said that a stable price is something a customer should be willing to pay a premium for. Thor said that PGE is working on a stable-rate product that the company plans to test first with residential and small business customers and if successful it may be offered to larger customers.

Buzz asked if PGE loses the City as a customer, whether they can include the costs of stranded power in their next rate case. Lisa said that there could be a rate impact, but it could just as easily go the other direction.

Dave reminded the group that the City's goals are in parallel with Energy Trust's goals. The city is hopeful that it can develop a project that allows Energy Trust to provide support to the mutual benefit of both parties. The City is not only a retail customer, but the local government for 25% of the participating ratepayers. Any benefits acquired by the City will be passed on.

Peter discussed the next steps. Energy Trust will move to a draft proposal of how to deal with ESS projects. The policy committee will be used as a dry run prior to the next RAC meeting. The next RAC meeting will be June 21, after which we will move to the Board for policy consideration.

The following comments were recorded on flip charts:

**Is this worthy of Energy Trust support?**

- It depends on a variety of factors including shaping and storage (Debra)
- In general the group was supportive of the City's proposal, but expressed concerns about precedence, what would the above-market evaluation, what the City contributes and the ownership of the green tags.

**What kind of a precedent will this set?**

- Is this a simple off-site vs. on-site comparison? Is this simply an off-site project that should be treated in a similar way to an on-site project? Given its size, the City's proposal should be treated like any utility-scale project. (Thor, Lisa, Kyle). This is a retail customer deal; it's not right to compare it to a utility-scale project. The city is taking on some financial risk. (Dave Tooze)
- If Energy Trust puts in money, can the city own the tags? The group leaned toward no on this question. (Jason, Natalie, others)

**Does approval of this project encourage others to switch from the utility?**

- If we pay all the above-market costs for this and we don't retain the tags on behalf of all customers, then yes, it encourages switching and Energy Trust should not support it.

**Is there a benefit to encouraging competition?**

- There is already competitive bidding in resource acquisition.
- We need to encourage development of resources, not marketing of resources.
- It depends on whether ESS customers are required to comply with RPS (should an RPS pass). (Natalie)

**Is this a worthwhile opportunity for Energy Trust to pursue?**

- Depends on whether Energy Trust has funding to do the project.
- Is this a "Pandora's Box" or a path to new opportunities? It's Energy Trust's job to invest in renewable resources, so the idea that this might lead to other such projects could be viewed as a good thing.
- It depends on the benefits accruing back to ratepayers.
- Having a stable rate is worth paying a premium for. Possibly the City of Portland should have to pay a premium (Lisa)
- Will the City go ahead without Energy Trust funding? If yes, then are we actually using Energy Trust money to cause something to happen? (Alan)
- We don't want a policy that's harmful to one customer class while benefiting another customer class.
- How we treat ESS customers like other customers is complicated.

**4. Public Comments**

Alan Meyer requested that the liquid biomass be returned to the agenda for the next meeting.

Peter adjourned the meeting at 12:00 pm.