EnergyTrust of Oregon, Inc.

Policy Committee of the Energy Trust Board of Directors

March 13, 2007, 3:00-5:00 pm

Attending: Jason Eisdorfer, John Reynolds (by telephone), Margie Harris, Steve Lacey, Peter West, Jan Schaefer, Fred Gordon, Adam Serchuk, Pati Presnail and John Volkman.

1. Green tag policy: Peter West proposed a modification to the green tag policy. Under the current policy, Energy Trust takes green tags in proportion to its contribution to above-market cost. In effect, green tag values are not determined by the market, but by whatever the project's above-market cost happens to be. We are experiencing difficulty reaching agreement with owners and developers for the best projects because of this policy. High-value projects are more willing to gamble on green tag market values and see our policy ascribing an arbitrary value to them. The staff proposal would retain this approach but, on an interim basis, provide an alternative: use green tag market values in calculating project above-market costs if staff concludes, based on an independent assessment of green tag market values, that these values are credible. Energy Trust would then take ownership of as many green tags as its above-market incentive would buy on the market. This approach would be revisited in a year to see if it is working.

Jason asked if getting reliable market estimates is feasible. Peter said that he had asked a consultant for ideas about how they might assess these values. The consultant suggested that in addition to an independent market appraisal, Energy Trust could itself buy and sell green tags to see if the values it sees are consistent with the appraisal. Even then, however, getting values more than ten years out may be infeasible. Peter noted that the proposed option should make it easier for projects to deal with Energy Trust, but would require Energy Trust to do more work.

Jason asked if this alternative makes any assumptions about whether a Renewable Energy Act is passed by the legislature. Peter said it does not; we developed this approach independent of legislative proposals. If the legislature adopts an approach to renewable energy that makes this option problematic, we can revisit the matter.

Peter noted that Tom Foley had given us several comments on the proposal. He supports the approach and had several observations that would clarify it.

The committee endorsed the approach. Peter will take it to the RAC and, if there are no unforeseen issues, propose it to the board at its March 28 meeting.

2. Legislative update. Jason briefed the committee on the Oregon Renewable Energy Act (see attached summary). Several interest groups have made progress toward agreement on a Renewable Energy Act, and it is likely that a bill will be reported out of committee next week. The bill will face some opposition, but has a good prospect of carrying the Senate and reasonable prospects in the House. The bill would extend the public purpose fund to 2026 and require all the renewable energy funds to be used for projects of 20 MW or less. The investor-owned utilities would be required to prepare implementation plans by January 1, 2010. The current version of the bill would have it take effect on the governor's signature, but this may be extended to January 1, 2008, which would fit much better with Energy Trust's budget and planning cycle. Jason suggests that if the bill is enacted, Energy Trust should be involved in the utilities' implementation planning.

John Reynolds noted that it would be unfortunate if the bill didn't allow public purpose funding for solar project above 20 MW. Jason said that the bill would not allow such funding; those involved in this version of the bill were reluctant to begin making special provisions for particular technologies.

3. Warm Springs biomass project. Adam Serchuk briefed the committee on a biomass project staff is negotiating a term sheet with the Warm Springs Tribe. The project would be a 20-megawatt (nameplate, or about 14 average MW) facility that would use forest, sawmill, and urban wood waste. The project will require a total investment of about $46,000,000 and a multi-million dollar Energy Trust subsidy. The developer owner would be Warm Springs Biomass, LLC, consisting of the Tribe and a prospective outside investor. The project has an excellent fuel supply plan. The Tribe is exploring a power purchase agreement with PGE, which would entail the tribe building a transmission line to a PGE line (the line the Tribe builds could be used for future renewable projects on the reservation). Staff is still analyzing the project's above-market costs, but the project looks attractive. Staff has proposed an ambitious negotiating schedule, and if all goes well would like to get board approval of the major terms at the next board meeting.

One issue is that PGE would like to take title to the project's green tags, which raises some staff concerns given that PGE would be paying for project energy at its avoided cost. Staff and PGE are discussing whether to put the project under the master agreement, which would take care of the green tag issue, or negotiate a special understanding for this project. Jason said that he would not readily accede to the idea that PGE should take all the green tags without some protections.

Jason suggested staff think about how the project would fit Energy Trust's portfolio if a Renewable Energy Act is adopted putting a 20 MW cap on the use of public purpose funds. He also noted that a proposed biofuel bill may define biomass in a way that could affect this project, and will provide that definition to staff.

4. Preview of budget adjustments. Staff has completed its review of end-of-year financial information (especially carry-over funds), and negotiations with PGE and BPA over the Conservation Rate Credit funds are nearing completion. Both things affect Energy Trust 2007 funding and staff is proposing budget adjustments. Staff handed out a draft PowerPoint presentation highlighting potential budget adjustments which, with modifications based on the committee's suggestions, would be included in the packet for the March 28 board meeting. Carryover increases 2007 funds by $5.8 million due to uncompleted 2006 projects; the Conservation Rate credit will provide $1.9 million; PGE and Avista revenues are about $1.9 million less than expected. The net is $5.8 million available for reallocation, for which staff has specific recommendations. The committee also discussed the idea of preparing two-year budgets in the future, which would align budgets with two-year action plans.

5. Possible work outside of Oregon IOU service territories. Staff briefed the committee on preliminary discussions with BPA about coordinating Energy Trust's trade ally program with a potential BPA trade ally network. Energy Trust does not want to compete to handle this work for BPA in other states, but is concerned that BPA efforts and Energy Trust efforts be well integrated to avoid imposing burdens on trade allies. The committee suggested staff continue the discussions without making any irrevocable commitments.

Staff briefed the committee on discussions with Cascade Natural Gas. Cascade is working with the Washington Utilities and Transportation Council (WUTC) to decide how to carry out conservation programs in Washington. Energy Trust will not compete for the programs if an RFP is issued. However, we have told Cascade that if it asks Energy Trust to administer the programs, we would be interested. Staff has provided Cascade with a rough idea of the cost of providing such programs, noting that a much more detailed analysis would be required before Cascade or Energy Trust should determine how to proceed. In addition, Energy Trust would require board approval before expanding its services, and Cascade's decisions will be made in cooperation with the WUTC and stakeholders. Staff will memorialize this in a letter to Cascade.

The committee endorsed the idea of not competing for such expansions, but also had no reservations about the idea in concept if utilities want to deal with Energy Trust on a non-competitive basis. The committee also asked staff to develop criteria to consider in connection with proposals like this.

New Bills:

Oregon Renewable Energy Act (Mar. 1 draft):

- A utility that sells more than 1% of Oregon's retail electricity must get at least 5% of sales must be from qualifying renewable energy sources starting 2011; 15% by 2015; 20% by 2020; and 25% by 2025.
- Smaller utilities: at least 5% of sales must be renewable by 2020.
- Applies to investor-owned and consumer-owned utilities; electric service suppliers are bound by standard that applies to utility where sales are made.
- Utilities may comply by building projects, buying energy from someone else's project, buying renewable energy certificates (as approved by OPUC), or a combination of these. If RECs are used, they must: meet OPUC standards; be purchased or banked RECs from non-net-metered and non-QF facilities may not be used to meet more than 20% of the requirement.
- Eligible resources:
  - Projects built 1995 or more recently
  - Eligible technologies: wind, hydro, geothermal, wave energy, solar power and hydrogen derived from these sources.
  - Biomass: solid organic fuels from wood, forest or field residues, animal waste, landfill gas and spent pulping liquor.
  - Qualifying hydro:
    - Not on a wild, and scenic or protected river
    - Efficiency upgrades at dams existing before 1995
    - Small hydro in irrigation pipes and canals
  - ODOE may identify other complying energy sources
- Cost cap: 4% of annual retail electric revenue requirement
- Utility is exempt if it would have to:
  - acquire energy in excess of load
  - substitute qualifying electricity for energy that is not derived from coal, natural gas or petroleum
  - substitute qualifying electricity for energy available under pre-2007 Mid-Columbia PUD contracts (but when Mid-C contract expires or is renewed at a cost increase of more than 10%, utility must comply the next year)
  - substitute qualifying electricity for its firm energy allocation from BPA.
- OPUC to establish standards by which an investor-owned utility can meet the requirement by making compliance payments; for consumer-owned utilities, the utility governing boards establish compliance rates.
- OPUC may impose penalties for non-compliance.
- Utilities may recover in rates all prudent compliance costs.
- Extends public purpose charge to Jan. 1, 2026; dedicates the 19% of the charge that is for renewable energy to resources under 20 MW.

SB 19 -- Consumer-Owned Utilities Renewable Portfolio Standard similar to Oregon Renewable Energy Act, except:

- Applies only to consumer-owned utilities that serve more than 50,000 retail customers or provide more than 5% of the states total retail load.
- By 2009, utility must get 25% of retail electricity, or 60 percent of the utility's average Oregon load growth from renewables.
- BPA electricity counts; all generation must be from WECC service territory
- Cost cap ("Compliance by expenditure," sec. 8): 4% of annual retail electric revenue requirement, or 8% of annual power supply and transmission revenue requirement, if used for energy, RECs, research and development, or failed renewable projects that are beyond the utility's control
- Exemption if utility would have to increase average retail electricity rates for all customer classes by more than 4% (sec. 9)
- ODOE to establish a REC system for consumer-owned utilities (sec. 12)