EnergyTrust of Oregon, Inc.

Finance Report

February 8, 2007

The Finance Committee met at 7:30 am on November 30, 2006, with Debbie Kitchin, board member; Margie Harris, executive director; Sue Sample, chief financial officer; and Pati Presnail, controller, in attendance. John Klosterman, treasurer, was out of town and did not attend. Neither Preston Michie nor Tom Foley attended.

Review December 2006 Financial Statements

Sue presented the preliminary financial statements for December 2006. Based on those preliminary numbers we finished the year with more carryover than we had budgeted. Highlights of the variance were:

- Public purpose revenue above budget by $3.1 million (5.6% variance)
  - Source: increases in rates approved subsequent to budget preparation
  - Utility forecasts generally conservative
- Interest income exceeded budget by $1.6 million
  - Interest rates more than doubled over previous year
  - Higher invested balances than expected; result of reduced spending
- Expenses overall below budget by $35.6 million (43%)
  - By line item
    - Incentives $31.5 million (88% of expense variance)
      - Primarily utility scale incentives budgeted but not yet paid
      - Gas incentives from delays in project completions and overly optimistic goals
    - Program subcontracts $3 million (8.4% of expense variance)
      - Performance incentives yet to be recorded
      - Adjustments will increase expense
  - By division
    - Energy efficiency
      - Electric efficiency $4 million underspent (10%)
      - Gas efficiency $3.6 million underspent (28%)
    - Renewable energy
      - $28 million underspent from budget—primarily utility scale (PGE)
      - Have changed the way we budget renewables to reflect spending patterns better; differences between accounting versus activity perspectives

Debbie requested that an analysis, similar to the one above, be included as part of the financial statement package (or as part of the presentation) at least on a quarterly basis. Staff agreed to prepare a summary page highlighting major points and helping interpret statement results.

November 2006 Financial Statements

The November financial statements provided to the committee in late December offered no new insights other than those reflected in the December statements; the committee focused its review on December's presentation.

Forecasted Commitments
Sue presented the results of the 1st quarter forecast for 2007 incentives. This work was prepared by Pati incorporating the forecast of incentives (incentives only) prepared by the PMC's and the sector managers. The forecast for 2007 shows incentives to be approximately $700k below what was adopted in the 2007 budget. The distribution of that variance is reflected in the incentive forecast document (also prepared by Pati). Pati described the major variance as being in the new buildings sector. Debbie responded that this coincided with what she has been hearing about prospects in commercial construction lately.

Of the forecasted incentive amounts at this point, approximately 30% are committed to specific projects.

These figures will change upon the re-budgeting effort planned for the March 2007 Board meeting; the revised budget will reflect the allocation of additional carryover funding plus the potential addition of Conservation Rate Credit funds.

Margie would like to have the committed amounts displayed on a financial statement to ensure that people are aware that much of our funding is committed even when we don't spend in exactly the same time frame as budgeted. Sue and Pati said they would work to display that in such a way so as not to confuse historical spending and future commitments with one another. (This may appear on the summary sheet accompanying the financials.)

Cash Reserve Requirement
The committee had a preliminary discussion about the topic originally discussed at the December board meeting about minimum cash reserves. In addressing a concern that surfaced about how to portray the reserve requirement in the easiest possible way to understand it, Sue expressed reluctance to use a standard "rule of thumb" or formula type of approach, such as a percentage of revenue. She prefers to retain the flexibility to reflect the reality of the organizational risk at the time of consideration. Debbie and Margie both agreed. For example, using six months' operating expenses doesn't reflect our risk and would require us to keep $30 million in reserve, which could severely hamper our operations. For individuals and other nonprofits with more unstable funding, this methodology could be much more relevant.

Debbie said she liked the methodology we had used; it made sense from her experience in the field and her knowledge of our revenue patterns. Our major risk is that we won't receive the amount of revenue projected from some weather-related cause and she believes a 4-month, 10% reduction serves as a reasonable estimate of that exposure.

Once we have more of our cash balances in escrow, we may want to consider increasing our reserves to maintain our compliance with funding requirements in place at that time. Since we are addressing the reserve requirement on an annual basis in the budgeting process, any additional limitations can be factored in at that time.

Next Finance Committee Meeting
Sue suggested moving the date of the next Finance committee meeting to March 13th so that Pati and she would have more time to prepare the budget documents for the committee to review prior to the March board meeting. Planning has begun already, but we will be incorporating additional service territories to record the CRC activity in this budget round which will require additional effort. Debbie said she would check her calendar and respond. Sue will contact John K. when he returns.