EnergyTrust of Oregon, Inc.

Policy Committee of the Energy Trust Board of Directors

April 17, 2007, 3:00-5:00 pm

Attending: Jason Eisdorfer, John Reynolds, Tom Foley, Margie Harris, Lori Koho, Peter West, Jan Schaefer, Sue Meyer Sample, Fred Gordon, Steve Lacey and John Volkman.

1. Discount rates: Energy Trust and OPUC staff have been discussing how Energy Trust programs could fit better with utility integrated resource planning (IRP). In IRP, the utilities consult with a range of parties and develop a least-cost mix of generation and demand-side activities, e.g., conservation. The OPUC acknowledges integrated resource plans, which gives the utilities comfort that if they implement the plan, the OPUC is likely to accord favorable rate treatment. OPUC staff would like to use integrated resource plans to help determine appropriate levels of energy conservation funding, which requires some level of consistency in utility and Energy Trust methodologies.

Energy Trust and the utilities make different assumptions about the value of energy conservation over time, based on the "discount rate" they use to assess the value of future savings. E.g., if we apply a 3% discount to the value of future conservation, we assume it has a higher value over time than if we discount future conservation by 6%. This may make a small difference for measures with shorter lives (like CFLs), and much more for measures with longer lives (like insulation).

In 2002, the Energy Trust board decided to use a 3% discount rate in cost-effectiveness analysis. Oregon utilities use 5%-6.5%. The OPUC takes the view that efficiency is another resource, and should be evaluated as other resources are – they suggest Energy Trust use a discount rate in the 5-6.5% range used by the utilities. The Power Council uses a 4% rate.

One concern is that a high discount rate could mean that some longer-lived Energy Trust measures would no longer be cost-effective, especially in gas programs. A second concern is that Energy Trust and utility discount rates apply to different resource mixes. Energy Trust focuses only on efficiency; utility discount rates are based on their cost of capital for all generating resources, including fossil fuel generation, and distribution facilities. While there may be some overlap between discount rate and hedge value (i.e., a value for the future environmental or price risk of fossil fuels), the two issues are distinct. Lori pointed out that the IRP rules do need to account for different risks associated with different resources, and also that the OPUC might set different performance measures for Energy Trust electric and gas resources.

The two staffs will work on these issues (discount rate and hedge value) through spring and summer. However policy guidance would be helpful. Energy Trust's discount rate makes sense from the perspective of a non-profit public purpose administrator; a rate in the utility range makes sense from the perspective of the IRP process. The Committee members will set up a meeting to discuss this matter directly with the OPUC.

2. Goodnoe Hills. In August, 2006, Energy Trust approved $2.25 million each for the above-market costs of two 56-megawatt wind projects, Goodnoe Hills East and Goodnoe Hills West. Although Energy Trust has paid the entire $4.5 million into escrow, no funds are to be

paid to Pacific until the projects are substantially complete. PacifiCorp recently learned that it would be unable to proceed with the West project and instead wants to increase the output of the East site from 56 MW to 94 MW. PacifiCorp would like Energy Trust to leave the $4.5 million combined above-market payment unchanged. Staff is seeking more information so it can determine the above-market cost of the 94 MW project. A project of that size for a $4.5 million incentive would be less costly than one of our other utility-scale projects, and in the middle of the range of comparable wind projects. The Committee suggested staff proceed with its above-market costs of the 94 MW project. The Committee wants to avoid paying more money for less capacity, but if the above-market analysis justifies the full incentive it appears consistent with Energy Trust policy. Staff will complete the analysis and invite Pacific to attend the May 9 board meeting to discuss this.

3. Public interest policy. The public interest policy is up for regular review. The policy is:

> The Board of Directors of the Energy Trust recognizes that one of the strengths of the organization is the diverse experience and backgrounds of the Board members.
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> Acknowledging this strength, it is the policy of the Energy Trust of Oregon that issues coming before the Board shall be decided by Board members not on the basis of any diverse special interests represented on the Board, but rather shall be based on what is perceived by Board members to be in the general interest of the public.

The policy was first adopted April 11, 2001, and reviewed by the Policy Committee in 2004 with no changes. Staff suggested the policy be reaffirmed. The Committee agreed, and suggested it be included in the board packet for the May meeting. Jason will cover it in his report at the meeting.

4. Briefing on June 8-9 retreat topics. Staff is developing a draft agenda for the June 8-9 board strategic planning retreat:

Introductory briefing by Margie:

- Issues from June 2006 meeting, where they are now?
- Status of architecture study

Discussion items:

1. Issues relating to legislation:
   - Implications of limiting the renewable program to 20 MW projects:
     - Do we just do more of the same, or do things fundamentally differently?
     - Do we take more technology risk?
     - Do we take a more active role (e.g., direct ownership) in developing projects and markets?
   - Implications of supplemental efficiency funding from PGE and/or Pacific:
     - Policy implications: goals, equity among sectors, etc.
     - Management, operational, budget and programmatic issues
2. Implications of the program delivery model study
3. Should Energy Trust's scope change in light of:
   - Needs in other states
   - A de-carbonizing world
   - If proven technologies need our support less often --
     - Should we take more technology risk?

- Should we research and demonstrate novel strategies like behavioral systems (e.g., in-home meters that display real time energy use)?
- Emerging entrepreneurial opportunities

On the first bullet under #3, Cascade Natural Gas has asked us to develop a plan for delivering our programs in its Washington service territory. This would involve plan development and then, possibly, actual expansion of services if after the plan is developed we (including the board) think it makes sense. The Committee likes the idea of disseminating our services, but not if it would put too much strain on the organization. Revenues would likely increase something like $2.5 million by 2011-2012. Whether this would lead to further expansion in Washington is unclear. We might, for example, create a program and spin it off once it is established.

The Committee asked about our involvement in the utility IRP process, and suggested it be covered in introducing agenda item #1 (legislation). We will also note other areas in which the legislation may require new work, e.g., involvement in utility implementation plans. We also should identify our IRP work in the budget process.

5. Legislation. The Renewable Energy Act, SB 838, has been approved by the Senate and is in House hearings. It would have a number of effects on Energy Trust renewable energy programs, including involvement in IRP and implementation planning.

Some recent legislative discussions suggested there may be some confusion about Energy Trust's green tag policy. Margie will forward information on the new policy to Lee Beyer.

6. CRC program and confidentiality policy: BPA would like information about commercial customers – e.g., name, address, incentive and energy savings. The Energy Trust policy says we can disclose this information only to state agencies. The Committee suggested that the OPUC and commercial customers be consulted and then recommend modifying the policy at the May board meeting to allow disclosure to BPA.