EnergyTrust of Oregon, Inc.

RENEWABLE RESOURCE ADVISORY COUNCIL
Notes from meeting on May 16, 2007.

Attending from the Council:
Thor Hinckley, PGE
Justin Klure, ODOE
Jeff King, NW Power & Conservation Council
Lori Koho, OPUC
Troy Gagliano, RNP
Angus Duncan, Bonneville Environmental Foundation

Attending from the Trust:
Elizabeth Giles
Erin Johnston
Alan Cowan
Adam Serchuk
Kacia Brockman
Sue Meyer Sample
Davis McClelland

Attending from the Board:
Alan Meyer, Weyerhaeuser
John Reynolds, University of Oregon

Others attending:
Dave Tooze, City of Portland
Jon Miller, OSEIA
Tom Chester, OIT
Doug Boleyn, Cascade Solar Consulting
Lee Perlow, Perlow Mapping & Design
Jim Deason

1. Welcome and Introductions

Adam convened the meeting at 9:30 am. The April notes were adopted with one change from Lori Koho.

2. Legislative update

Justin Klure presented an update on the 2007 legislative session. Hearings on House Bills 2210 (Biofuels package), 2211(BETC changes) and 2212(RETC changes) were heard last week. Visit http://www.leg.state.or.us/bills_laws/home.htm for more detailed descriptions and status updates on legislative bills. No amendments have been proposed to 2210, and the majority was supportive. They did have time to address 2211 or 2212.

Adam asked about status of the fixing the problematic interaction between the BETC pass-through and the corporate kicker. Justin said that there are no specific fixes to his knowledge. Last he heard, there was a rule or bill that would be added to ensure there were no disincentives to claiming the BETC. Troy added that SB 819 should be addressing this issue.

The Renewable Portfolio Standard(RPS), Senate Bill 838, has a work session schedule for this afternoon. It passed 20 to 10 out of the Senate and is in the House Energy and Environment Committee. There is a change being incorporated that will affect the Consumer-Owned Utilities (COU). Those COUs with less than 1.5% would be required to provide 5% renewable energy by 2025. Those between 1.5 and 3% would need 10% by 2025.

HB 2610 would require 1.5% of the construction budget for public buildings that use state funds to go toward adding solar to the building. Dave Tooze asked if a building that is receiving BETC funding through a pass through would be considered to have state funding. Jon Miller was unsure and said he would follow up.

Kacia asked for an update on the net-metering change. Jon said that May 9th was the last date for public comment. He expects that the rule will take effect with tariffs in place in September.

Angus added that there were several bills relating to climate change that were brought forward, and it is likely at least that one will pass setting up a Climate Commission and recognizes the work being done within the state university system. It also puts the climate goals proposed by the governor into statute.

3488 extends the property tax exemption to 3rd party financing projects.

3. Strategic Planning

Adam led a discussion on the strategic planning issues for renewables. Energy Trust currently devotes about 48% of its $11 million renewable energy budget to utility-scale projects. We fund projects in return for a share of their green tags, which we (or the utilities) hold in trust for the ratepayers whose money we manage. All our renewable energy programs, with the exception of utility-scale, blend resource acquisition with market development. Market development activities stimulate healthy renewable energy markets, and are intended in time to lead to increased renewable generation.

Energy Trust has a green tags policy that requires us to take ownership of the green tags for a given project in proportion to the amount of the above-market cost with support. We are seeing an evolving market for green tags, so we are developing a revised approach in which we would claim only as many tags as our incentive would purchase at a fair market value.

There is also a set of OPUC performance benchmarks. The current performance benchmarks do not recognize market development activities. Our stakeholders have expressed a commitment to market development and resource diversity, and several of the Board's strategic goals are not easily translated into megawatts. SB 838 seems to require more focus on market development, not less. Markets for most smaller-scale renewable technologies are less mature than large wind and will require more market efforts.

Lori said that this statement may be misleading. SB 838 does not require that Energy Trust engage in market development. Adam agreed, and clarified that this is a conclusion Energy Trust has reached in its work to date. Lori also pointed out that while SB 1149 mentions new market transformation, the rules apply this term only to energy efficiency.

Currently, we are required to claim green tags in exchange for financial incentives which heightens the tension between market development and project construction, and the confusion over what counts as success. This raises numerous questions—Are we successful if a project is developed with our help, or only if we obtain the green tags? If we receive only some of the tags, should we claim only some of the credit? If green tags are the compliance mechanism for the RPS, is our job to procure tags on behalf of ratepayers? If Oregon implements an RPS and it is determined that Energy trust should help the ratepayers comply with that standard, does that imply that we should only pursue projects for which we can claim tags?

Angus said that there are various ways you can characterize Energy Trust's mission. If and when the RPS passes, it may trump all other options and may require that Energy Trust, as a collaborator with the IOUs, assist the reaching of the goal. In terms of achieving the goal of increasing overall renewable generation in the state, if we want to move RE development faster, it helps greatly if the financial tools are additive and not substitutable. If a project can get financing from Energy Trust and some additional support from selling green tags, this will only

lead to more renewable generation being installed. Angus's opinion is that Energy Trust could do more to advance renewable energy if it did not claim green tags as a condition of funding.

Adam continued, saying he expects the Board to address these issues over the next year, in pace with market change and legislative action. To start discussion, staff created a strawman conceptual approach, consisting of two goals:

- Goal #1: Construction of projects able to deliver power to PGE or PacifiCorp
    - Projects measured by capacity (in average megawatts) built with significant Energy Trust participation, through a financial incentive or otherwise
- Goal #2: Development of strong, long-term renewable energy markets in Oregon
    - Market development measured by achievement of indicative market effects (e.g., installers trained, dairies that obtain cost data on digesters, etc.)

In this formulation, Energy Trust purchases green tags as a tool to assist in market development, as described in the current, interim green tag policy. Those tags are used to defray RPS compliance costs for PGE and PacifiCorp ratepayers. However, Energy Trust's primary goals are broader than RPS compliance alone, and green tag ownership is not the primary measure of success.

Staff would also encourage consideration of expanding Energy Trust's role in technology development (e.g., move upstream into demonstration projects); take a more active role in project development (e.g., buy turbines on behalf of community wind projects to leverage purchasing power and relationships); and redefine ratepayer benefit to include effective RPS compliance (e.g., issue an RFP for green tags from specific types of new projects, where doing so also contributed to market development goals).

Lori said that the OPUC staff is concerned about the Energy Trust pursuing unbundled green tags on the open market to achieve compliance. If Energy Trust is purchasing green tags, it would be in competition with the utility. Adam asked if OPUC believes that the utilities will be buying tags from projects under 20 MW. Angus added that Energy Trust could be seen as collaborating with the utilities by acquiring these tags on behalf of the ratepayer.

Dave said that market transformation was a phrase that was not associated with renewables at the time the language of the statute was developed. Above-market cost is a pretty broad phrase and there is room for market transformation activities in that phrase. Customer initiated projects, 20 MW and less, are developed for more reasons than just energy generation. To ask them to give up the greenness of the project runs counter to the desire of many customers, the City of Portland included. There needs to be a way for the customer, Energy Trust and utility to achieve success. If the customer gives up the tags, they are just a power generator. If the customer, who is a ratepayer, retires the tags for their own benefit (and does not sell them), it should count toward the RPS. Assuming that an RPS passes, why doesn't the OPUC say that all of Energy Trust's projects for which the tags have been retired by either the customer or Energy Trust count toward the RPS and be subtracted from the utility's RPS requirement? That would be considered success for the customer, Energy Trust and the utility.

Angus said that when BEF does solar school projects, they leave the tags with the school because they have not been able to find a way to explain to the kids why they aren't generating

green power. The school is obligated to retire the tags as a PGE or Pacific Power customer, and may not resell the tags. In a non-legal sense, they ought to be able to be counted against an RPS.

Jon said that to make full use of the tags, Energy trust should sell tags and reinvest the revenue in additional renewable resources. To use them most fully for the industry, they should be turned into additional renewable projects.

Alan agreed with Dave that Energy Trust, the utility and the developer could all get credit toward their goals if the tags are retired and not sold, but questioned whether the law will allow that, given that he believes the intent of the legislation is to acquire tags toward the utility RPS.

Adam said that the Lakeview Biomass project has announced that they have financing. This will be a 10-15 MW project near the CA border. We have been involved for several years in the background. It seems possible that they could sell the green tags and possibly the power to California. Let's suppose that we could make a case that we had helped the project development process even though we did not provide a financial incentive. Would we consider this a success or a failure? Alan said that as the law is written now, it would be a success, even if we don't contribute money or get green tags. With an RPS, it would be a failure.

Thor said that PGE has struggled with the PUC interpretation that their 50 aMW of voluntary green power purchases will not count toward an RPS.

Angus said that in the case of the Lakeview project, Energy Trust should be able to claim a non-material success in the involvement. Just as the marketing and communications efforts contribute to Energy Trust's success, so does involvement in projects like Lakeview.

Jim commented on the above-market cost calculations. He always assumed that the green tag policy emerged from the above-market policy. He supposes that any activity in which Energy Trust engages ought to be tied somehow to a project's above-market cost.

Angus said that Energy Trust needs guidance from the OPUC on whether the tags they claim are going to be counted toward the obligation of the utilities. Lori responded that yes, green tags owned by Energy Trust will count toward the utilities' RPS goals.

Adam asked whether Energy Trust would be doing the right thing if it funded a project that was sited in COU territory and the electricity went to the COU and the tags were claimed by Energy Trust on behalf of PGE or Pacific Power customers.

Angus asked if Energy Trust could fund a project in COU territory if its demonstration value would help develop the market in Energy Trust territory. Lori responded that such a project may be acceptable since it ultimately would benefit the ratepayer.

Jon commented that such a demonstration project may be acceptable, but in general Energy Trust should not seek to acquire unbundled green tags for RPS compliance.

Lori asked why Energy Trust would want to acquire unbundled green tags. If cost effectiveness is a concern, we should consider changing the performance benchmarks.

Adam gave examples of COU projects that may be considered. First, a successful digester project in Tillamook County would help transform the dairy market for biopower, but is served by Tillamook PUD. Second, most good Oregon wind sites are located in COU territory.

Alan M. said that tags were developed, in part, because it isn't always physically or financially feasible to deliver the green power to an end user. He added that SB 838 exempts net metered and qualifying facilities from the utilities' 20% limit on unbundled green tag purchases.

Lori said that the bottom line is to ensure a coal plant does not get built. Funding a project in COU territory and claiming the tags for the RPS does not address the supply needs for the IOUs. Doug agreed that for him the ultimate point is to ensure that fossil fuel use is reduced or more plants aren't built.

Angus disagreed, explaining that an RPS requires electricity to be delivered, and is therefore an imperfect tool for reducing CO2, if CO2 reduction is your ultimate goal. Jeff King agreed. Troy added that the RPS has goals beyond CO2 reduction, including jobs and energy independence for Oregon.

Adam asked for feedback about how Energy Trust should measure success. Jon said that Energy Trust is doing a good job when it works itself out of a job. The goals defined in the strawman proposal are appropriate.

Dave said he favors a broader definition of success. If Energy Trust touches a project, such as funding preliminary studies, it can claim credit. Success in terms of economic development and growth in the community is a measure as well.

Lori feels that the bottom-line goal of acquiring MWhs is key, but Energy Trust will not be successful in doing this if it does not take steps toward market development. It is a question of magnitude—if a disproportionate amount of funding is spent doing projects outside the service territory or is not acquiring generation, it will come under a lot of scrutiny. She reiterated a previously written OPUC staff position that projects receiving technical support from Energy Trust should count toward its goals, even if they receive no above market funding. Lori voiced support for staff's strawman proposal.

Angus said that it is appropriate, though difficult, to define some big, easy-to-measure metrics for the soft goals, and identify the kinds of Energy Trust activities would contribute to those goals. These soft goals could be "signpost" indicators of market penetration.

Lori commented that if Energy Trust invested in projects in COU territory, some may believe that the benefit to the COUs would be unfair given the COU opposition to the RPS. Angus responded that the benefit to the COU could be acceptable if the project would lead to significant long term benefit for the IOU customers, too.

Adam said that the next step will be to frame the conversation for the Board's retreat in June. In August, we will decide how to measure the project goal (aMW or green tags) and market development goal. By October, as part of 2008 budget, we will propose new annual project benchmarks and market development goals. In November, staff will propose a new long-term project goal to Board, and in December the Board will approve the 2008 project goal and project benchmarks to OPUC.

There were no other public comments. Adam adjourned the meeting at 11:30 pm.