EnergyTrust of Oregon, Inc.

Policy Committee of the Energy Trust Board of Directors

May 20, 2008, 3:00-5:00 pm

Attending: Jason Eisdorfer, John Reynolds, Steve Lacey, Fred Gordon, Peter West and John Volkman

1. OSU efficiency project. Steve Lacey briefed the committee on an upcoming OSU combined heat and power project. The OSU project team first briefed the board at the 2005 board retreat. OSU is now at the point of undertaking the project and is still planning on help from Energy Trust. OSU has already begun construction on the project and has submitted an incentive application. However, we don't have enough documentation to know how large an incentive the project may warrant and have a meeting set up to clarify what they are asking and how the Energy Trust process works. Among other things, we need to understand their incentive request: OSU was talking about a considerably lower incentive a few months ago than the current $3.5 million. The preliminary technical analysis shows savings that would warrant up to a $2 million incentive cap at 8 cents/kwh (the standard for combined heat and power projects). Due to the program incentive cap of $300,000, the project will require board approval (policy below). The project is unlikely to be ready for board review in June, and may require a special meeting during the summer. John Reynolds said he was concerned that the board doesn't meet between June and September anyway, and a meeting in July should be fine. A meeting with OSU to clarify how Energy Trust fits into this picture is scheduled for June 10.

2. Renewable energy:

a. Budget reallocation from community wind to solar. Peter West briefed the committee on a proposed shift of funds from wind to solar. In PGE territory, the commercial PV budget is already 96% committed and in PacifiCorp territory 107% committed. It is normal to see about 25% of these projects drop out, so an over-commitment of this scale is not a source of concern. There is considerable interest in commercial PV, due partly to the 2009 expiration of the federal production tax credit. Community and small-scale wind projects are stalled because no one can find turbines. All of the turbines are being taken by large projects, which are a more attractive market for turbine manufacturers, and turbines are unlikely to be available for smaller projects until 2010, unless Congress extends the production tax credit for more than one year. Peter proposes to take $2.5 million from the 2008 wind budget and add $1.5 for commercial solar projects in PGE territory and $1 million in PacifiCorp territory. This would still leave enough money in the wind budget to fund some projects if we find can find reconditioned turbines. The proposed shift of funds would require Energy Trust to reduce its program goals by .35 aMW, the net of 1.1 aMW from the lack of wind projects plus .75 aMW for solar. Peter proposes to bring this proposal to the board at its on June 13th noon meeting. Steve noted that as many as four combined heat and power projects may be in the pipeline, and some may use renewable fuels.

b. ProLogis. Peter also briefed the committee on a minor change involving the ProLogis solar transaction approved by the board last summer. ProLogis is a large owner of warehouses that had proposed to install a number of PV projects. As negotiations progressed, ProLogis brought in an investor, MMA Renewables. The Energy Trust funding agreement and associated power-purchase agreements would be with MMA or a special purpose entity they

create. On June 13, Peter will ask the board to allow us to complete this project with MMA, not with ProLogis. This may be an item for the consent agenda.

c. Third-party ownership issues. The committee asked Peter to explain issues PacifiCorp has raised about projects using our third-party ownership model. Peter said these issues do not affect the ProLogis project, but do affect other projects. The third-party ownership model has been very popular. It allows municipalities and non-profit organizations to bring in outside investors who can take advantage of renewable energy tax credits, to build renewable energy projects and supply the power to the municipality or non-profit entity. When the projects are net-metered, the process is very simple, and the municipality or non-profit's utility bill reflects the project generation. PacifiCorp has raised two issues about these arrangements: (1) that if a project developer builds more than one project it is an "electric service supplier" which must comply with various regulations under Oregon law; (2) that these projects do not qualify for net-metering. These issues are obstacles to current projects in PacifiCorp territory; PGE is not raising these issues. If PacifiCorp's arguments succeed, it could undermine the viability of the third-party ownership model. OPUC staff has asked Energy Trust for information about the potential effect on Energy Trust projects. In essence, we believe these projects could dry up. The OPUC and Department of Justice are exploring the possibility of addressing these issues through a declaratory ruling. Jason wondered if PacifiCorp is concerned about distributed generation projects circumventing the utility on a larger scale. He asked if these projects are "qualified facilities" under federal law, or more properly classed as net-metered projects. The committee thought it would be appropriate for Energy Trust to join ODOE to seek an OPUC resolution of these issues.

3. Briefs:

a. Oregon, California and Washington initiatives. Fred briefed the committee on discussions between the three states about collaborative work on zero-net energy commercial buildings and appliance programs and standards. California is interested in working on both fronts; Washington hasn't decided. At this point, we are trying to coordinate with both states to scope these initiatives and figure out how the work would be done. The OPUC is Oregon's lead on this (at least until there's an action list and assignments), with Energy Trust support. It is clear that a zero-net energy commercial buildings initiative would require a much bigger renewable energy budget than Energy Trust now has, would require Energy Trust and OPUC to accept a much longer wait time for return on investment, and different approach to risk than they traditionally have. Jason asked how good are these ideas, compared to other good ideas? The OPUC is plainly interested. John Reynolds observed that zero-net energy commercial buildings have captured the imagination of the design community.

b. Looking beyond today's technology in supply curves. Energy efficiency supply curves are built on the basis of estimates of how much can be saved by particular measures. Historically, supply curves have tended to under-estimate the amount of efficiency we can find because these curves are based on known technology. At planned funding levels, we acquire all of the retrofit conservation in the curves in about 8-15 years, even though we are confident that more will be available as technologies and operational and design practices evolve. Essentially, efficiency programs help prod manufacturers, designers, etc. to improve products and processes, resulting in more available efficiency. Fred has consulted with PacifiCorp, which is deciding how to approach this in its integrated resource plan. John Reynolds said he hoped staff would be ready to brief the board on this at the retreat. Jason noted that these issues overlap with the zero-net energy commercial buildings and appliance standards work we are discussing with the other states.

c. Governor's working group on energy efficiency. Fred reported on the status of the group's work. He has briefed the group on problems and issues. The group has suggested the need, among many other things, to reconsider: how cost-effectiveness is calculated, how carbon is valued, and how to address financing issues rather than just providing incentives. Jason noted that OPUC staff has suggested that not all these things require legislation, some can be accomplished administratively. The group also talked about how to ensure that an appropriate level of funding goes into energy efficiency if a carbon cap is imposed on generation. The committee discussed the possibility of bringing Steve Cowell of CSG to talk about the last issue. Steve Lacey will see if this might be possible the third week of June.

Board policy on waiving Production Efficiency Incentive Cap:

The board may approve exceptions to the Production Efficiency, Building Efficiency and New Building Efficiency program incentive limit for projects that meet the following criteria:

1. **Exemptions require suspension of self-direction for a minimum of 3 years.**
2. **Exemptions will be approved only if there is available incentive budget.**
3. **Projects are expected to save energy at a cost per annual unit of energy saved ($ per annual kilowatt-hour/therm) to Energy Trust that is less than the current incentive levels for the applicable program.**