Policy Committee of the Energy Trust Board of Directors

April 14, 2009, 3:00-5:00 pm

Attending: Jason Eisdorfer, Roger Hamilton, John Reynolds, Margie Harris, Fred Gordon, Betsy Kaufmann, Steve Lacey, Thad Roth and John Volkman

1. Open Solicitation policy: Betsy Kaufmann said staff is seeking a second track for approving projects under the Open Solicitation policy (Attachment 1). OSP was designed to deal with unexpected and unusual projects that warrant especially extensive review. Hydropower projects now go through OSP because they fit nowhere else, but they are relatively well understood and do not warrant this kind of review. Staff proposes to allow the approval process now used for biopower projects (under which the board approves projects only if over $500,000) to be used for hydropower projects; the current open solicitation process (under which the board approves any projects over $50,000) would be retained for less established technologies; and the Open Solicitation Program would be renamed the "Wind, Hydro and Geothermal Program." Hydro would be the only technology included in the second track for the time being; however, other mature technologies such as wind and geothermal could be included in the future with board approval. Staff proposes that the board continue to establish a single budget for the entire program, including hydropower and unusual projects, which would allow staff to shift funds between these project categories. Only unique under-$500,000projects (e.g., wave, fuel cells) would require both RAC and board review. Jason asked if all hydropower projects are "mature?" He would be comfortable if the term were limited to traditional hydropower projects, not novel or innovative ones. Staff agreed. Peter said that the current process creates an anomaly by treating traditional hydropower as though it requires much more extensive review that other established technologies.

2. NW Natural:

a. NW Natural Industrial service: Steve Lacey noted that NW Natural and Energy Trust staff have explored the idea of providing efficiency services to NW Natural's industrial firm and interruptible sales customers (about 900 accounts). NW Natural now has OPUC approval of the idea, and has established a deferral account to collect revenues from industrial customers for the next two years. Providing efficiency services to these customers will require amendments to various contracts, and we expect to bring a proposal to the board at the May 6 meeting to approve the concept and authorize contract amendments. Under the proposal:

NW Natural would pay Energy Trust $900,000 in the first year and $1.75 million in the second – but no more than $500,000 per year for interruptible customers. Energy Trust would probably begin providing services this fall. We may have to amend contracts to provide these services, which could require board authorization.

No one has done this for industrial gas customers before, so we will learn something from the process. The idea has emerged from an OPUC process.

Industrial gas customers can switch from a tariff that pays the efficiency charge to one that doesn't (a transportation tariff). This could raise an issue like the recoupment issue addressed in the board's self-direct policy (i.e., someone takes an incentive and then stops paying the public purpose charge). We have agreed with NW Natural that any contract need not address this issue, and that Energy Trust would address in policy.

Options: (1) Require participants to repay some or all incentives if they change tariffs within 36 months of receiving an incentive; (2) require this only of mega-projects; or (3) require nothing in the first two-years but monitor tariff-switching to see if it is a significant issue and if so, address it in the longer-term. Staff recommends option three: monitor and address the issue in the longer term if it appears significant. The committee supports the proposal subject to revision if this begins to look like a problem.

b. NW Natural Washington programs. Steve Lacey briefed the committee. Staff is finishing the phase 2 evaluation of a proposal to provide residential and commercial services in NWN's Washington service area. Staff expects to bring a proposal to the May 6 meeting recommending that we provide such services beginning this year and adding service in stages. The phase 2 report is still in process, but preliminarily it indicates:

- The area has about 60,000 customers: about 55,000 are residential, 5,000 commercial, and 12 industrial. Most are in Clark County.
- Energy Trust's existing programs are generally applicable to these customers. About 75,000 therms of potential energy savings could be cost-effectively attained from residential and commercial programs in the first year, ramping up to 250,000 per year after 4 years. The cost of acquiring these savings would be approximately $7.2 / first year therm with current levels of evaluation rigor and reporting of net savings. The costs of acquisition are on the high end based on Oregon experience, but Washington allows gross, deemed savings without adjustment for free riders. The housing stock is relatively new, so most residential services are likely to be retrofits.
- The Washington Utilities and Transportation Commission is comfortable with Energy Trust's approach to reporting. We are still discussing with them our incentive levels (Washington is accustomed to higher incentives per dollar).
- Impacts to Energy Trust IT, financial and contracting appear substantial in the start-up phase and modest in ongoing program delivery. Separate marketing materials, advertising, web pages, etc. will be required to reflect differences between Oregon and Washington tax credits, loans, etc. We also expect to expand our trade ally network to Clark County, and to work closely with Clark PUD, which provides electric service. Overall, Energy Trust staffing impact is estimated at 2.0 -2.5 FTE, which would be covered by NWN Washington public purpose revenues, and in the total delivery cost of $7.2/therm.
- There is a remote possibility that Energy Trust Oregon funds could be exposed to a Washington liability. For this to happen, the liability would have to exceed Washington funds plus our insurance limits. We considered the possibility of organizing a Washington subsidiary corporation to limit this liability. However, the risk appears small enough and the complications of dealing through a subsidiary are significant enough that we recommend against organizing a subsidiary.

Overall, staff believes providing these services would enhance our relationship with NW Natural and save energy. There will be start-up impacts, few on-going operational effects after start-up, and no impact on our ability to serve Oregon programs. The committee supported the proposal.

c. NW Natural funding. Steve noted that, as was discussed in the budget process concluded last December, we have ramped up NW Natural programs and are rapidly spending down the NWN carryover, especially given larger-than-anticipated 2008

gas project expenditures. To continue programs at current levels, NW Natural may need to increase funding this fall. We have begun to discuss the matter with NW Natural. NWN is interested in keeping funding at adequate levels. The OPUC is pleased that we are spending down the gas surplus. If needed, this could be covered by a filing this fall. We will check back with the committee this summer.

3. Douglas County landfill project. Thad Roth briefed the committee on this proposed project, 1 MW, 1060 kW, .97 aMW, using a third-party ownership model, which staff expects to bring to the May board meeting for approval. This is a smaller landfill with an active gas collection system in place. This project would help expand the system to capture 170-200% more methane. The developer would be Ameresco, Inc. Electricity would be sold to PacifiCorp, with royalties to the County. It was endorsed at the February 18th RAC meeting. Staff is working on a standardized display of costs and benefits, but in brief: capital cost is $3.6 million; with operating cost, above-market cost is $1.27 million; we would pay over four years; we would take 80-100% of the renewable energy certificates. Compared to other biomass projects and the program forecast, these costs are in the ballpark.

4. Utility board seat. Margie noted that three of the utilities have asked for voting memberships on the board. The committee discussed the idea. Jason will talk to the Governor and OPUC and after that to utility representatives; the Policy Committee will reconvene to identify options; and then the issue will be discussed with the board in executive session at the May 6th meeting.

5. Telling Energy Trust's story. The continuing interest in the public purpose fund in a time of economic stress raise the question whether we can do a better job of educating people about the value of clean energy investments, not to become involved in political debates, but to clarify the factual record.

6. Board training. Julie Hammond suggested we offer board training opportunities. She was thinking in particular of training about board responsibilities, liabilities, insurance, etc. We can arrange for this kind of training relatively easily at modest cost. Julie also suggested that other subjects might be considered. Would this kind of thing be of interest? If so, we could price out options for potential subjects:

- Corporate governance
- Crisis management
- Directors and officers' liability
- Compensation
- Succession planning
- Branding and crisis communications
- Intellectual property
- Financial reporting

Roger noted that branding and crisis communications is probably the most relevant topic. Margie suggested we send a board survey to the board, ask for responses before the May 6 meeting, and discuss it at that meeting.

ATTACHMENT 1

4.13.0001-A Review Process for Open Solicitation Renewable Energy Projects

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	April 30, 2003	Approved (R183)	April 2006
Board Policy Committee	April 2006	No change	April 2009

Purpose

To clarify and establish a formal review process for renewable energy projects proposed through the Open Solicitation Program.

Background

The Open Solicitation Program was established following discussion by the board at its January 30, 2002, meeting.

In early 2002 the Renewable Energy Advisory Council recommended establishing a procedure for considering and funding unsolicited proposals. Their intentions included:

- Quick implementation
- Fund good ideas that languish for want of a little push
- Fund new technologies in established applications
- Fund old technologies in new applications
- Establish an ongoing path for projects that do not fit criteria for subsequent Energy Trust programs

The application form establishes both general and specific criteria for evaluation. These criteria include: location, viability, replicability, energy generation, leverage/partnership, expansion potential, market transformation, environmental benefits, best practices, education and capability expansion. Staff evaluates the proposals based on these criteria and the guidelines above. The staff review includes resource, engineering and financial data as appropriate to evaluate project feasibility and chances for success. Staff generally requests additional information for about half of the proposals received.

If the final information is complete and the proposal meets the criteria, staff calculates the above- market costs of the proposed project and compares these to the request. We use the approved methodology but also calculate alternate views of the market value of the power (if the appropriate data exist). Typically, recommendations are presented to the Renewable Energy Advisory Council for discussion. This has been presented in a structured format for larger

projects and as general conversations for smaller projects. On occasion, the council has taken straw votes to help draw wide-ranging discussions to a conclusion.

RESOLUTION

BE IT RESOLVED: That the Energy Trust of Oregon, Inc., Board of Directors hereby approves the following review and approval process for projects brought forward under the renewable energy Open Solicitation program:

1. **Projects proposed for $50,000 or less of Energy Trust funding may be approved by the executive director.**
2. **Projects proposed for between $50,000 and $125,000 of funding will be placed on a consent agenda for board action, unless a member of the board asks to have a specific proposed project placed on the regular agenda.**
3. **Projects proposed for over $125,000 of funding will be presented for board action on the regular board agenda. Subsequent board approval would be required if the contract implementing an approved project is over $500,000.**
4. **The Renewable Energy Advisory Council will review all projects over $50,000 that staff recommends for funding.**
5. **A summary of any project under $50,000 approved by staff will be provided subsequently to the board and RAC.**

Moved by: Rick Applegate Seconded by: John Reynolds

Vote: 6 in favor; 1 opposed; 1 abstained

Adopted on April 30, 2003, by the Energy Trust of Oregon, Inc., Board of Directors.