Policy Committee of the Energy Trust Board of Directors

May 19, 2009, 3:30-5:00 pm

Attending: John Reynolds and Roger Hamilton (by telephone), Jason Eisdorfer, Margie Harris, Fred Gordon, Jed Jorgensen, John Runyan, Sue Meyer Sample and John Volkman

1. PGE solar project. In April 2008, PGE issued a competitive RFP for renewable resources to help comply with the Oregon Renewable Portfolio Standard. PGE reviewed the bids and in August of 2008 forwarded to Energy Trust an initial short list, including four utility-scale solar proposals. Energy Trust and PGE narrowed the list, updated cost data after the 2008 financial sector collapse, and EnXco was the lead project: 3 MW project, about 0.4 average megawatts. Above-market cost is $3.9 million. Although its installed costs are lower than smaller net-metered systems, the system will pay property taxes and will have higher insurance costs than some projects. So ownership and operation costs are higher. Staff proposes an incentive of $1.15 per watt, $3.45 million total, which is 87% of the above-market cost. Staff proposes to pay the entire incentive on commissioning. Once installed, the output over time should be reliable, there is little performance risk. Paying over time would add $800,000 to the project cost. The money will come from the Open Solicitation budget. PGE ratepayers would get all the green tags. This would be the largest single solar site in the state. We hope it will start a trend of large utility solar projects. Staff would like to take the project to the board on June 13, and will brief the RAC on May 20. PacifiCorp also has a project to propose, possibly for board action in July.

2. Strategic planning retreat. Al Jubitz and Betty Merrill, who are members of the strategic planning committee, were invited to participate in this discussion, as was John Runyan, the retreat facilitator. Only John was able to attend. The committee reviewed the draft agenda for the June 12-13 board retreat. John Runyan asked what the board would like the retreat to accomplish. Jason said there is yet not much to report about discussions with the utilities regarding board membership and other potential options. Perhaps the 10 to noon time should be used instead for strategic issues. Margie said the redesign issue could expand and follow it with the strategic plan introduction. Jason suggested instead starting with a discussion of the new context of clean energy. John Reynolds and Roger seconded that. Margie said she plans to discuss the new context in her opening remarks, and that could introduce a general discussion. The redesign presentation could be later in the agenda. Roger would like to have a discussion on the Living Building Initiative (LBI); Jason agreed. As far as retreat outcomes go, John Reynolds would like to have agreement on priorities for the coming year. Margie said part of the redesign effort is to make sure we are nimble and efficient, ready for what comes. We have core competencies but the world in which we operate is significantly changing. Jason suggested starting with the larger context discussion, then how Energy Trust fits, then the strategic plan, then finish up with priorities for the coming year. John Runyan asked what facilitation style would best suit the board. Jason suggested starting out in a looser vein and as the retreat progresses, for John to be more assertive in bringing discussions to a point. Also help us avoid group-think, welcome outside-the-box ideas, and make sure we aren't leaving things out of the discussion. The retreat should finish by 2 pm Saturday.

3. Board seats. The policy committee should arrange meetings with the utilities individually. Jason will ask Nancy to help set up meetings and a sub-set of board policy committee members, including Rick. That subset will come back to the policy committee and talk about how to proceed. A key question for the utilities is why they should have a seat and others not.

4. Risk/opportunity assessment. Energy Trust faces different kinds of risks: e.g., what if gas prices collapse and strand energy efficiency, or the organization runs aground politically? We brush up against these issues in strategic planning, the management audit, etc., but they recur year after year. Why not identify all the risks, size them, evaluate their probabilities, and develop strategies to address them? It could help discipline our thinking so we don't keep running up against the same issues and instead can plan ahead through some deliberate assessment. Such an effort can be both sensitive and expensive. Finding ways to minimize both would be prudent. John Reynolds suggested a board discussion of this later in the summer. Margie offered to do some research about how it might be done, by whom, roll it into her workplan and bring back options for discussion.

5. Legislation. The legislature is considering writing into law disclosure and conflicts provisions that the board currently follows, with a couple of tweaks. None of the proposed changes seem troublesome. The committee suggested two refinements would improve the current bill: (1) have the PUC member be a Commissioner; and (2) have it be a non-voting member. This would create a direct link to the PUC, not someone from outside the commission, and avoid putting the PUC member in an awkward spot where he/she may have to later rule on something that he/she voted for as a board member. Margie also reported that Mike Grainey has left ODOE and is considering a new job in the Department of Economic and Community Development.

6. Policy reviews:

- Eligibility of self-direct businesses to receive incentives. Staff would like to explore a potential amendment to one section of the policy (attached). Section 1.B exempts certain prescriptive measures (unitary HVAC and motor replacement) from the policy, and allows staff to exempt other measures with modest cost (less than $3,000) and savings where applying the policy would discourage participation. The policy works reasonably well for large industrial and commercial projects where we can readily identify self-directors. However, it is often difficult to determine whether small industrial and commercial projects involve self-directors, and in any case it is a very small fraction of those projects. The policy is therefore a confusing and irrelevant distraction for most of these participants and difficult for staff to apply. Staff would like to bring a potential amendment back to the July 7 policy committee meeting, discuss whether the amendment makes sense and whether and how the CAC and RAC should be involved in reviewing it. If the committee approves, we could then aim for board action on an amendment at the September 2 meeting.
- Authority to commit incentive funds in future years. We have only an editorial revision, reflecting the fact that there is no longer a building tune-up program.
- Above-market cost methodology. No change is recommended.

The committee had no objection to these proposals.

6. Advisory councils:

CAC replacements: Staff would like approval for Brent Barclay to replace Karen Meadows (BPA). Brent started at BPA last year from Evergreen Consulting, where he worked with Roger Spring. He has a good background in energy efficiency. Jim Abrahamson is proposed to replace Allison Spector (Cascade NG). Jim is a new Cascade hire; Allison is in Seattle and getting to meetings is hard. Jim is in Portland and has a deep background in low-income energy programs. The committee approved.

RAC appointment: The current RAC has multiple solar experts, but only one person (Carel DeWinkel) who is close to the small wind industry. Ed Kennell (from Bend) has more than 30 years of experience in the wind industry, including design, installation and maintenance of small wind turbines. He has also worked with several utilities on interconnection policies. Doug Boleyn will be leaving the RAC and joining the ETO staff. The committee approved.

4.10.000-P Eligibility of Self-Direct Businesses for Energy Trust Incentives

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	May 8, 2001	Approved (R27)	November 28, 2001
Board	November 28, 2001	Reviewed, Revised (R58)	January 30, 2002
Board	January 30, 2002	Reviewed, Revised (R69, R70)	April 3, 2002
Board	April 3, 2002	Reviewed, Revised (R96)	October 30, 2002
Board	October 30, 2002	Reviewed, Revised (R137)	October 2005
Board	May 25, 2006	Reviewed, Revised (R392)	May 2009

ENERGY TRUST POLICY ON SELF-DIRECTION

WHEREAS:

1. **Oregon law allows entities that use over one average megawatt of electricity a year at a single site to direct their own electric efficiency and renewable energy projects and deduct the cost from the public purpose charge on their electric bills.**
2. **In 2002, Energy Trust adopted a policy allowing self-directors a full Energy Trust incentive for the new project only if the self-director agrees not to use self-direct credits at the same site for 36 months. The policy recognizes that self-directors should not have the same access to Energy Trust incentives as electric users who pay the public purpose charge.**
3. **The board wishes to clarify the policy and to make two substantive changes meant to facilitate the policy's administration.**

It is therefore RESOLVED:

The Energy Trust policy on self-direction is as follows:

<u>Purpose</u>: Energy Trust generally supports projects only of energy users who pay into the three percent public purpose fund on which Energy Trust programs are based. At the same time, Oregon's self-direction requirement can lead to situations in which an energy user reduces or eliminates its contribution to the public purpose fund by implementing energy efficiency or renewable energy measures certified by the Oregon Department of Energy. This policy outlines circumstances in which a self-directing energy user nevertheless qualifies for Energy Trust support.

1. <u>Incentives:</u>

A. <u>No incentives for self-directed measures</u>: No Energy Trust incentive will be given for any measure ("measure" includes technical studies

and commissioning services) for which self-direction credit is also claimed.

B. <u>Measures exempted</u>: As long as it claims no self-direct credit for these measures, an energy user may receive 100% of the standard Energy Trust incentive for the following measures:

- **unitary HVAC systems;**
- **motor replacement; and**
- **measures determined by Energy Trust staff to have modest costs ($3,000 or less per project) and savings, and where application of this policy's requirements would unreasonably interfere with efforts to encourage participation in an Energy Trust program.**

C. <u>All other measures</u>: An energy user that seeks an Energy Trust incentive for a measure other than those exempted above:

- **must agree not to use any self-direct credits for 36 months at the same ODOE-certified site as the site of the proposed Energy Trust measure, and receive 100% of the standard Energy Trust incentive for the measure. After 36 months, the energy user may resume using self-direct credits, or**
- **if the energy user continues to use any self-direct credits for non-Energy Trust measures at the same site, the energy user will receive 50% of the standard Energy Trust incentive for the measure.**

2. <u>Restrictions on funding for self-directors:</u> No more than $1.5 million/year of Energy Trust funds (combined total) will be paid for efficiency projects to all firms that self-direct. With board approval (in the annual budget process or otherwise), this amount could be adjusted upward if program demand is running behind funding for a sustained period.

3. <u>Allocation by customer class</u>. Allocation of Energy Trust funds to self-directing end-users will not change the allocation of funds by customer class.

4. <u>Repayment requirement</u>: If the energy user accepts a full Energy Trust incentive for a measure and agrees not to use self-direction credits on its electric bill at a site for a 36-month period, Energy Trust staff:

A. Shall require repayment if the self-director begins using credits before the 36 months has ended. If required, recovery will be by the following formula: Refund Amount = 0.5 x A x B, *where* A = total amount of Energy Trust incentives paid and B = 36 minus the number of months elapsed since measure installation or completion, divided by 36. Repayment must be completed within two years of the time the repayment obligation is triggered.

B. May waive repayment for projects whose repayment obligation would be $3,000 or less.

5. <u>Energy efficiency and renewable energy measures considered separately:</u> Energy efficiency and renewable energy measures shall be considered separately for the purposes of this policy. That is, during the 36 months after a measure is installed at a site, a self-director may use self-direction credits for a renewable energy project at an ODOE-certified site if it receives Energy Trust incentives for an energy efficiency project at that site, or *vice versa,* with no repayment requirement.

Adopted on May 25, 2006, by the Energy Trust Board of Directors.

4.21.000-P Authority to Commit Incentive Funds for Payment of Energy Efficiency Projects in future Years

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	May 25, 2006	R391	May 2009

Purpose

To allow staff to commit future energy efficiency program incentive funds in advance of the payment year.

Background

Staff continues to identify effective program budget tools to manage available funds and provide transparency. Beginning in 2005, a series of changes were made to allow greater flexibility and accountability in managing program funds, including:

1. A transition from Board Approved Program (BAP) costs and savings for a limited two-year timeframe to an improved annual budgeting process dovetailed with program management contracts.
2. Changes to savings and generation projections, incorporating a range from conservative to best case.
3. Staff flexibility to shift funds to different line items within total program budgets, such as from administration and marketing to incentives
4. Reliance upon the annual budget process to highlight and incorporate program modifications
5. Design and use of a new quarterly report format to describe budget and savings variances by program
6. Design and use of a new quarterly forecast to project program and total cash flow expenditures and requirements on a 12-month rolling basis and compare them to budget
7. A planned mid-year review of actual program expenditures compared to budget and potential budget reallocations if warranted.

Authorizing Commitment of Incentive Funds for Payment of Energy Efficiency Projects in Future Years

WHEREAS:

1. **Energy Trust continues to identify improved ways of managing program budgets and maintain accountability.**
2. **Beginning in 2005, the board approved changes to the annual budget process, program monitoring and reporting of savings and budget expenditures and provided staff the flexibility to shift funds within programs.**
3. **Staff has proposed an additional improvement to best serve customers with complex multi-year projects and incentive payment requirements in future years.**

It is therefore RESOLVED:

1. **For the Production Efficiency, Building Efficiency, New Building Efficiency, ~~Building Tune-Ups and Operations,~~ Home Energy Savings-Multifamily Initiative and Efficient New Homes programs, staff is granted authority to commit and reserve:**
   - **up to 75% of the financial incentive funds projected to be available in the following year; and**
   - **using these projected incentive funds as a base line, up to 25% toward projects expected to be funded in the third year.**

2. **This authority is subject to the following requirements: (a) such commitments shall be consistent with milestones or conditions in any reservation, tracking or other systems or requirements applicable to these programs; (b) funding commitments and reservation of future financial incentives shall be made for no more than two years; (c) financial incentive commitments will be tracked and reflected in forecasting reports; and (d) all future financial incentive commitments will be displayed by program and incorporated into the annual budget process.**

Adopted by the Energy Trust of Oregon, Inc., Board of Directors on May 25, 2006.

4.07.000-P METHODOLOGY FOR EVALUATING ABOVE-MARKET COSTS OF RENEWABLE RESOURCE PROJECTS

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	April 3, 2002	Approved (R95)	April 2005
Board Decision	May 25, 2006	Revised (R390)	May 2009

Procedures for Evaluating the Above-Market Cost of a Renewable Resource Project

Utility-scale Renewable Resources

The utility-scale renewable resources are identified in competitive requests for proposals and other processes. The Energy Trust will work with the utilities in the design of the RFPs and the RFPs will describe the Energy Trust's above-market payment program.

1. **Review project proposals**: Proposals must provide the technical, resource, financial and project information and operating characteristics typical for responses to a utility-scale RFP. The Energy Trust will independently review this information. As applicable, the Energy Trust will work with the utility to seek agreement on the analytical methodologies and the assumptions about the costs, discount rates, and other key factors that affect the analyses. Staff will ensure that assumptions and methodologies align with approaches approved for utility integrated planning and OPUC rulings and will document this as part of any approval process. The Energy Trust will also work with the utility in their RFP processes as mutually agreed to review projects for above-market funding.

2. **Independent review:** The Energy Trust will independently evaluate the projects. This review will evaluate whether the proposed costs are consistent with the usual and customary costs for similar projects, the economic and technical feasibility of the projects, and credit and other financial factors. Detailed analyses will be prepared of the net present value of the power that would be generated over the life of the project. As appropriate, the evaluation will include integration, delivery, ancillary, shaping and transmission costs, and any other relevant costs or credits. The staff will compare these costs to the utilities' market cost of electricity and calculate the net-present value of the above-market payment. For bids that do not include integration or transmission, the Energy Trust will evaluate the lowest-cost alternatives available for providing these services.

3. **Definition of market cost**: Based on the Oregon Administrative Rules (OAR) definition of above-market cost, the Energy Trust will compare the renewable resource costs to the market value that is used by the utility to acquire non-renewable resources, provided the market value was developed using methods consistent with the utility's latest Integrated Resource Plan and the Commission-approved acquisition process. The market value will typically be an updated forward price curve or marginal non-renewable resource selected through a competitive bidding process. The market cost will be adjusted to match the expected daily and seasonal delivery schedule of the renewable resource if necessary.

4. **Calculate the above-market cost**: The defined market costs will be compared to the delivered price for the renewable resource for each year of operation. The difference between the two will define the above- or below-market cost for that year. The net-present value for these costs over the life of the project (or the contract term in the case of a Power Purchase Agreement) will be calculated using the appropriate utility's discount rate. If the net present value is positive, then this amount would define the maximum above-market cost that the Energy Trust could pay. If the net present value is zero or less, then there would be no above-market cost payments.

5. **Payment:** The Energy Trust can pay up to 100% of the above-market cost. The actual amount of the payment is determined on a case-by-case basis after considering the amount of funding available, the funding needed to develop the project, the benefits of the project, and the potential of the project to reduce renewable resource costs, provide replicable benefits, address a resource with significant potential, or meet other considerations related to achieving the objectives of the Energy Trust Strategic Plan. If the above-market payments are made to a developer, the Energy Trust will provide information to the utility so that the forecasted utility payments to the developer do not exceed the net present value of the market cost of the power over the expected life of the project. The Energy Trust will also provide this information to the Commission. Payments may be made up-front or on a periodic basis over time based on production or other factors. Payments made over time may reflect the discounted time-value of those funds.

Mid to Small-Scale Renewable Resources

The Energy Trust will evaluate medium and small-scale renewable resource projects that are submitted under the Energy Trust programs.

1. **Review Project Proposals**: The Energy Trust will review the costs submitted by project sponsors. Whether through standard processes or RFPs, proposals must provide sufficient information to evaluate the project, including at least technical specifications, resource characteristics, energy delivery, integration, transmission, development timelines, operating plans, financial detail, tax benefits, risks, and personnel. The Energy Trust will evaluate the responses and compare these to the usual and customary costs and specifications for similar resources. For complex projects, independent consultants may be used to help with this review and due diligence. Information requirements will vary by program.

2. **Definition of Market Cost:** Based on the OAR definition of above-market cost, the Energy Trust will compare the renewable resource costs to the market value that is used by the utility to acquire non-renewable resources, provided the market value was developed using methods consistent with the utility's latest Integrated Resource Plan and the Commission-approved acquisition process. The market value will typically be an updated forward price curve, QF tariff, Commission-approved avoided cost filings, or marginal non-renewable resource selected through a competitive bidding process. The market price will be adjusted to match the expected daily and seasonal delivery schedule of the renewable resource if necessary.

3. **Calculate the above-market cost**: The defined market costs will be compared to the delivered price for the renewable resource for each year of operation. The difference between the two will define the above or below market cost for that year. The net-present value for these costs over the life of the project (or the contract term in the case of a Power Purchase Agreement) will be calculated using industry-standards to determine the

maximum above-market payment, if any, from the Energy Trust. The Energy Trust staff will document these assumptions as part of the review and the Energy Trust's approval processes, which will include a review of what was used in the developers bid compared to what is standard in the industry for rates of return and competitive cost of capital. If the net present value is positive, then this amount would define the maximum above-market cost that the Energy Trust could pay. If the net present value is zero or less, then there would be no above-market cost payments.

4. **Payment:** The Energy Trust can pay up to 100% of the above-market cost. The actual amount of the payment is determined on a case-by-case basis after considering the amount of funding available, the funding needed to develop the project, the benefits of the project, and the potential of the project to reduce renewable resource costs, provide replicable benefits, address a resource with significant potential, or meet other considerations related to achieving the objectives of the Energy Trust Strategic Plan. Payments to applicants for projects generating for own-use may be capped at the calculated net present value when comparing the cost of the project to the proposer's retail rate, if this results in a lower above-market funding from the Energy Trust than provided in step 3 above. Payments may be made up-front or on a periodic basis over time based on production or other factors. Payments made over time may reflect the discounted time-value of those funds.

Standard-Offer Resources

The Energy Trust will have some programs that require a standard offer for all projects of a similar type. Standard offers can be necessary for market development to signal consistency for long range planning and investment, or because projects tend to have uniform costs. In such instances re-calculating the incentive for each project would be a barrier to the market development and unnecessary.

For programs that have been authorized by the board to offer a standard incentive, staff will follow the procedures outlined for mid to small-scale projects. The calculation will be based on the latest available data on average costs for projects in Oregon. This calculation will be updated at least once per year with incentives adjusted, if necessary.

Other Considerations

1. **Implementation of the Above-Market Methodology**: The procedures and analyses will determine the above-market cost based on the best information available at the time of the decision; the payment will be fixed based on this information and will not be adjusted for future changes. The Energy Trust will work with the utility and others to include the most current information in the calculation of the above-market costs.

2. **Energy Trust Payments**: The payment can be made to the developer, investors, lenders, utility or other parties. The Energy Trust may make a one-time payment, establish escrow accounts, or structure other arrangements.

3. **Modifications to the Procedures**: If the Energy Trust staff determines that these procedures hinder project acquisitions or that it could be in the ratepayers' interest to modify the procedure for evaluating above-market costs, the staff may request that the board make an exception to the procedures. Prior to doing this, Energy Trust staff will consult with the utilities, the Commission staff and, within the constraints of confidentiality and timing, also with the Renewable Advisory Council. The rationale for any case-specific modifications would be documented as part of the evaluation process for board approval.