Finance Committee Notes

November 16, 2009

The finance committee met at 3:00 pm on November 16, 2009, with John Klosterman, Treasurer and Finance Committee chair; Dan Enloe, Board member; John Reynolds, Board Chair; Margie Harris, Executive Director; Sue Sample, CFO; Pati Presnail, Controller; and Tosha McCardle, Finance Administrative Assistant, in attendance. Walt Krumbholz and Elise Bouneff from the Bank of the Cascades attended the first part of the meeting and Debbie Blanchard, IT Director attended the last portion of the meeting. Debbie Kitchin was unable to attend.

Update from the Bank of the Cascades

Walt and Elise from the Bank of the Cascades updated the committee on the bank's 3rd quarter 2009 results. They noted some positive trends. Losses for the third quarter amounted to $12.6 million down from a $24 million loss in the previous quarter. Total deposits are up 4.8% from a year ago and non-performing assets are declining. The bank is positioning itself to raise more capital.

Sue indicated that bank personnel also provided a potential solution to improve Energy Trust's investment returns (to around 1%) in the meantime. This will be pursued once cash flow statements and analyses are complete based on the proposed final budget.

Two investors have signed agreements to provide the bank capital in the amount $65 million contingent upon the bank raising $150 million in new capital. This will dramatically increase the number of outstanding shares and lead to a dilution for current shareholders. The stockholder meeting is scheduled for December 7th for them to approve the deal. If the deal is not approved, Energy Trust should re-evaluate its ongoing relationship with the bank as its capital requirements will not be met. The committee thanked Walt and Elise for attending and for updating them on the current situation.

Accounting Implications for SB1149 and SB838 funds

At the November 4, 2009, board meeting, representatives from Pacific Power expressed their desire to have Energy Trust account for expenses incurred under SB1149 and SB838 separately. Currently Energy Trust is not required to do so. The only restriction is that SB838 funds not be used to fund large (over 1 aMW) industrial and commercial entities' projects as those ratepayers do not contribute to the fund. Energy Trust has developed a method to account for those projects to confirm that it remains in compliance with that stipulation. It has thus met OPUC standards.

However, Energy Trust's current systems and processes do not provide the means to do the kind of accounting Pacific Power has requested. It is staff's opinion that to do so would increase both program delivery and administrative costs without adding value to the ratepayers.

There is a meeting with the OPUC and Pacific Power on November 24th to discuss their tariff filing and these and other concerns.

The committee also discussed implications of the announced retirement of the OPUC chair, Lee Beyer, who will probably leave by April of 2010.

2010-2011 Budget Update

Margie updated the committee on the budget process. Small revisions are being made and incorporated into the draft. Revised revenue figures from the SB838 negotiations are also being incorporated.

The OPUC has changed the date of their public hearing from November 24th to December 8th in order for OPUC staff to gather, prepare, and publish comments. They will solicit public comment in advance and we will provide information on the public comment that we receive to assist in this process. Energy Trust's due date for public comment is December 1st. Any public comment received at OPUC public hearing will be consolidated with earlier feedback for presentation to Energy Trust's Board on December 18th.

ERP Update

Debbie Blanchard, in Robin Denney's absence, provided the committee with a presentation on the status of the work completed on the Enterprise Resource (or Integrated Solutions) Project. Work on the first phase of the project began in May with the addition of contracted consultants to conduct a detailed requirements gathering process that assessed current processes in terms of their impact on the business operations and on their current efficiency level. Although the requirements gathering phase is not quite complete, the analysis phase is underway.

The consultants found that Energy Trust does not have particularly special needs that aren't already or easily provided in an integrated solution. Energy Trust operations most closely align with the Real Estate Management Industry. The Customer Relationship Management (CRM) portion of the system could be expanded to customer and partner (trade ally) relationship management as might be typical for industries that sell through partners. Many of the integrated solutions available include development platforms that facilitate the ability to do small but necessary customization and reduce the risk of doing so.

The approach in the analysis phase is to determine costs to fix current systems or purchase and implement various options in new systems. Each option will be gauged in regard to its alignment with the overall corporate and IT strategies, as well as its flexibility to allow Energy Trust to adapt to potential business changes.

The analysis phase has determined three basic options:

1. Continue with incremental changes—more of a baseline than a viable alternative as inefficiencies and inability to support strategic initiatives impede efforts for process improvement and business development.

2. Upgrade one or more systems—more possibilities exist within these options although more thorough assessment is still required to determine costs and risks associated with multiple upgrades and continuing integration issues.

3. Implement an integrated solution, where vendors are engaged to confirm fit, cost structure, scheduling, and implementation approaches.

John wanted to make sure than any assessment completed includes a detailed analysis of payback information. This will continue to be very important to him, along with information about potential savings--real savings and not just "hoped for" savings. He was very pleased that IT's evaluation of the system options was also considered in the requirements phase.

Dan was extremely concerned about the cost of the system as included in the budget given the number of staff and the size of the organization. He would like an analysis to consider what Energy Trust needs to do to:

1. Maintain legal compliance
2. Be able to adapt to forecast growth/change/expansion five to ten years in the future.
3. Prevent the systems from falling apart (breakage).

He would also like Energy Trust to consider outsourcing alternatives where feasible.

Sue indicated that the cost for an ERP implementation at another employer of comparable size and complexity ten years earlier cost close to what Energy Trust has incorporated into its budget for the major components at least and so did not seem unreasonable.

John R. did not feel that the budget figures were out of line.

Of concern to all committee members was the time and resources required to complete an implementation, regardless of which solution is selected. Resource availability and approach will be carefully considered in planning efforts to see what can be done in terms of phasing. It is expected that transition and training will be particularly challenging, especially when combined with concurrent implementation of the redesign recommendations and anticipated growth in volume in the coming years.

Finance Committee Participation in ERP Process

The next steps for the ERP process include:

1. Creation and letting of an RFP for an integrated solutions option
2. Establishment of a Selection Committee
3. Returning a recommendation to the full Board

John K. sees the Finance committee's role as scrutinizing the recommendation from a financial perspective to determine whether the proposed investment is reasonable, has provided enough comparative data, and has quantified the costs and risks adequately.

John's suggestion was that an ERP steering committee be established. The purpose of this committee would be to make sure Energy Trust staff has considered all the important factors in the decision. For example, he would want to make sure staff has thoroughly assessed:

- The projected gains in functionality
- Gain in staff and process efficiencies
- Reasonableness of projected gains
- Thoroughness of our internal process in evaluation

John K. would consider being a member, as would Al Jubitz (as he expressed in the Board meeting on November 4th). Dan would be willing to help out in providing and evaluating contract terms to ensure that the project has the best chance for success.

Sue also spoke with Joe Prats of IE Solutions who worked on the first Energy Trust system implementation and he would be willing to contract to participate in the ERP selection or steering committee. He has significant experience with ERP implementations.

Other Business

Sue asked for questions or comments on the September financial statements and indicated that the Board would be receiving the full quarterly report very soon. No questions surfaced.

John K. asked whether Dan was satisfied with the explanations provided by staff on the contract summary report where no dollars had yet been spent. He said he was as long as available dollars were appropriately reallocated to projects as they were identified. This report will be updated for internal use on a quarterly basis.

The meeting adjourned at approximately 4:55 pm.

The next Finance Committee meeting is tentatively scheduled for Monday, March 22, 2010, at 3:00 pm—4:30 pm.