EnergyTrust of Oregon

Policy Committee of the Energy Trust Board of Directors

November 17, 2009, 4:00 – 5:30 pm

Attending: Jason Eisdorfer, John Reynolds, Margie Harris, Fred Gordon, Steve Lacey, Sue Meyer Sample, John Volkman and Peter West

1. Strategic Utility Roundtable. No board member suggested any changes be made to the proposed approach. The committee recommends proceeding with the recommendation as discussed in November. Jason and John will work on a final version with the recommendation so it is readily implementable. The first meeting should be early in 2010 likely the morning of a board meeting. Margie suggested we check in after a year to see how the roundtable is going and whether changes are warranted. To develop agendas, we can invite ideas from utilities and other parties and then bring them to the policy committee to create a final agenda. The agenda should be comprised of strategic issues, however, and other suggested items might be better suited for referral to CAC or RAC. The format should be informal and participatory. The roundtables should not call for votes.

2. Funding/roles & responsibilities. We are much more closely connected to the utilities because of SB 838 funding. The utilities want visible involvement in efficiency so their customers see their engagement. The interaction of SB 1149 funding (Energy Trust is independent) and SB 838 (utilities are accountable for meeting IRP efficiency goals) is complex. Different laws, funding sources and accountabilities have made the current situation of completing tariff filings under SB 838 quite challenging, requiring considerable time, effort and resources among everyone. Utility representatives have expressed an interest in seeing ETO budget details by individual utility; they see themselves as responsible for meeting IRP targets and for making the corresponding tariff filing. All players - utilities, the OPUC, interveners, other stakeholders and ETO - understand the need to clarify roles and responsibilities regarding IRP, budget development, tariff filings, accounting and reporting as soon as possible. The goal is to make the process clear, predictable, manageable and sustainable for all partied involved.

Jason believes Energy Trust's role is to identify how much energy efficiency needs to be acquired to meet IRP goals and how much it will cost. The utilities then propose rates, and the OPUC will decide. Then Energy Trust is responsible for meeting those IRP targets on behalf of the utilities. A legislative approach to combine SB 838 and SB 1149 funding into a single funding approach may not be timely.

3. SB 838: Rebalancing accounts between PGE and PacifiCorp. For several years, we have invested more SB 1149 efficiency funds in PacifiCorp territory than were collected there, because PacifiCorp territory has presented attractive opportunities beyond its funding contribution but within combined PGE-PacifiCorp revenues. Historically the subsidy has gone up and down, from a high of $8.4M in 2006 to a low of $3.7M in 2008. We project it to be around $5.3M at the close of 2009.

We have understood SB 1149's "80% rule" to permit this: "at least 80 percent of the funds allocated for conservation shall be spent within the service area of the electric company that collected the funds." The committee has not assumed that SB 1149 meant

one utility's customers to subsidize benefits for another utility's customers on a sustained basis. Rather, we have viewed these investments like loans that would be rebalanced over time, and PGE has not objected to this practice. The SB 838 supplemental efficiency funding alternative provides a way to rebalance these accounts. While PacifiCorp has a rational concern, the committee does not see how a PGE subsidy to PacifiCorp can be sustained, and agrees it is time to close the gap.

4. Industrial sector growth and SB 838 funding constraint. Looking ahead at efficiency potential over the coming five years, staff sees a trend toward more commercial and industrial savings and less residential savings as a percentage of total savings. A significant portion of industrial program growth is likely to come from sites that use more than 1 MW. Energy Trust cannot increase industrial funding under SB 1149 to meet this demand consistent with SB 838. The OPUC, the utilities and the industrial customers see this issue, and everyone needs to keep it in mind.

5. Green tag policy interpretation. One of the principles on which the green tag policy is based is "The minimum ownership of green tags should reflect the market value of the tags and the relative above-market support provided by Energy Trust." In applying the policy, staff determines Energy Trust's share of tags by our *pro rata* contribution to above-market cost. If our incentive exceeds the market value of that share of tags, we own them all. If our incentive is less than the market value of that share of tags, we negotiate a smaller number of tags ("enough tags to fairly recognize that Energy Trust provides an assured revenue stream that reduces the project's market risk."). However, there is an ambiguity in the policy. The literal language of the green tag policy is: "If Energy Trust's above-market incentive exceeds the referent green tag market value, Energy Trust will take title to ***all*** green tags." The question is whether staff's interpretation is correct that Energy Trust's green tag maximum ownership share is capped by its *pro rata* share of above-market cost. If so, the policy could be amended as shown in the red-lines. Or does "all" mean all, even if our incentive covers less than all of the above-market costs? Jason asked if the staff's fix to the policy tends to give Energy Trust more market risk than its counter-party takes? Peter said that under the staff approach, Energy Trust never buys cheap RECs, it always buys more expensive RECs. But if all means all, it has a serious effect on projects where above-market costs are high and generation is low, i.e., solar PV. The committee suggests the issue be taken first to the January RAC, see how it goes, and then bring it to the February board meeting if warranted.

6. Routine policy reviews. The waste-to-energy policy (Attachment 2) is up for its three-year review. Staff recommends no changes.

ATTACHMENT 1
4.15.000-P Green Tag Policy

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	March 3, 2004	Approved (R256)	February 2005
Board Decision	February 16, 2006	Amended (R313)	
Board Decision	April 6, 2005	Rescind R313	February 2008
Board Decision	March 28, 2007	Amended R433	February 2010

Principles

The following principles should guide Energy Trust's ownership of green tags generated by renewable resources:

- Green tags generated by renewable energy are one of the multiple values for Oregonians provided through investing in renewable resources.
- Green tags are for the long-term benefit of customers of Pacific Power and Portland General Electric.
- The disposition (retention, transfer or sale) of green tags will coordinate with and further the goals of Energy Trust, state policies and regulatory requirements.
- The minimum ownership of green tags should reflect the market value of the tags and the relative above-market support provided by Energy Trust.

Policies

1. Ownership
   - Energy Trust's minimum share of a project's green tags will be determined as follows:
     - Energy Trust will ascertain market values and forward price curves for relevant types of green tags, and update them periodically. Energy Trust will consult with PGE, Pacific Power and the OPUC staff before publicly announcing referent prices. Energy Trust will announce such prices unless it creates competitive concerns.
     - If Energy Trust's above-market incentive exceeds the referent green tag market value, Energy Trust will take title to ~~all~~ green tags in proportion to its contribution to above-market cost".
     - If Energy Trust's above-market incentive is less than the referent value, Energy Trust will negotiate for enough tags to fairly recognize that Energy Trust provides an assured revenue stream that reduces the project's market risk.
     - In no case will Energy Trust accept fewer tags than Energy Trust incentive could buy on the referent green tag market.
     - Energy Trust will negotiate either a reduction in Energy Trust incentive or retain additional green tags if the above steps would accord the project owner/developer a higher-than-reasonable rate of return.
   - Energy Trust's ownership of the tags should be flexible over time, while reinforcing incentives for long-term project performance.

- A developer or project owner could propose to retain tags to market them in the near-term, provided this lowers Energy Trust's funding.
- Up-front retention of tags by a developer or project owner must include contractual assurances that future green tags will revert to Energy Trust.

2. Sales of Energy Trust green tags
   - Green tags owned by Energy Trust could be sold for up to three years; the tags would be retained long-term for the benefit of Pacific Power and PGE customers.
   - Energy Trust would sell green tags it retains on a limited basis to avoid significant disturbance to the market for green tags. Initially, not more than 50 percent of Energy Trust tags would be sold in a single year.
   - Energy Trust will monitor the effect of its green tag sales on the green tag market and adjust sales as necessary.
   - First options for sale would be to serve the green power choices authorized for Pacific Power and PGE or to organizations that will use the re-sale of the tags to invest in new renewables in those service territories.
   - The sale of tags would not be limited to Oregon, if no near-term opportunities exist in Oregon.
3. Reinvestment
   - Revenue from the sale of Energy Trust green tags would be used to increase the development of additional renewable resources within three years of their sale.
   - All proceeds would be reinvested in renewable resource projects that benefit Pacific Power and PGE customers.
   - Sales of tags from projects supported by funding from PacifiCorp would be reinvested in projects to benefit PacifiCorp customers. Sales of tags from projects supported by funding from PGE would be reinvested in projects to benefit PGE customers.

Adopted on March 28, 2007, by Energy Trust Board of Directors.

ATTACHMENT 2

4.24.000-P Waste-to-Energy Policy

History			
Source	Date	Action/Notes	Next Review Date
Board Decision	November 8, 2006	Approved (R411)	November 2009

RESOLUTION #411

WASTE-TO-ENERGY POLICY

WHEREAS:

1. Senate Bill 1149 defines "waste" as an eligible renewable resource.
2. Energy Trust wishes to establish criteria and procedures to guide its decisions regarding funding for waste-to-energy projects.
3. In October 2006, the Renewable Advisory Council discussed this matter and unanimously endorsed the policy proposed in this resolution.

It is therefore RESOLVED:

1. Among waste-to-energy projects, Energy Trust will give top funding priority to those projects using organic or biological wastes from human, animal or plant sources.
2. Among waste-to-energy projects, Energy Trust will give secondary funding priority to projects using wastes from manufacturing and industrial processes that are otherwise lost to commercial use, and that have no higher-value use than energy production. These projects will be considered as funds allow.
3. Eligible projects may use *de minimus* quantities (provisionally, less than 1% of energy content) of petroleum-based materials.
4. Energy Trust will prioritize waste-to-energy projects that meet the above criteria and: (a) do not use waste at the expense of a real, current alternative use with a higher social value, such as re-use or recycling; and (b) divert material from landfills, or otherwise avoid environmentally harmful waste disposal options.
5. Waste-to-energy projects will be part of the Biopower program, which will fund both waste and biomass projects from a single budget. All Biopower program procedures and policies will apply to waste-to-energy projects. In addition, RAC review of waste-to-energy projects will be required.

Adopted on November 8, 2006, by the Energy Trust Board of Directors