EnergyTrust of Oregon

Policy Committee of the Energy Trust Board of Directors

May 18, 2010, 4:00-5:30 pm

1. Updated June 11-12 board strategic planning work session agenda. The committee reviewed the latest agenda for the June 11-12 board workshop. Almost all the speaking slots are filled, but are waiting to hear from Bob Repine (ODOE). If Bob is unable to attend, we can fill in with a briefing and discussion of our potential role in the Home Star program. The committee suggested time be reserved for: (a) a discussion of how to maintain common ground between renewable energy and energy efficiency; and (b) how the board wants to engage the major issues, discussed on day one. Jason noted that the challenge for Energy Trust in the coming year is how to engage new energy ideas constructively, and yet not be drawn into unproductive initiatives.

2. Follow-up on potential renewable energy loan products. At the last policy committee meeting, Elaine Prause briefed the committee on the idea of extending incentives to renewable energy projects earlier in the development process, including during construction. The committee asked for a clearer problem statement and connection between the proposed approach and the problem. Elaine outlined the problem statement: (1) third-party studies and our own experience indicate that well-conceived renewable projects with capable developers fail because they lack funding between feasibility study and project completion; and (2) we are unlikely to meet our renewable energy goals with our current approach, which defers incentives until after a project is completed. Elaine outlined a pilot-scale initiative with limited budget and time to test whether Energy Trust can effectively address this problem. The pilot would help determine whether, by loaning incentives to well-conceived projects with capable management during construction, Energy Trust can increase the volume and pace of projects. Incentive loans would still be limited by above-market-cost, based on the same careful above-market cost calculation that we do now. We would give suitable projects preliminary approval, but wouldn't pay incentives until they arrange financing and get a BETC pre-certification. The pilot would carefully screen projects. The committee suggested staff consider loan or loan guarantees, etc., to reduce administrative cost. The committee discussed risk: there is additional risk associated with these projects, and while we can manage it with due diligence (and in some cases, security interests), pre-completion incentives will always be riskier than post-completion incentives. Staff's question is whether the committee thinks the board would be comfortable with projects like this? Alan thinks the board would understand the need and be unwilling to support such projects. Jason would like to see a risk-benefit discussion added to Elaine's paper, and an explanation of how we would decide if the pilot is successful. We can take this to the retreat or the July board meeting and proceed from there.

3. Update on information transfer rules. The OPUC has held two meetings on Energy Trust's proposed revisions to the OPUC information transfer rules. There appears to be growing consensus on the proposals, although some aspects of the gas rule are still under discussion. We expect the Commission to initiate rulemaking this summer and revise the rules before September. Major aspects of the draft rules:
   - The "opt-out" process would be discontinued. Under the current rule, electric utilities are supposed to provide Energy Trust with energy use information on

those who use less than one average megawatt per year unless a user opts out of information transfer. This part of the rule would be deleted from the electric rule, and would not be part of the gas rule.

- The "opt-in" process for large electric consumers would be retained in modified form. Under the current rule, electric utilities do not provide Energy Trust with energy usage information on those who use more than one average megawatt per year unless a user opts in to information transfer. This process would be retained, but the utilities would be required to give Energy Trust: name, service address, whether the consumer is applying self-direct credits against its energy efficiency and/or renewable public purpose charge, if known; and account number(s). This should help us manage our programs and ensure compliance with SB 838 limitations on providing benefits to large consumers. We are still talking to the gas utilities about how to deal with industrial gas customers.
- Unlike the current rule, Energy Trust would be required to provide certain information to the utilities. The draft rules would require Energy Trust to provide information on customer participation in conservation programs, at a minimum: service address, meter number, point-of-delivery identification numbers, and information about efficiency program participation, such as measures installed. These data would be limited to that particular utility's customers. The gas companies want to be able to use the information for any utility purpose, but give Energy Trust notice and an opportunity to object to any direct marketing use.
- The current rule specifically prohibits Energy Trust from using utility data for direct marketing, and it has been a significant complication in the OPOWER pilot. The draft rule would permit Energy Trust to use direct mail under certain conditions. Under the electric rule, Energy Trust would coordinate such mailings with the utilities. The gas companies would allow such use with notice, coordination, no prejudice to their competitive position, and disputes taken to the OPUC.

We will ask the OPUC to schedule one more workshop on the electric and gas rules, and if people are comfortable with the rules, begin rulemaking.

4. Revenues for over-1 *average megawatt* versus over-1 *megawatt* users (update). In the information-sharing negotiations the question was raised whether utilities are collecting revenues for over-1 *average megawatt* as opposed to over-1 *megawatt* users. The issue arose in the data-sharing negotiations only because the same threshold determines when a consumer would be asked to opt-in to information transfer. The broader issue: SB 838 prohibits collections from and providing benefits to entities that use more than one *average* megawatt. There are many more 1-MW users than 1 aMW users. We are conferring with the electric utilities on how they are determining this.

5. Report on risk areas:
   - Legislator briefings. Staff has developed a plan for outreach to legislators. The objective is not to influence legislation, but to ensure that legislators have good information on who we are and what we do. The committee was briefed on this plan.
   - Other. The board-staff risk assessment completed earlier this year identified a number of risk areas. Margie and John have identified follow-up assignments, and we will report to the committee on progress periodically.

Attachment 1 -- Meeting Challenges of Renewable Energy Project Development

Problem Statement:

1) Third-party studies and our own experience indicate that well-conceived renewable projects with capable developers fail because they lack funding between feasibility study and project completion.

2) We are unlikely to meet our renewable energy goals with our current approach, which defers incentives until after a project is completed (plus feasibility study funding).

Background

Historically, Energy Trust has funded feasibility studies, the project arranges its own debt financing, and Energy Trust pays incentives after project completion.

In 2008 and 2009, we commissioned two studies of barriers to renewable projects. The studies showed that problems related to financing were prominent:

1) Long timelines and unfamiliar development processes concern financial institutions
2) Without significant equity, projects scramble to patch together high-interest venture capital or other financing, often at the expense of the development process
3) Small-scale projects lack financing for studies, permitting, interconnection, equipment deposits, permit and siting processes
4) Lenders often consider renewable technologies unproven, although Energy Trust considers them commercial technologies
5) Lack of general project development expertise and a solid, experienced team worries lenders

Several recent examples also underscore financing difficulties:

- An irrigation district building a hydropower project ran into difficulty paying construction costs due to the timing of numerous grants and loans, resulting in project delays. An incentive payment in the form of a construction loan would have helped keep the project on track. The developer indicated interest in Energy Trust construction financing for their next project, anticipated in 2011.

- A central Oregon wind project has been delayed due to difficulties in assembling a complete financing package. Once all sources are final, this project can be completed within 6 months. Construction financing would have helped them complete their project financing package.

- Another irrigation district hydropower developer is considering 1-2 projects and has repeatedly asked about options for incentive payouts including early payment or loans.

We examined these projects closely and would consider them to be viable projects but for the lack of construction financing. The project owners and developers were experienced and well-organized, and the projects have healthy cash flows to support long-term debt.

As we've provided more targeted up front support over the past few years (up to $40,000 in support services), we've received great feedback and seen complex projects move through development. But this gradual addition of support is not enough; projects are still being stopped by lack of financing.

We have also seen projects that we would not consider financially viable even if our incentive were used for construction expenses. These projects have not passed our due diligence review and we advised them to rework the project design or funding structure before moving forward. Similarly, Shorebank Pacific cited examples they didn't finance because the developer didn't have an established stake in the community or lacked the ability to bring together all the pieces of financing. Shorebank noted that assembling equity for the construction phase is the tipping point for a project, often a "conversation killer."

Proposed Energy Trust Role

We propose a pilot-scale initiative with limited budget and time to test whether Energy Trust can effectively address this problem. Given that projects stall for more than just financing difficulties, the pilot would carefully screen projects to eliminate those with problems other than construction financing.

The purpose of the pilot would be to test this hypothesis: by loaning above-market-cost incentives to well-conceived projects with capable management during construction, Energy Trust can increase the volume and pace of projects.

Scope:

- Two projects (each to exceed $1M total cost and 250kW capacity), any technology
- Summer 2010 to late 2011
- Above-market-cost incentives limited to 10% of 2010/2011 incentive budgets, $1.2M cap

Product:

- Construction loan with a portion of the loan forgiven on project completion
- Projects subject to more intensive due diligence review

Structure:

- Overall product administration managed in-house
- Contract for: (a) Project finance specialist; and (b) Loan servicing and collection
- Loan review committee: ETO senior staff, external expert

Budget:

• Loans	$1.2M over 2 years
• Contracts:	
o legal assistance re: loan documents	$5,000
o Project Finance Specialist	$20,000
o Loan Servicing and collection (~10%LV)	$126,000
• Loan Review Committee (funded internally)	4 hours/member

How the pilot would address barriers identified in the background section:

1. Lenders are uncomfortable with long timelines and unfamiliar project development process.
    - Energy Trust due diligence and funding may make lenders more willing to make loans.

2. Without significant equity, projects scramble to patch together high-interest venture capital or other financing, often at the expense of the development process.
    - Earlier incentive allows projects to focus on development, incur lower financing costs.

3. Projects lack financing for studies, permitting, interconnection, equipment deposits and siting.
    - Earlier Energy Trust funding allows projects to sustain such costs.

4. Lenders often consider renewable technology unproven, even though Energy Trust considers them commercial technologies.
    - Energy Trust involvement may reassure long-term debt lenders.

5. Lack of project development expertise and a solid, experienced team worries lenders.
    - The pilot would not address this issue; our due diligence process would screen out such projects. In these cases, we may offer limited education or technical assistance.