Policy Committee of the Energy Trust Board of Directors

August 26, 2010, 4:30-5:45 pm

1. **Contingency management**: Staff briefed the committee on efforts to manage issues identified in the risk assessment that was done earlier this year:

   Utility collaboration: The board has had three productive meetings with strategic utility roundtable participants this year. In addition, Margie and staff have met individually with all of the utilities to address strategic issues in anticipation of utility rate filings and the Energy Trust budget. Overall, this investment has paid off, recognizing that such investments require considerable time and effort for all parties involved. We are settling into the following model:

   - Energy Trust planners and managers identify conservation resources and interact with the utilities on their Integrated Resource Plans (IRPs), which identify a specific target level of efficiency resource;
   - Utilities each develop rate proposals to acquire the identified IRP resource;
   - OPUC provides a public forum to hear proposed rate and savings proposals and address issues, if any;
   - Energy Trust staff propose a budget and action plan consistent with the funding levels approved by the OPUC and designed to achieve IRP targets
   - During implementation:
     - Utilities play key roles in helping identify and bring participants to Energy Trust;
     - Joint marketing strategies and plans are developed for delivery with individual and/or multiple utilities;
     - Energy Trust delivers services, evaluates results, and updates resource assessment approximately every 2 years
     - Utilities and Energy Trust review results and plan to adjust targets and budgets based on results and updated IRPs, looking forward over a two-year horizon
     - Energy Trust presents draft budgets and action plans to utilities, seeking input before the board acts to adopt final documents

   OPUC staff, Energy Trust and the utilities have developed an annual calendar to this effect.

   Public policy: Staff has reached out to a number of legislators, gubernatorial candidates and interest groups over the last year to explain why Energy Trust was created and highlight accomplishments. Other interested parties and policy makers have intentionally sought reactions from Energy Trust about their proposals. Though unable to take a position, Energy Trust has served as a resource to inform discussions concerning several initiatives that may impact Energy Trust activities and our ability to achieve our goals. These include:

   - BETC and RETC for energy efficiency projects and potentially also renewable energy projects may be trimmed or eliminated in the 2011 legislature. Both are scheduled to sunset in 2012. Staff is working with ODOE to identify ways in which BETC/RETC and Energy Trust programs could better complement each other while reducing impacts to the State's budget. We were invited to meet with the House and Senate revenue committees about this, and may have more interaction as the legislature addresses State revenue shortfalls. At the meeting, an outgoing legislator suggested that the public purpose fund might be used to reduce the BETC liability. As you know, similar ideas have been analyzed by the State's lawyers in the past and the legislature has not proceeded in that direction.

- Organizational transparency: in our conversations with legislators, we present information about how Energy Trust conducts its business in an open and transparent nature and the requirements we must address as part of our grant agreement with the OPUC, board fiduciary responsibilities and compliance with legislative mandates.
- Schools: some legislators are discussing a pilot that would use new bonding authority to allow Energy Trust to deliver energy efficiency improvements when other school building improvements (asbestos, water efficiency, etc.) are being made in investor-owned utility territory.
- Some environmental organizations are considering ideas such as: (1) requiring utilities to prioritize energy efficiency in resource planning, essentially codifying existing practice; (2) expansion of the existing energy performance score: and (3) providing incentives for zero-net energy homes and buildings.
- Energy efficiency funding: proposals to allow utilities a return on their capital investment in energy conservation, especially for public buildings, have been discussed, including a power purchase agreement for "megawatts."
- Clean Energy Works Oregon (CEWO): CEWO is a new non-profit created to oversee a $20 million federal community development block grant to expand the Clean Energy Works Portland model to other parts of the state, including Klamath Falls, Hood River, Clackamas County and Astoria. Margie is on its board. CEWO is clearly in the best position to allocate the federal grant among jurisdictions, and it is gearing up to explore how to attract private capital to energy efficiency. We are working with CEWO on a written agreement clarifying our relationship, functions, financial contributions, etc. In particular, we want to clarify how Energy Trust and CEWO are involved in IOU service delivery.
- An energy commission: the idea of establishing an appointed commission to oversee ODOE and develop a state energy policy and "roadmap" is also being discussed.
- *NEEA*: Market transformation can result in high value savings over several years and it is challenging to predict which markets will shift, define corresponding costs and accurately project when savings will occur. How we account for market transformation in integrated resource planning and allocate contributions to annual savings goals is important. This is especially the case as NEEA transitions from CFL's and other known technologies to a series of more diversified market transformation strategies and new initiatives. We have approached NEEA about the need to improve their forecasting and evaluation capabilities. NEEA has hired a very competent person to head that effort. Margie (who is on the NEEA board) and staff are encouraged by these developments, yet some of the uncertainty is inherent. As a result, we are hedging uncertainties by discounting NEEA forecasts in both our IRP and budget goals

Risk assessment in planning and management: The risk assessment report recommended that risk analysis be built into Energy Trust planning and management. With this in mind, the sector plans considered contingencies such things as the weak economy, the effects of changing codes and standards, new technologies, etc. Staff is also exploring how operational risk might be assessed and managed on an ongoing basis. Staff will brief the committee on this in a future meeting.

2. **NW Natural solar-thermal proposal**. NW Natural is discussing with the OPUC, Energy Trust and CUB a pilot program to subsidize solar hot water systems for homes:

- The pilot would install 3,000 hybrid solar and natural gas systems over three years at no upfront cost to customers.
- NW Natural would own and maintain the solar systems.
- Customers would be billed a flat fee per month, plus the cost of supplemental gas.
- Incentives:
  - Under SB 1149, Energy Trust can fund solar hot water systems only if they are cost-effective. Because it saves rather than generates electricity, SB 1149 makes it an efficiency measure rather than a renewable energy resource. We can pay the above-market cost for solar PV because it generates renewable energy.
  - Because NW Natural is not bound by SB 1149, it proposes to treat gas solar hot water as renewable energy eligible for above-market cost incentives.
  - The program would require an estimated $4.7 million in additional public purpose funding from NW Natural. In concept, $2.1 million of this amount would be cost-effective, and $2.6 million would represent above-market cost.
  - Anticipating that the NW Natural pilot and the higher incentives will spur homeowners to install systems outside the pilot (perhaps another 500 systems), NW Natural would fund the same incentives for these systems.

Staff has worked closely with NW Natural on this concept, and finds it a creative idea with many positives. At the same time, there are still technical and policy questions under discussion, and it hasn't had RAC or CAC review. The question whether it is appropriate to have an above-market incentive for gas solar-thermal is an OPUC issue. The committee also liked the concept, and noted that it would be a positive thing if NW Natural and Energy Trust put effort into new high-efficiency tank water heaters.

3. **Status report on ISP contract and resolution**. At the July board meeting, the board authorized Margie to negotiate and sign "a contract to pay up to $1.57 million to purchase and implement Epicor 9 software. In doing so, there was some confusion about whether the "whereas" clauses that were part of the July draft resolution were included, or the resolution was limited to the specific authorization. To clarify this, staff prepared and included in the board packet a resolution with "whereas" clauses. The resolution reflects the points that the board discussed in July: the board endorsed a software solution, not an implementation provider; and staff has refined its estimate of how long we expect it to take to recover the cost of purchasing Epicor 9. If this fuller resolution is what the board intended in July or would like to adopt now, it may adopt it in lieu of the resolution that appears in the minutes of the July meeting. The committee thought this would be a valuable clarification.

4. **Status report on utility rate filings**. Steve Lacey briefed the committee on utility funding for 2011. Under the schedule mentioned in agenda item #1, staff has reached agreement with PGE, NW Natural and Cascade Natural Gas. The PAC meeting is next week. So far, it looks like the course of action that was developed last year is still appropriate. Energy Trust will run a 5% reserve for each utility, except a 10% reserve for NW Natural. NW Natural wants the higher reserve because there are several big projects that could land in 2011 and they want sufficient funds to be there. Steve also noted that staff and utilities have discussed narrowing the difference between conservative-case and stretch-case efficiency goals from 25% to 15%. From an Energy Trust point of view, this will help make the various goals to which we manage (e.g., IRP goals, utility contract goals, strategic plan goals) more consistent. A 15% margin is more than the 10% margin that is currently in the utility contracts, and less than the 25% margin that Energy Trust has used in internal planning and budgeting. Historically, Energy Trust has always achieved 90% of our stretch goals, and so the 15% idea would still leave a 5% margin if savings numbers are reduced by evaluation

findings. So far, the utilities are agreeable. Margie noted that the sector planning process builds more discipline into our savings projections, and it makes us more comfortable with any risk associated with this change. The committee saw no difficulty in the change.

5. **Renewable projects.** At the September 1 meeting, staff is seeking board approval of incentives for two renewable energy projects:
   (a) Up to $2 million for the 45-Mile hydropower project, a 3.5 MW facility on a North Unit Irrigation District canal, reviewed and approved by the RAC in July. A $2 million incentive would be 25% of above-market cost and we would therefore take 25% of the RECs. The numbers presented to the board are different from those presented to the RAC. At the RAC, we thought Energy Trust would take 40% of the RECs, but later discovered a mistake in the project's depreciation schedule. This increased the project's above-market cost, and it reduces Energy Trust's REC share to 25%. Staff does not think this issue would concern the RAC.
   (b) Up to $1,914,500 toward the above-market cost of 1.76-1.915 megawatt ground-mounted solar photovoltaic facilities owned by a partnership including PGE and installed on Oregon Department of Transportation property. Energy Trust REC share would equal its above-market cost share or 65%, whichever is greater. Energy Trust's RECs will be assigned to PGE for compliance with Oregon's RPS and 20 MW Solar Capacity Standard. The committee noted that notwithstanding the contingencies in the staff proposal, $1 per watt is a good price, the project is highly visible, it is located in PGE service territory, and the committee supports it.