Utility Strategic Roundtable

August 17, 2011

Board members present: Julie Brandis, Dan Davis, Jason Eisdorfer, Julie Hammond, Debbie Kitchin, Caddy McKeown, Alan Meyer, John Reynolds, John Savage (Oregon Public Utility Commission ex-officio)

Board members absent: Rick Applegate, Dan Enloe, Roger Hamilton, Jeff King, John Klosterman, Bob Repine (Oregon Department of Energy special advisor)

Utility roundtable participants: Jim Abrahamson (Cascade Natural Gas), Carol Dillin (PGE), Bill Edmonds (NW Natural), Pat Egan (Pacific Power), Bob Jenks (CUB)

OPUC members: Susan Ackerman (OPUC Commissioner), Juliet Johnson (OPUC staff),

Staff attending: Pete Catching, Scott Clark, Amber Cole, Lakin Garth, Fred Gordon, Hannah Hacker, Margie Harris, Nancy Klass, Steve Lacey, Ted Light, Kathleen Ortbal, Sue Meyer Sample, John Volkman, Peter West

Others attending: Lauren Shapton (PGE), Kari Greer (Pacific Power), Sunny Radcliffe (PGE), Theresa Gibney (Corvallis Sustainability Coalition), Maureen Bock (ODOE), Anthony Buckley (ODOE), Jason Salmi Klotz (NEEA), Jay Tinker (PGE), Jim Cox (PGE), Sabine Brueske (Energetics, Inc), Vijay Satyal (ODOE), Robert Mullin (Argus Media)

Welcome

John Reynolds called the roundtable to order at 10:36 a.m. There are two topics for discussion today:

1. Implications to Energy Trust 2011 programs stemming from changes in Oregon's energy tax credits
2. Planning for 2012 utility funding discussions and tariff filings for the 2012 Energy Trust budget.

No other topics were introduced for discussion.

Utility roundtable review

John R. reminded the roundtable members of the agreed upon minimum of two roundtables per year for a period of two years, ending with this year. In September, the Energy Trust Policy Committee will begin discussing the future of utility roundtable meetings, whether they should continue and if so, the frequency, format and content of the meetings. As part of this process, the committee will solicit comments from the utilities and other participants.

2011 tax credit impacts

Last week, utility roundtable members received a PowerPoint presentation analyzing the effects of the tax credit changes on Energy Trust 2011 programs and goals. Today's meeting will provide staff with a clear direction on whether to pursue proposed mitigation strategies this year to help recapture a portion of the savings anticipated to be lost from changes to Oregon's Business Energy Tax Credits (BETC).

Margie welcomed the roundtable members and reviewed steps Energy Trust has taken to analyze and vet mitigation strategies with each utility, the Conservation Advisory Council and the Renewable Energy Advisory Council. Margie explained that Energy Trust is seeking guidance from the roundtable members on the proposed mitigation, including whether mitigation should be undertaken at all. Impacts in 2012 are expected to be more extensive and are more uncertain, in part because Oregon Department of Energy (ODOE) rules have not yet been drafted and implemented.

- Margie summarized state tax credit changes and presented Energy Trust's analysis and proposed mitigation strategy: At the highest level across all utilities, if no mitigation actions were taken, the impact would be approximately 19% of goal for any utility. This means that 81% of annual 2011 goals are not expected to be affected. The 81% figure reflects savings that have already accrued during the first half of this year, plus projects in the pipeline, and projects that we anticipate will not be affected by 2011 tax credit changes.
- 2011 proposed mitigation is designed to capture 30% to 60% of the savings that are otherwise expected to be lost because of the tax credit changes this year. The mitigation is focused on those projects that historically are most dependent on BETC and as a result, most are likely to drop out without a BETC.
- Proposed mitigation would be paid for with existing program funds. This analysis was completed based on the total number of projects impacted and estimates and assumptions regarding how many projects would drop out, freeing up existing incentive funds to be paid to those projects mitigation could "re-capture." No additional funding is needed at this time to support this proposed mitigation approach.
- In 2012, a different set of variables will be in place, with more uncertainty and higher impacts stemming from broader tax credit changes. Looking forward, we anticipate that 30% to 40% of savings in affected programs could be impacted. Strategies to address 2012 will be presented during the budget process starting this fall; the proposed mitigation strategy presented today is for 2011 only.

Margie summarized the slide (pp. 4 of the handout) on HB 3672 signed by the Governor on August 5, 2011, adding the following:

- New Residential Energy Tax Credit (RETC) rules are expected to be drafted by ODOE after the rules are complete for BETC
- Because the legislature required BETC to sunset retroactively, projects need a precertification by April 15, 2011. This impacts approximately 600 projects who will receive

notification from ODOE that they will not receive a BETC. The majority of those projects are expected to be in Energy Trust service territory. We are cooperating with ODOE to reach out to these individuals about their projects.

- The new tax credit programs starting this fall will have a much reduced budget of $28 million/biennium for energy conservation projects compared to several hundred million/biennium in the past.).

Margie reiterated the 2012 impacts are expected to be far greater than impacts to 2011.

Margie summarized Energy Trust 2011 goals for electric and gas utilities by sector (pp. 5-6). She then summarized 11 programs and program offerings that will not be affected by the changes this year (pp. 7). These programs are expected to bring in the 81% of 2011 savings mentioned earlier. However, some of these programs may be impacted in 2012.

- Proposed mitigation is focused in two ETO programs where BETC has been most central: Existing Buildings and Production Efficiency
- Within these two programs, lighting and custom capital projects are most significantly impacted.
  - Existing Buildings lighting and custom capital projects: Up to 80% of expected savings are from these tracks, and, after we consider savings from completed projects, this could potentially impact 49% of the overall 2011 annual savings goal for the program.
  - Production Efficiency lighting and custom capital projects: More than 50% of expected savings are in these program tracks, and, after we consider savings from completed projects , this could potentially impact 25% of the overall 2011 annual savings goal for the program.

John Savage: Why is lighting impacted?
Peter and Margie: These projects are highly dependent on BETC to make them go.
John: Are these most of the projects in the queue that don't have precerts by the 4/15 retroactive date?
Debbie Kitchin: These are also shorter lead-time projects.
Margie: In the future we know there will be a different payback threshold of 3 years or less under BETC, which could jeopardize some lighting projects.

Debbie: Why was New Buildings not impacted?
Peter: For New Buildings you have to use at least 10 percent less energy than code to qualify, and a good chunk of projects in the system save less.

John S: Did you assume everything that doesn't have a precert won't get done?
Peter: Yes.
Margie: The analysis we can now do will be more refined. We had to make assumptions.
John S: Yes, I think it's good to be conservative.

Margie discussed the analytical approach and assumptions used by programs:

- Savings projections and impacts were quantified by utility. This included tabulating savings from completed or nearly completed projects separate from projects in the pipeline without a BETC, and estimating 2011 projects likely to proceed or not proceed.
- Revenue, budget and expenditure analysis within programs and throughout the organization.
    - There is an implied "hierarchy" Energy Trust would follow if incentives were increased for the most affected programs:
        1. Unspent program incentive funds stemming from lower participation due to tax credit changes
        2. Approximately $3 million in additional revenues above what had been forecasted
        3. 5% reserves
        4. Savings from under expenditures in non-program parts of the Energy Trust budget
        5. As a last resort, tapping the existing Energy Trust line of credit

- Ways to partially close the BETC gap for Existing Buildings and Production Efficiency projects were identified to encourage project completion this year, remain cost-effective and can be accommodated within the 2011 budget.

Tax credit programs have been in place in Oregon for over 30 years. Margie emphasized that we do not know how customers will respond to the BETC changes or to proposed Energy Trust mitigation approaches. We have done our best to make reasonable assumptions and to analyze a range of responses to an incentive bonus.

Peter summarized impact to goals for each utility under a range of high to low-impact scenarios (pp 10):

- High goal impact = More projects do not proceed/complete
- Low goal impact = Assumes more projects will proceed and be complete

Impacts vary by program, by customer type, and by utility. Electric utilities are more dependent on commercial projects, which are more affected by the loss of BETC. NW Natural is more dependent on residential savings, which are largely unaffected in 2011. Cascade Natural Gas is dependent on residential savings and industrial savings; with the latter typically rely on BETC.

With the 2011 high impact mitigation scenario, we project we can achieve better than 80% of goal for all utilities, and potentially 90%. Our contractual minimum is 85% for each utility.

Peter then summarized the savings impacts for each utility if no mitigation actions were taken (pp 11). He added that the difference between the high- and low-impact scenarios for Cascade are tighter because it's a smaller program overall.

Peter reiterated that the focus of this analysis is on Existing Buildings (49% savings hit) and Production Efficiency (25% savings hit). For 2011, we did not focus program areas with smaller, less consequential impacts (i.e., 1% savings hit). These two programs are where we will get the biggest bang for the buck.

Peter presented the proposed mitigation actions to recapture savings (pp 12):

- Temporary incentive bonus for Existing Buildings and Production Efficiency lighting and custom projects that are:
    - Not yet completed, and will be completed in 2011. The bonus would not be available for projects already completed.

Peter said we used a similar strategy during the 2008 recession and it was successful and; helped clear our pipeline.

Staff analyzed a range of success for this strategy and anticipated recapturing 30% to 60% of otherwise “lost” savings. We expect a greater fall-off in custom capital versus lighting projects because custom savings are more expensive and typically require longer lead times. The bonus incentive for custom projects is lower because custom projects are so expensive. If we pay too much, our levelized cost will exceed OPUC performance measure of 3.5 cents. This mitigation strategy was accepted by CAC and when vetted with market actors, they said the strategy seems appropriate.

Jason: How far down your revenue hierarchy is this going?
Margie: We expect to accommodate the majority of what we are after within these program incentive budgets. If that is inadequate, we would use higher-than-projected revenue and our reserves and then savings from non-program parts of our budget. The line of credit would be used only if absolutely necessary.

Debbie: How far does the 60% go into your budget?
Peter: There is a high and low impact, and for each scenario there are varying success rates. The range is: high impact-low success; high impact-high success; low impact-low success; low impact-high success.

For example, for a high impact-PGE scenario, if we did no mitigation and experienced a 19% reduction in savings, we would have $9.4 million in incentives unspent by year-end. If we pursued mitigation using remaining incentive funds and not dipping into other revenues, reserves, or line of credit, the high impact-low success scenario would cost $5.25 million, while the high impact-high success scenario would cost $8.4 million.

We have to pay attention to each utility funding source and balance between not going far enough and leaving too much funding on the table, or going too far and exceeding available revenue. Again, there is no reason to adjust any other programs this year beyond Existing Buildings and Production Efficiency.

Dan Davis: Are you looking at existing programs or projecting new programs?
Margie: Just existing programs.

Alan Meyer: How close do the proposed increases go to replacing the lost BETC funding?
Peter: Part-way. The lighting bonus would replace 45% to 54% of the lost BETC. The custom capital bonus would replace 20% to 23% of the BETC gap.

Pat Egan: Slide 14, simplistically speaking, implies a 75% chance of overshooting Pacific Power revenues – in 3 of 4 cases. How would the excess be funded?

Peter: It's been a colder than expected year. These base projections of revenue are from Pacific Power and incorporate a normal weather pattern, which we've not been having. Actual Pacific Power revenues are higher, plus there is an additional bump from SB 838. For Pacific Power we have about $1.5 million in higher-than-anticipated revenues and reserves, which pretty much captures the difference.

Jason: Is it correct to say that you can close the gap by about half by using freed-up incentive money and above-budgeted revenues without having to dip into the 5% reserves?
Margie: Approximately, recognizing that we can't predict how customers will act. **(NOTE CORRECTION:** the higher than projected revenue figures ***include*** the 5% reserves. Together, these two sources would be the second tier of funding to support mitigation after program incentive budgets.)

Jason: How much can we close the gap without going beyond program budgets and affecting future years?
Margie: We monitor the rate of response and activity and expenditure rates very closely during the last quarter of every year. This year we will be even more frequent and focused.

John S: Are you going to sit down with the 600 customers who received BETC rejection letters to figure out where you are in the spectrum?
Margie: That is the plan. We've only talked to our contractors, not directly with customers yet. We are working to match ODOE data with our data. We know who is being contacted and we will work with those customers to refine our analysis.

John S: What is the timeline?
Margie: Depending on what occurs today, the bonus offers will be on the table for lighting by September 1, 2011, and for custom capital projects by October 1, 2011.

Bill Edmonds: The stacking order seems right. Peter said the intention is to solve the problem within the affected program. Do you expect to reach into other program budgets for money?
Peter: No. Other programs are performing well and we don't want to impede that. As we normally do this time of year, we looked to see if we had underperforming programs, and we didn't find any. So that's not an area we think we should be looking at.
Margie: And, we are counting on those programs to bring in the 80% of savings.

Julie H: I have a concern on the timing. This is mid-August and you're trying to capture these savings by the end of December.
Margie: We have a lot of activity planned on the communication front. We will coordinate messaging with ODOE, especially with their call backs to projects that didn't qualify.

Margie showed the slide with the list of communication strategies (pp 18).

Julie H: What's the turnaround time for a project in this scenario?
Margie: Most activity is aimed at projects that are currently underway and will fall off because there is no BETC. Many lighting projects are relatively short-term. Some large retrofit projects probably won't be helped because the project timeline could be too long.

Peter displayed slide 13 to show the range of success we are predicting.

Julie H: Are we working with the 600 projects?

Margie: We believe the majority of the projects are in our service territory but some are in consumer-owned utility territory. My understanding is that ODOE set up a call center to contact each project and that our PMCs/PDCs and staff will ultimately do personal outreach.

Anthony Buckley (ODOE) clarified that no calls were going to be made. Instead, ODOE set up a call center to receive calls and explain the HB 3672. ODOE can direct them to Energy Trust. ODOE just sent 100 letters to those that paid (a tax credit application fee) with a credit card and received a few calls back. ODOE expects many more calls starting Thursday or Friday based on letters they sent to the 500 other project sponsors

Alan: I wonder if success rates will be higher than expected.

Pat: I appreciate the communication strategies. It would be great to get the call center script you will use and we will get our call centers using the same messages.

Carol Dillin: We've heard there were 350 PGE customers among the 600 and are ready to call those customers. We know some customers have called their legislators. We are supportive of the communications and want to help where we can.

Pat: I think the analysis and approach are good but want some time today to talk about alternatives. We're dealing with something that's been done by the legislature. The BETC cut-off is retroactive. That creates concerns from a customer standpoint, and it was done for revenue mitigation and policy reasons. How we respond will set the stage for energy-efficiency incentives going forward. One alternative is not to change (ETO) incentives. If we don't make a change, we will have a true test case of what this new world looks like. Pre-HB 3672, there was the combination of BETC and Energy Trust incentives. For the six states Pacific Power operates in, this was the most generous package. Even minus BETC, when you look at levelized cost, it's still an acceptable range. We didn't create this problem; this bill has been passed for different policy objectives. Energy Trust is presenting a good response but we are shifting the burden from taxpayers onto investor-owned utility ratepayers and that's a strategy I don't agree with. As a state, we ought to revisit a more scalable approach in regards to BETC to see if we can preserve the success of this 30-year program. The legislature made that attempt, and I appreciate the temporary fixes. We need to work with the 600 projects denied by the retroactivity plus new projects coming in.

Peter: Since we did this analysis, we've been booking additional savings, which are not represented in these tables, so we are slightly over representing here; we may have wiggle room on the high end.

Debbie: I'm concerned that by putting these incentives in place this year, we might be creating another cliff for people to fall off in 2012. I don't want to offer a 2011 strategy isolated from 2012.
Peter: Because the rules for the new tax credits have yet to be written, we could look only at what we would do in 2011. We will not make up the total BETC shortfall.

Julie H: I'd rather we are proactive rather than reactive, in consideration of the 600 customers. We shouldn't wait for the customer to call us or to read communications we put out.
Margie: I agree with that and I know we've been working with ODOE to get information about those customers. Though we haven't contacted them yet, we will. Right now, we're in-between— we don't have an offer to explain to them yet.

Bob Jenks, CUB: Your mandate is cost-effective energy efficiency, not to send a message to the legislature on the need for tax credits. As long as it's cost-effective, it's a good approach. I do worry about the 600 customers, some of whom have put a lot of time into their projects. I don't want people to walk away saying this is too much of a mess to do the project. We need to get those folks the best deal you can give them. With this mitigation strategy, Energy Trust is trying to protect them.

Julie B: Where are the policy signals and the market signals? This is a huge change, and it has a big impact on customers. I'd like to hear more from the utilities on Pat's idea.

Pat: Personally, I think it's reprehensible that the legislature cut off the BETC retroactively. We care very much about these customers. But we do have a control, about 100 customers not in investor-owned utility that will also be denied a BETC. If we do make an adjustment it ought to be temporary, and regardless of whether we want to send a message or not, a message was sent to us. There's been a shift from taxpayers to ratepayers. That needs to be noted. If the long-term trend is "that went well, let's do it again", that's not acceptable. BETC was originally intended for conservation and we know what happened, and it became a large revenue problem.

Julie B: In response to Bob's remark, taking a line of credit is not cost-effective, not what SB 1149 intended for this organization. My gut says no.

Caddy: Dealing with 2011 and the retroactive cut-off means we need to address 2011 differently than 2012. I find dipping into reserves or pulling a line of credit as distasteful. If it comes to that, have you analyzed the impacts?

Jason: I agree with Caddy. When the issue first came up, you could see there would quickly be problems with Energy Trust doing heroic measures. We have experience with an overcommitted Energy Trust program, and we don't want to repeat that. We also would risk sending the wrong signal to the market in order to send the "right" message to the legislature. We should mitigate, but should not go into our reserves or using a line of credit. I want us to make choices that are sustainable.

Carol Dillin: I want to make sure the cost-effectiveness requirement is met. In terms of mitigation, we can give the nod for 2011. We want to send a message to our customers, especially those denied a BETC that we are all working to be cost-effective and as efficient as possible. I do encourage Energy Trust to do benchmarking. We need to proceed cautiously going forward, work with Energy Trust and our utility partners, and do what we can so our customers don't face additional stress. We are okay with this short-term strategy.

Jim Abrahamson: I heard about this at CAC. I appreciate Pat's comments that the adjustment needs to be made carefully and temporary. There is the potential of shifting funding from shared taxpayer-ratepayer funding to ratepayer funding. What else needs to be done to support these programs going forward, when the affected 600 projects have been addressed? From Cascade's perspective, we are in a unique position compared to the other utilities. We have a deferred funding mechanism we can use to make sure funding is available.

Bill Edmonds: My eyes are really on 2012. I appreciate Energy Trust's work on this and it looks like an appropriate middle ground. In 2012, I'm worried about a fall-off, and 2011 creating a precedent. What to do in 2012 will be a difficult discussion. Should we have customers focus on low-capital, operational projects? In 2009, NW Natural increased its public-purpose charge from

1.83 to 4.3 %, and we don't want to do again. We don't want to spend dollars this year that we have to recover next year.

Margie: We do want to strike a balance. This mitigation strategy is for 2011 only. And we can report back to the board on how it went. Our job is different than the legislature's job. We have a mission and savings goals and cost-effectiveness requirements to meet. What we don't achieve this year will make it harder to meet goals next year.

Margie: I'm getting the message that we should proceed with the mitigation as planned. Energy Trust should go forward and capture savings this year and not leave anything on the table.

Peter: The mitigation strategy will be beyond the 600 projects affected, and will be applied to those who would have applied for a BETC this year.
Margie: Also, because this is a limited-time offer, we have protection against too many projects coming in.

Peter reiterated the bonus incentive will not be used to make up for the entire BETC.

Jim: Is there a deadline to close the projects?
Margie: Yes, the deadline is Dec 15.

John R: We have run out of time to take up our second agenda item today.

Margie: We have dates on our calendars in the second half of August to meet with each utility and talk about 2012. In those discussions we will talk about these issues and their implications for IRP targets.

John S: For the 2012 discussion, it would be useful to know the new tax credit rules. We have IRP and SB 838 tariffs coming up immediately.

Margie: I was told ODOE is targeting Oct. 1 to have rules in place.

John S: It would also be useful in the utility discussions to offer multiple options to the OPUC – if spending level is X, you get Y – and to note Energy Trust's preferred option.

John R.: We should schedule another utility roundtable meeting in September to discuss 2012.

Margie: Our budget process is starting; we have the individual utility meetings to complete, and will work to set up the September date as soon as possible.

Roundtable adjourned at 12:01 p.m.

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Caddy McKeown, Secretary