Utility Strategic Roundtable

October 6, 2011

Energy Trust board members present: Julie Brandis (telephone), Jason Eisdorfer, Julie Hammond, Jeff King, Debbie Kitchin, Alan Meyer, Bob Repine (ODOE special advisor, telephone)

Energy Trust board members absent: Rick Applegate, Dan Enloe, Roger Hamilton, Caddy McKeown, John Klosterman, John Reynolds

Utility roundtable participants: Bill Edmonds (NW Natural), Pat Egan (Pacific Power), Bob Jenks (CUB), Dave Robertson (PGE), Allison Specter (Cascade Natural Gas),

OPUC members: John Savage (commissioner), Susan Ackerman (commissioner), Juliet Johnson (staff)

Energy Trust staff attending: Pete Catching, Amber Cole, Kim Crossman, Lakin Garth, Hannah Hacker, Margie Harris, Oliver Kesting, Nancy Klass, Steve Lacey, John Volkman, Peter West

Others attending: Jennifer Gross (NW Natural), Don Jones, Jr. (Pacific Power), Lauren Shapton (PGE), Jay Tinker (PGE), Margi Hoffmann (NEEC)

Welcome

Debbie Kitchin called the roundtable to order at 8:07 a.m. Introductions were made, including Dave Robertson of PGE attending for Carol Dillin, and Jim Abrahamson of Cascade Natural Gas submitting a letter in advance of the roundtable due to his absence. Debbie reviewed the agenda; no changes were made.

Margie Harris acknowledged the time and effort utility staff and Energy Trust staff have dedicated to the 2012 funding negotiations, which has been a collaborative process. In particular, she thanked Steve Lacey and Peter West.

Margie said Energy Trust is presenting a range of 2012 funding choices to the roundtable, in response to a request from John Savage at the August roundtable. She said there will be time for discussion at the end of the presentation, and staff is seeking agreement on the next steps to take, given utility tariff filings.

2011 mitigation status

Margie began by reviewing 2011 mitigation status. In response to state tax credit changes, the August 2011 roundtable participants agreed that Energy Trust should offer mitigation to partially close the gap for qualifying projects in the two programs most dependent on Business Energy Tax Credits. Bonus incentive offers for lighting and custom capital projects in the Existing Buildings and Production Efficiency programs are now available for projects initiated on or after September 1, 2011, and to be completed by December 15, 2011.

To communicate the bonus to potential participants and trade allies, Margie said Energy Trust tapped contractor and trade ally channels, coordinated with utility representatives and the Oregon Department of Energy on messaging and outreach, issued a press release picked up by media outlets statewide and included mention during a Northwest Energy Efficiency Council webinar. In addition, utilities called their customers who were denied a Business Energy Tax Credit to alert them to the bonus incentive. Margie said bottom line, word of the effort got out. Energy Trust received positive feedback from the market, and contractors and customers expressed relief that Energy Trust responded swiftly and was able to help spur projects forward by helping bridge the gap left by the sunset of the Business Energy Tax Credit. They expressed interest in having a similar strategy in 2012.

Estimated activity to date: Out of 600 projects denied a Business Energy Tax Credit, 311 identified themselves as wanting to move forward with their project because of the bonus and 33 of those projects are enrolled in the programs. Margie indicated, separate from pp 6, another 180 commercial projects not yet reflected in the tables who are expected to apply for the bonus incentive, as well. Plus, the programs have seen 122 new projects coming in to capture the bonus this year. This activity will represent about $1 million in incentives that Energy Trust anticipates paying by December 15, 2011, with $17,000 already paid. Margie said staff is confident all projects in the pipeline for the bonus will complete. The savings are estimated at 20.6 million kilowatt hours and 341,000 therms. Peter further explained pp 7.

2012 proposed mitigation and anticipated utility funding
Margie reviewed Energy Trust's proposed 2012 strategies:

- Continue investment in O&M and behavioral savings, which has allowed Energy Trust to capture savings at a lower cost and to diversify the portfolio due to limited capital investments
- Focus on lighting, a great entry point for customers, which has proven successful in building customer relationships
- Leverage the sales force of trade and program allies
- Promote Clean Energy Works financing tools
- Diversify both the customer base and building types served
- Manage delivery costs
- Outreach and coordination with utilities on customer service, in part based on utility feedback to reach customers directly
- Continue some level of tax credit mitigation

Margie reviewed the 2012 funding scenario definitions, which were prepared by Steve with iteration with individual utilities.

- 2012 @ 2011 Funding: Basically provides a reference point that "freezes" 2012 funding levels at current 2011 rates. This was requested by the utilities to show a comparison of what savings Energy Trust would be able to acquire at 2011 funding levels with the new state tax credits in place.
- Baseline Stretch Goal: Designed to meet stretch goal as if the historic tax credits were still in place. Funding assumption is Energy Trust would be budgeting to meet stretch goal while being able to leverage tax credits to meet goal; a "business as usual" scenario. Steve said this scenario anticipates what new funding levels Energy Trust would need to meet increased utility goals and in a world where the historic tax credits were still in place. Margie reinforced this scenario also as a reference point.

- No Mitigation Rate Adjustment/No Incremental Rate Adjustment for Mitigation: Shows savings outcomes without any *additional* funding beyond Baseline Stretch Goal levels. This scenario does include an adjustment in rates to reach the higher baseline stretch goal. While this scenario does include some Energy Trust tax credit mitigation to reach goals, the incremental rate change would not fund that mitigation. Also assumes the new 2012 tax credits will be defined and in place.
- Mitigation Stretch: This last scenario adds an increase in rates to reach the increasing baseline stretch goal, and the increase in rates would also fund tax credit mitigation strategies. Margie clarified the definitions of both conservative and stretch goals, and how they are connected to utility IRP goals. John S. asked if we were to take this scenario and fund to meet our conservative goal, would the funding be 15 percent less? Steve said yes, and that our agreement with the utilities has been to seek enough funding to reach stretch goals while we “guarantee” conservative goals. This scenario also assumes the new 2012 tax credits will be defined and in place.

Margie went over the 2012 funding scenario summary, which lays out each above-listed funding scenario. Margie clarified the 5 percent reserve is included in the revenue amounts and is shown separately on pp 10.

Margie said Energy Trust worked separately with each utility in 2010 to agree to align the annual Energy Trust conservative goal with utility IRP targets. Going forward two goals will be included: conservative and IRP will be synonymous as one goal and stretch is the second goal. There is a 15 percent range between the two goals. Bob Jenks asked if, over a 20-year planning cycle for IRP, we are creating excess energy in the planning cycle. Margie said it is a 20-year planning cycle, but by updating the IRP with each utility every two years, Energy Trust and the utilities are taking inaccuracies out, revisiting assumptions and becoming more accurate. She said Energy Trust has high confidence it can meet conservative goal and reach to stretch goal. This allows the utilities to rely on Energy Trust to meet IRP.

Alan Meyer: In the business world, you are funded to goal, which is conservative here, not funded to stretch goal.
Steve: We are obligated to meet conservative goal, and we are consistently meeting 90-95 percent of stretch goals. But this isn’t consistent enough for utilities to rely on the stretch goal for their IRP.
Dave: Do the conservative or IRP goals match the dollars in rates or are we funding to stretch goal?
Steve: Again, there are two goals: stretch and conservative/IRP. Conservative is 15 percent below stretch. The budget is funded at higher levels to allow us to go after the stretch goal and obtain those additional savings. We get to about 95 percent of stretch, but not always meeting it, and because we are confident we can reach conservative goal, we have that aligned with IRP.
Margie: Through SB 838, we designed our budget to align with the IRP. But we don’t want to be limited by that; we want to shoot beyond it. However, we have to be cognizant of market factors that may change (such as the tax credit changes), precluding us from meeting stretch.

Margie reviewed Energy Trust’s 2012 proposed mitigation: Unlike 2011, the proposed 2012 mitigation would span all impacted programs, including multifamily, New Buildings, small commercial and small industrial in addition to Existing Buildings and larger industrial. Renewables are not expected to be an issue until 2013 because of long-lead times on these projects and some projects that still have Business Energy Tax Credits. Budget assumptions increase incentives by 10 percent for those programs that would have tapped the historic tax credit. In the end, the 2012 mitigation are designed to provide a partial closure to the gap left by the tax credit changes, and will allow Energy Trust to hopefully reach energy efficiency goals and keep pace with utility IRP targets.

Steve reviewed the 2012 funding options for each individual utility, and clarified that numbers on pps 13-16 were vetted with the utilities. Pat Egan mentioned there are still questions remaining on meeting goals while taking into account reaction to this year's mitigation strategies.

- Portland General Electric: Baseline funding of $80.1 million and mitigation funding of $84.8 million. Rate change of 1.4 percent regardless of funding any mitigation; under the Mitigation Stretch scenario, increases to 1.7 percent.

  Margie: Each slide is different for each utility, and the circumstances needed for any mitigation are combined. These are highly individualized and tailored pictures for each utility. Dave: Therefore, each utility is impacted differently in terms of Energy Trust meeting IRP goal within either scenario. Steve: Plus, each utility is impacted by the tax credit changes differently, as some utilities have different customer types from whom they depend upon and derive their savings.

  Steve: Key to the rate change. A 1.4 percent rate increase is what would have happened regardless under a base scenario; under mitigation scenario, the rate goes up to 1.7 percent, a 0.3 percent differential.

- Pacific Power: Baseline funding of $45.4 million and mitigation funding of $48.1 million. Rate change of 0.3 percent regardless of funding any mitigation; under the Mitigation Stretch scenario, increases to 0.6 percent.

  Bob J: Why does levelized cost change?
  Steve: We need to do some tax credit mitigation and the cost for Pacific Power, which has a large commercial and industrial customer base, goes up. If funded under the Mitigation Stretch scenario, the cost will go down because a greater percentage of larger capital projects with lower cost savings will be acquired and will contribute to driving down the overall levelized cost.

- NW Natural: Shows an increase of about $1 million for mitigation. Rate change of 0.4 percent regardless of funding any mitigation; under the Mitigation Stretch scenario, increases to 0.6 percent.

- Cascade Natural Gas: Shows an increase of about $174,000 for mitigation. Rate change of 0.9 percent regardless of funding any mitigation; under the Mitigation Stretch scenario, increases to 1.2 percent.

Steve: The trend is about a 2-3 point increase to meet stretch goals.

Margie went over the conclusion slide, pp 17. Energy Trust's mission is to continue seeking cost-effective energy efficiency while supporting our infrastructure, maintaining momentum in the marketplace and meeting customer demand. Margie said the mitigation allows Energy Trust to partially close the tax credit gap and to continue meeting utility IRP goals.

Energy Trust staff recommendation
Margie went over the recommendation: Based on utility conversations and conversations with others, Energy Trust proposes to proceed with a new partial mitigation scenario predicted to land somewhere between the no incremental adjustment scenario and the stretch mitigation scenario to minimize rate impacts on customers and address feedback we have received.

Margie would like to have agreement on the following principles:

- Customer service
- Meet customer demand
- Make continued progress toward IRP targets
- Agree upon tariff filing parameters related to mitigation

Roundtable discussion
Pat E: Pacific Power will be filing later than October 15, and rate change will still go into effect January 1. We want to fully understand what this funding will look like before we file.

Alan: As the Business Energy Tax Credit doesn't affect residential customers and we are precluded from raising rates on large industrial customers, the mitigation is assuming a focus on commercial and small industrial?
Margie: The 2012 mitigation will capture multifamily, new buildings, small industrial and small commercial. Multifamily and New Buildings programs and customers were not included in the 2011 mitigation albeit small industrial and commercial customers can take advantage of the bonus offers.

Allison Specter, conservation manager for Cascade Natural Gas, referenced a letter the utility submitted to the roundtable: Cascade Natural Gas is supportive of what Energy Trust is trying to accomplish in terms of Business Energy Tax Credit mitigation. We are trying to make a clear correlation between what we are seeing in our IRP planning with Energy Trust and the downward decline in conservation potential and trying to tie it into available projects that would benefit from the Business Energy Tax Credit and how much money would be set aside for mitigation. Cascade Natural Gas wants a deeper understanding behind the metrics used for the mitigation scenario and the additional funding it would require. We want to know what the direct need is relative to our territory, especially as we don't have the industrial base as the other utilities do.
Peter: We look at resource potential for residential, commercial and industrial sectors. Even though Cascade has less conservation potential, the customers that are left are still impacted by the tax credit changes so there is still a makeup for those that remain. The $174,000 is a tight estimate, given that we have already reserved $73,148 in one month of mitigation this year. There are also confidentiality issues in that we can only provide aggregate information about projects (under the current data sharing rules).
Allison: It's reassuring to know the detail you are collecting, but for due diligence, we need to see the analysis. What buildings are benefitting from this? What other information do you have?

Peter indicated he will follow-up with Allison on the analysis requested by Cascade Natural Gas.

Susan: What is confidential?
Margie: Confidential information includes customer names and project sites. The data transfer agreement, if updated, would allow Energy Trust to share this information with each utility. Currently, we can provide only aggregate data.

Alison: The information we are requesting, even though utilities can't see it, can be provided to the OPUC?
Margie: It has not been provided at this level of detail. We will work with Cascade Natural Gas on the ideal timing for responding, as we understand Cascade Natural Gas would retain its retroactive adjustment and we need to meet budget timelines.

Dave: PGE will file in a few weeks. We have a great partnership with Energy Trust and what we have accomplished together, and we are a strong supporter of conservation. But we don't support funding to the stretch mitigation scenario. It's a pace and timing question, especially as the tax credits are still under rule development. PGE is concerned about overall cost increases for our customers. We are at $59 million for 2011, and this would bump up to $76 million in 2012, also due to our carryover. But a 1.4 percent increase does get us to within the 95 percent range on our goal. It's not warranted to take on the additional funding for the mitigation scenario when we don't necessarily need to. PGE also has concerns about customers picking up the cost of tax policies that are in flux. PGE's position is our customers should not be making up for the fact that the state changed the tax credits. We can support the 1.4 percent but not the 1.7 percent.
Debbie: And what is your rate with 838 funding?
Dave: about 4 percent now, and by adding 1.4 percent we would be at 5.4 percent. In 2007, prior to 838, we were at $24 million. Now we are talking about $80 million

Bill E: NW Natural is laser focused on working with Energy Trust; specifically we are focused on how Energy Trust determines its incentives. Energy Trust is not allowed to look across fuels, which has meant over time to remove the gas furnace and gas tankless water heater incentives. We are at a point with hardly any gas equipment measures. And this is where NW Natural is spending its time. We are working with third parties and the OPUC in terms of the process on budget and mitigation. We found things in the 2012 budget we don't agree with including NEEA and an OPOWER placeholder. With discussion, these were removed from our budget. NW Natural is a little less impacted with the mitigation strategy because we have a larger residential customer base. In our initial October 1 filing, we proposed funding up to mitigation stretch. But we will go back October 14 with a different change needed and will take that opportunity to make any changes from this discussion. We need to be in agreement by October 14. I also agree with Cascade Natural Gas. The more transparency, the better, such as knowing specific projects building up to specific rate increases.

Pat E: I also agree with having common understanding and transparency. Energy Trust is responsive and we value their services. Customer collaboration is better and could still improve. To Dave's point, we are also responding to and reacting to changes in the Business Energy Tax Credit. We need to understand the impacts and consider whether our customers should pay for the changes in state policy. We value the Business Energy Tax Credit and want to see as much of that restored as possible. What shouldn't be lost is that there is still a tax credit. This all rolls into a rate impact for customers. What is embedded in the expenditure numbers? I anticipate talking through this in the next few weeks. This all rolls into customer uptake and customer understanding. The OPUC direction was to come back with options, which we did here.

Bob J: This is the first time I've said this, but I'm conflicted on how to proceed. What's cost effective in the long term we ought to do, otherwise we'll have higher prices in the long term. This happened before when we made decisions for short-term reasons and were left with expensive energy in the long run. At the same time, something is happening in the world with the recession. Thousands of people are getting their electricity shut off. There are statistics I have not seen before, on things such as shut offs. I'm very worried about customers' abilities to absorb costs. I support your final suggestion to do an in-between mitigation funding scenario. Mitigate what would make the biggest difference. Where can we be strategic without impacting everyone and still get the greatest savings benefit? Rate increases are going to be very difficult on customers that can't already pay for their bills. If we can put something off for a while, we should consider that, particularly because of the difficult economic time we are facing.

Debbie: That does mean lost opportunities. For example, new buildings being built that will last for 30 years and are not built as efficient as they could be.

John S: I like the discussions here. There are three things being balanced, including being: 1) mindful of any rate increases, 2) mindful the Business Energy Tax Credit was very good policy and should be boosted at some time and 3) wanting to get cost-effective energy efficiency.

Jason: To Bob's point, times are tough, and in terms of economic times this is something we haven't seen in our lifetime. We need to be mindful about rate impacts and the timing is important. This isn't the same as the '90s because we have Energy Trust in place. But we need to operate with context in mind, which is the troubling state of our economy. We need to balance rate impacts with stretching to capture efficiency. There will be lost opportunities, but in this case, we need to focus on the rate impact. We will eventually come out of the recession. The Business Energy Tax Credit as we know it is gone and that has created issues. Also, we are facing a data sharing issue at the same time. And, we have gas measure concerns from NW Natural. We need to think about taking breaks while not falling back too much. We must maintain positive working relationships.

Julie B: What are the next steps? Does the board have to act on the mid-point mitigation scenario?
Margie: We will run the analysis and work with each utility, and provide more examples of what we are delivering to bring more transparency to the process. Each utility will take that information to include in tariff filings. Tariff adjustment filings go through a regular OPUC process and based on that process, our budget will be set.
John S: Utilities will file and then the OPUC will decide.

Julie H: Utilities are leaning toward no mitigation as it impacts customers? Question to Energy Trust, since there is a dependency on Energy Trust helping utilities meet IRP goals and with no mitigation, even on stretch goals we aren't hitting IRP. Are there ways we can work to meet goal with these things in mind?
Margie: This is unknown territory. What are the consequences if we don't meet IRP? We can refine and adjust next year as things shake out, but the question is what happens if we don't meet IRP? This is a transition period and no one knows what will happen.
John S: Go back to your benchmarks and I like tying your benchmarks to IRP. On meeting a specific number, if you're off by 1 aMW, we're not going to be concerned. But if you are largely off, we will be concerned.
Julie H: I assume staff has been diligent in how we will meet goal with these scenarios.

John S: We are looking at two adjustments. The adjustment utilities are making to fund Energy Trust and the adjustment to fund Energy Trust at proposed mitigation. This is an adaptive time. If you fail, it is situational due to the economy.

Dave: Have we explored every way we need to change to meet goal in this time? Let's discuss how to be more creative and get more customers. Times like this spark you to be more creative.

Julie: Given the direction we are headed, how do we close the gap on these numbers?
Margie: We try to work with each utility now to bring customers in. We will need to work together even more to leverage opportunities.

Alan: Is the IRP goal flexible? I assume it was set when the Business Energy Tax Credit was in place. Should we be relooking at the IRP goal?
Margie: That is being done, we are adjusting based on load and demand as well.

Peter: We heard that 2012 mitigation needs to be minimal, and we will come back with the partial mitigation scenario. To bridge the Business Energy Tax Credit, we are funding at ~10 percent, ranging from 5-15 percent depending upon the program. For 2011 mitigation, you saw a range of 20-50 percent. We are also running high on low-cost and no-cost measures at a pace that is risky. The Business Energy Tax Credit funding is 25 percent of what it was in total for the entire state. (Note added for clarification: The Legislature capped the amount of tax credits available for energy efficiency by businesses at a level that appears to be 25% of the levels that had been claimed in the past.) If you were to not make the efforts we made this year, the numbers you would be looking at would be higher. In full mitigation to partial mitigation, it's more risk to the IRP goal on the partial mitigation scenario. We will find more savings, but we can't do more without taking on more risk.

Dave: It is about balancing risk, and there's risk to customers and risk to IRP goals. We laud Energy Trust's efforts but the risk on the customer side, after a 1.5 percent increase already, brings us to a limit.
Jason: Hopefully, out of this meeting, all parties can agree there is a collaborative approach moving forward and we are in a situation that requires flexibility.

Pat E: What is in the total Business Energy Tax Credit, including renewables?
Peter: The new levels of funding for tax credits from the state are 99% less for renewable energy and appear to be 75% lower for energy efficiency. The state budget for two years is $28 million per biennium or $14 million per year the new conservation tax credit. (Renewables is down to $3.0 million per biennium or $1.5 million per year.)

Bill E: I appreciate Jason's comments on having a collaborative effort, but October 14 is looming. One way to go is no mitigation with discussion on flexibility around IRP for all utilities.
Bob J: I encourage utilities to not draw a line in the sand on no mitigation. We want to be careful to not lose big conservation opportunities while balancing cost impacts. We have a great solution, a uniqueness with Energy Trust. Let's also not lose sight of those benefits.
Pat E: We're not drawing a line in the sand. Efficiency is high value and we need to get what we can. We need to fully understand costs and program design, and we need transparency in the

analysis. We focus our time on IRP and levelized cost.
Allison: Cascade Natural Gas also supports cost-effective conservation and innovation. Cascade is looking for more transparency on the analyses so we can fully support the direction, knowing this is the best solution for our customers. What is the ultimate role of the utilities in our relationship with Energy Trust?
John S: From the OPUC perspective, the utility produces an IRP because you serve Oregon and you have a voluntary agreement with Energy Trust to have Energy Trust provide cost-effective conservation. On the flow of information, that is an OPUC question that we are taking up. OPUC is also the referee on all fuel issues, which we will also take up. These are our problems to solve.

Debbie: I support a middle ground between no mitigation and the proposed mitigation presented today, focusing on the biggest lost opportunities.

Steve: Going through this process with the utilities, each utility is very unique. A one-size fits all solution will not work.

Bill: We do have unique funding situations, but out in the field, Energy Trust needs to be uniform. So in one sense we do need to align across the four utilities. But the decision needs to be made soon on what we are funding to and how we are going to get projects in.

Margie: There are underlying assumptions behind our analyses, particularly, impacts on customers. If we can leave this room with agreement that we will minimize impacts on rate and maximize reaching IRP through the mid-mitigation scenario that would be a good guidepost for us. We would then proceed with these assumptions in the time remaining for the utilities to file.

Direction for Energy Trust staff moving forward with 2012 planning
Dave: What can we expect to see from Energy Trust and when?
Margie: We need to revisit assumptions made in getting these numbers. Timing for each utility is different.

Bill E: One way is to file at no mitigation and allow a deferral account as October 14 is coming up. There might be a mechanism to allow identified projects to go through after the filing.

Debbie: From here on, Energy Trust will work individually with each utility.

Debbie thanked the participants for the engaging discussion, and recognized the work of the staff from the utilities and Energy Trust.

Roundtable adjourned at 10:05 a.m.

Debbie Kitchin, Vice President