Board Meeting Minutes – 112th Meeting

March 28, 2012

Board members present: Rick Applegate, Joe Benetti (by phone), Ken Canon, Jason Eisdorfer, Dan Enloe, Roger Hamilton, Jeff King, Debbie Kitchin, Bob Repine (ODOE special advisor, by phone), John Reynolds (by phone), John Savage (OPUC ex officio, by phone)

Board members absent: Julie Brandis, Alan Meyer

Staff attending: Kacia Brockman, Cheryle Easton, Pete Gibson, Hannah Hacker, Margie Harris, Nancy Klass, Steve Lacey, Sue Meyer Sample, John Volkman, Peter West

Others attending: Jared Holum (Perkins & Co), Erik Wilson (Perkins & Co.), Juliet Johnson (OPUC, by phone), Lauren Shapton (Portland General Electric), Don Jones, Jr. (Pacific Power), Wendy Gerlitz (Northwest Energy Efficiency Coalition)

Business Meeting

Vice President Debbie Kitchin called the meeting to order at 12:07 p.m.

General Public Comments

There were none.

Consent Agenda

The consent agenda may be approved by a single motion, second and vote of the board. Any item on the consent agenda will be moved to the regular agenda upon the request from any member of the board.

MOTION: Approve consent agenda

Moved by: Ken Canon Seconded by: Jeff King

Vote: In favor: 7 Abstained: 0

Opposed: 0

Consent agenda included one item:

1. *March 7 annual board meeting minutes.*

Jason Eisdorfer joined the meeting at 12:10 p.m.

Audit Committee

Review results of financial audit

Ken Canon introduced the resolution. The Audit Committee has been working with Perkins & Co., the financial auditor, to complete Energy Trust's annual financial audit. Ken introduced Jared Holum and Erik Wilson from Perkins and Co. Ken mentioned the March 20 Audit Committee meeting with Perkins & Co. went well and the committee is pleased with the report.

Jared described the process of preparing the audit, including working with the Audit Committee. Perkins & Co. delivered an unqualified audit for 2011. Jared said there were no audit adjustments to the financial statements, no disagreements with management level staff, and that Sue Meyer Sample, Pati Presnail and the full Finance Team were extremely helpful. All this made for a smooth and efficient audit process.

Jared highlighted a few key elements of the report. For the income statement, assets decreased because there was an increase in the demand and volume in programs. There were also slight changes in the balance sheet from investment balances moving from longer-term CDs to shorter-term CDs. The difference in the interest rate between long and short-term investments is nominal. There was a slight increase in fixed assets relating to the office move to a new facility, which also required a longer lease commitment. Assets also increased due to spending on new IT software.

Bob Repine joined the meeting by telephone at 12:15 p.m.

Dan: Energy Trust has different business processes compared to other companies. Any recommendations around risk management?
Jared: Energy Trust is different in that it takes funds and distributes them through many, small-amount transactions. As Energy Trust grows, keeping control on the disbursement of those funds will become ever more important. There are reasonable controls right now; going forward, this is something to keep in mind.

Ken: How did you test internal controls?
Jared: We don't actually audit the internal controls of Energy Trust. We do understand the internal controls in place by looking at disbursements and cash receipts. Then, we design our audit process around that. We did not find any weaknesses in the internal control processes. From our standpoint, management takes internal control seriously.

Roger: On page 9 of the report, Renewable Energy Certificates (RECs) are valued at zero, as a result of Energy Trust having eliminated from its policy allowance for the sale of RECs. If we wanted to sell RECs would the policy need to change?
Jared: That's my understanding.
Debbie: Then RECs would still need to be recognized in some way on the financial statement, either financially or through footnote disclosure.
Margie: That is an accurate description.

Resolution 625, acceptance of audited financial report for period ending 12/31/2011

RESOLUTION 625
ACCEPTANCE OF AUDITED FINANCIAL REPORT

BE IT RESOLVED: That Energy Trust of Oregon, Inc., Board of Directors accepts the audited financial statement report, including an unqualified opinion, submitted by Perkins & Company, P.C. for the calendar year ended December 31, 2011.

Moved by: Dan Enloe Seconded by: Jason Eisdorfer

Vote: In favor: 9 Abstained: 0

Opposed: 0

Ken reinforced the Audit Committee's appreciation of the work of Sue Meyer Sample, Margie and the staff. Ken said the audit takes time and they are doing a top flight job in an area that's absolutely crucial to Energy Trust.

Ken then described the competitive RFP process currently underway to select an auditor for 2012. The RFP goes out April 2, opportunity to ask questions closes May 2, responses are due May 11, the Audit Committee selects its top 2-3 recommendations on May 17, finalists are contacted May 18 and interviews occur May 23 before the board meeting.

Jason mentioned that even though there was minimal board discussion around the audit, it's not because the audit is thought of lightly. The audit was thorough and brought forth no concerns. He said it was a very boring audit report in that respect, which is very good. Jason also recognized and thanked Sue and her team for their work.
Sue Meyer Sample acknowledged the benefits of having such an active and engaged Audit Committee.

Ken said to the extent the board ever has concerns, feel free to bring them to the Audit Committee and we'll look into it. He said he's been on the Audit Committee only for 1 month, and that the work being addressed today is the result of outgoing board member and Audit Committee chair, Julie Hammond. The committee greatly benefited from Julie's involvement, commitment and leadership.

Energy Programs

Resolution 626, transfer funds to Solar Electric program budget
Jason Eisdorfer introduced the resolution and noted its purpose to address unanticipated large growth in residential solar electric projects exceeding the program's allotted budget. In response, this resolution recommends a way to backfill the program's budget to meet the demand.

Kacia Brockman presented the resolution describing the proposal to transfer additional funding from other renewable energy programs and from reserves into the Solar Electric program budget. The Solar program has been very successful. The recommendation is to increase the solar electric budget by $1.77 million. Of the $1.12 million from the interest income reserve account, $585,000 is proposed for projects in PGE territory and $535,000 proposed for projects in Pacific Power territory. Even with the funds from the interest income reserve account, enough reserve funds would still be available to meet the board-determined desirable reserve amount of approximately $8 million. The reserve account would be preserved for any needs in the future.

Ken: Is the income interest reserve account for renewable energy projects in PGE and Pacific Power territory only? Or broader?
Sue Meyer Sample: The reserve account was generated by early years of carryover from both energy efficiency and renewable energy. It is not attributed to a specific utility or program. The board opted to maintain flexibility for various cases where there may be an urgent need. Historically, Energy Trust has used the reserve account when there was overstimulation of the market in the Production Efficiency program. It was also used to transfer funds for renewable energy projects in Pacific Power territory.

Debbie: Do we track where the interest comes from or does it all go into one cash account?
Sue: One cash account, which is currently invested in CDs.
Margie: Don't we track the interest on large renewable energy projects, when funds are dedicated and put into escrow?
Sue: We originally decided to do that, and subsequently changed so that the interest earnings in escrowed funds go back into the general fund.
Margie: I thought this was to be rededicated for renewable energy projects only?
Peter: We discussed this and decided to place all escrow interest in the general fund.
Debbie: I thought we talked about putting less money in escrow?
Sue: Again we originally thought that due to the time value of money we could only fund the Net Present Value of the account. With interest rate risk, and the desire of some participants, we decided to fund to the full amount.
Margie: We'll dig out that history and clarify to the board.[1]

Roger: I'm assuming at some point we'll be at a zero sum game. What other renewable energy program is being sacrificed for this?
Margie: Kacia will explain shortly.

[1] In August, 2006, the Energy Trust Finance Committee reviewed a proposal to treat interest income on renewable energy escrow accounts differently from interest income on other accounts. The renewable energy program had used escrows to fund projects with long payment terms. Historically, the interest went to the general interest account. Under the August 2006 proposal, interest from escrow accounts would be dedicated to renewable projects. The committee approved the idea, but suggested that the board review it because it was a departure from long-term practice. In December, 2006, while adopting the 2007 budget, the board reviewed guidelines for the use of interest earnings. The guidelines provided that there should be "a balanced investment between both renewable and efficiency program opportunities over time" in using interest income. In May, 2007, the Finance Committee suggested "using the simpler interest income transfer." Acting on the recommendation, the board approved the transfer of $600,000 from cash reserves to renewable energy projects in 2007.

Jason: The interest reserve account is a separate account. What is its current balance?
Sue: We finished 2011 with $7.6 million in the account. The calculation is done each year during the budget process. It estimates and projects the reduction of revenue that might occur if we experienced a ten percent decrement in the four winter months corresponding to the two year action plan period. For last year's budget, this was estimated to be roughly $8 million. Kacia's proposal does not significantly reduce the reserve amount below this level. We are comfortable with the proposal and that the reserve funds will remain intact.

Kacia continued the presentation and said the program also proposes to transfer $650,000 of renewable energy funds for PGE projects from the Other Renewables program. These funds are available now because hydro and wind project activity has been delayed. The resolution proposes to transfer funds from the Other Renewables program into the Solar Electric budget to be committed in 2012. Kacia mentioned Energy Trust has three renewable energy programs, Solar, Biomass, and Other, which includes hydro, geothermal and wind.

Peter: Funds in the Other Renewables programs are for niche markets.

Roger: Geothermal won't be affected?
Kacia: No. Also, Small Wind anticipated it would grow from 2011 and 2012 with a restructured incentive in combination with a new national certification on wind turbines. There is also a delay in the national certification and therefore a delay in our small wind program.

Roger: Do you anticipate the surge in solar electric demand will continue?
Kacia gave a brief background on the Solar Electric program. Staff knew in 2011 that the budget in 2012 would be smaller than in previous years. This is largely because unspent funds from the early years of the program had been rolled over into subsequent budget years, and available as carryover. Such carryover funds were expected to be fully committed in 2012. Therefore, the program had planned and has been implementing incentive reductions to stretch the limited dollars further. Also, the program expected that lower demand for commercial systems, because of the Business Energy Tax Credit sunset, would enable the program to support increased demand in the residential sector.

Near the end of 2011, the program predicted it would under-commit its PGE budget by $1.2 million, and "gave back" that amount to be distributed to other renewable energy program budgets for use in 2012. Kacia said that even though the program monitored the commercial sector closely, reaching out to potential projects on their interest in an Energy Trust incentive, the commercial activity in December soared unexpectedly. The program received $1.4 million in commercial incentives for PGE projects when it had expected only $220,000. Now, the program is asking to pull that money back to meet demand for PGE.

Debbie: What has happened since December 2011?
Kacia: December was a spike and commercial activity has since dropped. Residential activity, however, which is normally quiet in Quarter 1, remained elevated. The program saw four times more residential volume in Quarter 1 2012 than in Quarter 1 2011. Also, ARRA stimulus money earmarked for low-income housing in Pacific Power territory resulted in the program receiving $535,000 in incentives after the 2012 budget had been finalized.

Kacia said the program expected 2012 to be a transition year, with the expectation to position the program to begin operating within the yearly revenues. In preparation for this, an incentive reduction strategy was implemented to balance what Energy Trust budgets can support and support market activity. The program has been lowering incentives since the first of the year using a stepped approach.

Jason: What about the growth in the third-party ownership option and the program's role?
Kacia: We provide incentives for third-party owned projects just as we do for direct-ownership. For homeowners that have a system installed on their home, whether they own or lease, the incentive is the same. Third-party owned systems are attractive because they lower upfront costs.
Peter: Third-party systems have the same incentive payback provisions as commercial systems.

Kacia said with the approved resolution, the program will seek to allocate general interest reserve funds to meet specific solar electric demand in both PGE and Pacific Power territories, and will manage remaining incentive dollars with automated incentive reductions and controls during the balance of this year. We will continue coordination with the Oregon Department of Energy on project pipeline and incentive levels. Another check to be employed is that the program does not award an incentive unless funding is available.

Kacia mentioned that the stepped incentive reduction strategy is a change from how the program approached incentive changes in the past. Previously, it was announced to trade allies ahead of time the date the incentive rate would change. This led to a run on the program incentives, which exceeded available funds. The stepped approach announces how much is left in each bucket at what specific rate.

Ken: Incentive drops are not correlated with drop in panel prices.
Kacia: When you lower incentives enough, demand will drop off. We seek to lower the incentive enough to maintain demand at as high a level as the budget can support. The declining costs allow us to drop the incentives without killing demand.

Dan: If you're able to maintain Quarter 1 rate of activity for the rest of year, would this money be sufficient?
Kacia: The requested funds transfer will meet our forecasts, and we expect it will last through the end of year. The big unknown is activity in the commercial sector. To manage for this, we separated the commercial and residential budgets so we can maintain activity in both sectors. If commercial activity remains low, we'll have a cushion and if activity remains the same, we'll be able to meet demand with this money combined with our stepped incentive structure. We are anticipating 100 residential systems per month for the year.
Peter: The program installed 1,300 systems last year in residential.

Juliet J: In terms of third-party model success, do you look at free ridership? Also, how much of an incentive is awarded for a typical installation?
Kacia: We model above-market costs for third-party residential systems as we do for third-party commercial systems and direct-owned residential systems. It appears the above-market cost for third-party systems is similar to direct-owned systems. We make third-party owners aware we

may adjust incentive levels differently if it appears the incentive is not needed as much in that market as it is in the direct-owned market. The current incentives are $1 per watt for Pacific Power projects and $1.25 per watt for PGE projects. Typical customers get $3,000-$4,000 per system, which is about 15 percent to 20 percent of a typical project cost.
Peter: SB 1149 allows us to pay the above-market cost for renewable energy projects. This is a different criterion than for energy efficiency. We also target a five to eight year simple payback for renewable energy projects, closer to eight years for solar projects. On energy efficiency projects, when you're above five years on payback, the market is not interested. You look closely at free ridership when you're at less than a one year payback, and it depends on the program and the customer. We don't try to get renewable energy projects to that type of payback.

Jason: Is there a fundamental difference between the economics of a third-party or direct-owned system?
Peter: Cash flow is basically the same for both, which is why the incentive offer is currently the same.

John R: I am in favor of this resolution. I like that we're keeping the market going and we're on our way toward lowering the incentive.

Peter described the amendments to the resolution. The resolution was amended to clarify that interest income is not attributed to any specific utility. Energy Trust doesn't track or account for interest that way; it is a general accumulation of funds.

RESOLUTION 626

TRANSFER FUNDS TO SOLAR ELECTRIC PROGRAM BUDGET

WHEREAS:

1. **The Solar Electric program recently experienced unprecedented growth due to rapidly declining photo-voltaic (PV) module prices, strong consumer awareness and third-party ownership options that reduced customer costs. There were double the volume of incentive applications in the fourth quarter of 2011 compared to 2010, and triple the volume in the first quarter of 2012.**
2. **The 2012 Solar Electric incentive budget (excluding utility-scale solar) is 60% of the amount committed to new projects in 2011, due largely to the absence of carryover funding available in prior years.**
3. **In order to manage this smaller budget, Energy Trust has begun to systematically reduce incentives throughout 2012, while maintaining project volume with help from anticipated lower system costs.**
4. **Even with these reduced incentives, because of the extraordinary growth in program activity in late 2011 and early 2012, the Solar Electric Program is expected to exhaust its budget before the end of 2012 unless a budget adjustment is made.**

5. Funds to maintain 2012 Solar Electric Program incentive activity are available from other renewable energy program funds and interest income.

It is therefore RESOLVED:

1. The Solar Electric Program 2012 budget is increased by $1,770,000, $1,235,000 for projects in PGE service territory and $535,000 for projects in Pacific Power territory.

2. The Other Renewables Program 2012 budget for PGE customer projects is reduced by $650,000.

3. The reserve account for interest income is reduced by $1,120,000.

Moved by: John Reynolds Seconded by: Roger Hamilton

Vote: In favor: 9 Abstained: 0

Opposed: 0

Committee Reports

Evaluation Committee (Debbie Kitchin)

The last Evaluation Committee meeting was March 7, and notes will be in the May board packet. The committee discussed, and the board will have an opportunity to comment on at the next meeting, a Home Performance with ENERGY STAR® process evaluation, the 6-month OPOWER survey and a wastewater treatment plant evaluation. The next committee meeting will be late April or early May.

Finance Committee (Dan Enloe)

Dan mentioned much of the committee’s work recently has been around the audit report. There were a few questions during the preparation of the audit report and those were answered. The committee is also supervising 401(k) investments, which were talked about at the last board meeting.

Board discussion on the Market Indicators Quarterly Report in the board packet followed:

Ken: Who provides the Market Indicators Quarterly Report? Maybe we could add figures of employment to the unemployment section, because unemployment going down doesn’t necessarily mean employment is going up.

Margie: Fred’s team has been gathering this information for about three years. Is it of value to the board?

Jason: I think it’s very valuable. It may be more valuable if someone could give us a general overview of how Energy Trust interprets and uses this information.

Ken: Mark Roberts from Bonneville Power Administration used to put together a macroeconomics outlook of the year. It was very valuable to know what trends could affect the organization.

Jeff: I endorse Jason's comments that the interpretation piece is missing, and maybe a staff presentation.

Roger: Also if our programs have any effect on these trends.
Debbie: Some programs will have very direct effects, like new home construction permits and the New Homes program, but other things that Energy Trust is doing may not follow the economic statistics, like the increased savings results from 2011 even with a down economy. I don't want staff to spend a lot of time as some of the connections are tenuous.
Jeff: They could make a subjective connection. Even if there's no connection, it's a learning process to know that we don't need that information.

Ken: I encourage staff to look at this information and determine what's uniquely important to Energy Trust and for the board to know.

Roger: I'd like to see jobs created by our programs.
Margie: That is something we currently gather through an independent analysis.

Debbie: I'm interested in incentive application volumes and patterns.

Dan: And natural gas price trends, which affect energy efficiency investment strategies.

Jason: There is value to look at a seven-year outlook for policy strategies. Does this provide trends that feed into the budget and program development? If so, and that would be beneficial, keep the information. If program staff don't use it, then don't spend time on it.

Peter: Program staff does use this information. For instance, the Industrial and Commercial sector will use it to learn when customers may switch back to deeper capital investments. I agree that we could make a clearer link between what you see here and our programs. We also use this information for validation, especially if anomalies show up. Since home purchases have declined, the program started to focus on rental housing. But as that home purchase trend picks up, we use that information to shift program strategies. The University of Oregon Leading Economic Indicators chart will alert us to changes in personal and corporate income, which gets to spending and the ability of customers to invest.

Jeff: I would also like to see retail energy prices for customers in Energy Trust service territory.

Adjourn

The meeting adjourned at 1:14 p.m.

***Next meeting*.** The next regular meeting of the Energy Trust Board of Directors will be held Wednesday, May 23, 2012, 12:00 p.m. at Energy Trust of Oregon, Inc., 421 SW Oak Street, 3rd Floor, Portland, Oregon

John Reynolds, President