Strategic Utility Roundtable

May 22, 2013

Energy Trust board members present: Rick Applegate, Ken Canon, Mark Kendall, Jeff King, Debbie Kitchin, Alan Meyer, John Reynolds, Anne Root, Dave Slavensky

Energy Trust board members absent: Julie Brandis, Anne Donnelly, Dan Enloe, Roger Hamilton, Lisa Schwartz (ODOE ex officio)

Utility roundtable representatives present: Lauren Shapton (for Carol Dillin, Portland General Electric), Don Jones, Jr. (for Pat Egan, Pacific Power), Bill Edmonds (NW Natural), Jim Abrahamson (Cascade Natural Gas), Bob Jenks (Citizens' Utility Board of Oregon), John Carr (Industrial Customers of Northwest Utilities)

OPUC representatives present: John Savage (commissioner), Juliet Johnson (staff), Jason Eisdorfer (staff)

Energy Trust staff present: Margie Harris, Ana Morel, Hannah Hacker, Debbie Menashe, Amber Cole, Steve Lacey, Peter West, Sue Meyer Sample, Fred Gordon, Elaine Prause, John Volkman

Others attending: Kendall Youngblood (PECI), John Charles (Cascade Policy Institute), Kari Greer (Pacific Power), Jaime McGovern (CUB), Catriona McCracken (CUB)

Call to order

President John Reynolds called the meeting to order at 9:02 a.m.

Discussion

John Reynolds opened the roundtable asking for introductions around the table and described the purpose of the meeting, which is for Energy Trust, Portland General Electric, Pacific Power, NW Natural, Cascade Natural Gas and the Oregon Public Utility Commission (OPUC) to agree upon a clearer approach for establishing annual Energy Trust savings targets and funding, aligned with the Integrated Resource Planning (IRP) process used by utilities and the OPUC. The input from the Citizens' Utility Board of Oregon (CUB) and the Industrial Customers of Northwest Utilities (ICNU) was welcome as they advocate for their respective customer bases.

Three main questions arose during the annual review of the Energy Trust budget and two-year action plan in December 2012, and are before the roundtable today:

1. How should Energy Trust describe its electric and natural gas efficiency goals and their relationship to long-term IRP targets?
2. How should the OPUC measure Energy Trust acquisition of efficiency savings to meet utility IRP targets?
3. What is the appropriate level of funding and reserves?

Energy Trust drafted several options to describe annual Energy Trust goals and IRP targets, negotiated funding levels, performance measurement and the appropriate level of reserve amounts and usage. The five options, listed in the roundtable packet as A through E, are to retain current practice, revert to pre-2010 practice, modestly lower the IRP target, establish an IRP range with a variable program reserve or link annual targets to savings identified in utility IRP five-year action plans. The first four options were presented and discussed with the OPUC, PGE, Pacific Power, NW Natural, Cascade Natural Gas, CUB and ICNU. Written feedback was welcome; comments received from PGE and Pacific Power were shared with the board Policy Committee. From the outreach meetings, a general and tentative consensus was reached regarding Option D. Energy Trust's outreach meeting with the PUC led to a fifth option, Option E.

John described the questions for today are whether the right, five options have been captured, what additional clarification is needed and is there consensus regarding one option.

Margie Harris acknowledged the OPUC staff members Juliet Johnson, Jason Eisdorfer and Maury Galbraith, who were instrumental in helping Energy Trust frame the issues, plus all four utilities and their individual representatives, Bob Jenks and Jeff Bissonnette from CUB and John Carr from ICNU. She also thanked Energy Trust staff members Steve Lacey, who worked with her every step as options were drafted and presented out, John Volkman, Elaine Prause, Sue Meyer Sample on the reserves, Amber Cole on the presentation and Ana Morel on meeting coordination and communication. She thanked all parties for their involvement and willingness to participate.

Margie: When I was speaking with board member Ken Canon yesterday, he reminded me he had not been to a roundtable yet. To start, I'll give a bit of background on these meetings. The first roundtable was in 2009 and was in response to utility interest in having a representative serve on the board. Such a change would have moved the board from non-stakeholder to stakeholder, and in alternative, discussion centered on how to address the utility's need to be more engaged at the board level. Ultimately, the board elected to remain non-stakeholder and put in place a forum for members of the board, utilities and other stakeholders to meet and discuss important strategic matters.

The process for today is an open discussion. John Reynolds will facilitate. This is an open exchange of information and everyone is encouraged to share their views. We hope to work toward understanding and consensus. Today is not a vote or decision-making setting necessarily. We want to know where people stand. Today's topics are particularly complex and challenging. We want to work with you to understand the basics of how utilities work with the OPUC on existing processes for developing IRPs. Energy Trust is a small but important part of that overall process. Where does Energy Trust slot into that existing process that is led by and in accordance with rules set by the OPUC?

The other pieces for today beyond goal setting are funding levels and reserves. The first two are prioritized for today. If needed, the reserve discussion could be taken up at another time.

Today's purpose is to agree upon a simpler, clearer approach for establishing annual Energy Trust savings targets and funding levels that are aligned with the IRP process used by utilities and the OPUC. The budget process response comments received in December indicated clarity is needed around these topics.

This meeting will also serve as a forum to gain common understanding of how Energy Trust fits into a larger OPUC and utility IRP process.

Ken: For clarity, this first portion is only with energy efficiency, and when we talk about reserves we are talking about energy efficiency and renewable energy?
Margie: Yes, that is correct.

Margie gave a brief history on Energy Trust energy-efficiency goal setting. In the first five years of Energy Trust designing and delivering programs, from 2002-2007, Energy Trust conducted a market analysis to establish five-year Strategic Plan goals, two-year action plans and one-year budgets. All funding was derived from SB 1149, with Energy Trust receiving approximately 74 percent of the public purpose charge, and individual natural gas tariffs with NW Natural and Cascade Natural Gas. Staff looked at the Northwest Power and Conservation Council targets, used past evaluations and determined the maximum amount of savings for the funding Energy Trust received for each given year. Energy Trust was not yet directly involved in the OPUC process for designing 20-year forecasts on where the next increments of energy would come from. Then, as now, the first resource when using a least-cost planning approach is energy efficiency. Energy Trust established early on a 25 percent goal range, with conservative and stretch goals at either end. Sometimes, stretch was called best case and conservative was called high confidence.

In 2007, SB 838 was passed, and it provided for the option for the two investor-owned electric utilities, PGE and Pacific Power, to secure additional, cost-effective energy efficiency. This legislation changed the game for Energy Trust acquired electric efficiency. From then on, opportunities for additional electric efficiency funding were linked to the IRP process between utilities and the OPUC. Fred Gordon led the development of efficiency resource studies, and Energy Trust now updates and revisits current plans on a regular basis approximately every two years. From there the utilities take those targeted savings and incorporate them into their IRPs. That energy efficiency portion is what Energy Trust is accountable for in meeting contract obligations and OPUC metrics. Energy Trust stayed with conservative and stretch terminology and a 25 percent goal range. Since then, Energy Trust has met the targets, in aggregate, over the five-year period. Since the first annual Energy Trust funding process after 2007 and until 2010, Energy Trust stayed engaged with the energy-efficiency part of IRPs and linked it with the high end of the savings range. Energy Trust was exceeding goals and went from a 25 percent to a 15 percent range, and changed the linkage to IRP targets to the lower end of the range, the conservative goal. The change to the lower end of the range was so Energy Trust could “guarantee” it was delivering a minimum savings to utilities and the utilities could count on Energy Trust for doing so. If Energy Trust went above minimum savings, all the better albeit that was the expectation since funding was set to acquire the higher level savings.

Energy Trust also established a 5 percent program reserve for each utility at the suggestion of the OPUC’s Commissioner John Savage. Energy Trust combined that with its carryover funds with prior years. The program reserve is built into the funding process each year in case demand for a program outpaced funding or opportunities arose.

Starting in 2010, Energy Trust’s current approach is a savings goal range with conservative and stretch goals that are 15 percent in difference. The conservative is largely aligned with the IRP target, and the utilities fund to stretch goal so that Energy Trust can capture market opportunities and meet customer demand that might not be anticipated during funding negotiations.

Steve Lacey leads annual utility funding negotiations every year. The annual process starts in May as Energy Trust looks at IRP workshops and updating or revisiting the IRP if it is slated to be, which is typically every two years. The planning cycle is then kicked off, and Energy Trust shares the upcoming year's plans and strategies with each utility in July and August. By September, Energy Trust is closing in on levels of funding that will be needed to reach IRP targets and what proposals might look like for utilities to go to the OPUC for tariff adjustments, with the Energy Trust piece of it highlighted. Tariff filings for the two electric utilities, which are represented in the cycle on slide six of the presentation, typically occur in October. The tariff is adjusted based on what is the resource potential that Energy Trust will acquire, and at what rate and cost. PGE typically files in November. Don Jones clarified Pacific Power filed this past April. Once the OPUC considers the filing and takes action, the tariffs take effect in varying times. January is typically the time when the PGE tariff takes effect. From there, Energy Trust knows its budget, what the savings targets are and begins implementing the action plan for the year.

Ken: Can you put this in context of the utility's two-year IRP cycle?
Margie: That is what we are working on together. We are conducting resource assessments and sharing with utilities. It varies with each utility, and we try to do no more than two individual utilities each year. And it's roughly every two years we revisit IRP targets.

Don: These are Energy Trust IRP workshops?
Steve: Annually we go through this process and not necessarily the IRP process. We use the previously IRP targets for discussions with utilities on what the funding should be.

Margie showed a slide of the IRP process looking out 22 years. On the left axis is aMW to save, and the bottom axis is timing from 2010 to 2032; the focus of the graph is years 2010-2014. The red line shows stretch goal agreed upon for the time period. The green line plots the first three years of actual activity compared to stretch goal. In this instance, Energy Trust is theoretically ahead of what is expected for IRP and coming in above the targets. The first years of any IRP are more accurate in projections. Staff can look out with greater precision at two years than 22 or 30 years, because they are more aware of what can be captured in that two-year period. This is why the IRP targets are updated every few years by Energy Trust. That said, Energy Trust is still predicting the future and cannot be completely accurate. Intervening factors can change actual results.

Don: For clarification, the blue area is the sum of Pacific Power and PGE IRP targets?
Steve: Yes.
Margie: Where you see the line go down, that is because we can't determine what's going to happen in those out years.
Steve: This is the current convention, so the IRP curve characterizes 15 percent below Energy Trust's stretch goal.

Margie reviewed again the issues for discussion, which are to clarify the terminology that defines Energy Trust goals because conservative and stretch doesn't serve others in a manner that is clear and simple; to strengthen the linkage between Energy Trust targets and how Energy Trust is held accountable to the OPUC; to agree on funding levels relative to IRP targets, which are currently to fund to the upper range so Energy Trust can respond to any unanticipated market conditions; and finally, to clarify program reserves, if they are used, how they relate to Energy Trust's interest reserve and whether any changes are desired.

Jim Abrahamson: An observation from an experience with the last IRP cycle is Energy Trust did the long-term resource assessment where we had a lot of capabilities to discuss with Energy Trust what the total 20-year period was going to look like. When we came to the first five years, we ran into issues where Energy Trust staff was doing lots of detailed work with consultants and program work and was coming to us with a clear five-year picture. So when we pulled together the IRP, most was Energy Trust's input. The first five years came from program managers and the last 15 years was more of a back and forth. Who's in the driver seat in the first five years, at least in our IRP?
Lauren: Is it five years or two years?
Steve: It's more of a two year look, and if we need to go beyond two years, we bring in the Planning Group. Beyond five years, we bring in consultants.
Jim: And the first two years is pretty set during the budget process but we were instructed to stay away from five years.
Ken: Instructed?
Jim: Advised by Energy Trust staff. Instructed is too strong of a word.

Margie described the process used to develop the five options in front of the roundtable. Energy Trust conducted outreach to stakeholders, including the OPUC, each utility, CUB and ICNU. The background paper only included options A through D. Staff learned through the process that they hadn't fully captured the OPUC's original intentions and Option E was added. Staff circled back with stakeholders on the additional option. Any and all options are on the table today, though Margie indicated the discussion will most likely center on Option D and Option E.

Jeff: Can you elaborate on the program reserve concept, how it's set and what determines when expenditures are made from it?
Margie: Yes, I have a lot of detail on it if we get to it later today. The program reserve is a backup and is 5 percent of the annual budget for each utility. We are able to draw from it if we saw activity was going to exceed the budget for the year and if no other sources of funding were available. The reserve gets trued up every year. There have been times when we've used the reserve. For example, in 2012, the board approved Existing Buildings to use it in Pacific Power territory because in May 2012 we thought we were running hot and might need to tap those reserves. In the end, we did not use them. Also there are two reserves to use if needed, the program reserve or the interest reserve.

Debbie: Underlying this is the concern that the one option without reserves may result in us saying in October that we don't have any money left in a program until next year. We've found in the past that stopping and starting really disrupts the program, in any sector, and when we did have a "run on funds" it took years for the message to get out that that's not the situation anymore. And the commitment is that reserves are there to keep us afloat if there is unexpected demand.
Margie: And it provides stability.

Rick: On the last bullet for process, would it be helpful if we asked if folks see any portions of options A, B and C should be carried forward?
Margie: Yes, let's do that after detailing options D and E first.

Margie gave a detailed description of Option D. In utility funding agreements, Energy Trust commits to a 15 percent range and the utilities fund to an IRP upper range, the "optimistic resource potential." Energy Trust's annual performance and levelized costs are judged against the IRP lower bound of the range. The current 5 percent program reserve is reassessed and negotiated annually. If any utility's program reserve is used during the year, the fund is “trued up” during budget negotiations for the subsequent year.

Option E would link Energy Trust to an annual, single number identified in the utility IRP five-year action plan. The OPUC acknowledges the action plan when each utility submits their IRP. Utilities fund Energy Trust to achieve annual IRP targets, a single annual target, not a range. Accountability is measured by the OPUC at being no less than 85 percent of the annual target in any one year. Energy Trust results are delivered with the understanding that it might exceed the optimal resource potential in one year, and miss it the next year; any shortfall is made up within the five-year utility IRP action plan period. Utility program reserves are negotiated annually.

Margie displayed a comparison chart between options D and E. Largely, Option D is a savings range, utilities fund to the higher end of the range, Energy Trust’s annual minimum performance is based on the lower end of the IRP range and there is no link to the five-year utility IRP action plan. Option E is mainly a single target, Energy Trust is funded to the single target, Energy Trust’s annual minimum performance is based on savings being no less than 85 percent of the annual target, and Energy Trust is linked to the five-year utility IRP action plan and achievement of the full resource potential within that five-year period. Both options allow for collaboration and updating every two years with the utilities to determine the energy-efficiency portion of each IRP. Also, both options allow for program reserves to be reassessed and negotiated annually. The program reserve may not necessarily be 5 percent, and would vary by utility and by year.

Ken: When I look at these two, how functionally different are they?
John Savage: Roughly every two years, the regulated utilities are required to prepare long-term IRPs, to spell out when, where and what kind of resources they should develop to make sure they are meeting customer demands at best cost and lowest risk. They are very detailed and rigorous. The utilities must consider all resources, like conservation, generation, demand response peakers. This is where the rubber hits the road with their action plans. They come to the OPUC for a four- or five-year period with actions they need to take. Our decision is when we come in and either acknowledge or don’t acknowledge those actions. So what we say is, based on what we know today, this seems a smart or not a smart action plan. So when they come to us during a rate case, they say this was either an acknowledged or a not-acknowledged part of their action plan. We expect three things out of Energy Trust and the utilities, some of which is built into our rules. First, every plan is going to conduct a conservation resource assessment, usually updating it every two years. Second, to set aggressive, but achievable, targets to ensure you are achieving all cost-effective conservation in that period and will meet the IRP over a five-year period, which is between Energy Trust and the utility. You are sitting down and saying what is achievable. Third, to take targets and translate them into funding, either through SB 838 tariffs or bilateral negotiations with the gas utilities. What we are saying here is we want to see “X” in the action plans. We want to know what conservation you are targeting. Then we are saying our minimal acceptable level is 85 percent and you cannot go below that floor.

Alan: I look at Option E as the best of the five options but since there is no discrete five-year period in the IRP process how do you hold us accountable to the five-year plan?
John S: That is an issue. You’re going to have a better view in the two-year and I still want to see the out year estimates for years three, four and five. I expect you’ll have better, more refined estimates for the first two years. In the five-year period, there is a chance you’re going to need to update. You can have a five-year cumulative change and I acknowledge it. But what I like is you saying you’re adapting

to what's in the marketplace. Stuff happens. I want aggressive, achievable targets but I don't want targets where you are saying you'll get 100 percent.

Alan: I have been a critic that we are funded to the high and accountable to the low. This option feels better. I like the alignment of our goals with real life, where we are not assured of meeting our goals, and usually we exceed them anyway, so they are not "best case."
Lauren: That varies by utility. Energy Trust has exceeded stretch for PGE only once. Splitting by utility adds additional context.

Don: For Option E, let's test it with the mechanics we experience every year with Energy Trust and a combination with the IRP process. One assumes the acknowledgment by the OPUC of the action plan comes quickly after the IRP is filed. Assuming you have an acknowledged action plan, we are on the same page with Energy Trust on years one and two. Yet I'm perplexed on years three, four and five; we have a new resource plan and new IRP. For those years, are we using the numbers from the first IRP or are we using year one from the second IRP?
John S: For the utilities, you are proposing a four- to five-year action plan, so there should be years three, four and five, unless they are going to adjust.
Lauren: They always adjust.
Steve: Unless you reset at year three.

Don: If you hit 85 percent in the first two years, and then you have a new number for year three, how does the math work for year three when you have a new action plan and IRP? Are you judged against the original threshold? How do we do it and how do we do it consistently?
Lauren: PGE had that with Energy Trust a few years ago where Energy Trust goals and IRP diverged and we didn't realign them until the new IRP. So Energy Trust was coming to us saying they couldn't meet what's in the IRP, but we can meet something less than that, with this action plan.
John S: With Option E you could add in annual updates so you can adjust the numbers if needed. That's part of our rules, too.

Jim: I'm wrestling on this with mechanics, too. What happens when there's a change in year three, and we are redoing that information in five year targets coming from Energy Trust. So if Energy Trust met between 85 percent and 100 percent in year two, but then Energy Trust comes to us and says the targets need to go down, where does that leave us with a potential "underachievement" issue on the former IRP?
John S: You come in for whatever reason. You have a best guess for five years, and years one and two are the most defined. Then you come in slightly less than 100 percent. Are you asking whether you need to make up the savings shortfall in a future year if the IRP is updated?
Jim: Is it a more formal introduction of the five-year period and the ability of Energy Trust to make up?
John S: But you have a four- to five-year action plan and I need resources for those years. Give me your best shot at it. When you have a capital investment on the line, it's particularly important for us to know your plans for the out years.
Jim: But if we come in, and have an acknowledged IRP for years three and four, but come in with compelling evidence that something has changed. Seems that would change the original five-year.
John S: Yes.
Margie: I hear John Savage saying we look out four or five years and Energy Trust is part of that process, identifying and then capturing maximum achievable energy-efficiency savings. Plus we need

to be accountable somehow, which I support. Would it work if we worked in this planning period but are to be measured on a one-year basis?
John S: I expect you are sitting down, looking at one year targets, the control over the annual target is in your hands.
Margie: The question is when the second IRP comes in, when there's a new timeline, what to do to hold ourselves accountable with the first IRP.

Bob: Let's say Energy Trust hits 90 percent of target for the first two years, you're essentially at a 20 percent deficit. At the same time you're doing a new IRP, we had previously over-projected, so we lower the goal for the next five-year period, lowering funding for the next two years. They missed the original five-year goal but going forward, this is offset. Is that a fair assessment?
John S: We are measuring on a one-year target, the benchmark is a one-year target. I'm focused on reality, I don't want you to set a target assuming you will get to 100 percent.

Margie: Let me show you a chart of a theoretical example of what could happen.
John S: And every two years, this whole thing shifts.
Mark: 85 percent of the five-year goal shifts as well, so it's a moving 85 percent.
John S: 85 percent is on a one-year target, every year.
Jim: But you may have a new five-year target.
John S: That you need to adjust for.

Lauren: I'm confused. Let's play back PGE in the last five years, which we funded Energy Trust to stretch goal. Energy Trust achieved between conservative and stretch for four years, and exceeded stretch for one year but not enough to make up the deficit. What to do?
John S: The five-year concept isn't a mandate. For purposes of the action plan, I need more than two years of estimates. I need four to five years of annual targets and that should be "X." What we're saying here is I expect utilities and Energy Trust to sit down and determine aggressive and achievable levels. For purposes of funding I expect it to be defined for the first two years. I understand stuff happens and you may miss a target. Do you have to absolutely make it up? No. Because stuff changes. I expect you to do your best job to achieve all cost-effective conservation in an achievable time period.

Margie: The expectation is Energy Trust will still keep its foot on the accelerator.
John S: If you are at 90 percent do you have to make it up? No.

Steve: What's the consequence for Energy Trust and utilities both for not achieving?
Bob: It might be the bullet that says it's expected to link to the five-year. Maybe it's that Energy Trust is expected to achieve targets and we don't link to the five-year period.
Rick: Is this bullet really a good faith effort bullet? What are we trying to say? What are we saying beyond the expectation?
Steve: Over the five-year period, if we are consistently coming in at 85 percent or 90 percent, something is wrong and we need to be held to task.
Juliet: The utilities are instructed that if something significant changes in their IRP, they are expected to come to the OPUC, and we've not really applied this to conservation. The crux of the matter here is if it looks like you're not going to meet the targets, the OPUC needs to know that, so use the same update process to update the expectations between the official IRP filings.

Ken: I picked up the same thing. I was trying to recognize distinctions between resource types. We know with conservation we will do it every year. In the larger IRP construct, you need to recognize that.
Alan: I do think we need to report on a rolling average basis.
John S: Plus Energy Trust has a five-year strategic plan so you need to synch that up, too.

Ken: One question about Option E, when you have a target versus a range, a target is much easier for you to be set up for failure. This is just an observation.
John S: I understand the concept of risk and uncertainty, our IRPs address that all over the place, but when you come to an action plan, you have precise actions the OPUC is acknowledging or not. And I'm not sure how to address a range.
Bob: A range could be useful beyond five years, especially as knowledge changes, and so we don't over-project future levels. This is important as people look at carbon projections, etc. So I like the idea of a range for the years that are further out, and more precise targets in the short term.
John S: You could look at this in concept, saying let's set a target with 90 percent assurance or some high probability that's less than 100 percent.

Bill: What I'm hearing is there are IRPs that roll out every two years and there are two-year targets. And we hold that those are point estimates and we are held accountable. Plus, four- or five-year action plans are important. Also, Alan's idea is we report by utility on a four-year rolling average on whether we are hitting it or not, and consequences to follow, which aren't very well delineated here. Bob got there with a percent, so figuring out how to do that, I haven't heard yet. And looking further out, ranges are more useful as we have no idea what the efficiency frontier looks like. I'm supportive but still confused on how to determine this with a five-year rolling action plan plus two IRP updates. NW Natural has had IRPs that were quite different in their estimates.
John S: Looking through the IRP angle, the action plan has a conservation resource put into a five-year lump. We're treating this as a resource, putting it in the action plan and tying it to the action plan with specific targets.

Don: Pacific Power provided comment on Option D with suggestions to true up after year two, given any year you are over or under. So Pacific Power was half way between options E and D. It's cleaner on the IRP process and potential resource. You always assume in year three there would be a different number. It's a two-year basis, with set point estimates. If you don't hit the goal in year one, you overachieve in year two.
Lauren: That's where PGE was, too, but we had the issue of an IRP one year not being acknowledged. So PGE was working with an old IRP but Energy Trust was delivering at a different level.

Mark: It appears we collaborate with the utilities to develop an IRP every two years but the target is annual. I assume avoided cost and cost-effectiveness would impact the target on an annual basis?
John S: Yes, which is why the front work is the conservation potential estimate, which must be a part of all IRPs.
Mark: Yes, based on a range?
John S: Based on what I can get at what cost.
Don: They are point estimates based on levelized cost.
Jim: And it's distributed out by program or sector by Energy Trust.
Don: It's technology-specific with an administrative adder.

Margie: We could look again at pages four and five in the discussion paper to make sure options A, B and C don't have anything we want to add to. Anyone?
Mark: If we are looking at IRP annual targets as a goal and we've had in the past, stretch goals that are in some cases 15 percent above range of a five-year possible IRP, and Commissioner Savage says we should target a value. Yet if we achieve it every single year, we've probably set our target too low. Also, 85 percent of an IRP target where we may previously have gotten 15 percent above it, that's a 30 percent range of achievement. And in Option C, it says utilities fund Energy Trust to achieve optimistic stretch resource potential, and that's above the IRP target. So we let the range go?
John S: Plus I'm saying the target needs to be aggressive and achievable. I'm not using any of your terms like conservative or stretch.
Jim: But that number becomes the IRP target.
John S: Yes it's the number I expect to see in the IRP.
Jim: The only value that I see back in options A, B, and C is that A gives me the benchmark for what's the current practice. So, any evaluation we would have from D and E is moving away from that.

Margie: Bill has laid out the choices. Shall we go through them and see if we can get more clarity? And Don's questions on mechanics?

Ken: Do we have objective criteria on why we are doing this now? Are utilities, Energy Trust and the OPUC operating on the same criteria on what we are trying to solve?
Margie: We are here because there is confusion on existing terminology and this process has evolved so that it isn't as clear as it could be. The threads of it are the OPUC has an existing order on how utilities do IRP. Energy Trust is a slice of the overall integrated resource planning. Energy Trust provides the most cost-effective resource and we should be held accountable to that.

Ken: When I hear criteria to link to the five-year action plan, is that a criteria that is held at the same level as utilities and Energy Trust or do you see other criteria that is as important?
Margie: From Energy Trust's perspective, we have an annual process to update our targets. What causes us to stall is translating that process to a measure that is understandable, valuable and defensible. Plus things change and we want to adjust up or down as things change in a transparent manner. Energy Trust has not been linked to a utility's four- or five-year IRP action plan. I have no objection to being measured against a five-year action plan.
John S: Plus there's confusion on conservative and stretch and what they mean. So we are looking at resetting. And the condition for Energy Trust that they are part of the utility action plan. You are running utility programs. These are part of the resources.
Steve: And part of the confusion is that we artificially changed the definition of IRP; and now we are correcting that. There is still the outstanding issue of how do you gauge our performance?
Ken: And what we should focus on is to make sure as we try to adjust confusion that we aren't setting up new confusion.
John S: And one source of confusion is setting targets, which are for years one, two, three, four, five and 20. What I'm not saying is I'm holding you to year three now.

Jim: And there was some form of miscommunication in this overall process where we had the opportunity to sit with Margie and Steve and talk through options A-D. We then came up with our recommendation of Option D, but were then informed last week there's a fifth option, Option E.

Alan: My concern is the current practice of setting a number and funding to that number and utilities accountable for that number but Energy Trust is only accountable for 85 percent of that. Energy Trust should be held accountable to the same number the utilities are.
Don: Alan hit on one of the elements that contributed to this. Pacific Power would like to fund the same number Energy Trust has, and have that number in the IRP. Right now, there are lots of numbers and it's hard to track. Giving Energy Trust more years to achieve savings given market uncertainty and a two year look is a better way to do it and tied to IRP. This is an improvement.
Alan: In retrospect, looking at Option D, that is probably the simplest way to achieve that.
Juliet: To what Alan said, I think what we are talking about does that. By making the agreement for the target to be the IRP number, that's in essence what the OPUC will hold Energy Trust accountable to. We understand Energy Trust won't hit it every year. 85 percent is a floor, a warning sign.
Ken: That suggests the way we will deal with confusion between conservative and stretch is to go to an IRP target and minimum performance measure.

Margie showed her notes on the screen.

Lauren: what do you do if Energy Trust doesn't meet the number?
John S: You are working with Energy Trust to come up with best estimates.
Lauren: Energy Trust didn't hit stretch for PGE in the last five years except for one year.
Jim: If we don't meet the demand-side management target in any one year we are accountable, but what about for our agent here, which is Energy Trust, where's the accountability?
John S: As long as we are assuming you are running these programs as effectively as possible, stuff happens. The exercise of IRP is looking forward to the best mix of resources. But I expect you to continually make adjustments to programs as necessary.
Juliet: Is your concern you want more assurance the target will be met?
Lauren: We work with Energy Trust but when I see the fifth bullet point, what are we going to do if we get into a situation like PGE had.
John S: Let's get rid of the fifth bullet and replace it with "forecast by year of conservation you can achieve," and work with Energy Trust on the conservation supply curve, what's achievable, funding levels to achieve and bring that to the OPUC. And I want forecasts of what you can achieve in the fifth year, working with Energy Trust.
Bob: This is no different than PGE's five-year plan for output for Boardman. And if they miss, something else needs to make it up.
John S: Yes.
Jim: For the full forecast period or full IRP period?
John S: Where the rubber hits the road is the action plan, which has specific actions you are asking the OPUC to acknowledge over a four- or five-year period. This is the single most important part of your IRP. It helps us assess need for capital investment. I'm hearing some good things about ranges in the out years, but the five-year action plan has specific targets.

Margie: We could have a small group get together and come back. There are a lot of ideas here.
John S: If you want to deal with the issue of accountability of meeting IRP target, then you fund to 100 percent to ensure it will happen. I hear that is one of the issues currently calling confusion. If you're down one year and up another year, it will work out over time. You set a target, and you set a 100 percent target. My goal is to know we are striving over five years. You better not miss that 85 percent minimum performance measure.

John Carr: I'm pretty much with where John Savage is. Having some past history with IRPs, I like the idea of a five-year action plan becoming what's the responsibility of the utility and then Energy Trust. How we do this adjustment every two years, we can work it out, but bottom line is the action plan is what utilities and Energy Trust should be shooting for and that's the right approach. And the more we can keep the language the same, the better.

Ken: This is one of those topics that benefit from a small group. It would benefit from real life experience, once you have something, run it through five years of each utility and see how it works in those circumstances and what questions that might raise. Or conceive of a different future, one that throws a curve ball or two and see how robustly it works.
Debbie: And do it by utility because that's what IRP and planning is for. By utility matters a great deal because it's part of their action plan.
Steve: If we do that, we would have to change the OPUC performance metrics because the OPUC looks at Energy Trust on a portfolio basis.
Margie: Our quarterly and annual reports do include by utility and portfolio.

Mark: I don't want to miss the reliance on regular updates to conservation resource assessments and using them as the basis for aggressive target setting in both IRPs and Energy Trust linked objectives. That is fundamental.
John S: And OPUC rules say utilities can come to us on a one-year basis for IRP updates; so if something goes wacky, something can be acknowledged.

Jason Eisdorfer: We all have different goals at this table. The OPUC wants to see total efficiency resource in IRPs so we can compare to other options in the IRP. Utilities are concerned they are held to a floating, less-than-certain standard they may or may not meet and Energy Trust is doing it for them. Energy Trust is going to do the best it can to meet those levels but needs space because of annual fluctuations in the market. 15 percent is essentially a policy decision that beyond 15 percent fluctuations, something is wrong with Energy Trust. In that sense, that performance benchmark for the OPUC is a signal for trouble and there needs to be recourse. That is not the same thing as holding utilities to IRP target. Plus, IRP targets are hard to get exact so there needs to be some fluctuation in that number. A utility won't get hammered if they come in below. The concept is to build flexibility around an always imperfect number and the benchmark is something very different.

Bob: Energy Trust is a contractor of the OPUC and when you hire a contractor, there's some range so you can re-examine the relationship if something isn't working. Question is what's the range you want to hold the contractor to?

John S: Let's say it's a 50 aMW target for electric; 85 percent says you must achieve 42.5 aMW which is your benchmark Energy Trust. This is already in your real house.
Alan: But we are still measuring against 50 aMW and we will report that we are not achieving the 50.
Mark: And when we are lower than 42, Juliet calls.
Ken: This indicates need for thought and precision to make sure there is clarity on what's Energy Trust's performance. We need to separate the idea of a target from the idea of a minimum performance measure. They are two separate things.
John S: And the current, physical process will probably not be any different.

Margie: We can put words around why we are doing this and what we hope to achieve. Carefully word the bullets we drafted together today, and come back with a recommendation that's more precise.

Mark: Critical are elements going into updating the annual targets and making sure we are all on the same page on what are the attributes, what are the forecasts, cost-effectiveness, any changes in marketplace, uptake of certain segments of market and what's going to go into resetting a target.
Steve: I envision this is done during the budget approval process which has goals associated with dollars.
Mark: Right, and be clear about that.
Rick: It may help in the new write-up to clarify how those items address confusion and need for clarification that led us to this discussion.
Margie: Yes, I will link them.

John R: Let's take a short break so we can continue with the reserve discussion.

There was a break from 10:47 a.m. to 11:00 a.m.

Margie: We are changing topics but they are still related. When building a balanced budget at Energy Trust, there is a cycle of funding negotiations that Steve Lacey is engaged in each year. Through this, tariffs are filed and rate adjustments set. Energy Trust sets those targets before we are aware of what the budget will be. We are using the best information we have starting in the summer and leading into fall tariff filings. Also, we don't know the carryover balance for that current year until the first few months of the next year. Whatever we don't spend in the given year carries forward to next year. We do factor in a forecast for the next year's goals and funding needs. But we don't have closed books until February of the next year, well out of sequence with the tariff schedule. We have accounting practices that say we can't end any year with a negative balance, we must have a positive cash balance. Part of why we have program reserves is to ensure we don't overspend and have a deficit. Cash flow and revenue variances also led to a board approved contingency reserve, called an interest reserve, which exists for emergency purposes. The interest reserve is for the organization as a whole and is different than program reserves. The purpose of today's discussion is how to get to the right amount of funding to support achievement of aggressive energy-efficiency goals while not being too far over or too far under. We have all these inputs but the inputs don't align sequentially.

Bob: The interest reserve is interest on all money?
Margie: It's unattributed interest for the whole.

Margie: When we are forecasting where we will end up for the year, part of the challenge is 50 to 60 percent of program activity happens in Quarter 4 and one-third of incentives, or one-half of the budget, is invested in December. It really comes down to what customers decide and when they will complete projects. And they make that decision and we do our best job to predict.

Tools for program managers are looking at historical activity, savings and incentive curves. They also look at probabilities of completion of very large projects, which have major impacts on our budget. And where are those projects in the pipeline. They work with Program Management Contractors and Program Delivery Contractors to get that feedback and forecast from October through December. They also use construction timelines to see how long it takes to complete a certain type of project. We also have a lever with marketing and outreach tactics to increase or decrease demand to a small extent.

Again, there are two types of reserve accounts. Innate to both of them is uncertainty that ultimately affects Energy Trust's revenue, like market conditions, weather, utility load and unforeseen emergencies. We need some working capital on hand at all times for the organization as a whole. Energy Trust's recommendation is to preserve the program reserve and interest reserve but change the latter to a "contingency reserve."

Program reserves have been set at 5 percent. It's proven over time that we don't need that much. Energy Trust proposes reducing that level to an amount negotiated with each utility based on actual carryover amounts, what the estimated opportunity for consumer demand is and what the pipeline is. The reserve goes up or down depending on the utility. We predict a 1-2 percent range. The program reserve is there in principal if needed for an unexpected event and to avoid signaling to the market that funding is no longer available. The latter situation happened in 2005 where we really heated up demand in Production Efficiency and it took years for us to recover. One of the principles associated with our funding is to have stability, to manage markets, to serve consumer demands and to capture as much energy efficiency as we can.

The program reserve is the first place we would go to meet unanticipated consumer demand or utility revenue shortfall. We would notify the board if and when program reserves are used.

Margie clarified the program reserves are only for efficiency and are part of a negotiated, annual cycle.

Ken: When in the cycle would you know, with closure coming in February, do you see that in March or April?
Margie: The best we can do is to project. The last forecast is in October for year-end; tariffs have already taken effect when the books close. We do use it to inform next year's reserve percentage.

Debbie: If it looks like you'll have higher carryover, then less reserve gets built in; but if you are running close to target, you might build more into the reserve.
Margie: With the goal of getting as close as we can.

Debbie: Another concern is rates; we don't want them going up one year and down another.
Alan: Have you ever considered changing the fiscal year?
Margie: Yes, as we try to align ourselves more to the tariff cycle, you just move the timeline, you don't solve it.

Margie: Staff recommends maintaining the interest reserve and renaming it the "contingency reserve". Most of the interest accrued here is from dedicated funds for projects not yet built, and this is more on renewable energy projects. Energy Trust has no other source of funding to capture additional renewable energy opportunities. This becomes our primary stopping place for renewable energy projects. Staff suggest at a minimum to have $5 million in the fund, only for emergencies. Any amount above that, and we have $2.9 million at the end of this year forecasted, is for unanticipated projects where program reserve is inadequate. This would be an extreme situation as we try to get more exact on program reserve amounts.

Alan: Is there a maximum?
Margie: We could set a cap.

Dave: What's the monthly replenishment rate?
Sue: About $20,000 to $25,000 per quarter depending on the balance and interest rates.
Bill: Interest rates are somewhere near zero. This would be a point if that percent goes to 10 and then you could have gas dollars accruing to fund renewable energy projects. This brings potential for a cross subsidy.

Margie: I'm not in favor of nor have we attempted to attribute by funding source, the money in the interest reserve. We have many sources of funding and it's always a moving target.

Jim: If underfunding, Energy Trust would dip into reserves to make up, and that would then be replenished down the road. So there might be money pulled out of a reserve but it will keep being restored. Cascade Natural Gas tapped into that reserve last year and we are accountable to Energy Trust to replenish that amount by year end, and we're not being charged interest.

Margie showed a table of estimated carryover year end for 2013. Energy Trust is not far off from where it wants to be but there is no formal approach to this.

John S: Is carryover equal to program reserves?
Sue: For efficiency only.
John S: I would like to see estimates of total carryover.
Sue: It is $24.9 million but that doesn't include renewables.
Margie: The interest reserve is $7.6 million; the only thing missing is renewables, which total $15.7 million and all but $1 million is dedicated funds.
Mark: So we have funds that roll forward, commitments and unallocated.
Margie: This table varies by year by utility for efficiency program reserves.
Steve: We are talking about a portfolio here; in the case of CNG, 5 percent reserve on $2.5 million budget is pretty insignificant.

Alan: The simplest thing is to address interest reserve and it should be a range.

Margie described the history of interest reserve usage and showed a chart. History of using these dollars has been for a variety of purposes.

Ken: What are the criteria if it's repaid?
Margie: There is no mechanism for renewables.
Steve: And there are annual negotiations with utilities. If we were to draw down for efficiency, we could replenish.

Bob: I understand carryover for renewables. How do you budget for carryover on efficiency and how does that relate to reserve?
Steve: We target carryover to be 5 percent.
Bob: So there's not an additional carryover part of your budget?
Margie: No.

Margie described the history of program reserve usage and showed a chart of the history of using those dollars. From a board approved policy, staff can move money for the program sectors, but must go to board if moving one program's dollars to another program sector. If renewables, staff uses the interest reserve; if for efficiency, the program reserve is used and if inadequate, interest reserves.

Debbie: Do you want a max of 5 percent in any given year?
Steve: 5 percent in some places doesn't give you very much, like in Cascade Natural Gas or a large industrial project.

Mark: When does this happen?
Don: We look at it every year.

Margie: Any thoughts on maintaining the program reserves on a negotiated annual basis?
Alan: It's laudable, but we are so far over 5 percent just getting it closer is better.
Margie: Yes, and we don't want money sitting.

Margie: When we project how much savings we hope to acquire and add a price tag and monitor by cost-effectiveness, and then we come in at higher savings but lower costs, we exacerbate this. We roll this forward then incorporate into the next year funding negotiations. So we'll all be protected when we squeeze program reserve down.

Don: Have you looked generally at how accurate utility revenue forecasts are?
Sue: There are variations every year, 5-8 percent on an annual basis.
Margie: If all else failed and we needed additional money, we have a $4 million line of credit.

Margie: Any objections to negotiating annual program reserves, not having it fixed at 5 percent and reducing it?

Bob: No.
Debbie: Fine.
Ken: Fine.

Ken: I assume you'll notify the OPUC and the utilities in addition to the board if program reserves are used?
Margie: Yes.
Steve: They will probably be approached before we go to the board.

Margie: Are there any objections to the interest reserve, as unattributed interest, being called a contingency reserve? We could set a cap, and go to the board if we need to access it. We would come to the board again with an action. The largest consideration is the need for this will probably be end of year and what to do if there is no board meeting. So we need to revisit the mechanics of using these reserves so they are workable and serve the purposes intended.

Jim and Alan reiterated the need for a cap.
Rick: What would the cap be?
Debbie: I would look at it as some percent of overall budget.

John Carr: I agree with Debbie. Both reserves are working capital and in combination, should be some percent of revenue needs and you want a range. I'd look at both together.
Bob: How about Energy Trust comes back with a proposal for a cap?

Margie: I appreciate everyone's candor and participation. We will solicit members for a small group to help us formulate what we talked about earlier. We will work with staff to complete reserve guidelines for a future board meeting.

Adjourn

The roundtable adjourned at 11:38 a.m.

/s/ Alan Meyer
Alan Meyer, Secretary