



Oregon

Kate Brown, Governor



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AGENDA

Energy Advisory Work Group

Monday, April 30, 2018

10:00 a.m. to 12:00 p.m.

Meitner Conference Room

Welcome and Agency Update	Janine Benner	10 min
Carbon Policy Office Update	Kristen Sheeran	10 min
2019 Legislative Concepts <ul style="list-style-type: none">• Energy Lending Programs• Appliance Standards• Thermal Renewable Energy Certificates	Multiple Staff	20 min
2019-2021 Budget Process	Blake Johnson	20 min
Executive Orders Update	Multiple Staff	15 min
Biennial Energy Report Outline	Janine Benner	15 min
Comments/Questions from Work Group	All	20 min
Closing Comments	Janine Benner	5 min

Items and times listed on the agenda are approximate and may change.

Concept No. Division	Concept Title and Description	Fiscal Impact 2019- 2021
<p>33000-001 Central Services</p>	<p>Energy Lending Programs</p> <p>This legislative concept removes and clarifies statutory language related to outdated and dormant energy programs under ORS Chapter 470, and improves the efficiency and risk profile of the Small Scale Local Energy Loan Program (SELP) by updating the mission of SELP to focus on supporting public projects that provide public benefit and by expanding the types of eligible projects.</p> <p><i>Key Components:</i></p> <ul style="list-style-type: none"> • Refocus SELP on public sector energy projects to appropriately align SELP bond funding mechanisms to control costs and risk. • SELP continues to advance state energy objectives through increasing energy efficiency in public buildings, reducing emissions in public fleets, and facilitating increased adoption of energy storage and related energy resiliency technology. • Expands the definition of eligible projects to include emission reduction projects, resiliency projects, and energy storage projects. • Expands the scope of biennial legislative reporting to include ongoing program evaluation. • Reorients the Small Scale Local Energy Project Advisory Committee (SELPAC) to appropriately provide support for SELP’s updated mission and to review applications under the Clean Energy Deployment Program. • Adds transportation expertise to SELPAC. • Adds representatives from Treasury and Oregon Business Development Division as two ex officio, nonvoting members to SELPAC. • Revises the SELP loan applicant appeal process. 	<p>No fiscal impact. However, ODOE will be asking for \$30 million in Article XI-J general obligation bond authority for the 2019-21 biennium. The bond authorization is required in order to provide funds for potential loans under SELP.</p>

<p>33000-002 Planning and Innovation</p>	<p>Appliance Standards</p> <p>This legislative concept provides the Oregon Department of Energy with authority to adopt or update energy efficiency standards for appliances and equipment by administrative rule, and would provide a process for the transition of standards from Oregon Revised Statutes, where they currently reside, to Oregon Administrative Rule.</p> <p>The concept would remove the requirement that the Legislative Assembly take action in order for appliance standards to become effective and would require standards to be adopted by ODOE in consultation with a new Appliance Standards Review Panel. ODOE would also be required to report any changes in standards to the Legislature.</p> <p>Categories of products to be covered by the standards would be listed in statute, while current statutory provisions containing appliance standards and definitions of individual covered products would be repealed and moved to OAR. Additionally, the department could only adopt new and updated standards that have already been adopted by other adjoining states.</p> <p><i>Key Components</i></p> <ul style="list-style-type: none"> • ODOE director would appoint members to the Appliance Standards Review Panel. The Panel would include members representing: manufacturers, retailers, installers, utilities, U.S. Department of Energy, a regional market transformation organization, and an appliance standards organization. • The panel would have one year to review existing standards and make written recommendations to ODOE’s director for updates to appliance standards. • ODOE, in consultation with the panel, would conduct rulemaking and adopt rules specifying standards, as well as associated product definitions and testing requirements, no earlier than January 1, 2022. • The standards and product definitions currently in statute would be repealed once updated standards are adopted in rule, but no sooner than January 1, 2022. • ODOE would report to the Legislature by January 1, 2022 on the review and the resulting recommendations, as well as any actions taken by ODOE’s director, including changes or additions made to appliance standards in the new rules. 	<p>Minimal fiscal impact that can be absorbed with existing agency resources.</p>
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<p>33000-003 Planning and Innovation</p>	<p>Thermal Renewable Energy Certificates</p> <p>This legislative concept clarifies that thermal renewable energy certificates (T-RECs or thermal RECs) issued to a facility that generates electricity using biomass that also generates thermal energy for a secondary purpose, are eligible compliance instruments for the Oregon Renewable Portfolio Standard (RPS), and will be treated in the same manner and subject to the same conditions as renewable energy certificates (RECs) from qualifying electricity. The concept proposes to add new language to ORS 469A.132 that will ensure:</p> <ul style="list-style-type: none"> • Thermal RECs are eligible compliance instruments for the Oregon RPS if they meet the statutory requirements for: <ul style="list-style-type: none"> ○ Age of generating facility (ORS 469A.020); ○ Geographic boundary for unbundled RECs (ORS 469A.135); and ○ Eligible biomass resources (ORS 469A.025 (3)). • T-RECs are subject to the same terms of use and transfer applicability as other RECs issued as part of the REC system established by the Oregon Department of Energy (ORS 469A.130). 	<p>No fiscal impact.</p>
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Statement of Purpose

This concept removes and clarifies statutory language related to outdated and dormant energy programs under ORS Chapter 470, and it improves the efficiency and risk profile of the Small Scale Local Energy Loan Program (SELP) by updating its mission to focus on supporting public projects that provide public benefit and expanding the types of eligible projects.

Summary of proposed changes:

- Refocuses SELP on public sector energy projects because the program's bond funding mechanism aligns poorly with most private sector projects, resulting in increased program cost and risk. It is anticipated that under the updated mission, SELP will continue to advance state energy objectives through increasing energy efficiency in public buildings, reducing emissions in public fleets, and facilitating increased adoption of energy storage and related energy resiliency technology.
- Expands the definition of eligible projects to include emission reduction projects, resiliency projects, and energy storage projects.
- Removes recycling projects as an eligible project type.
- Removes the requirement to develop a commercial markets-focused marketing plan.
- Expands the scope of biennial legislative reporting to include ongoing program evaluation.
- Reorients the composition of the Small Scale Local Energy Project Advisory Committee (SELPAC) to appropriately provide support for SELP's updated mission, and to review applications under the Clean Energy Deployment Program.
- Adds transportation expertise to SELPAC.
- Adds two ex officio, nonvoting members to SELPAC.
- Removes the ability for an applicant to appeal a loan decision to the Governor's office through SELPAC.
- Adds language clarifying ODOE's rulemaking authority under the Clean Energy Development Program.
- Repeals outdated provisions under ORS Chapter 470, including the Energy Efficiency and Sustainable Technology Loan Program, a program that has no funding and made no loans, as well as the High Performance Schools Pilot Program that was completed in 2015.

Statement of Need

SELP was established by the Oregon State Legislature in 1979; a legislatively-referred constitutional amendment to authorize the issuance of state Article XI-J bonds for small scale local energy projects passed in 1980. The Oregon Department of Energy, through SELP, currently supports State of Oregon energy policy by providing public, private, and tribal stakeholders with access to energy project capital for qualified Oregon energy projects that invest in energy conservation, renewable energy, and alternative fuels, or that create products from recycled materials. Over SELP's 35-plus-year history, the program has issued more than 900 loans, with an associated \$612 million in financing, to recipients located across all 36 Oregon counties.

However, SELP's bond funding mechanism aligns poorly with most private sector projects, resulting in increased program costs and risks as follows:

- The average SELP loan size is very large, which leads to systemic loan loss risk as each loan carries significant corresponding bond debt.
- SELP has been historically forced to fund small loans via cash from the program's sinking fund, which reduced the program's capacity to absorb future loan losses.
- SELP has historically been staffed at a high FTE, which is necessary to cultivate commercial business in all parts of the state, and reduces program net revenue.
- Some of the requirements related to bond funding introduce applicant risk, which encourages the safest and best qualified projects to seek funding elsewhere, and raises overall program risk.
- Most commercial SELP lending activity is in direct competition with private sector lending institutions, and feedback from private lenders suggests a desire to see SELP function more cooperatively with Oregon lending institutions.

SELP has a \$152 million active loan portfolio, with 79 percent of loans to public bodies. SELP is currently operating under an \$8.6 million cash flow deficit, which is the result of loan default on several large commercial loans originated between 2007 and 2010. In December 2015, the State Treasury stopped facilitating additional SELP lending, eliminating any potential bond funding for energy projects or access to additional capital resources. Consequently, SELP is unable to originate new loans to reduce the cash flow deficit. However, there is a continuing need for public financing options, particularly for community colleges and smaller municipalities, which represent low-risk opportunities for SELP to advance Oregon's energy agenda and strengthen SELP's financial position.

Access to project capital is an important consideration for policy makers when contemplating the role private sector projects will play in Oregon's energy future. However, private sector energy projects present a broad spectrum of capital scope and project risk that makes private projects a challenge to appropriately finance with a bond-funded program like SELP.

The Department of Energy recommends and is committed to pursuing policy options that support private sector energy project financing. This work merits a deliberate, thoughtful process that engages stakeholders and peer organizations under its own standalone work-stream.

Fiscal Impact

This concept has no fiscal impact. However, ODOE will be asking for \$30 million in Article XI-J general obligation bond authority for the 2019-21 biennium. The bond authorization is required in order to provide funds for potential loans under SELP.

Statement of Purpose

This legislative concept would provide the Oregon Department of Energy with authority to adopt or update energy efficiency standards for appliances and equipment by administrative rule, and would provide a process for the transition of standards from Oregon Revised Statutes, where they currently reside, to Oregon Administrative Rule.

The concept would remove the requirement that the Legislative Assembly take action in order for appliance standards to become effective, and would require standards to be adopted by ODOE in consultation with a new Appliance Standards Review Panel. ODOE would also be required to report any changes in standards to the Legislature.

Categories of products to be covered by the standards would be listed in statute, while current statutory provisions containing appliance standards and definitions of individual covered products would be repealed and moved to OAR. Additionally, the department could only adopt new and updated standards that have already been adopted by other adjoining states.

Timeline of proposed transition process of standards from statute to rule:

- The ODOE director would appoint members to the Appliance Standards Review Panel. ODOE would chair and provide staff for the panel, which would include members representing: manufacturers, retailers, installers, utilities, U.S. Department of Energy, a regional market transformation organization, and an appliance standards organization.
- The Appliance Standards Review Panel would have one year to review existing standards and make written recommendations to the ODOE director for updates to appliance standards.
- ODOE, in consultation with panel, would conduct rulemaking and adopt rules specifying standards as well as associated product definitions and testing requirements. The rules could become effective no earlier than January 1, 2022.
- The standards and product definitions currently in statute would be repealed once updated standards are adopted in rule, but no sooner than January 1, 2022.
- ODOE, in consultation with the panel, would report to the Legislature by January 1, 2022 on the following: the results of the review and the resulting recommendations; stakeholder outreach conducted during the rulemaking process; and any actions taken by the director of ODOE, including changes or additions made to appliance standards in the new rules.

Statement of Need

Existing energy efficiency standards in Oregon have resulted in significant energy savings for Oregonians. This process, however, requires legislative action for all energy efficiency standards updates, and this has presented process inefficiencies. These inefficiencies include the requirement for legislative action even for minor cleanup of errors and omissions. This happened in both 2015 and 2017. If this proposal had been in place, minor changes could have been handled administratively through a comprehensive and on-going stakeholder process and agency rulemaking, with regular reporting to the Legislative Assembly. Other opportunities for process improvements include

increasing and streamlining public stakeholder involvement and standards updates by means of an agency rulemaking process that is informed by a technical review panel. This would enable the technical discussions on efficiency standards to take place among technical experts and agency staff instead of through the legislative process, while enabling the legislature to continue to provide direction and oversight.

The U.S. Department of Energy also establishes appliance standards at the federal level; once established, federal standards preempt any standards that may have already been enacted by states, and also prevent states from adopting any future standards that differ from national standards for the effected equipment. As a result, federal standards limit activity of the states, including Oregon. Several standards originally adopted in Oregon have since been pre-empted by federal standards; however, the pre-empted standards currently remain in statute. Providing administrative authority to update and modernize state standards to respond to the activity of the federal government and other states would provide clarity and alignment of Oregon standards.

Appliance standards are an important energy-saving tool as new buildings progressively become more efficient, meaning that an increasing share of energy consumption in buildings comes from the products and appliances that are “plugged in” or movable, often called the “plug load” or “unregulated load.” Residential and commercial building energy codes have traditionally regulated space conditioning, water heating, and the building envelope, but not appliances that are part of a building’s unregulated load.

Fiscal Impact

This concept has minimal fiscal impact that can be absorbed with existing agency resources.

Statement of Purpose

This legislative concept clarifies that thermal renewable energy certificates (T-RECs or thermal RECs) issued to a facility that generates electricity using biomass, that also generates thermal energy for a secondary purpose, are eligible compliance instruments for the Oregon Renewable Portfolio Standard (RPS), and will be treated in the same manner and subject to the same conditions as renewable energy certificates (RECs) from qualifying electricity. The concept proposes to add new language to ORS 469A.132 that will ensure:

- Thermal RECs are eligible compliance instruments for the Oregon RPS if they meet the statutory requirements for:
 - Age of generating facility (ORS 469A.020);
 - Geographic boundary for unbundled RECs (ORS 469A.135); and
 - Eligible biomass resources (ORS 469A.025 (3)).
- T-RECs are subject to the same terms of use and transfer applicability as other RECs issued as part of the REC system established by the Oregon Department of Energy (ORS 469A.130).

Statement of Need

The Oregon Department of Energy has established and administers the system for renewable energy certificates that can be used by an electric utility or an electricity supplier to establish compliance with Oregon’s Renewable Portfolio Standard. In 2016, the legislature passed SB 1547, which directed ODOE to “provide that renewable energy certificates must be issued for the generation of the thermal energy.”

Thermal energy is different from electricity generation in several ways, for example: thermal energy is not delivered to the electric grid, and thermal RECs cannot be generated from electricity. SB 1547 provided a conversion factor for thermal measurement (British thermal units or BTUs) to megawatt hours (MWhs) to direct ODOE in determining the number of thermal RECs to provide for a facility generating thermal energy from biomass.

However, provisions in Oregon statute related to RPS compliance eligibility and requirements refer explicitly to electricity, with no mention of thermal energy. Examples of phrases used in statute include: “qualifying electricity,” “electricity from a generating facility,” “renewable energy certificates issued for the qualifying electricity,” and “renewable energy certificates derived from electricity.” Additionally, SB 1547 did not explicitly add thermal energy generated from electricity generation using biomass to the list of RPS-eligible generation sources listed in ORS 469A.025. This statutory language raises questions as to the interchangeability of RECs associated with electricity generation and thermal RECs.

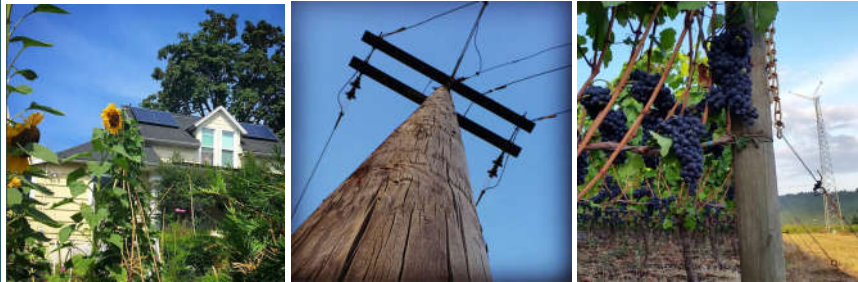
Fiscal Impact

There is no fiscal impact expected as a result of this legislative concept.

Oregon Department of **ENERGY**

Energy Advisory Work
Group

Blake Johnson
April 30, 2018



OREGON BUDGET BASICS

Incremental Budget Process

- 2019-21 budget based on 2017-19 budget
- Adjustments made to Base Budget to create Current Service Level (CSL)
 - CSL – An estimate of the cost to continue current legislatively approved programs in the 2019-21 biennium.
- Agency proposes Policy Option Packages – enhancements to current programs – that require additional resources. Sum of CSL and POPs is Agency Request Budget.

2019-21 Budget & Legislative Concepts Instructions

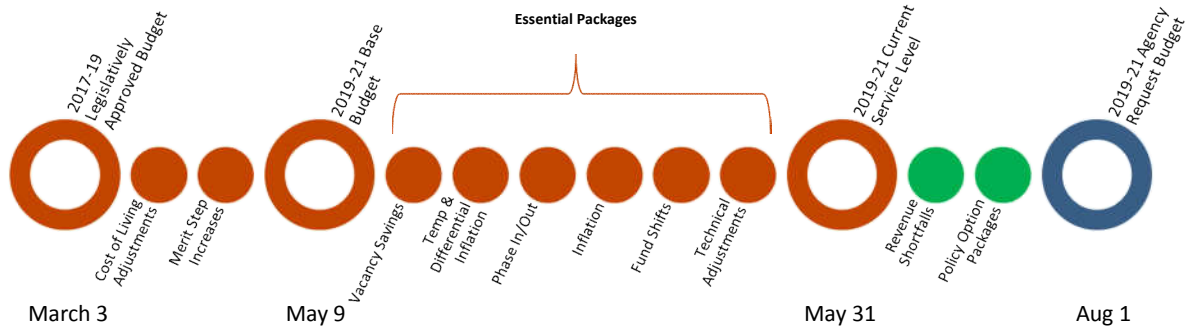
www.oregon.gov/das/Financial/Pages/Budgetinstruct.aspx

2017-19 ODOE Legislatively Adopted Budget

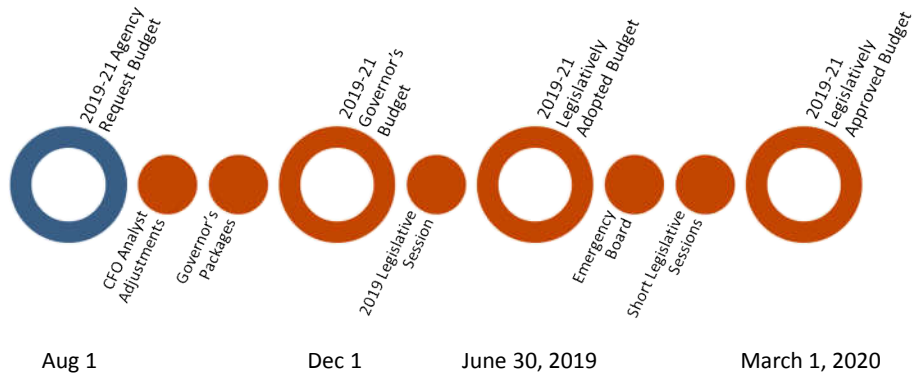
www.oregon.gov/energy/About-Us/Pages/Budget.aspx



2019-21 AGENCY REQUEST BUDGET



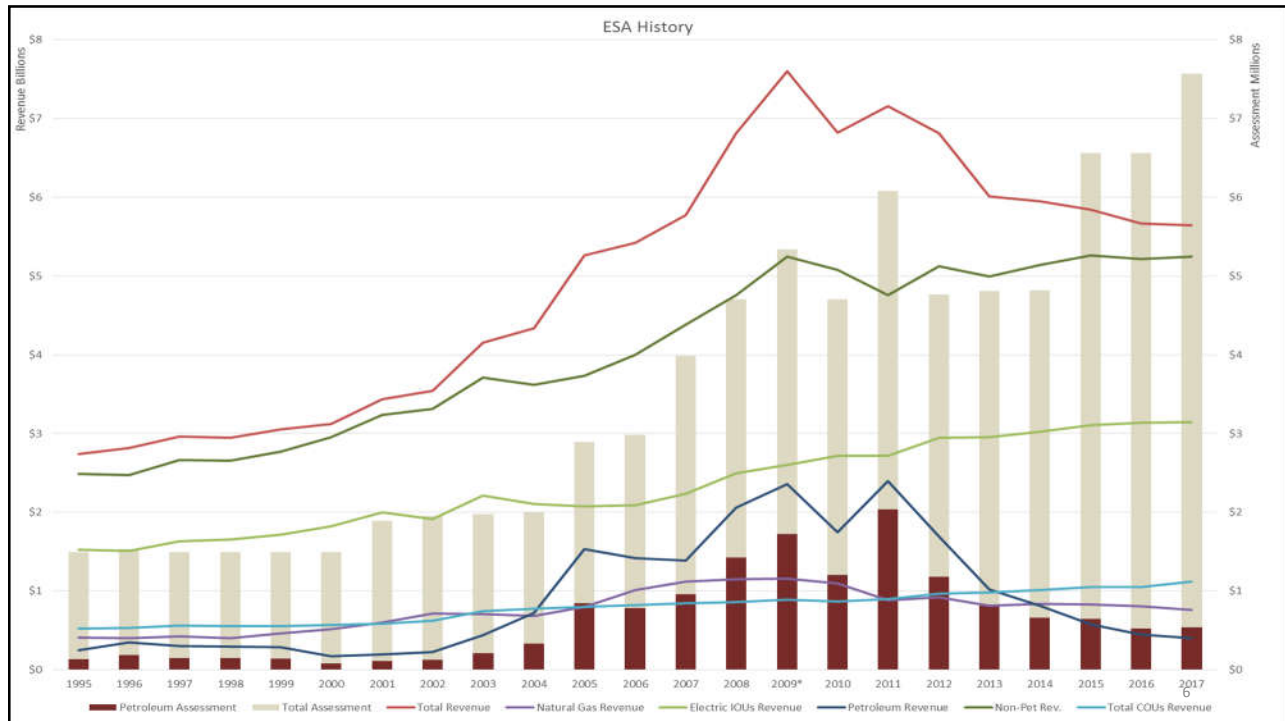
2019-21 GOVERNOR'S BUDGET & BEYOND



ADJUSTMENTS TO 2017-19 BUDGET

HB 5201 – Omnibus budget reconciliation bill passed in 2018 legislative session.

- Included employee compensation adjustments from collective bargaining
 - 1 percent COLA effective June 15, 2018
 - Shift in 6 percent pick-up from employer contribution to employee pre-tax contribution, February 1, 2019
 - Salaries increased 6.95 percent partially offset by 6 percent reduction in benefits
- Bill increased Other Funds limitation by \$402,655 and Federal Funds by \$42,762
- ODOE calculated need is \$140,262 Other Funds revenue.



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Biennial Energy Report Draft Table of Contents

BER Section 1 – Oregon Energy Information

CHAPTER 1: Energy Consumption, Generation, Transmission and Production

- Energy Use
- Energy Production and Generation
- Energy Transmission and Distribution
- Energy Costs
- Energy Resources
- Bonneville Power Administration

CHAPTER 2: Oregon Energy Policy and Considerations

- Energy Development Planning
- Regional Power Planning
- Energy Efficiency as a Resource
- Siting and Permitting
- Utilities and Markets
- Transportation Fuels
- Jobs and Careers

CHAPTER 3: Energy Trends

- Energy Costs
- Energy Efficiency
- Fuel Resources
- Emissions

BER Section 2 – Energy Opportunities, Challenges, and Impacts

INTRODUCTION: Summary of State Energy and Energy-related Goals

CHAPTER 1: Evaluating Policy Options to Achieving Oregon’s Greenhouse Gas Reduction Goals

- Climate Change Impacts in Oregon
- Achieving the State’s GHG Emission Reduction Goals
 - Electricity
 - Transportation System
 - Built Environment
 - Stationary fuels
 - Local Efforts
- Costs and Benefits of Greenhouse Gas Reductions

CHAPTER 2: The Role of Energy Efficiency in Oregon’s Energy Future

- Achievements to date
- Residential, Commercial, and Industrial Sectors
- Emerging Opportunities

CHAPTER 3: The Challenges and Opportunities of Increasing Renewable Energy in Oregon

- Renewable Portfolio Standard
- Solar Trends
- Integrating Variable Renewable Energy
- Role of Hydropower
- Integrating RPS and Carbon Pricing Systems
- Renewable Liquid Fuels

CHAPTER 4: Transitioning to Cleaner Vehicles

- Alternative Fuel Vehicles
- Alternative Fuels

CHAPTER 5: Improving Access to Clean Energy and Protecting Consumers in a Changing Energy World

- Changing Technologies and Consumer Preferences
- Utility Planning
- Costs and Benefits of Customer Choice
- Challenges and Opportunities of Integrating the Western Electricity Grid
- Equity

CHAPTER 6: Building More Resilient Energy Systems

- Threats and current policies
- Opportunities for State Leadership
- Resilience in the Electric System
- Preparing for Cascadia: Strategies and Plans for Communities
- Resiliency Efforts by Local Communities
- Proactive Climate Adaptation

BER Section 3 – Recommendations and Conclusions

TBD