

June 15, 2004

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Dear Janet,

Thank you for your letter regarding the ETO performance measures. I have read the letter and taken a little time to evaluate the question before I answer.

I feel all the performance standards are acceptable to incorporate into the PUC/ETO Grant agreement except standard 2.4, which deals with "savings targets." I feel this way because "savings targets" are not realistic in view of the market and historical utility information.

As you know, I am the president of RHT Energy Solutions and we work for the ETO as a Program Delivery Contractor, a Commercial and Industrial "Allied Technical Analysis Contractor" and a "Commercial Oversight Contractor" in the new building program. Before I founded RHT, I was the Division Sales Manager for PP&L in Oregon and California.

In the past few months I feel the ETO has had good success with the implementation of the industrial "Production Efficiency" program. The program is simple and industrial clients respond because it can enhance their productivity as well as reducing their energy consumption. However, the advantage of this sector is the economy of scale. If I look at the over 104 mWhs saved by the end of 2003 in the PE program, the average cost was at \$.139/kWh (see attached). This is a good number, but these projects are "the best of the best!" and if higher cost residential and commercial programs are averaged into the overall acquisition cost, the goal of \$1.4-1.65M\$/aMw which equals \$.159-.188/kWh will be unachievable.

I also feel a comparison to utility costs and performance is difficult. Utilities, as you indicated, were allowed to collect costs above the averages. For example, lost revenue recovery; but if the power made available as a result of "demand side activities" was sold, did that appear as a credit to the program? Also, as a sales manager of PP&L, I never remember anything close to 10 aMw being saved...or even 5aMw, or 2 aMw! In 1995, PP&L, for the entire state of Oregon acquired 10,668,000 kWhs for all commercial and Industrial customers. This acquisition for the entire year equated to only 1.2 aMw. In the last four months of 2003, the ETO's "Production Efficiency" program secured 104,855,420 kWhs, which is almost 10X Pacific's achievement.

Secondly, I feel a "savings target" is a little premature at this time. For years, customers of utilities have looked toward PP&L and PGE for conservation programs. The ETO and entities that work for the ETO are new and just getting established. How can anyone, since March of 2002 develop the same name familiarity and market presence as Pacific Power and Portland General Electric? It will take a long time before the ETO has the same acceptance and marketing appeal as the companies it supplanted. A performance goal now is premature. During the development years, market transformation, and customer participation would be a more suitable performance goal.

Thirdly, we have to realize that there are forces that would like the ETO to be unsuccessful and return the conservation programs back to the utilities. This is unfortunate because the strides

made by the ETO have been positive and good for Oregon's energy future. However, unachievable "savings targets" would give ammunition to those who would like to dismantle a good thing.

I am happy to be part of this survey and be a participant in the ETO's programs. I look forward to each new project and helping customers improve their "bottom line" and assisting Oregon find new conservation resources. I encourage the PUC for not implementing "savings targets" that hurt the development of a successful program.

Sincerely,

Buzz Thielemann
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