HOUSE COMMITTEE ON ENVIRONMENT AND ENERGY

February 20, 1991 Hearing Room E 1:00 p.m. Tapes 49 - 50
MEMBERS PRESENT:Rep. Parkinson, Chair Rep. Whitty, Vice-Chair Rep. Burton Rep. Courtney Rep. Naito Rep. Norris Rep. Repine Rep. Van Leeuwen Rep.- Watt STAFF PRESENT: Kathryn VanNatta, Committee Administrator Andy Sloop, Committee Assistant MEASURES CONSIDERED: Small Scale Energy Loan Program (INF) SB 94 (PUB) HB 2130 (WRK)

.. . . . These minutes contain materials which paraphrase and/or summarize statements made during this session. Onlv text enclosed in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes. .

TAPE 49, SIDE A

009 CHAIR PARKINSON: Calls the meeting to order at 1:09 p.m. Representatives Whitty, Repine and Naito not present and excused.

(Tape 49, Side A) INFORMATIONAL MEETING - SMALL SCALE ENERGY LOAN PROGRAM Witnesses: Michael Grainey, Oregon Department of Energy Wayne Lash, Oregon Department of Energy Gwen Alray, Oregon Department of Energy

18 MIKE GRAINEY, DEPARTMENT OF ENERGY: Gives overview of the Small Scale Energy Loan Program (SELP) (EXHIBIT A)

> The second preliminary step to establish the program required federal assistance. Sen. Bob Packwood and the late Representative Al Ulman included a provision in the Windfall Profits Tax of 1980 that authorized this type of program consistent with federal tax bond laws. House Committee on Environment and Energy February 20, 1991- Page 2

> The 1981 Legislature passed implementing legislation that allowed the state to finance renewable energy projects for businesses, individuals and local governments.

> The 1983 Legislature expanded scope of program to include loans for energy conservation.

> The flexibility to provide loans for renewable energy and energy conservation has been important as the program emphasis has changed.

> The 1985 Legislature, for the first time, authorized loans to state agencies.

> SB 94 would make further changes to allow state agencies to participate in the program as other customers do.

60 REP. BURTON: What's your default rate on this program?
61 GRAINEY: No foreclosures in the history of the program. We're proud of that. We've been very cautious lenders. 63 REP. VAN LEEUWEN: But you haven't had enough time, with the way these things are constructed, for that to happen yet, have you?

(Rep. Whitty arrives 1:15) 78 GRAINEY: We've had 10 years of experience, and, so far, we have not had any problems with foreclosures on loans. You'll notice that we tended to have most of our renewable resources loans early in the 1980s, first because the program was limited to that type of loan and then because the avoided cost for resale of renewable energy was higher during the electricity deficit than it has been in the last few years with the electricity surplus. That may change again as the electrical surplus in the region ends. One thing that we are particularly proud about is that we have successfully developed a wide range of projects throughout the state. 90 REP. VAN LEEUWEN: The biggest amounts of money on your list (PAGE 2, EXHIBIT A) look like they went to Malhuer and Jefferson Counties for a small number of loans. What were those? 95 GRAINEY: Where you see a small number of loans for large amounts, they've either been for replacing hydroelectric turbines at existing dams or for co-generation facilities. Where you have a large number of loans for small amounts, they tend to be energy conservation. We've been able to target projects and regions to provide a statewide balance. 105 CHAIR PARKINSON: Isn't the low default rate because these loans are given primarily to established companies? 112 GRAINEY: Yes. We are very cautious. In fact, we have a rejection rate of about 50 percent. Continues reviewing progress of program. 141 REP. NORRIS: Looking at the loan amount and the annual energy savings for the Albers Mill loan (PAGE 5, EXHIBIT A), ignoring inflation and interest, it would take 61 1/2 years to . _,

amortize that $1.2 million loan. Do we worry about that kind of a ratio?

145 GRATNEY: In part, the long pay out there is because we were doing a major renovation on that building. Most of our loans pay out in much shorter periods of time -- 10 to 15 years or less.

151 WAYNE LASH, SELP MANAGER, OREGON DEPARTMENT OF ENERGY: In general, we look at a payback of 15 years or less, particularly on the energy components. The fact is that you can't ignore interest rates or inflation.

172 REP. NORRIS: Is there a relationship between the annual payback figure and the estimated annual energy savings? 176 LASH: We calculate the amount of savings, and if there is a payback ratio of longer than 15 years, we generally don't make the loan.

179 REP. NORRIS: Then the payback probably would be more than the estimated dollar value of energy savings? 183 LASH: In the commercial and industrial sectors there is not necessarily a one-to-one payback. There is a one-to-one payback in government. 205 GRAINEY: Because this program is intended to help small businesses make investments that they would not be able to make otherwise, we don't require the same energy-saving details for these applicants as we do for other loan applicants such as governments. 212 REP. NORRIS: Would these normally be self-amortized loans that ignore estimated energy savings?

215 GRAINEY: Yes. 249 CHAIR PARKINSON: It looks like the state is loaning the full amount to a company that needs a new building?

(Rep. Naito arrives 1:30)

268 GWEN ALRAY, SELP LOAN MANAGER, OREGON DEPARTMENT OF ENERGY: With commercial and industrial loans, annual savings do not have to meet annual debt service. The requirement is that the recipient of the loan

save a sufficient amount of energy to qualify as a conservation project. The purpose of the Albers Mill loan was to finance a ground water heat pump and air system. We did not finance anything not related to that system. . 298 REP. BURTON: How do you determine your interest rates?

303 LASH: We usually charge 1 percent above the rate at which we sell our general obligation bonds. 309 REP. BURTON: Are you under a moratorium on bonds?

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315 LASH: Yes. (Repine arrives 1:34) 333 CHAIR PARKINSON: What kind of information do you get out to the public about the availability of these loans? 340 GRAINEY: We actively market this program. 342 ALRAY: We do intensive telemarketing to commercial and industrial operations throughout state. We also develop a marketing plan each year which is implemented by loan staff. 360 CHAIR PARKINSON: What was the interest rate on your last bond sale? 362 ALRAY: We had three series that we sold. We sold government purpose bonds at 7 percent, private activity bonds at 7.9, and taxable bonds at 9.2 percent. 380 REP. BURTON: Does the one percent margin (between the selling rate and the interest rate charged on loans) give you enough room for a reserve. 382 ALRAY: In our cash flows, we do account for a certain amount of loss reserve. I believe we currently have about $800,000 in a loan loss reserve. We also have other program revenues available to offset that. Currently, 1 percent is sufficient. However, we evaluate that annually. 390 REP. BURTON: Who checks your prudence? 397 ALRAY: We're audited annually by the Secretary of State's Office. 403 REP. NORRIS: Are the repayments generally scheduled on a flat payment, self amortizing, or is it a fixed principal each month, with interest on the remaining balance? 407 ALRAY: Generally, it's a regularly scheduled amortizing loan paid monthly. 417 GRAINEY: This program has been very important to help forestry develop co-generation projects. This program also has provided important matching funds for school projects and it has been used to finance weatherization and energy-efficient heating projects for low-income housing. TAPE 50, SIDE A CHAIR PARKINSON: Is SELP available for new construction? 35 GRAINEY: Yes. 40 CHAIR PARKINSON: This seems like a good deal for developers, but it's not being very widely used. 45 GRAINEY: Federal eligibility requirements make it very difficult for commercial interest to qualify. House Committee on Environment ant Ener~ y February 20, 1991- Page S

PUBLIC HEARING - SB 94 Witnesses: Michael Grainey, Oregon Department of Energy Gwen Alray, Oregon Department of Energy Wayne Lash, Oregon Department of Energy Lisa Strader, Oregon Department of Corrections Bill Jacobsen, Damrnasch State Hospital George Hech, University of Oregon Physical Plant 67 GRAINEY: Explains bill. (EXHIBIT D) 138 GRAINEY: Section 3, lines 22 and 23, deletes the phrase: "The expected annual energy savings of which will exceed in value the annual installments on the loan." That applies only to state agencies, so deleting it takes care of that restriction that has been a problem for us. The second point I mentioned about renewable resources is dealt with in Section 4. That section repeals ORS 470.085, which limits state agency eligibility for energy loans exclusively to energy- conservation programs.
146 REP. NORRIS: While we're on Section 3, we're talking about state agencies going from one pocket to another here. Would this hang anybody

out to dry? 157 GRAINEY: No. The current process for loan approval for state agencies involves legislative approval for each project or, during the interim, Emergency Board approval. 159 REP. NORRIS: But would they be pledging part of the General Fund appropriation to do that? 162 GRAINEY: Depends on the revenue source that they have. 163 ALRAY: The savings is required to be equal to the annual loan payment. If those savings aren't there, the applicant would have to budget for that shortfall. 166 REP. NORRIS: But are these pledges actually made in the form of their General Fund authorization? 169 GRAINEY: No, because one legislature can't bind a future legislature. So while the loan agreement is for 10 or 15 years, the Legislature has to approve a sufficient budget each biennium for participating agencies to meet their loan payments. That was one reason the Legislature wanted to move cautiously into state agency participation. 184 CHAIR PARKINSON: This program doesn't have any General Fund money in it, does it? 188 GRAINEY: No. 220CHAIR PARKINSON: I understand that when this began, it was for conservation. 225 GRAINEY: It was initially limited to renewable resources. The Legislature didn't give us energy-conservation loan authority until 1983. It's really for renewable resources and conservation, it's just that state agencies have been limited to energy conservation.

232 CHAIR PARKINSON: As far as state agencies go, this is a new direction that really has nothing to do with conservation. Rather, seems to be a method for state agencies to get loans for any energy-saving devices or methods?

238 GRAINEY: That's true. However, we expect it would be used primarily for waste-heat recovery, cogeneration and, where applicable, geothermal.

240 CHAIR PARKINSON: Couldn't it be used for lighting systems?

243 GRAINEY: Yes. Any energy savings.

245 REP. WHITTY: How about retrofitting vehicles to run on alternative fuels?

246 GRAINEY: We would be hesitant to make loans for rolling stock. The tax credit that we will be discussing later would be a more effective incentive for that.

250 REP. WHITTY: I was thinking about state agencies. Tax credits don't do any good to state agencies.

253 GRAINEY: No, but the tax-credit programs would allow gas companies to buy -- or convert - alternative-powered fleet vehicles and lease them. The loan program might be able to be used to finance development of alternative-fuel infrastructure. We probably have aufficient authority to do that.

260 REP. COURTNEY: This legislation is designed to open this program more to the public sector. What impact do you think this is going to have on your budget?

269 GRAINEY: I think we would see an increase in loans. It's hard to quantify an exact amount. I don't think we'll see a problem with our ceilings.

272 REP. COURTNEY: So we don't have to worry about all of the money going to state buildings, with the private sector being left out?

277 GRAINEY: I don't believe so. We do have to comply with federal restrictions on private loans.

280 REP. COURTNEY: So you're assuring us that the flood gates may open but there's not going to be any problem?

289 GRAINEY: That's correct. It's not our intent to reduce business or government loans.

296 REP. REPINE: I see this as a wonderful opportunity to do offset maintenance repairs under the auspices of this program. As someone in business, I can think of all sorts of things I could do under this program and reap the benefits.

318 ALRAY: Again, remember that the definition of a small-scale loan project has to conserve energy. We would limit participation to projects that conserve energy.

330 REP. REPINE: Well, that was my point. There isn't a piece of equipment today that wouldn't

be more energy efficient than one that is five years old. 339 ALRAY: In the case of new buildings, equipment has to be leading edge and above average standards.

347 REP. REPINE: I'm more concerned about retrofitting. 357 GRAINEY: While that's an issue that we have to be aware of and sensitive to, our intent is to prevent cream skimming.

370 REP. VAN LEEUWEN: What is the limit you can loan and how close are you to that limit? 376 GRAINEY: There is a $35-million annual ceiling for the current biennium. We are requesting the same amount for the next biennium. TAPE 49, SIDE B 000 GRAINEY: The federal authority, which is in our constitution, is .5 percent of true cash value of the state. That translates into approximately $440 million. That is the theoretical ceiling for the program. We have $187 million in outstanding bonds from throughout the life of the program. The actual operating cap is $35 million in new bonds for each year of the biennium.

12 REP. VAN LEEUWEN: How much do you have available to loan this fiscal year? 16 LASH: $27 million for the fiscal year that ends July 1, 1991. 20 REP. BURTON: Your enabling legislation says a small-scale local energy project may conserve energy or produce energy by generation, or by processing or collection of a renewable resource. So, these loans are not just for conservation, but you base most of your loans to state agencies on conservation? 28 GRAINEY: Under current law we have no choice. 30 REP. BURTON: So, the intent of your

proposal is to remove restrictions on projects that do not necessarily conserve energy? 35 GRAINEY: Projects that would be allowed under this legislation might not conserve energy per se, but they would eliminate the need for certain kinds of energy (e.g., fossil fuel) and would save money. 43 CHAIR PARKINSON: Do you have projects on the drawing board that this would free up? 46 ALRAY: We would like to pursue opportunities to finance co-generation projects at public buildings. 58 REP. BURTON: I'm having a difficult time understanding how there isn't a fiscal impact for this?

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64 GRAINEY: I think over the life of the loan and the energy project, we are saving revenue. In the short term, however, that might not be true. 76REP. BURTON: Do you have any numbers that show that the energy costs for a project that could be financed with one of these loans actually would be cheaper than current costs? 89 GRAINEY: Power may be offsite or onsite (i.e., energy recovery), but in either case it would be cheaper than developing new resources. 93 REP. BURTON: Have any of the SELP projects to date sold power to other users?
95 GRAINEY: Yes. Forest products companies and some local government and irrigation projects have done that, but state agencies haven't.
100 REP. NORRIS: I assume most of the energy used by the state is provided by commercial energy sources. Is there a connection between commercial providers and state agencies that use energy? 106 ALRAY: We work with utilities to coordinate our projects. 118 REP. REPINE: How often do you go back to determine if projects meet your projections?
123 ALRAY: We tend to audit our larger projects, particularly those that keep good records. We don't have adequate staff to follow every project. 132 REP. REPINE: And how on target have your projections been? 136 ALRAY: We tend to give conservative estimates, so I would say we have been very effective at meeting or exceeding our projections.
146 REP. REPINE: It seems to me that credible follow-up is the key to making this whole thing work. 152 LASH: Because of technology, retrofitting is always going to yield energy savings. However, monitoring often can add cost that offset energy savings. 167 CHAIR PARKINSON: What would you do next summer if you had an unsalvageable default for say $2 million? 172 ALRAY: We have a couple of accounts that would cover that, including loan, payment and loss reserve accounts. 196 LISA STRADER, ASSISTANT CONSTRUCTION DIVISION ADMINISTRATOR, DEPARTMENT OF CORRECTIONS: Testifies in support of the measure. (EXHIBIT E) 244BILLJACOBSEN, SUPPORT SERVICES DIRECTOR, DAMMASCH STATE HOSPITAL: Testifies in support of the bill. (EXHIBIT F) Gives several success stories. SELP projects are increasingly important as the state tries to cut costs.

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287 GEORGE HECT, UNIVERSITY OF OREGON PHYSICAL PLANT: Testifies in support of the measure. Believes the program works because DOE engineers work with recipients' engineers.

320 CHAIR PARKINSON: Mr. Grainey, I think there are some members who would like the fiscal impacts reexamined. It looks like maybe this program is degenerating into a way for agencies to get money without going through Ways and Means.

335 GRAINEY: No, I don't think so, because there is Ways and Means or Emergency Board approval for each project. 340 REP. VAN LEEUWEN: Where do administration salaries for this program come from?

345 GRAINEY: Bond proceeds. Loan applicants pay for the program, and that results in about a 1 percent higher interest rate than what we actually issue the bonds for.

413 REP. WHITTY: Currently, it appears there are only five SELP loans to the wood-product industry. Is this the extent of loans to that industry?

423 ALRAY: Yes. We have taken a keen interest in that industry, and our inspector monitors those loans monthly. We are taking steps to make sure we underwrite those loans prudently.

TAPE 50, SIDE B

32   REP. NAITO: Are SELP loans in a first mortgage position on everything they secure? 35   ALRAY: Our loans take the form of first lien position or second lien position. Our collateral can be a letter of credit, a bond, or other ways. Typically, they are a first lien on equipment and real estate. 43   REP. NORRIS: Of your list of five lumber companies receiving SELP loans, all of them have co-generation facilities. Are they guaranteed a minimum price for the energy they produce, irrespective of market prices? 45   ALRAY: When these loans are underwritten, there is a power-purchase agreement between the borrower and the utility buyer. That agreement does include rates that are sufficient for loan repayment. 62   CHAIR PARKINSON: Closes public hearing and calls for 10-minute break. Reconvenes at 2:54 and opens work session on HB 2130.

WORK SESSION - HB 2130 Witnesses: Michael Grainey, Oregon Department of Energy Denise McPhail, Portland General Electric 70   GRAINEY: Explains bill and HB 2130-2 amendments. (EXHIBIT J AND K)

116 DENISE MCPHAIL, PGE: Expresses concerns about amendments.
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Opposes giving tax credits for bus tickets. Bill already greatly expands eligibility for this program. Expanding the program will reduce availability to those who have benefittec from it in the past.

139 REP. NORRIS: I gather from your testimony that maybe these amendments water something down.

143 MCPHAIL: The amount available for tax credits is not expanded. Under the ongoing program, that amount has been fully subscribed. Expanding eligibility for the program would spread existing resources

among more recipients.

160 CHAIR PARKINSON: Asks Michael Grainey to return to the witness stand for additional questions.

165 GRAINEY: The city of Portland has great interest in the bus ticket tax credit. We think it makes sense in terms of energy policy. We did not discuss this at the last hearing because it wasn't part of our original package. With regard to the cap, their is a ceiling and the Department does have the authority to set caps so that funds don't flow disproportionately to certain interests.

194 REP. VAN LEEUWEN: Could a company like Intel in Aloha use this to get a 35 percent tax credit for employees who took the bus?

204 GRAINEY: Yes. We think that makes sense, as a matter of policy, because there are federal tax incentives to employers that encourage single-occupancy vehicles for commuting. We believe HB 2130 is a way of offsetting those incentives.

207 REP. WHITTY: This reminds me of disabled parking permits running amok. Who's going to monitor the use of vehicles purchased by employers for carpooling?

225 GRAINEY: We don't want to monitor that activity, but our thought is that this nevertheless would encourage carpooling.

231 REP. COURTNEY: You support this but have no idea how actively it might be used statewide?

248 GRAINEY: We've not done a detailed inventory. However, we have communicated with virtually all of the transit districts about their interest in both of the provisions in this bill.

253 KATHRYN VANNATTA, COMMITTEE ADMINISTRATOR: On line 27, Section 5 of the handengrossed bill (EXHIBIT J), we inserted the words: "eligible for tax credits under ORS 469.185 to 469.225." In those statutes, we have added the transportation facility language to allow tax credits for bus passes. Does this mean that utilities could give cash payments to companies that buy transit passes?

258 BILL NESPITH, TAX CREDIT PROGRAM MANAGER, OREGON DEPARTMENT OF ENERGY: That was not our- intent. House Commiltoe on Environment and Energy February 20,1991- Page 11

278 REP. BURTON: I'd like a revised fiscal impact for this. It seems like these amendments would add costs. 285 GRAINEY: There is a cap and that cap wouldn't be changed. 290 REP. BURTON: If there's a cap and you expand what's under it, what happens to programs under it? Do you push people out? 296 GRAINEY: That could happen, or we might have to reduce the amount of the tax credit. That could happen with or without the bus pass provision. 29 REP. BURTON: In other words, these amendments could change credits for projects on the drawing board? 311 GRAINEY: We could set subcaps to insure tax credits for certain projects, but this could mean reductions in tax credits for some large projects. 312 REP. BURTON: Do you think the program is successful? 314 GRAINEY: Very. 315 REP. BURTON: Why would you want to change it then? 317 GRAINEY: We originally wanted an increase in the cap because we have been hitting the ceiling for the last several years. However, that obviously is impractical in light of the propertytax limitation. Given that, we think

that the emphasis in the bill on alternative fuels and transportation, and utility pass throughs, particularly for new construction costs, makes sense because these are key areas for energy savings. 326 REP. BURTON: I think I appreciate what your goal is, but I'm not sure it's in keeping with the policy of promoting alternative fuel vehicles. It seems like you're walking in here at the last minute with major shifts in your program. I'm not sure this is the right place for that. 348 REP. WHlTIY: Some of us may not like the transportation element of this hand-engrossed version of the bill. I would hate to see the whole bill thrown out because of that one section. 375 CHAIR PARKINSON: Directs ODOE to revise controversial amendments, in light of the committee's comments, and to return for another hearing. 404 REP. REPINE: If we do separate transportation, I think it would be good to see Metro in here to defend it. 417 CHAIR PARKINSON: Closes work session and adjourns at 3:17. Howe Committee oat Eanronment and Energy February 20,1991- Page 12

Submitted by: Reviewed by: Andy Sloop Kathryn VanNatta Committee Assistant Committee Administrator

EXHIBIT LOG:

A - Small Scale Energy Loan Program (SELP) Progress Report - Oregon Department of Energy - 15 pages B - SB 94 Staff Measure Summary - Senate Agriculture and Natural Resources Committee Staff - 1 page C - Notices of No Fiscal or Revenue Impacts of SB 94 - Legislative Fiscal and Revenue Offices - 1 pages D - Testimony on SB 94, With Section-By-Section Analysis of the Bill - Michael Grainey, Oregon Department of Energy - 4 pages E - Testimony on SB 94 - Lisa Strader, Department of Corrections - 1 page F - Testimony on SB 94 - Bill Jacobsen, Dammasch State Hospital - 1 page G - HB 2130 Preliminary Staff Measure Summary - Committee Staff - 1 page H - HB 2130 Notice of Possible Revenue Impact - Legislative Revenue Office - 1 page I - Notice of No Fiscal Impact of HB 2130 - Legislative Fiscal Office - 1 page J - HB 2130 Hand-Engrossed, Including HB 2130-1 Amendments - Committee Staff - 5 pages K - HB 2130-1 Amendments - Committee Staff - 2 pages L - ORS 470.085 - Committee Staff -1 page

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