

Recommendation Report Workgroup 1: Model for Achieving Programmatic Savings

Introduction

BPA's Post-2011 Energy Efficiency Phase 1 Policy Framework established the Energy Efficiency Incentive (EEI) as a new funding mechanism for BPA-funded conservation acquisitions commencing October 1, 2011. While this new allocation structure provides better transparency and reduces potential cross-subsidizations between customers, it comes with other issues that remained unresolved. Utility representatives and stakeholders from Oregon, Washington, Idaho and Montana accepted the challenge to revisit those issues identified in the public process that related to the achievement of programmatic savings. Eight distinct issues fell within our scope of review.

The Workgroup first met on January 16, 2014. Since that time, we have had ten productive and engaging mostly in-person meetings. The Workgroup would like to publicly acknowledge Pacific Northwest Generating Cooperative and their staff for their hospitality in hosting all of our workgroup meetings. Likewise, the Co-Chairs would like to thank the participants for their dedication, continued diligence and expertise in reaching the recommendations as outlined in this report. We applaud your commitment to the process and thank you for your endurance to see this through to the end. We would also like to thank the BPA staff who assisted in this process, including representatives from Rates, Power, Finance and General Counsel who were able to join our meetings in person or via phone.

Early on we identified desired outcomes for the Workgroup, drivers to guide us as we discussed each of the issues and addressed the options identified in the public process. A few of those outcomes include: implementable proposals; meet BPA requirements, framework and principles; appreciate the role of the utility; general agreement within the Workgroup (even if it meant giving up your personal perspective); maintain flexibility of Option 1 and Option 2 customers; freely express opinions; regardless of size, ensure all utilities can participate in BPA programs; and keep what works.

In reviewing each issue, it was important for the Workgroup to be kept informed of any sideboards or BPA requirements that should be incorporated into the conversations. In response, BPA identified the following working assumptions that guided the direction and focus of the Workgroup:

- BPA must fulfill its statutory obligations, e.g., BPA must “acquire” conservation (defined in BPA policy as an exchange of funds)
- Any proposal must work within the existing Regional Dialogue policy and contracts
- Decisions need to be made in the context of other dynamic agency drivers (e.g., CIR, IPR, Access to Capital)
- Funding levels will be decided in the CIR and IPR processes
- Any proposal must be consistent with BPA's financial procedures and reviewed by BPA finance for consistency with sound business principles
- Any proposal should not adversely impact customers that choose not to pursue a particular alternative
- Any proposal should not consider a “menu of services” approach to funding of EE costs/services (i.e., picking which EE costs to pay for)

- BPA will pursue 3rd party financing effective FY16 (October 1, 2015).

The eight issues identified in the Energy Efficiency Post-2011 Scoping Document and Process Approach are listed below, followed by the recommendation of the Workgroup.

Issue #1 – EEI Allocation Methodology using TOCAs (Scoping Doc. #1)

Problem statement – The current methodology for allocating EEI funds on a TOCA basis is not aligned with customer conservation potential and may inefficiently/ineffectively allocate available funding.

Stated Options

- A. Status quo: allocation is based on TOCAs without consideration of potential.
- B. Conservation potential: allocation is based on conservation potential (a uniform way to calculate potential would likely be needed, e.g., a standardized Conservation Potential Assessment).
- C. TOCA-split: allocation is based partly on TOCAs and the remaining funds are made available to “low-cost/lowest \$/kWh” projects (to be defined) or redistributed via some other methodology (e.g., conservation potential).
- D. Utility request: allocation is based on requests from utilities without consideration of potential (similar to the BPA bilateral funding model prior to October 1, 2011).
- E. EEI opt-out: electing utilities opt-out of the EEI paradigm if certain conditions are met. This option does not include opting out of paying for the BPA-managed portion of EE’s capital budget (see also “Self-Management of Utility Incentives” issue below).

Recommendation

Status Quo. The allocation will be based on TOCAs without consideration of conservation potential within a utility service area.

The Workgroup had consensus on continuing to use the TOCA as the EEI allocator if BPA is providing the EEI amounts under capital or expense funding options. During the discussion, it was noted that while the TOCA framework is supported broadly, there are certain projects that won’t get funded with the TOCA approach. Under the current allocation method, the region is missing the opportunity to fund these energy efficiency projects that would benefit the BPA system.

Concerns were also expressed over unspent funds going back to the general fund and not used towards savings acquisition. Many echoed concerns about the large project fund and how best to resolve this issue – considering roll over, a large project fund methodology revamp, or further utilization of the unassigned account.

There was recognition that for all sizes of utilities there can be energy efficiency projects that can use all or most of the utility’s EEI funds. An approach to collecting the kWh savings from these projects is needed without eliminating the ability to continue other program actions for said utility. The workgroup agreed this issue should be discussed in the Large Project Fund Workgroup.

Issue #2 – Two-Year Budgets, aka Roll Over (Scoping Doc. #2)

Problem Statement – Customer EEI budgets are allocated per rate period and any EEI funds remaining at the end of a rate period cannot be “rolled over” to the next rate period, i.e., the funds are “use or lose” within a two year time horizon.

Stated Options

- A. Status quo: BPA continues to confine EEI budgets to a single rate period.
- B. Roll over: Customers are able to roll over unused EEI funds to the next rate period.
- C. Project-specific roll over: Customers are able to roll over to the next rate period an amount of unused EEI funds tied to specific projects (or for certain sectors).
- D. Five-year estimate: BPA offers a preliminary five-year budget to customers to help with long term planning.

Recommendation

Customers are able to roll over unused EEI funds to the next rate period. Regardless of capital finance mechanism (treasury borrowing or 3rd party), customers should be able to roll over to the next rate period an amount of unused EEI funds tied to specific projects or programs, and/or based on some other criteria (such as % of overall budgets).

The Workgroup has considered and discussed the issue of the limitations of two-year budgets as described in the Scoping Document. The proposal of 3rd party financing, as presented to the Workgroup, may afford more opportunities to carry funds into the next rate period (or beyond), or pull funds forward from the future rate period.

The Workgroup encourages BPA to establish further requirements to complete 3rd party financing and identify the financial flexibilities and constraints this process may bring. Understanding these criteria will enable the stakeholders to better determine what type of rollover ‘criteria’ would be acceptable to the financier and BPA to consider for rollover.

Issue #3 – BPA Redirect of EEI Funds (Scoping Doc. #3)

Problem Statement – The EE Post-2011 Policy Framework states, “If the [EEI] budget is not being spent, a utility will be notified that a portion of the remaining funds will be made available to other utilities as supplemental funding. Other utilities that are on-track or ahead on spending expectations would then have access to all available funding.” To allow an opportunity for customers to adjust to the new EEI mechanism, the EE Post-2011 Implementation Program states, “ECA Implementation Budgets will not involuntarily be reduced during the FY 2012-2013 rate period...However, following the FY 2012-2013 rate period, BPA will periodically review a customer’s activities and consult with it prior to reducing its ECA Implementation Budget...”

Moving into the FY 2014-2015 rate period, BPA must determine whether or not it will exercise its right to take back EEI funds prior to the end of the rate period and make those funds available to other customers.

Stated Options

- A. Status quo: BPA does not exercise its “take back” right during the FY 2014-2015 rate period and subsequent rate periods.
- B. Take back: BPA will exercise its right to take back funds that remain unspent near the end of a rate period.

Recommendation

Status Quo for the current rate period. BPA does not exercise its right to “redirect funds” during the FY2014-2015 rate period. For subsequent rate periods, there should be some discussions to develop criteria for a threshold that gives BPA the discretion to redirect a utility’s EEI funds.

In discussing the options relative to the redirection of EEI funds, the Workgroup felt it important to know the level of dollars left unspent so we could better determine how much on an issue this was from a regional dollar perspective. The Energy Efficiency Facts and Figures document identified \$1.053M as the amount of EEI ‘unspent’ at the end of the FY12-13 rate period. That amount represents less than 1% of the overall EEI budget.

Nonetheless, both customers and stakeholders expressed a desire to ensure all dollars are spent on conservation and achieve additional savings. In offering our recommendation, the Workgroup suggests BPA develop a threshold to give BPA the right to redirect funds and work collaboratively with regional representatives in developing the criteria.

Issue #4 – BPA’s Backstop Role (Scoping Doc. #4)

Problem Statement – BPA’s existing backstop role is not explicitly defined and some customers and stakeholders would like more clarity. The EE Post-2011 Policy Framework provided the following on BPA’s backstop role: “If the programs in place at any given time are insufficient to achieve the necessary level of savings, then new programs, as well as looking at other avenues, would be explored and evaluated, to meet the targets.”

Stated Options

- A. Status quo: BPA’s backstop role, as defined today, remains as-is.
- B. Explicit definition: BPA’s backstop role is more explicitly defined.
- C. No backstop: BPA has no backstop role.
- D. Conditional: BPA has a backstop role only under certain conditions or for a certain segment of customers.

Recommendation

Status Quo. If it appears achieving the targets is in jeopardy, the recommendation is for BPA to hold conversations with the region (customers and stakeholders), to share the specifics on the target under-achievement. Collectively, we should discuss how BPA will implement its backstop role in order to achieve the target.

There was recognition that when the issue was raised, BPA had not yet compiled data on target achievement and the region was unsure whether the new funding model/Post-2011 Framework, would be successful or not. That said, the group directed its discussion on the future role rather than the past.

We also agreed to revisit this topic based on the outcome of the self-management of utility incentives discussion.

In reaching the recommendation, the Workgroup recognized there may be various reasons why the region may not achieve the target. Likewise, BPA should be responsible for ensuring the region achieves the targets. As the rate period progresses, if it appears targets are in jeopardy, BPA should engage in conversations with the region, stakeholders and customers to share those concerns and collectively discuss how BPA will implement its backstop role in order to achieve the target.

Issue #6 – Limitations of the Post-2011 Framework (Scoping Doc. #11)

Problem Statement – The design of the Post-2011 framework may be constraining public power’s pursuit of all cost-effective conservation consistent with the NW Power Act, which was a core principle of the initial Post-2011 public process.

Additionally, the framework is based on BPA paying for energy savings on a “widget-by-widget” basis, which may not afford the opportunity for public power to capture savings via new, innovative programmatic approaches.

Stated Option

- A. Explore: BPA, customers, and stakeholders explore any inherent constraints of the Post-2011 framework to acquiring “all” cost-effective conservation and capturing savings via new programmatic approaches.

Recommendation

Improve the process for developing regional programs and address innovative programmatic approaches outside of Post-2011 Review Process.

The Workgroup felt this issue represented two issues: the regional target and obtaining all cost-effective conservation. The current structure of TOCA allocation to achieve the majority targets may still result in the loss of cost-effective energy efficiency. The Workgroup agreed the best way to ensure regional program development is to support BPA’s regional program administration through an improved process. Please see Issue #8 – Regional Program Administration below.

As we tackled the second topic, there was consensus within the Workgroup that the general core of this issue is outside the scope of the Post-2011 review process. Capturing savings outside of a “widget-by-widget” basis and exploring new, innovative programmatic approaches could be addressed in BPA’s Quality System Strategy and Improvement (QSSI) process. The Workgroup will rely on the input of the QSSI Stakeholder Engagement Group or other engagement processes that include customer and stakeholder input.

Issue #7 – Performance Payments for Regional Programs (Scoping Doc. #14)

Problem Statement – Customers can claim performance payments for savings resulting from regional programs (e.g., Energy Smart Grocer) even though most administration costs are borne by the program

implementer. This increases the overall cost of the regional program (and makes fewer funds available for acquisition of savings) where a utility may not actually incur costs.

Stated Options

- A. Status quo: utilities can claim performance payments for regional programs that cover labor costs.
- B. Restriction: utilities cannot claim performance payments for regional programs that cover labor costs (perhaps unless they can document that they incurred costs).

Recommendation

Status Quo. Utilities can claim performance payments for regional programs that cover labor costs.

Some utilities expressed they do experience administrative costs to implement and manage the regional programs. These costs may include marketing to promote the program to target customers and coordination with some program partners. It was determined by the Workgroup that the administrative burden that would accompany tracking the performance payment to actual utility engagement on a programmatic level would far outweigh the benefit. As such, the Workgroup has opted for leaving the current construct in place.

Issue #8 – Regional Program Administration (Scoping Doc. #15)

Problem Statement – BPA administration of regional programs (e.g., Energy Smart Grocer) is more difficult without the direct acquisition program model and when funding commitments are variable or not firm. In order to optimize regional program performance and lower administrative costs, the region would benefit from considering conditions under which a direct acquisition program would be appropriate or by securing firm incentive funding commitments ahead of budget-years to appropriately size and focus the third party implementer’s efforts. From the customer perspective, it can be problematic to commit EEI funding up front but then have the third party unable to deliver the corresponding forecasted savings.

Stated Options

- A. Status quo: BPA has neither control of funding to directly acquire savings via a regional program nor a mechanism to secure firm utility funding commitments for regional programs.
- B. Direct acquisition: Under certain conditions, BPA is able to control a portion of incentive funding to directly acquire savings via a regional program.
- C. Firm utility commitments: Prior to finalizing a third party contract for a regional program, BPA has the ability to secure firm utility funding commitments for the program.

Recommendation

The Workgroup suggested an additional option for resolution:

Provide guiding principles for BPA to consider in regional program development.

The Workgroup invited representatives from BPA to provide additional clarity to better define expected outcomes from the Post 2011 Process. The BPA Programs Group was looking for a collaborative process so customers and stakeholders might co-invest in regional programs. The current suite of regional programs was created outside the construct of the current Post-2011 equity model framework; some have transferred well into the process, some have not.

The Workgroup agreed to offer the following principles as guidance for regional program development. In addition, the Workgroup will rely on existing customer focus groups, such as the Utility Sounding Board, to work with the BPA Programs Group to enhance the current roadmap development process to incorporate key milestones in the development process to include soliciting input from regional customers and stakeholders.

Guiding Principles

When considering BPA-managed program administration, BPA should consider:

- Utility customer benefits & costs at the local level
- BPA system benefits & costs
- The opportunity for all utilities to participate in some program
- The number, scale and possibly geographic location of participating customers needed for success
- The local utilities relationship to their end-use customer & the impacts/compliments on their existing efficiency programs
- The effect on local vendors and suppliers (e.g., local utility program competition)

Unresolved Issue: Issue #5 – Utility Self-Management of Incentives (Scoping Doc. #9)

Problem Statement – The existing 75% BPA-funded and 25% utility self-funded split for delivering programmatic energy savings was created in the Post-2011 framework. Some utilities would like to take this further and “opt-out” of paying in rates for EEI funding only. Additionally, some utilities would like BPA to consider using a Cost of Service Analysis to determine the allocation of BPA’s expense and capital costs.

NOTE: The original issue was titled Utility Self-Funding. The Workgroup agreed to change the title to more appropriately reflect the issue the Workgroup is resolving.

Stated Options

- A. Status quo: the 75/25 split remains as-is.
- B. Percentage change: a split remains but the 75/25 percentages are adjusted either up or down.
- C. EEI opt-out: electing utilities opt-out of the EEI paradigm if certain conditions are met. This option does not include opting out of paying for the BPA-managed portion of EE’s capital budget. (BPA will entertain well-formed proposals that meet specific criteria supplied by BPA.)
- D. Cost of Service Analysis: BPA costs are allocated to customers using a Cost of Service Analysis.

Next Steps

The Workgroup is continuing to work through the month of May on the potential approaches for self-management of utility incentives. Our discussions will also include the accountability that utility self-management may impose to ensure BPA’s compliance with regional targets.

Currently, five potential approaches have been identified by the Workgroup:

- Status Quo

- Billing Credit
- Expense Rate Credit
- Pre-Pay
- Rate-Adder

At the time of writing this recommendations report, neither was complete enough to offer a final recommendation.

If others would like to join our Workgroup and continue the discussion on the self-management of utility incentives, please contact the co-chairs or your Energy Efficiency Representative. Scheduled meeting dates are May 16 and May 21, if needed. Previous meeting materials are posted on the BPA Post-2011 website.

Please contact co-chairs listed below for follow-up or feel free to contact your respective Energy Efficiency Representative.

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