Post-2011 Review

Workgroup 1:
Model for Achieving Programmatic Savings

January 29, 2014


Please don't put your call on hold. I will have to disconnect you if you do….

Agenda

- Check In / Roll Call
- Operational Excellence
  - Review of Notes / Discussion on structure going forward that lends itself towards a final recommendation document
- Desired Outcomes for WG1
  - Brief review as we prepare to dive into the issues
- Post-2011 Facts & Figures – follow up
- Prioritization of Issues
  - Review of the outcomes
- Diving into the issues
- Next steps - 2:45 pm
- Adjourn – 3:00 pm

OPERATIONAL EXCELLENCE

- From our first meeting…
  - Schedule meetings on calendars
  - Materials in advance
  - One conversation at a time
  - Acknowledge our phone participants
  - Think about solutions for the long term as well as short term
- Review of the Jan 16 meeting notes
- Group Input on Meeting Notes Structure
  - Identify a structure that may lend itself to assist us in preparing a final recommendations report to BPA

Sample Note Structure

- Meeting Logistics
- Participants - In Room / By Phone
- Executive Summary
  - High level summary of the meeting. Includes action items or follow up topics
- Full Report
  - Provides more in-depth notes on the discussions and outcomes. Broken out by topic.

Desired Outcomes…

- Proposals that are implementable
- Make the overall efficiency we accomplish better
- Meet BPA’s requirements
- Appreciate the role of the utility
- Helps utilities acquire savings through easier operational mechanisms
- Agreement amongst the WG that we’re on the same page moving forward (even if it means giving up on our personal perspective)
- Allow time for the WG members to process the outcomes

Desired Outcomes, cont'd…

- Regardless of size, all utilities can aggressively participate in BPA programs and obtain energy savings
- Encourage lowest cost resources; reduce barriers to lowest cost acquisition
- Work judiciously to stay on schedule
- Early identification of 'show-stoppers'
- Try to maintain the flexibility of Option 1 and Option 2 customers (recognize not all utilities are created equal…)
- We can freely express opinions
- Keep what works

Issue Prioritization - Pick Your Top 5

1. EEI Allocation Methodology Using TOCAs 21 Votes
2. Two-Year EEI Budgets (“roll over”) 21 Votes
3. BPA Redirect of EEI Budgets (“take back”) 10 Votes
4. BPA’s Backstop Role 11 Votes
5. Utility Self-Funding 21 Votes
6. Limitations of the Post-2011 Framework 10 Votes
7. Perf Payments for Regional Programs 1 Vote
8. Regional Program Administration 8 Votes

Issue Prioritization ReCategorized

1 EEI Allocation Methodology Using TOCAs 21 Votes

2 BPA's Backstop Role 11 Votes

Utility Self-Funding 21 Votes

3 Two-Year EEI Budgets ("roll over")* 21 Votes

BPA Redirect of EEI Budgets ("take back") 10 Votes

4 Limitations of the Post-2011 Framework 10 Votes

Regional Program Administration 8 Votes

5 Perf Payments for Regional Programs 1 Vote

Two-Year EEI Budgets ("roll over")* 21 Votes

**note the issue is grouped twice*

BPA Working Assumptions

- 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 and 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)

Issue #1 - EEI Allocation Methodology Using TOCAs (Scoping Doc. Item 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.

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 “Utility Self-Funding” issue below).

Issue #1 Discussion – Part A

- Options A thru D – EEI Allocation Using TOCA
  - The method of allocating EEI budgets is separate from utility self funding all program incentives
  - This issue presumes that BPA will continue to provide EEI incentive budgets from capitalization or expensed in rates
  - Criteria to evaluate alternative allocations and the current allocation methods should be developed
  - Pros and Cons of the current allocation and alternatives should be developed
  - Alternative allocation methods should be explored, such as using CPAs

Issue #1 Discussion – Part B

- Option E - Some utilities are seeking to self manage all their EEI incentive dollars
  - Possible constituent classes
    - I 937 utilities
    - Non I 937 utilities
    - Status Quo utilities

Should it move to / more appropriately aligned with…..

Issue #5 – Utility Self-Funding (Scoping Doc. Item 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.

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.

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 “Utility Self-Funding” issue below).

What we have heard from customers regarding funding

- **Capital:** Some customers do not want BPA to capitalize conservation costs on their behalf, especially in light of BPA's access to capital constraints.
- **EEI:** Some customers do not like the fundamental nature of the Energy Efficiency Incentive – customers pay in rates and BPA uses the funds to acquire savings.
- **Transactional:** Some customers consider it a burden to "transact" with/report to BPA in order to receive payment for savings achievements.

Funding Alternatives

- **What we will consider….**
  - **Alternative approaches to implement the EEI incentive structure**
  - **Proposals that work within the existing RD construct & other agency drivers**
  - **Proposals that are consistent with BPA financial regs & consistent with sound business practices**

- **What we won't consider…**
  - **Proposals that adversely impact other customers**
  - **Proposals that request funding for specific programmatic costs & services (e.g., third-party contract/programs)**
  - **Proposals that exclude funding for BPA administered grants (e.g., NEEA)**

Funding Alternatives

- A few options on the table to get the discussion going
  - **Conservation Prepay**
  - **Conservation Rate Credit**
  - **Revise the 75/25 Split**
  - **Program Evaluation**
  - **Others?**

Funding Alternatives

- **Conservation Prepay:** customers bring capital to BPA in exchange for a bill credit that repays the cash with interest.
  - Addresses Capital and EEI issues

- **Conservation Rate Credit:** revert back to using a rate credit with some changes to the previous version. A rate credit does not work with capitalizing energy efficiency so the agency would need to revert back to expense.
  - Addresses Capital and EEI issues
  - Rate impact is being looked into by Finance

Funding Alternatives

- **Revise the 75/25 Split:** may or may not result in reduced budgets for all customers. The option could involve only some customers taking on more self-funding responsibility, which would consequently adjust the 75/25 split.
  - Addresses Capital issue
  - May require some utility-specific self-funding targets
  - Major implications for BPA as you move toward more self-funding, e.g., BPA “acquires” less

- **Program Evaluation:** Rather than use an invoice-by-invoice approach to paying utilities for savings achievements, EE would conduct program evaluations. This would allow utilities to avoid some of the burden of having to comply with BPA’s requirements in order to access EEI funds while still ensuring BPA is acquiring reliable energy savings.
  - Addresses Transactional issue and maybe the Capital issue

Issue Slides

To Keep as a Point of Reference if we need to have them during our discussion

Issue #1 - EEI Allocation Methodology Using TOCAs (Scoping Doc. Item 1)

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Options –

- A. Status quo: allocation is based on TOCAs without consideration of potential.
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- 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 “Utility Self-Funding” issue below).

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

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.3
- 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.

Issue #3 – BPA Redirect of EEI Funds (Scoping Doc. Item 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.”4 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.

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.

Issue #4 – BPA’s Backstop Role (Scoping Doc. Item 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.”6

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.

Issue #5 – Utility Self-Funding (Scoping Doc. Item 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.

Options –

A. Status quo: the 75/25 split remains as-is.

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D. Cost of Service Analysis: BPA costs are allocated to customers using a Cost of Service Analysis.

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

Options –

- 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.

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

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).

Issue #8 – Regional Program Administration (Scoping Doc. Item 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.

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.