Post-2011 Review

Workgroup 1:
Model for Achieving Programmatic Savings

April 23, 2014


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

Agenda

- Check In / Roll Call
- Workgroup Wrap Up Activities
- Follow Up Items / Action Items
  - Rollover Issue
  - Regional Program Administration
- NEXT STEPS: Self Management of Utility Incentives
- Next steps - 2:50 pm
- Adjourn – 3:00 pm

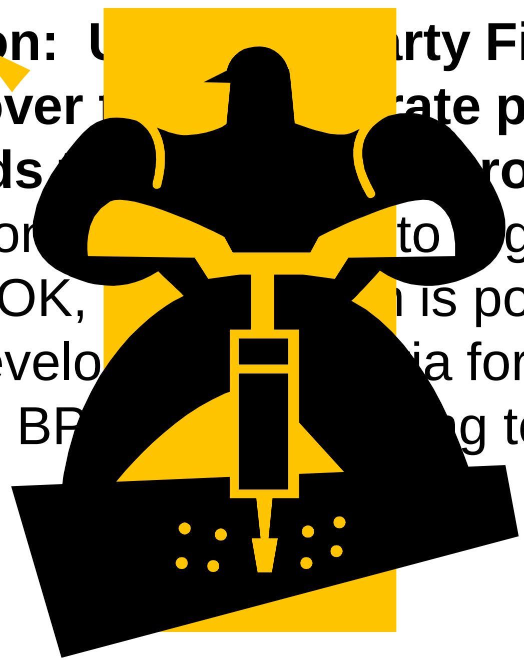
Issue Resolutions…

- ✓ Issue #1: EEI Allocation Methodology Using TOCAs
  - 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.
  - **Recommendation: Status quo: allocation is based on TOCAs without consideration of potential.** If not TOCA based, a TOCA-split allocation 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).

Issue Resolutions…

✓ Issue #2: Two-Year EEI Budgets, aka Roll Over

- 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.
- **Recommendation: U[illegible]rty Financing, customers are able to roll over t[illegible]rate period an amount of unused EEI funds [illegible]rojects or programs.** Roll-over extensio[illegible]to [illegible]gional target achievements (if OK, [illegible]n is possible; if not, then limit the roll-over). Develo[illegible]ia for evaluation of the extension policy. BP[illegible]g to prohibit the roll-over as well.



Proposal for Consideration

- Utilities are seeking concurrence to receive BPA approval to extend or roll over unspent portions of their EEI funds beyond the original rate period.

- A utility customer may request that BPA roll over a portion of its EEI budget into a subsequent rate period under the following guidelines. The actual determination of the rollover amount would depend on the size of the project being funded, the length of time the rollover is requested, and the size of the energy savings.

Guidelines

By June 1st of the 2nd year of the original rate period a utility customer must request approval in writing from BPA to roll over EEI funds

Roll over will only be allowed for projects and programs that were initiated no less than 6 months from the end of the rate period, and that were not completed for reasons beyond the utility's control. Examples of projects or programs types that could be eligible for roll over:

- Despite the customer's and utility's demonstrated best efforts, M&V of a large industrial or commercial project could not be completed in time for submission.
- A utility customer program delay might be caused by equipment orders or shipping, contractor delays or emergency circumstances.

BPA will be the arbiter of whether the circumstances for the delay qualify the utility for roll over of funds

Any amount rolled over must be claimed within 6 months of the start of the rate period, and if not claimed, would return to the third-party trustee account and used for future incentives.

Issue Resolutions…

✓ Issue #3: BPA Redirect of EEI Funds

- Problem statement: EEI budgets not being spent should have those remaining funds available to other utilities as supplemental funding. BPA must determine whether or not it will exercise its right to redirect EEI funds prior to the end of the rate period and make those funds available to other customers.
- **REVISED Recommendation: BPA does not exercise its right to “redirect funds” during the FY 2014-2015 rate period.** For subsequent rate periods, there should be some context to develop a threshold that gives BPA the discretion to redirect a utility’s EEI funds, especially if targets are at risk.

Issue Resolutions…

✓ Issue #4: BPA Backstop Role

- Problem statement: BPA's existing backstop role is not explicitly defined and some customers and stakeholders would like more clarity.
- **Recommendation: BPA's role would be conditional.** If it appears the targets are 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.

Outstanding Issue #6 – Limitations of the Post-2011 Framework

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.

Recommendation: Separate the discussion into two topics.

First phase is rolled into Issue 8, Regional Program Administration.

Second phase – Mary & Eugene to propose language that addresses innovative program savings as a customer concern.

Issue Resolutions…

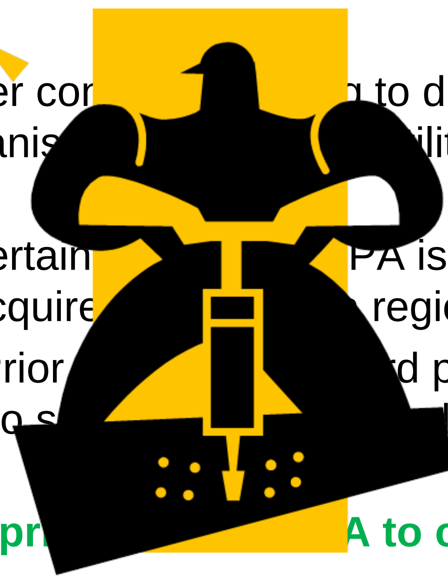
✓ Issue #7: Performance Payments for Regional Programs

- Problem statement: Customers can claim performance payments for savings resulting from regional programs 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
- **Recommendation: Status quo - utilities can claim performance payments for regional programs that cover labor costs.**

Outstanding Issue #8 – Regional Program Administration

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 cor [illegible] to directly acquire savings via a regional program nor a mechanis [illegible] ility funding commitments for regional programs.
- B. Direct acquisition: Under certain [illegible] PA is able to control a portion of incentive funding to directly acquire [illegible] regional program.
- C. Firm utility commitments: Prior [illegible] d party contract for a regional program, BPA has the ability to s [illegible] ling commitments for the program.
- **D. Other – Provide guiding pr [illegible] A to consider in regional program administration**

Switching Up…

- Refer to Excel Document

  Regional Third Party Program Matrix

- Refer to PDF Document

  Program Development Review Process

Initial Thoughts - Guiding Principles

- Comment: the current pledge model opens risk for over scope contract terms or vice versa
- For existing programs, determine if there is a customer benefit before changing
- Determine who would be impacted (Pubic Power, NEEA, ETO, IOU)
- BPA to flush out initial thoughts on new programs
- Funnel ideas through USB; further design assistance from all customers before contracting
- Always incorporate utility/notification in the process
- Align activity with I-937 reporting/timing
- BPA federal procurement requirements

Issue Resolutions…

✓ Issue #5: Utility Self-Management of Incentives

- 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.

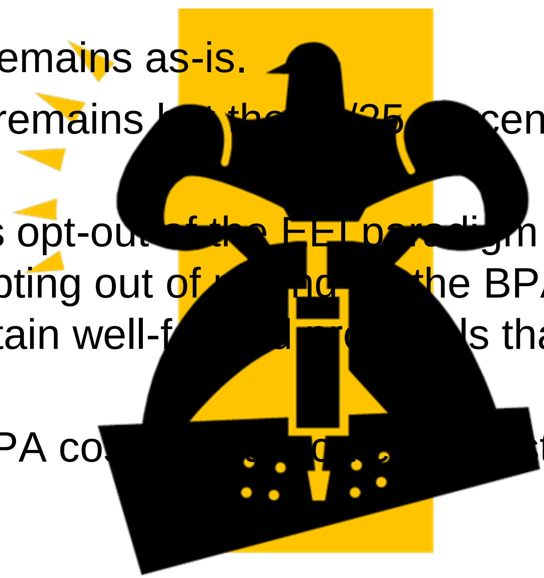
Options –

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 [illegible] the BPA-managed portion of EE's capital budget. (BPA will entertain well-[illegible]s that meet specific criteria supplied by BPA.)

D. Cost of Service Analysis: BPA co[illegible]tomers using a Cost of Service Analysis.



Unfinished Business

- Assuming…
  - the self-management of incentives discussion will not conclude today…
  - the workgroup would like to offer a recommendation(s) to BPA for consideration…
- Then we're proposing some additional meetings times for the workgroup to continue the discussion…

Finishing the Business

- Present 7 recommendations on May 8
- Schedule 3 additional meetings
    - April 30, May 14, May 21 (already scheduled)
- What does this do?
    - Gives the WG more time to flush out a recommendation(s) for BPA consideration
    - Allows BPA staff to present the WG recommendation to the Power Management Committee (end of May)
    - BPA to prepare the Agency Decision Framework* document (4/30 – 5/31)
    - Presentation at the June PMC meeting

*The ADF supports achievement of the agency's business objectives of risk informed decision making and transparency through structured analysis. Includes SME's from Legal, Finance, Public Interest, BPA Processes, etc.

Some Working Assumptions…

- All non-incentive EE costs (e.g., regional third party contract costs) are collected on a TOCA-basis, which is no change from the status quo, and the alternatives are focused only on incentives.
- These scenarios are the result of conversations within the workgroup and not representative of the views of BPA Finance Dept.
- Members of the workgroup that work on rates have performed an initial analysis on the impacts on rates. They estimate ~$20M shift from capital to expense equates to ~1% rate increase in the PF rate.
- Energy Efficiency is currently indifferent to how funds are allocated (capital or expensed), but recognize the CIR and IPR processes underway.
- As we work through the options, we recognize other pros/cons may surface as conversations continue. These alternatives may not be mutually exclusive. Please consider offering additional insights as each option is presented.

Issue Slides

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

Items noted in green indicate the group has consensus on that Issue/Topic.

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.

DECISION: Option A represents group consensus, with possible revisit to Option C. Option E moved to Issue #9.

- **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 #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.
- **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-Management of Incentives (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.

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., EnergySmart 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.