Post-2011 Review

Workgroup 1: Model for Achieving Programmatic Savings

March 26, 2014


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

Agenda

- Check In / Roll Call
- Debrief - March 20 Big Tent Meeting
- Any Follow Up Items / Action Items
- 5 Outstanding Issues – continue discussion
- Self Management of Utility Incentives – continue discussion
- Next steps - 2:50 pm
- Adjourn – 3:00 pm

OPERATIONAL EXCELLENCE

- Rules of Engagement…
  - Introduce yourself before speaking
  - One conversation at a time (minimize side-bar chats)
  - Acknowledge our phone participants
  - Think about solutions for the long term as well as short term

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, especially as it relates to custom projects
- We can freely express opinions
- Keep what works

Action Items

What	Who	When/Outcome
Morph Large Project Fund issue into "capturing large projects" and introduced to Workgroup 4	BPA	✓ February 10
Request for a Finance Representative to attend an upcoming workgroup meeting	BPA	✓ February 18
Check with legal re passing on the responsibility for acquiring to the utilities, a la the EPA model (the utility would be BPA's agent)?	BPA	✓ Not possible. Clear Air and Clean Water Acts have statutory provisions that allow state requirements with EPA oversight; the NPA has no such statutory provisions.
If a portion of utilities opt-out of BPA's capital borrowing, would the costs of borrowing be allocated to the cost pool and potentially lead to a transfer of costs to the utilities that don't opt-out. Is there a way to figure this out in the near term?	BPA	✓ Determined the answer is no. BPA would not support such a cost transfer under any potential new framework.

Action Items

What	Who	When/Outcome
Request for BPA to provide a general estimate of BPA cost to implement the self-management of incentives approach	BPA	Deferred until the workgroup can better define the working parameters.
Obtain from BPA just how low the 75/25 split could go	BPA	Not a simple answer; under consideration based on workgroup outcomes.
Update the Facts & Figures Document based on data requests from the workgroup	BPA	✓ March 20 – Eugene Big Tent Meeting
Obtain a copy of the 1986 BPA policy on “acquire”	BPA	✓ March 5
Cost savings calculations associated with self-management of utility incentives	Tacoma, Snohomish, Others	✓ March 5
One-pager on CIR/IPR meetings	BPA	✓ Feb 26, Posted online
Clarification on Issues 6, 7 and 8	BPA	✓ March 5

Action Items

What	Who	When/Outcome
Follow up with Finance on 3rd Party Financing / roll-over issue, BPA back stop, etc.	BPA / Workgroup 1 members	✓ March 5
Pros/Cons on conservation pre-pay	Workgroup 1 members	✓ March 5
Share Tacoma's retail rate impact analysis with the workgroup	BPA to distribute	???
Representative from BPA rate staff attend a workgroup meeting	BPA	???
Post a copy of the 1986 BPA policy on "acquire" on the Post-2011 website	BPA	✓ March 26

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

Issue Prioritization

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

Follow Up on Outstanding Issues

Morning

- Roll Over Funding
- BPA Redirect of EEI Funds
- BPA Backstop Role
- Limitations of Post-2011 Framework
- Regional Program Administration

Afternoon

- Self Management of Utility Incentives

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.

➢ Previous discussions:

- Linked to BPA backstop role (focus on savings/target acquisition)
- Linked to WG5 – Reporting & Verification
- Financial reasons for excluding specific projects for roll over

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…. The EE Post-2011 Implementation Program states, "ECA Implementation Budgets will not involuntarily be reduced during the FY 2012-2013 rate period…

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.
- *C. Other???*

➢ Previous discussions:

  - Amount of EEI remained at the end of the rate period. F&F: 67 customers, $1.054M; ~.88% of FY12/13 budget

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.
- *E. Other??*

Issue #4 – BPA's Backstop Role, cont'd

- Previous discussions:
  - Carry Over from initial Post-2011 process; still not totally flushed out
  - Don't want this to add utility administrative burden, e.g., term of oversight or frequency of reporting/forecasting
  - What are we 'backstopping' for? The larger Council target? BPA annual target? BPA rate period target?
  - What are the triggers for backstop? What would we do? Ex, convene a stakeholder group for review of annual target? 2 year rate period target? 5 year target Council target?
  - Clarification on Administrator's discretion to implement the backstop role? Does the WG want to offer a recommendation?

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 #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.
- **D. Other – Provide guiding principles for BPA to consider in regional program administration**

Guiding Principles Discussion

- 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

What is the workgroup trying to solve?

- How do we achieve BPA's savings goals while:
  A. relieving pressure on BPA's capital borrowing;
  B. offering customers some flexibility (e.g., 100% or partial self-management of incentives);
  C. offering some customers the ability to avoid having BPA incur capital costs on their behalf; and
  D. avoiding complicated and costly implementation of alternatives

Separating the Components

1. How should BPA finance the incentive costs for BPA's savings acquisition?
   - Expense
   - Capital
   - Relationship between near/long term costs

2. How should BPA structure its incentive funding relationship with customers?
   - Alternatives are considered in the following slides

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.

Status Quo – Today's Model

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
75/25 programmatic split remains and incentives continue to be capitalized	• Keeps things simple • Model is understood • Successful in achieving FY12/13 targets	• Doesn't fully address some customers' concerns about BPA incurring capital costs on their behalf • Doesn't provide an option for 100% self-management of incentives without capitalizing costs (under the current model) • Doesn't relieve any EE pressure on BPA's capital borrowing • Higher overall costs in the long run due to borrowing costs		

Revise down the 75/25 programmatic split for all utilities (on a regional level)

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
Customers, on average, take on more responsibility for delivering savings without BPA funding, which would result in proportionally reduced EEI budgets for all customers	• Partially addresses some customers' concerns about BPA incurring capital costs on their behalf when they expense conservation at the retail level • Relieves some EE pressure on BPA's capital borrowing	• Doesn't fully address some customers' concerns about BPA incurring capital costs on their behalf • Doesn't provide an option for 100% self-management of incentives • Higher overall costs in the long run due to borrowing costs • Long term adjustments will have rate impacts	• As the percentages change and less funding flows through BPA, what accountability mechanism would be needed to ensure adequate savings are delivered to meet BPA's savings commitments?	

Expense Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
The EE capital budget would be moved to expense and customers would receive their EEI budgets broken down into a monthly rate credit	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves *all* EE pressure on BPA's capital borrowing • Lower overall costs in the long run due to no borrowing costs	• Doesn't provide an option for 100% self-management of incentives • Near term rate impact for customers (there's flexibility on the timing of the transition to expense)	• How would the program be designed differently, if at all, from the last rate credit construct, i.e., would there be an opportunity to improve on the previous expense rate credit? • Are there implications for reporting of savings to BPA	

Capital Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
A monthly rate credit–for debt service costs not incurred—would be given to those customers that elect to 100% self-finance their savings acquisition	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves some EE pressure on BPA's capital borrowing (i.e., not causing BPA to borrow) • Provides an option for 100% self-management of incentives • BPA borrows less under this approach	• Is very complicated from a BPA cost recovery/rate making perspective • Higher overall costs in the long run due to borrowing costs • Takes away flexibility in setting rates	• For those customers electing the capital rate credit, what accountability mechanism would be needed to ensure savings are delivered and would other customers be impacted either from a budget or savings delivery expectation perspective?	

Flexible Budgets – Rate Adder

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
Customers can elect more or less than their TOCA-based BPA incentive budgets; costs are collected in rates in the form of a rate adder (as opposed to a credit approach)	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Provides an option for 100% self-management of incentives • If capitalized, relieves some EE pressure on BPA's capital borrowing • Is simpler from a BPA cost recovery/rate making perspective than some other options • Provides all customers flexibility whether incentives are expensed or capitalized	• Makes for a more complicated BPA budgeting process due to customer flexibility • If incentives are capitalized, higher overall costs in the long run due to borrowing costs	• What accountability mechanism would be needed to ensure adequate savings are delivered to meet BPA's savings commitments? • What are the implications for BPA budgeting if customers are able to elect their budget amounts? • Could budget flexibility be used to address capturing large projects?	

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.
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- 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.