Energy Efficiency Post-2011 Review
Workgroup 1 Meeting Notes
Wednesday, March 26, 2014
9:00 – 3:00 pm
PNGC Board Room, Portland

Overview/Summary

- Previous action items were reviewed. New action item: resent Jim Russell's financial impact model to the Workgroup.
- Identified six (6) outstanding issues. The agenda was set to discuss the majority of the issues in the morning, and spend the afternoon discussing the self-management of utility incentives issue. Morning issues are identified as follows:
- Two-Year EEI Budgets, aka "Roll Over"
    - Discussion on any financial limitations associated with 3rd party financing
    - Does roll-over apply to project and/or measures?
    - In other federal agencies, the term used is "extension"
    - Recognize the impacts of roll-over on self-financing
- BPA Redirect of EEI Funds
    - Custom projects are being left on the table
    - The region was close to fully utilizing the EEI budget (less than 1% left unspent).
    - Not a lot of dollars left, but customers and stakeholders would like all dollars spent on conservation and achieve additional savings.
    - Should BPA redirect funds from customers that clearly have no interest in spending their EEI?
    - Pros and Cons to this were discussed
- BPA Backstop Role
    - Discussed remarks from the previous minutes on the topic.
    - Tried to focus on the future rather than the past, especially now that the Post 2011 framework has been tested.
    - BPA should act in consultation with stakeholders and customers.
    - The BPA Administrator has made a policy commitment to the target.
- Self Management of Utility Incentives
    - Doug offered perspectives, pros and cons, on each of the alternatives.
    - The discussion primarily focused on the Rate Adder Option.
    - There was a suggestion to keep capital rate credit on the table as a back up to the rate adder proposal.
    - Matt walked the workgroup through various components of the rate adder option.
    - Under this scenario, a rate schedule would be applied to each customer.
    - There was ongoing discussion on the target accountability for any customer electing to self manage their conservation and not have BPA borrow on their behalf….

Decision/Action Items:

Roll-Over/Extension

- Linkage to projects and/or programs (not a way to sit on money or forego reporting requirements

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- Roll-over/extension possibly linked to target achievements; if targets are ok, roll over is an option. If targets are in jeopardy, then limit the roll-over.)
- Primary focus on Option C, Project and Program Specific. Develop some criteria for evaluation of a roll-over/extension policy. BPA must have willingness to turn customers down and say no.

BPA Redirect of EEI Funds
- Status Quo. Need some context to develop a threshold that gives BPA the discretion to redirect a utility's EEI funds, especially if targets are at risk.

BPA Backstop Role
- There are various reasons why the region may not achieve the target.
- There should be conversations with the region, customers and stakeholders, to share those specifics if it appears the target is in jeopardy.
- There should be conversations with the same regional group to collectively discuss how BPA will implement its backstop role in order to achieve the target.

Regional Program Administration
- The workgroup will continue to discuss and offer guiding principles for BPA to consider in regional program administration development.

Self Management of Utility Incentives
- Rate Adder model analysis will be distributed to the group.

Welcome, Roll Call & Review of the Agenda

Attendees:

Co-Chairs:
Doug Brawley, PNGC
Margaret Lewis, BPA

Attendees (P=Phone)
Margaret Ryan, PNGC, P
Nancy Hirsch, NWEC
Pam Sporborg, NRU
Larry Blaufus, Clark Public Utilities
Eugene Rosolie, Cowlitz
Sandi Edgemon, City of Richland
Matthias Jarvegren, Clallam PUD
Bo Downen, PPC
Dan Morehouse, EWEB, P
Tim Lammers, Columbia River PUD, P
Jess Kincaid, ODOE, P
Brian Fawcett, Clatskanie, P
Wade Carey, Central Lincoln, P
Nick Brod, PECI, P
Kevin Smit, EEC, P
Linda Esparza, Franklin PUD, P
Tom Schumacher, Benton PUD, P
Jim Russell, Tacoma, P
John Walkowiak, Tacoma, P
Tom Karier, NWPCC, P
Mike Little, SCL, P
Ryan Neal, WAPAG, P
Eric Miller, Benton REA, P
Van Ashton, Idaho Falls, P
Kathy Moore, Umatilla, P
Keith Lockhart, Springfield, P

BPA Participants:
Kim Thompson, BPA
Kyna Alders, BPA
Matt Tidwell, BPA
Mark Ralston, BPA, P
Summer Goodwin, BPA
Darby Collins, BPA, P
David Moody, BPA, P
Shannon Green, BPA, P

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Notes[1]

Review of Action Items

- **Margaret:** Action items have been addressed.

- **Review of Outstanding Issues**
- **Issue #2: Roll Over**
  - **Doug:** I recall Kyna saying roll-over would be more possible with third party financing. If you move back to expensing EEI, there could still be a possibility since the problem seems to be from treasury borrowing.
  - **Kim:** we'll need to run that one to ground since all other budgets in BPA are annual use-or-lose.
  - **Person 26:** if we are dealing with third party financing, what would the constraints be?
  - **Matt:** Margaret, let's make it an action item to get Kyna to answer what restrictions there may be.
  - **Person 26:** the question may be about when the targets are achieved, in addition to whether funds can remain in a utility's trustee account.
  - **Person 5:** my question is about BPA's backstop roll. What if we come up short on the target but you have a bunch of utilities that have sat on their money and left it in their trustee accounts. You could put a restriction on rolling over to the next year and that should take care of the problem.
  - **Person 1:** our original suggestion was to have roll over be tied to specific projects.
  - **Person 3:** I don't want this to be become a tracking nightmare and an administrative burden for utilities or BPA.
  - **Person 5:** to ease the situation, easing the requirements for progress payments may be a possibility. The 200,000 requirement of today makes it more difficult for smaller utilities.
  - **Matt:** does this make it unfair for utilities that may not have projects?
  - **Person 2:** I was going to suggest time and project, so it could be a specific project or rolling over for a specific amount of time.
  - **Person 1:** it should be tied to projects that are already started, not rolling over for new projects in the next rate period. The completion date is the driving force. The intent was not to relieve the pressure on reporting before the end of the rate period. It's for those projects that just need another month or two after the close out of a rate period.
  - **Person 3:** I think Person 2's suggestion would be a good one. You're talking about trying to budget to zero, which causes a lot of stress for utilities. Allowing 3-5% of the budget would help with trying to spend every dollar.
  - **Person 5:** being assigned a budget and having to use it results in different potential solutions then a funding model that has utilities determine its own budget. We should come back to this issue based on our decision on the funding model.
  - **Person 10:** from program administration, it would be really nice to have some form of roll over available.

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- **Person 18:** in other federal agencies the term "roll over" isn't used. The term "extension" is used and that might be a better way to think of it.
- **Doug:** BPA could create a sliding scale based on progress being made. Let's tie it to the notion of progress toward the targets.
- **Person 3:** I like the idea, but I get worried about administrative burden.
- **Person 22:** I prefer the ability to not have too many restrictions.
- **Person 1:** maybe we just start off with tying it to projects.
- **Matt:** I'd like to push us. What are we really trying to solve for and how realistic is it? We might be spending a lot of time trying to come up with solutions for something that not's very likely to happen. The fear is not getting savings and meeting the targets but is it realistic that utilities would just sit on their money and not use it and that a large amount of utilities would do this?
- **Kim:** I don't think the utilities will visibly see the impact of having their funds sitting in their trustee account as the main motivator for spending the money and therefore there may be motivations for not spending the money.
- **Doug:** it seems manageable to start with tying it to projects.
- **Person 5:** I'm concerned about the impact of roll over on self-funding. If you get to roll over, that diminishes self-funding.
- **Matt:** we need to ask Kyna what the mechanism would be for BPA taking back the funds from the trustee.
- **Person 1:** we're leaning toward option c (project and program specific).
- **Person 5:** I'm concerned about the criteria and whether BPA would actually enforce the criteria because if it didn't the whole thing breaks down.
- **Kim:** is there an interest in utilities wanting to pull funds forward from the future?
- **Matt:** the rate adder alternative would allow utilities to borrow more than their EEI budgets, which effectively pulls funds forward from the future.
- **Person 17:** question about whether money in the trustee account incurs interest if BPA makes P&I payments.

- **Issue #3: BPA Redirect of EEI Funds**
  - **Kyna:** assuming everything is the same, and without any carry over provision, under the 3rd party model, the unused EEI budgets would remain at the trustee, so BPA would make those funds unavailable to that specific utility or utilities and then because the money remains in the trustee accounts, BPA would simply borrow a bit less the next bonding round.
  - **Kyna:** right now unused EE money goes back to the general fund .With 3rd party financing the budget would become separate from all other BPA programs so unused funds would remain at the trustee if funds aren't spent in a given rate period.
  - **Matt:** is the constraint of the two year rate causing spending for spending sake… would we prefer deploying the funds as strategically as possible rather than risk losing the funds to EE if they aren't spent before the end of the rate period.

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- **Person 1:** I have seen custom projects left on the table because the utility is concerned more about spending the budget.
- **Person 5:** it's driven by dollars and the need to meet targets. So, yes, at some point it's going to be about doing short term measure life, easy measures for the sake of getting the savings.
- **Person 24:** the two year rate period really is a constraint for custom projects.
- **Matt:** I wanted people to think about how two year fixed budgets and treating all savings equally might create a framework that leads to the deployment of incentives in a less than optimized/strategic fashion.
- **Person 5:** yes some people just push out measures to spend their money, but it's also partly driven by end-user demand and what they want to invest in.
- **Person 2:** we're alright with five year targets so long as we're tracking our reporting and knowing how we're doing throughout the rate period.
- **Person 3:** given how close we were in terms of spending all the money, it doesn't seem to be an issue.
- **Person 2:** any funds left over could be shipped out to the state agencies for low income.
- **Kim:** we have low income grants as an expense line item whereas EEI is capitalized, I'm not sure if we could fund the grants with capital dollars.
- **Person 2:** we could wait to see if this ever becomes a problem before we spend too much time trying to figure out what to do.
- **Doug:** when you have utilities that are clear about not wanting to spend their EEI, BPA should redirect those funds.
- **Person 5:** it should be a judgment call for BPA.
- **Person 26:** you should just allocate it to utilities that have self-funded and do it in September.
- **Person 5:** that provides an incentive to reporting self-funded savings earlier.
- **Person 26:** it would be more important to spend the money than to have the funding skew the amount of BPA-funded vs. self-funded savings.
- **Person 3:** from a customer relationship standpoint, I can't imagine BPA would want to be in that position to bring down the hammer and redirect the funds.
- **Person 5:** so this is really up to BPA to tell us whether they would want to be in the position to drop the hammer.
- **Kim:** I'm concerned about what's being proposed in that it doesn't deliver any additional savings.
- **Person 26:** but it's possible that you get additional savings in the next period. And if you don't do something you certainly don't get any additional savings.
- **Kim:** we should talk about what threshold that would trigger BPA action.
- **Matt:** sounds like we would need context to determine the threshold so it sounds like we are agreeing to give BPA the discretion of exercising its right to redirect if BPA needs every kWh possible.

- **Issue #4:** BPA's Backstop Role

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- **Doug:** I'd like the discussion to be about the future rather than the past and what the problems were in the past that we were worried about. This was before we knew that the Post-2011 framework works.
- **Person 3:** The Post-2011 framework has worked so this isn't really an issue and doesn't need any solution since it's not really a problem.
- **Kim:** my view of the status quo is that we haven't defined specific BPA actions because actions will be context-relevant. If we aren't on track we would need to analyze why and then what actions correspond with the why.
- **Person 26:** BPA would need to do that analysis and look at solutions in consultation with customers.
- **Person 2:** I would add that BPA do it in consultation with stakeholders, not just customers. We want a firm commitment from BPA that they will exercise the backstop.
- **Person 5:** it would be interested to compare the difference in the reported numbers to the Council from BPA and directly from the utilities.
- **Person 26:** regarding non-reportables, we have a new RCM program, we have new construction that doesn't align with BPA requirements. So BPA is undercounting the actual savings happening in the region.
- **Person 6:** option C about BPA not having a backstop role, doesn't that run afoul of BPA Power Act obligations?
- **Matt:** there's the regulatory obligation and the policy commitment. From the Act, the administrator has to acquire conservation consistent with the Council's plan, but that doesn't mean achieving the exact target in the Plan. However, from a policy perspective, the BPA administrator recently made an explicit policy commitment to the target.

- **Alternative Funding Models continued discussion**
  - **Doug:** we thought we would start with the rate adder and have the workgroup think through the implications of the rate adder alternative.
  - **Person 17:** if a utility wanted to fund their EEI either through expense or capital, would that be possible.
  - **Matt:** we would need to ask Kyna about whether BPA could do both.
  - **Person 26:** I don't know enough about the capital rate credit to be able to determine our interest level.
  - **Person 2:** is there a complication with the number of utilities that would elect this option.
  - **Person 5:** is a part of this option concern all or nothing?
  - **Person 17:** I'd like to leave it on the table in case the rate adder one falls through.
  - Is there interest in the Capital Rate Credit?
  - **Person 26** – not knowing enough about how ratemaking works, I can't really say whether or not we are interested in exploring that.
  - Is there a complication from BPA's perspective? This is in essence a tool for self-funding for customers. And just a handful of customers may use it.

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- **Matt** – the number of utilities does add some complication and there would be some if customers want to opt in and then opt out rather than do it on a whole [regional dialogue].
- **Person 17** - If rate adder sinks, then capital rate credit might be our backup.
- **Person 8** – this gets to same end as rate adder but a different way?
- **Person 26** – adder could have some additional flexibility but we haven't gotten there yet.
- **Matt - Y**es. Frees up capital, not including capital on their behalf, does give them 100 percent opt out.
- Flexible budgets - Rate adder
- **Matt** – of the options that remain on the table, this is the one that I have spent the most time thinking about the details (beyond what you have seen for all of them). Here are some initial thoughts and then I would like to test it with you
    1. Component 1: Set base rate for all customers: any portion of capital cost that continue to be BPA managed that is collected from all customers (30%), no different from today (Costs allocated on a TOCA basis to manage BPA costs.)
    2. Component 2
    a) Step A -BPA takes programmatic target (kWh) and allocates it to all customers on total retail load basis
    b) Step B - BPA uses an assumed regional costs * each customer's portion of the target = initial EEI/incentive budget. (Alternative – Keep with the TOCA allocation. You're missing what utilities are really planning for self fund.
    3. Component 3 – Four options:
        - Take budget as calculated
        - Take none of it and commits to 100% of self-management of incentives
        - utility asks for more than the allocated budget. Potentially handles LPF but does mean BPA is borrowing more money than it otherwise would. Goal is to reduce capital exposure. (Could be impacted by Option 2)
        - Takes less than the allocated budget
    4. Component 4 – BPA adds up all of the budget amounts that are now remaining after a selection of component 3. Finance takes the total amount for third party financing. The rate adder is the principle/interest piece for your total amount borrowed. The rate adder could be changed with each rate period. What happens in 2028? Obligation will still exist; something to solve for… Other utilities should not be penalized for paying for interest costs they did not incur. Need to manage the pace of expenditures.
- **Person 26** – what about TOCA? I'm not happy with this.
- Fundamental premise is we don't move away from cross-subsidization and equity.
- Rate people would have a Schedule for each utility
- What about after 2028?

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- Utilities will have various exposures to debt service. Any customers in the future would be servicing debt in the past. That is something to solve for.
- **Person 8** – wouldn't TRM serve as a model for this?
- **Person 26** – the problem we have is that if you don't help accrue it, you still have to pay it back.
- **Person 26** – third party financing has some capability in it that assigns some responsibility to the utility who is incurring the debt. The 2028 number is huge and not everyone should have to pay for it. Those who have already paid the capitalization on their own should not have to pay for it again.
- **Person 16** – how many times is BPA going to go out for third party financing? [question for finance]
- **Doug** – my recollection is that they said they would bundle EE financing in with other Energy Northwest stuff like CGS

5. Component 5 – True up component/Back stop component. There is a risk in this alternative that the region will come short of achieving the target. What type of mechanism shall we consider that allows us to capture any incremental shortage of the savings target?

- If Option 2/4 – is there a commitment of target achievement? From a savings share, we will self manage to that target. Is it a forced rate-adder for the gap?

- Individual CPAs may result in a target higher or lower than BPA analysis (not relying on the Council assumptions)
- **Person 8**- if you are going to take none of the budget and commit to 100 percent self-financing, BPA could say you owe us X AMW and X amount of $.
- **Doug** – so it's kind of like a forced rate adder for a gap.
- **Person 2** – your assumption is that their I937 targets are a lot less than pervious but they are still going to report other stuff like NEEA or codes and standards.
- **Person 5** – if BPA meets its target then those who don't meet their target get a free ride, if they don't then they pay a penalty
- **Person 8** – could come up short with any of the options. Could BPA get to this gap via an upfront fund (adder) from everybody?
- **Person 6** – my point is the same as Bo, that there could be a shortfall.
- **Person 20** – we might be interested in option 2 but our target may be higher or lower than what BPA assigns us. Residential space heat really drives it for us.
- **Matt** – those who exercise option 2, somehow there is a savings target associated.
- **Person 3** – the misalignment of the Power Plan and the BPA target is a problem. It's questionable whether it can be assigned to a specific utility. Maybe there is an alignment that we have to do on CPAs and power plan targets.
- **Person 26** – do the IOUs targets add up to the councils' target for the IOUs. This is a real opportunity to work with the council to discuss this deferential. The CPAs may be more

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real than what is going into the regional plan. It is a forecast but it doesn't have the degree of detail as the CPAs. I think the CRAC should bring this up.

- **Doug** – we seem to be rapidly approaching a time when we have to discuss CPAs aligning or not aligning with the Council's target. We speculate on it and we don't really know.
- **Person 3** – the way we adopt it is a policy and BPA could rethink that policy. Alignment between CPA and Council target is something we really need to do.
- **Person 2** – the Cadmus work shows that the 6th plan was pretty on target.
- **Doug** – the way they do their planning, they didn't expect anyone to take it up and divide it utility by utility.
- **Person 26** – why shouldn't BPA take the CPAs and best available information to figure out the target.
- **Person 5** – could you allocate the savings based on TOCA?
- **Matt** – you get savings largely as reflect of retail load.
- **Person 20** – we are going to do as much conservation as we can regardless of what BPA gives us.
- **Person 3** – if we design it in a way that some utilities take a target or opt out there could be some utilities where there may be a disincentive to fund low income (high cost, lower savings).
- **Person 1** – that's already a possibility
- Person 3 – those programs cost more so it may lead to less of them being done.
- Person 26 – It is true that BPA can't spend capital dollars on things that aren't widgets. Like Behavioral?
- Summer – yes, you can use EEI for behavioral programs.
- Person 26 – maybe a TOCA allocation would make it easier?
- Doug –My initial thought is, if you did TOCA and did a utility share budget by TOCA, you are missing which utilities are still budgeting for self-funding. You have to get the full amount some way either start with TOCA or …
- Person 26 – maybe there is a hybrid
- Doug – for the non I937s, they don't really want to be told at the beginning how much self-funding they are going to do.
- Kim – it's not slicer versus non-slicers; more like full requirements versus non-full requirements
- Person 26 – is BPA really still set up to act like a bank?

- Next Steps
  - **Next meetings are April 9th and April 23rd.**
  - **Next big tent meeting is May 8.**

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