Recommendation Report Workgroup 5: Reporting and Verification of Savings

Introduction

Workgroup 5 discussed three issues from the Post-2011 Scoping Document related to the reporting and verification of savings:

- Issue 10: BPA Role in Verifying Utility Self-funded Savings
- Issue 12: Timing of Utility Reporting to BPA
- Issue 13: Reporting and Consistency of Utility Self-Funded Savings

Issue 10 was a utility-generated issue that looked at requirements for the implementation, reporting, and verification of self-funded savings. It arose out of concerns about having the same requirements for self-funded savings as for BPA-funded savings. Most of the discussion of the issue took place during the April 22 meeting and recommendations were developed then. Most of the discussion centered on:

- Non-reportable savings (savings that do not meet BPA's criteria for being reported) and
- Verification of self-funded savings.

Issues 12 and 13 were BPA-generated issues both dealing generally with the timing of reporting. BPA proposed these issues to discuss how it could gain better visibility to savings achievements. Given the overlap between the two, BPA proposed in the Workgroup kickoff meeting on March 4, 2014 that the two issues be grouped together, and the Workgroup agreed to this. The Workgroup decided to tackle these issues first. The specific topics that the Workgroup addressed were:

- Reporting of savings,
- Forecasting of savings, and
- Forecasting of expenditures.

The Workgroup developed preliminary recommendations for Issues 12 and 13 during the kickoff meeting, discussed BPA refinements to the recommendations in its April 1, 2014 meeting, and developed final recommendations in its April 22, 2014 meeting.

Recommendations

Recommendations for Issues 12 and 13, related to the timing of reporting of savings:

<u>Reporting savings.</u> Best practice for reporting of both EEI-funded and self-funded energy savings is monthly reporting. It is requested that utilities report at least quarterly, but this reporting frequency is not a requirement. All utilities will do their reporting of savings via IS 2.0 or NED.

<u>Reporting savings if self-management of incentives adopted (based on a recommendation in Workgroup 1).</u> Same recommendation as for reporting savings above.

There are currently few controls on when utility savings are reported to BPA. Some earlier requirements on the timing of reporting are no longer in place (e.g., every six months for rate credit). Utilities are free to report savings at any time during the rate period.

This lack of structure causes gaps in visibility for BPA's monitoring of savings progress and budget expenditures. BPA proposed Issues 12 and 13 as a way to discuss how it might gain greater visibility to utilities' savings and expenditures during the course of the fiscal year, to ensure that EE was on track to meet its regional energy savings targets.

BPA described the 'hockey stick' -- the significant uptick in reported savings -- that occurred at the end of the FY12/13 rate period. It was unclear whether this was the result of large projects being completed late or utilities choosing to delay reporting of measures and projects completed earlier. BPA did some analysis of this by looking at the measures and projects completed during the last six months of the rate period. Eighty percent of FY13 savings came in during the last six months, indicating a bit of a hockey stick, and there were significant lags between completion and reporting for savings generally, self-funded savings, and custom projects. However, it was difficult to draw many conclusions from this since FY13 was such an unusual year. During the first half of FY13, reconciliation between IS 1.0 and IS 2.0 was taking place, and reporting of self-funded savings was a lower priority.

There are a variety of reporting practices among utilities. There was agreement in the Workgroup that the best practice was reporting monthly. Initially, the workgroup suggested that a minimum reporting interval should be every six months. BPA felt that this was too infrequent and would leave significant gaps in reporting visibility and therefore proposed a minimum of quarterly reporting.

Some utilities on the Workgroup expressed concerns about reporting on a quarterly basis, particularly near the end of the rate period. For example, some utilities may want to delay reporting self-funded savings near the end of the rate period to retain flexibility in case additional EEI funds become available via the Unassigned Account or bilateral transfer. In this case, they would utilize the additional EEI funds and save their utility rate-payer funds. It was suggested that if BPA allowed utilities to change the funding source for previously-reported measures or projects near the end of the rate period, utilities would not have this incentive to delay reporting. However, allowing this flexibility in funding source would create issues for BPA related to obtaining accurate EEI spending estimates, avoiding improper payment, and building the necessary requirements into NED.

There was significant discussion in the Workgroup about whether the frequency of reporting should be a requirement, particularly if self-management of incentives was adopted based on discussions in Workgroup 1. Workgroup 5 recommended that the approach for reporting savings with self-management be the same as for reporting savings generally. This would avoid potential confusion from having a mix of reporting requests and requirements. BPA cautioned that it reserved the right to require a certain frequency of reporting of savings under self management if it was determined to be necessary.

It was suggested that utility savings forecasts, at least for the 20-largest utilities, could perhaps provide insights into reporting plans if certain utilities were holding off on reporting near the end of the rate period.

In considering the Workgroup 5 recommendations related to the timing of reporting of savings, BPA expressed a reluctance to make anything a requirement that it did not intend to enforce. The only way to effectively enforce a reporting frequency requirement would be to disallow 'late' reporting. However, this would cause more savings to be 'non-reportable,' and BPA wants to reduce non-reportable savings where possible, as discussed below. BPA's hope is that a request for reporting (or forecasting), rather than a requirement, will provide reasonable visibility to progress toward its targets.

Interest was expressed within the Workgroup in BPA informing utilities of regional progress toward savings targets based on the requested reporting of savings. This would allow BPA and utilities to work together to address any potential shortfall.

<u>Forecasting savings.</u> **The 20-largest utilities based on TOCA share are requested to continue providing quarterly forecasts of EEI-funded and self-funded savings for the fiscal year. However, the number of utilities could be expanded in the future if it would help improve forecast results. This utility forecasting process will continue to be implemented through the EERs, but the functionality could eventually be built into NED. The quarterly forecasting of savings is not a requirement.**

A few utilities on the workgroup indicated that it was challenging to provide a forecast during certain quarters of the year, e.g., due to other utility workloads or limited information at the start of the fiscal year. It was suggested that perhaps forecasts should focus on the remaining quarters. However, BPA felt that having different utilities skipping different quarters would create significant challenges in compiling results and that utilities should be asked to do the best they could in providing forecasts for all quarters.

Although participation by the 20-largest utilities in the quarterly forecasts has been a bit uneven at times, the forecasts overall have been helpful to BPA in gaging progress toward fiscal year targets. BPA had proposed that forecasts be done for the whole rate period rather than just the current fiscal year, but utilities indicated it would be difficult for them to forecast beyond the current fiscal year.

It was suggested by a utility participant in the Workgroup that the importance of these forecasts be emphasized as the end of the rate period approached, given how important they are to BPA tracking and decision-making. They would help document the 'hockey stick' effect.

Related to forecasting of savings, BPA presented an analysis in the Workgroup that compared FY13 forecasts by the 20-largest utilities with their actual FY13 reporting to IS 2.0. This analysis showed significant differences for a number of utilities but little difference in aggregate. The reasons for individual utility differences may include unanticipated Unassigned Account distributions and bilateral transfers as well as imprecise instructions on the utility forecast templates.

It was suggested by a utility participant that if self-management of incentives is adopted, perhaps utilities participating in self-management should be requested to adopt the best practice in forecasting savings.

<u>Forecasting expenditures.</u> All utilities are requested to provide forecasts of their EEI expenditures in the second quarter of each fiscal year that will cover the last two quarters of the fiscal year. This will be done through the EERs initially. This forecasting of expenditures is not a requirement.

The rationale for requesting an EEI spending forecast midway in the first year of the rate period is to satisfy a BPA Finance need for an estimate of EEI funds that will spill over into the second year of the rate period. BPA Finance needs to provide this estimate to Congress for budgeting purposes. Getting this forecast in the first year of the rate period also provides EE with a preliminary view of utility spending progress.

The rationale for requesting an EEI spending forecast midway in the second year of the rate period is to gage the likelihood of utilities spending their rate period EEI budgets. Where utilities appear to be lagging in their spending, EE can check in with them to understand the circumstances and help facilitate a bilateral transfer or swap if appropriate.

BPA had proposed that the requests be made on an informal, as-needed basis by the EERs. However, utilities on the Workgroup felt that it would be better to make the requests more regular, so they would be able to anticipate them.

There was discussion in the workgroup about a capability potentially being built into NED that would automatically generate a forecast based on a utility's recent spending history. The utility could then adjust the forecast as necessary based on its spending plans.

Recommendations for Issue 10, related to requirements for implementing, reporting, and verifying self-funded savings:

<u>Requirements for implementing and reporting self-funded savings.</u> Assuming that non-reportable savings are addressed separately (see below), implementation and reporting requirements should remain the same for self-funded savings as for BPA-funded savings.

Under current rules, utility self-funded savings must be reported to BPA and follow the same business rules as BPA-funded savings. Energy savings must be verifiable and meet requirements under Regional Dialogue contracts and Implementation Manual. This is done to ensure the rigor of self-funded savings and simplify reporting.

However, having the same requirements for utility self-funded savings may be burdensome for some utilities. Some utilities feel that requirements for verification of self-funded savings could be different from those for BPA funded savings since BPA is not paying for the savings. Regardless, all parties do want to ensure the quality of the savings.

A number of utilities indicated that they do not see any real distinction between self-funded savings and BPA-funded savings in operating their programs. Allowing a different set of requirements for self-funded savings could add unnecessary complexity.

<u>Requirements for verifying self-funded savings.</u> Again assuming that non-reportable savings are addressed separately (see below), verification requirements should remain the same for self-funded savings as for BPA-funded savings. BPA should work in partnership with utilities to continue to improve the verification process, and BPA should be as customer-friendly as possible (e.g., not rejecting measures over minor details) as long as that doesn't jeopardize the cost-effectiveness and reliability of the savings.

As a result of utility concerns about verification/oversight requirements, a distinction was made in the Workgroup between requirements for verification of self-funded savings and those for implementation and reporting. One concern was the potential for BPA oversight to reject valid measures based on technical details, potentially causing utility savings acquisition costs to go up. Another concern was the duplication of effort and cost with utilities' own verification work and Washington State's verification for I-937 utilities.

It was suggested that when BPA was pulling a sample of projects for oversight, it shouldn't matter whether the projects were self-funded or BPA-funded. It should be the same cost to audit either one. It is administratively easier not to separate them.

It was proposed that BPA could pull just the BPA-funded projects when doing oversight, and the Washington State Auditor could look at the self-funded projects. Alternatively, if the State Auditor would accept BPA verification, this could lower audit costs. However, these approaches would only work in Washington State.

A question was posed about why BPA needed to verify self-funded savings. BPA mentioned that there was language in the Power Act and the Regional Dialogue policy about BPA's verification role and offered to assemble supporting language.

A desire was expressed by utilities to work cooperatively with BPA on verification and oversight to reduce costs, learn from each other's verification experience, and improve the process. The intent of oversight is not to be punitive but to help utilities make improvements the next time around. It was suggested that perhaps a joint committee of BPA and utility staff could be responsible for doing verification.

<u>Non-reportable savings.</u> BPA should continue to work with utilities to convert non-reportable savings to reportable savings.

Danielle Gidding from EE's Planning group joined the April 22, 2014 Workgroup meeting and discussed the three criteria that BPA uses to determine which savings are reportable and which are non-reportable. Non-reportable savings are those that do not meet one or more of the criteria. The criteria are defined as follows:

- BPA verified reliable: Deemed measures are RTF-approved or BPA-qualified, and custom projects meet RTF M&V protocols.
- Portfolio cost effective: Deemed measures have TRC $\geq$ 1.0 at the 'Technology/Activity/Practice' level (the TAP is a category of measures in the Deemed Measure List), Option 1 custom projects greater than 200,000 kWh have Total Resource Cost > 0.5, and Option 2 custom projects have TRC $\geq$ 1.0 at the invoice level.
- Meets eligibility criteria: Deemed measures and custom projects meet Implementation Manual requirements.

She showed how several types of non-reportable savings mentioned in the Workgroup meshed with the criteria and discussed whether the savings could potentially be converted to reportable savings in the near term. She also presented an analysis of non-reportable savings 'reported' to IS 2.0 from FY12 to present, which showed that most of the non-reportables fell in the 'not cost effective' category.

There was a suggestion that savings not meeting one of the criteria not automatically get zeroed out. Instead BPA could consider whether to offer some savings if the measure/project was 'mostly' reliable.

It was pointed out that other entities such as the Washington Utilities and Transportation Commission and the State Auditor use different criteria for determining what is reportable that BPA could consider adopting. BPA mentioned that its criteria are designed to align its savings with Council targets. It is not clear whether the criteria of other entities would align similarly.

BPA also mentioned that it has taken a less conservative stance than the Council on some of the criteria. For example, the Council would require deemed measures to be cost effective at the measure level rather than the TAP level in the Deemed Measure List.

A utility participant said that some utilities do conservation potential assessments and know what measures are cost effective. They should be able to blend non-cost-effective measures with cost-effective ones as long as the portfolio is cost-effective. BPA indicated that if cost-effectiveness were determined at the portfolio level, the Council's regional targets would be higher.

There was discussion of developing a pilot path for custom programs to allow innovative measures/projects to be implemented. BPA pointed out that an evaluated custom program option is available. If an approach was more speculative than that, BPA would need to look at funding eligibility. BPA's capital program is intended to acquire a resource and not fund R&D.

BPA stated a desire to reduce non-reportable savings where possible and said it plans to continue examination of non-reportables, working with utilities, through BPA's internal process improvement effort (Quality Systems Strategy Initiative (QSSI)).

There is a link to the discussions in Workgroup 2 on the Implementation Manual. If BPA could accelerate adoption of new measures, this might help reduce non-reportable savings.

Please contact co-chairs directly or your Energy Efficiency Representative for follow-up.

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