



The following comprise PNGC Power’s comments to BPA about the discussion had at the September 8 Provider of Choice workshop focused on Conservation.

1. We generally support the existing conservation model, but think it needs to reflect the challenges we now face (e.g., reliability and capacity). The current programs have generally served us well, but they were based on an assumption that capacity was not an issue and fossil-based energy was something to displace. We are going toward a “fuel-less” future where “conservation” may be more about conservation of physical assets and not displacement of fuel. Therefore, we would like to see BPA add program options for demand response (DR), which has grown as a focus of current and past Council plans. We think the intent of the Regional Act is clear and certainly the Council’s focus on DR should make it possible for BPA to focus more on DR. As we all know, the economics of “traditional” EE are becoming much harder as we pick fruit higher in the tree. DR needs to the same kind of focus and organization we put on EE starting decades ago.
2. We support BPA’s focus on a forward looking, BPA measure-approved, self-supply approach as the basis for any “headroom adder” granted above net requirements for the calculation of CHWM. BPA is counting on the EE forecasted for its resource plan, so helping to ensure it occurs seems reasonable. (Notably, non-reported, self-supply would not have been reflected in BPA’s plan). BPA staff indicated that the goal of the headroom add back is to create an incentive for “good action” going forward and that there is no point of looking back because you cannot change past behavior with a forward incentive. We completely agree. In fact, BPA could use the very provisions of the Regional Act to both encourage EE (and ideally DR) and create good incentives for customers. For example, BPA should first determine the projected net requirements (capacity and energy) of customers. Then a resource plan would run to determine how to meet those net requirements. The Regional act favors both conservation and renewables and we think that for BPA to “procure” both of these resources from customers in a way that both meets the requirements of the Regional Act and incents the right customer result is the best path forward. We are very concerned that recent BPA policy direction (i.e., deducting customer-procured, non-dedicated resources from net requirements) will do exactly the opposite of what BPA and customers should be doing now – adding regional resources.
3. BPA customers have already been paid for conservation already achieved and reported out of the EEI budget. 70% of the cost of EE already achieved has been socialized, with the benefit localized to those utilities with most the opportunity (typically urban areas). Some BPA customers have argued that they want to look backward because the easy EE has already been achieved and by receiving additional benefit from past actions they could gain more Tier 1 headroom under the next contract. For many small, rural communities, there has never been easy EE. To provide additional benefit for actions already taken is not a prudent use of customers’ money and it does nothing to create the proper incentives going forward. Further, it disadvantages entities that would have made different investment decisions if they had known this benefit would be retroactively applied at some future date.

4. Investment in new EE and renewables are encouraged under the NW Power Act. If Tier 1 “headroom” will be granted for current and future investments in EE during the RDC term, the same should be done for renewables investments. Headroom for renewables is being requested as an incentive to continue to invest and some utilities have stated they made those investments to create headroom to meet future load growth. Since both investments are made to meet load growth and supported under the Act, both should be treated the same. Deducting unspecified and undedicated resources, acquired to meet AHWM loads, from a preference customer’s future Tier 1 CHWM allocation is doubly damaging and will foster a reluctance to make additional resource investments in the future.
5. Of the options presented at the September 8 BPA workshop, PNGC is most supportive of Scenario 1. A full reset with credit for future EE and renewables investment is the approach most consistent with both the statutory direction and past BPA policy. However there could be some openness to look at additional scenarios. Scenario 7 seems workable and the adjustments in Scenario’s 8-10 seem appropriate for the reasons BPA staff stated in the workshop (EE done in service territories with generation is adjusted to reflect the fact that EE achieved also has impacts on the need for the generation they also have). Scenario 5 is a non-starter for PNGC; we agree with BPA’s general statements that Scenario 5 is not a prudent path since we all paid for EEI through rates on a load basis regardless of whether certain utilities were actually able to accomplish the conservation amounts or not. There were sufficient incentives in the EEI program to receive money collected in rates; the conservation realized to date is evidence of that. As BPA noted, there are fundamental differences in communities and not all customers are positioned to achieve and/or scale an EE program. For example, the EE windfall that LEDs created have benefited urban areas disproportionately to rural communities due to population density. Creating a penalty for less densely populated communities is not the intent of the EE program.
6. We fully support BPA staff’s point that EEI has already been compensated and the point of the headroom adjustment is to incent continued investment going forward. Additional incentives for past actions are not required. It is clear that EEI has worked as witnessed by the conservation achieved in the region. Further, BPA staff pointed out the disproportionate impact for a small number of customers of a full lookback, even of self-funding only. Rate impacts of swings between +20% to -5% are just too big to justify. We would encourage the application of a cap / floor to whatever scenario is selected to help normalize the distribution of outcomes on a customer level. While EE is assumed to be “sticky” and the end of measure life does not increase future load on a planning basis crediting EE savings after the end of measure life (through a perpetual “add back” in the form of headroom above net requirements) would result BPA customers’ paying twice for past EE achievements.
7. PNGC supports BPA’s encouragement for full reporting of self-supply. There are many seams issues between BPA customers regarding including self-funding not reported to BPA and the administrative burden would be large with the end result benefiting just a few. Further, it is not clear if unreported, self-supply meets BPAs program standards. BPA’s program requirements are important to ensure only cost-effective EE is being compensated through rates, as well as the fact that some utilities have foregone their allocated EEI budgets because they didn’t have measures available that met BPA’s criteria. Others took that funding to augment their own conservation and have benefited from these investments through CHWM headroom realized

over the duration of the current contract period. It is essential that customers know the rules before the game is played.

8. PNGC does not support the 50% fall back option. BPA already noted that EEI funding has already been compensated, and in some cases paid for disproportionately by those that didn't always realize the direct benefits. Therefore, factoring in all existing headroom is not equitable. Further, some of that headroom is simply the result of loads that have moved out of the service territory. To the extent those people have moved to other regions of the PNW, preference power should be made available to the new service territories to serve said load. Bottom line is that if there is headroom, the load no longer exists and if BPA isn't going to meet load growth with Tier 1 power, then that should apply to those that now have reduced load relative to the past.
9. PNGC has continued concerns about the timing of these discussions since utilities that would be left with an AHWM exposure at the start of the next contract need to understand both their allocation of Tier 1 and the terms/cost of Tier 2 as well as the terms/cost of non-federal power delivery and integration. Without this information it will be near impossible to make investments or purchases to meet the open positions in a timely manner. BPA staff have expressed similar concerns for BPA investments for augmentation. The challenges for BPA customers that don't have the scale BPA can leverage to find resources is significant.
10. BPA expressed a need to understand Tier 1 parameters before addressing A-RHWML service. We are supportive of staff's expressed willingness to discuss cost-based pricing vs. market-based pricing in the upcoming rate phase. However, we would like to express the strong need current AHWM customers have for knowing the terms of Tier 2 before committing to a given Tier 1 outcome. The discussions will need to be somewhat iterative to understand the overall impacts to customers. While some of the Tier 2 issues will be ratemaking related, it would be helpful to define pricing policy in the contract so there can be some continuity of approach through the contract term.