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Provider of Choice: Energy Efficiency Discussion

PPC Rates and Contracts Forum

December 7, 2021

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POST-2028

Today's Agenda

- Feedback from October 26th Cost Management session
- EE overview, key considerations, desired outcomes
- Discuss BPA's current conservation acquisition model and other alternatives
- Discuss flexibility mechanisms
- Discuss regional infrastructure
- Feedback and closeout

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Summary of Feedback on Cost Management

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Summary of Comments Received on Oct. 26 Cost Management Discussion	BPA's Response
One commenter acknowledged and appreciates BPA's efforts and focus on cost discipline, and urges BPA to continue its focus on such, which will help mitigate the impacts of cost pressures in areas that are less controllable by BPA. The commenter suggested that BPA and its federal partners maintain cost control as a guiding principle.	Thank you for your comment. It is BPA's intent to maintain focus on cost discipline. BPA remains committed to cost management; it is an objective of our financial and strategic plans.
One commenter shared their perspective on some of preference customers' lessons learned from Regional Dialogue: With long-term take-or-pay contracts, they felt that customers bear the risk of excessively rising costs, and that when costs do rise they feel that BPA only takes steps to address costs concerns if it is in BPA's interest to do so.	Thank you for your comment.
One commenter stated that BPA's Integrated Program Review (IPR) and Capital Investment Review do not offer customers a level of cost control or protection commensurate with the level of cost risk they assume under Regional Dialogue.	BPA will continue to work transparently with customers to continually improve its processes consistent with BPAs and other federal agencies' statutory obligations. Lowest possible rates consistent with sound business principles and palatable levels of risk are factors that will need to be weighed by both customers and BPA as we move forward with discussions. BPA recognizes capital under-execution is a concern and has been working to mature its asset management program and to be more transparent about capital under-execution, to address this, among other, concerns.
One commenter acknowledged that the detail BPA provides [on Oct. 26th] and the approach taken in the 'new and improved' cost review processes (IPR, QBR, Capital Review Process) are appreciated improvements that have evolved over time. The commenter urged BPA to maintain these cost review processes in a similar manner going forward, but continue to review them periodically to seek process improvement opportunities. For instance—the commenter noted there appears to be a gap between BPA setting capital budgets and execution that could potentially be improved with an adjustment to how capital budgets are set.	
One commenter would like to create a contract structure that will enhance customer engagement in BPA's decision-making related to all expense considerations for BPA and is interested in an approach that fits within BPA's statutory framework. One idea the commenter offered would be to contractually agree to clearly defined cost categories (rather than open-ended take or pay contracts) and customers would not agree to pay any additional costs without mutual agreement.	Under Regional Dialogue, cost allocation principles and cost categories, or cost pools, are created in the tiered rate methodology (TRM). The TRM also includes criteria and conditions under which the TRM can be revised. BPA anticipates that a tiered rate methodology, assuming one is adopted going forward, would serve a similar function.
One commenter supports a contractual or policy commitment by BPA to keeps its IPR costs at or below the rate of inflation. It does not support the creation of a rate stabilization fund-like mechanism unless other reserve tools are reconsidered and removed. The commenter noted that its members prefer lower, potentially less stable rates than higher, possibly more stable rates.	BPA has a statutory requirement to recover its costs, and therefore BPA cannot contractually agree nor commit in policy to hold its costs or rates at or below the rate of inflation. Operating at or below the rate of inflation is an objective, or goal, in a financial plan that BPA fully intends to operate toward.

Summary of Comments Received on Oct. 26 Cost Management Discussion	BPA's Response
Two commenters stated that the future contracts must provide a more equitable balance of both cost risk and cost control between BPA and customers of the future contracts. To achieve such, one of the two commenters offered three recommendations to consider: 1. Revisit the concept of cost management groups (CMG)—group(s) of customer representatives that would provide input to BPA on cost levels, financial performance and other costs in BPA's power rates; 2. Include share-the-pain mechanisms in the next contract (such as off-ramps, potentially including "make whole" payments; shorter contracts with renewal rights; ability to assign CHWMs to other preference customers; non-federal resource flexibilities; product switching); 3. Reduce non-IPR costs such as REP, Fish Accords and Canadian Entitlement.	As customers have noted, BPA has existing forums for customers and others to provide input on its costs. We are committed to process improvement, as noted above, and we welcome customer input into how those existing forums can be adjusted to better address customers' desire to further provide meaningful input to the Administrator as he or she exercises their decision making authority.
One commenter noted that, while it is clear BPA has a preference for long-term contracts and does not prefer off-ramp mechanisms, they support the need to consider all contractual options set forth in the public power customer and association staff presentation that was shared on Oct. 26th. One commenter remains interested in the ability of customers to terminate their power supply contract(s) with BPA when it is in the customers' interest to do so and supports further exploration of creative 'common ground' off-ramp options, such as voluntary customer exchanges of their rights to Tier 1 power, that mitigate the impacts to BPA and other customers.	BPA appreciated public power sharing their thoughts on cost management in their slide deck shared on October 26. We understand and acknowledge that tensions and differences of opinion exist between the level of control customers want to have over BPA's cost recovery and rate levels and the level of control to which BPA is willing to or statutorily able to concede. There are elements of the customers' slides that BPA does agree with: an overarching goal of a financially healthy agency; a focus on value, one aspect of which is managing costs; principles of fairness and avoidance of undue cost shifts; and further examination of a suite of mitigation tools. For example, BPA supports the exploration of contractual flexibility that would allow for win-win scenarios and/or contractual flexibility to reduce the Administrator's obligation through the development of new generating resources. But, there are other conceptual options set forth that BPA continues to have concerns. We have no doubt that BPA, preference customers, and all stakeholders will continue to collaborate over a suite of cost management principles and mechanisms.

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Summary of Comments Received on Oct. 26 Cost Management Discussion	BPA's Response
A commenter would like to explore the development of a mechanism triggered by certain events, such as the development of an RTO, that would enable reconsideration of policies and contracts.	BPA recognizes that uncertainties exist and certain circumstances may warrant adjustments to the contracts or policies accordingly.
One commenter generally supports continuing the current two-year rate period cadence, but is open to considering the four-year structure, along with options for associated risk packages.	BPA looks forward to reviewing different options as part of Provider of Choice process.
One commenter is interested in exploring the concept of removing secondary revenue from the base rate and possibly treating its associated risk attributes separately from the rest of BPA's costs and remaining associated risk attributes. But noted that any such mechanism will still need to ensure the customers are receiving the full benefit of secondary sales.	BPA welcomes engagement and feedback on ways to manage risk and the impacts to rates. The intent of other secondary revenue constructs is not to change the amount of benefits the customers receive, but rather to change only the timing that the benefits are distributed.
Commenting in their personal capacity, in response to BPA's statement that "*BPA's controllable costs are a tiny fraction of BPA's exposure to uncontrollable costs*", the commenter asks for further clarification about what BPA's truly uncontrollable costs are, assuming that BPA's statement was seemingly driven by section 7(a) of the Northwest Power Act which requires BPA to recover its costs. The commenter also suggests that if BPA were to pursue off-ramps or a shorter contract length, BPA has the discretionary authority to reduce its budget, including retire assets, to keep from spreading the entire system cost between fewer customers.	Thank you for your comment. For clarification, the comments in BPA's presentation about controllable versus uncontrollable costs were made in the context of the short-term and not the long-term. We acknowledge that short-term controllability and long-term controllability may be different. Historically, a significant source of rate volatility has been caused by market conditions that have a significantly larger standard deviation as compared to short-term flexibility in many of BPA's other spending categories.

BONNEVILLE POWER ADMINISTRATION

Overview, Considerations, and Desired Outcomes

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Today's EE Discussion and the 6 Steps

Today we'll discuss at a high level the energy efficiency topics that may warrant consideration during the Provider of Choice process.

Step 1: Introduction & Education Step 2: Description of the Issue	Step 3: Analyze the Issue Step 4: Discuss Alternatives	Step 5: Discuss Customer Feedback Step 6: Staff Proposal

Sept. 14

Today's Session

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Desired Outcome

We want to hear from you:

- What attributes of BPA's current conservation acquisition program work well?
- Are there approaches that should be explored and/or key consideration that should be evaluated?

Overview and Disclaimers

- **There is room to explore variations of the current model for post-2028 implementation.** BPA has identified several potential approaches and areas for discussion; each will require analysis to determine what, if any, barriers to implementation exist. Some options have been considered but identified as inconsistent with statute, e.g. acquire conservation only within a Tier 2 product and will not be presented today.

- **All approaches shown would be designed to meet BPA's legal obligations**. Additional proposed ideas or hybrid models would warrant additional BPA legal review.

- **Energy efficiency acquisition is largely addressed in the Energy Conservation Agreement (ECA) BPA signs with each customer.** Though some details will be relevant to the Provider of Choice conversations, more detailed content may be better left for a separate discussion.

- **There are interdependencies between this topic and other post-2028 topics.** We will not tackle these complexities today, but acknowledge that BPA will need to think through the interrelations as we contemplate the overall post-2028 policy.

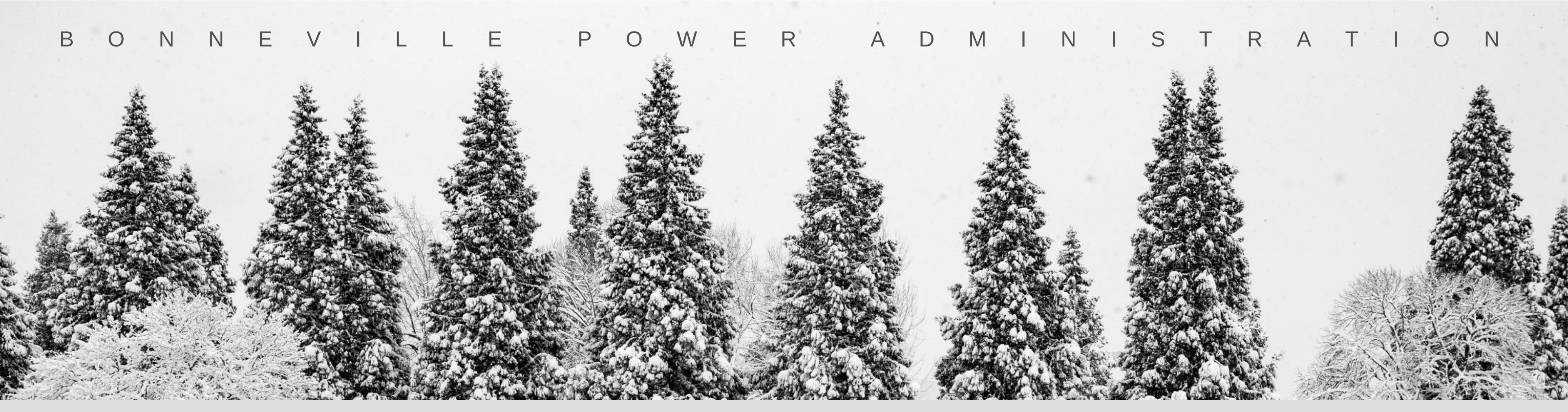
Key Assumptions and Considerations

Assumptions

- BPA will continue to require reliable and verifiable conservation as a resource.

Implications Considered for Each Approach

- **Cost:** How would the approach impact the overall cost of meeting BPA's resource needs?
- **Impact to Rates:** How would the approach impact customer rates?
- **Equity:** Does the approach provide equity among customers?
- **Energy Savings Goals:** Are collective or individual utility savings allocations required?
- **Implementation:** Are there interactive effects between the proposed approach and state clean energy mandates? Would the approach result in cost shifts between customers? What is the overall feasibility? Are there other considerations, such as legal perspective or public perception, that should be considered as well?



Conservation Acquisition Models

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BPA's Current Model Core Principles

Achieve cost-effective energy savings	Align with BPA's resource needs	Promote equity and flexibility	Administer program for aggregated energy savings
• Align with BPA's commitment to improve cost-management discipline. • Achieve least-cost savings through both programmatic and non-programmatic savings.	• Manage EE activities and programs in alignment with BPA's Resource Program.	• TOCA model helps ensure equity across customers. • Enable implementation budget movement between customers and rate periods. • Offer broad mix of measures and incentives to promote local ability to deploy program.	• Administer program regionally with an aggregated target reflecting 30% self-funding.

Current Model: TOCA-Based Implementation Budgets

Description: A portion of costs collected in rates are used to fund conservation implementation budgets. Customers are paid a pre-determined amount when they report qualifying conservation. Budget is based on customer's TOCA. Customers expected to self-fund, in aggregate, 30% of the conservation in BPA's EE Action Plan.

Implications:

Cost: No impact on overall program cost; mechanism is unchanged
Impact to Rates: In its rates BPA collects the funds necessary to support acquisition; mechanism is unchanged.
Equity: Prioritizes equity over opportunity.
Energy Savings Goals: Does not require individual customer energy savings allocations.
Implementation: As BPA's needs become more specific and low cost efficiency becomes less broadly available, BPA may need to revisit the equity approach.

Historical Context: The current acquisition model has been in place since 2012. More information can be found in our September 14, 2021 presentation.

Current Model Discussion

- What is working well?
- Are there areas for improvement that warrant discussion?
- Are the current self-funding assumptions still valid?
- Is the current model for energy efficiency acquisition still suitable post-2028?

Approach 1: Priority Based Allocation

Description: BPA provides funding based on high priority efficiency achieved at the lowest cost (e.g. significant weatherization opportunity). Efficiency potentially prioritized based on resource needs.

Implications:

Cost: Could reduce overall cost of meeting BPA's resource needs.
Impact to Rates: BPA power rates recover the cost to support EE acquisitions.
Equity: Prioritizes opportunity over equity.
Energy Savings Allocation: Would require individual utility energy savings allocation for those customers receiving funding.
Implementation: Defining priority, soliciting proposals, and allocating funding are new and potentially challenging policies and processes to establish.

Historical Context: BPA offered a similar acquisition model before 2012 (without a prioritization mechanism). Customers rejected this approach during Post 2011 negotiations because of the inherent inequity.

Approach 2: Rate Credit

Description: Customers receive a credit on their power bill equivalent to the cost of acquiring a pre-established amount of conservation; must be reported and approved by BPA throughout the rate period.

Implications:

Cost: No significant impact on overall cost of meeting BPA's resource needs.
Impact to Rates: Reduces the rate impact, but not overall costs. Requires reimbursement to BPA for underperformance.
Equity: Prioritizes equity over opportunity.
Energy Savings: Would require individual utility energy savings allocation.
Implementation Considerations:

- Using a rate credit (vs. an implementation budget) could make flexibility mechanisms (e.g. bilateral transfers) more difficult or impossible.
- Establishing a kWh target to offset a dollar based rate credit could create complexity.
- A load share-based target could make delivery more difficult and more costly for customers with less efficiency opportunity (e.g. smaller, more rural customers).

Historical Context: BPA offered a similar acquisition model before 2012. Customers rejected this approach during Post 2011 negotiations, preferring a model that did not require individual utility targets.

Approach 3: Acquisition Contracts

Description: Customers sign contracts with BPA for delivery of an established amount of conservation, with a liquidated damages collected for underperformance. Similar to a rate credit from an implementation perspective, but with a contractual mechanism rather than a rate mechanism. Potentially an opt-in model.

Implications:

Cost: No significant impact on overall cost of meeting BPA's resource needs.
Impact to Rates: Reduces rate impact but not overall costs. Has a contractually-obligated cost associated with underperformance.
Equity: Prioritizes equity over opportunity.
Energy Savings: Would require individual utility energy savings allocation.
Implementation:

- Precludes flexibility mechanisms such as bilateral transfers. If implemented as an opt-in program (paired with a more traditional funding methodology), collaboration between customers could be more challenging.
- Establishing a kWh delivery target via load share could make delivery more difficult for customers with less efficiency opportunity (e.g. smaller, more rural customers).
- Liquidated damages for under delivery must be sufficient to ensure BPA could fill gaps in delivery. BPA would need to establish a policy and process to use the funds.

Historical Context: BPA has never pursued this approach; the implications of and barriers to implementing this model are uncertain.

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Approach 4: Billing Credits

Description: Section 6(h) of the Northwest Power Act *requires, if requested, BPA* to grant billing credits to any *customer for independent conservation activities or resources undertaken by the customer. Independent conservation actions are* defined as those that provide power savings *beyond the savings provided through measures adopted as part of the plan or implemented or acquired by BPA in its implementation of the act.*

Implications: Given its expected complexity relative to other funding models, BPA does not currently see a practical application for Billing Credits. Should customers have ideas about the application of billing credits, BPA would spend time and resources to enable further review.

- **Cost:** Uncertain impact on overall cost of meeting BPA's resource needs.
- **Impact to Rates:** Uncertain impact on rates.
- **Equity:** Would likely favor opportunity over equity.
- **Energy Savings**: Would require individual utility energy savings allocation for those customers receiving credits.
- **Implementation**: The implications and barriers to implementation are uncertain, e.g. validating independent conservation requires new and potentially challenging or complex policies and processes to establish.

Historical Context: Under RD contracts customers agreed not to request billing credits since it would conflict with the principle of not diluting the value of the Tier 1 System and state renewable portfolio standards create an individual utility obligation to meet that is not dependent upon BPA's obligation to provide such credits.

Acquisition Model Discussion

- Are there other acquisition models (not shown here) that warrant consideration?
- Are there other hybrid models that could be valuable?
- Do customers continue to prioritize equity of funding over the overall cost of acquisition?
- Should BPA consider a separate, more tailored approach for its smallest customers?

Approaches Summary

Approach	Description Summary
Current Model: TOCA-Based Implementation Budgets	A portion of costs recovered in rates are used to fund conservation implementation budgets; based on TOCA.
Approach 1: Priority Based Allocation	BPA provides funding based on high priority efficiency achieved at the lowest cost.
Approach 2: Rate Credit	Customers receive a credit on their power bill equivalent to the cost of acquiring a pre-established amount of conservation.
Approach 3: Acquisition Contracts	Customers sign contracts with BPA for delivery of an established amount of efficiency.
Approach 4: Billing Credits	BPA to grant billing credits and provide services to any customer for independent conservation activities or resources undertaken by the customer.

Flexibility Mechanisms

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BPA's Current Model: Funding Flexibility

Description:

- Customers may rollover the greater of 10% of their initial budget or $50,000 of their available budget to the next rate period.
- Customers transfer budget between themselves via bilateral transfer.
- Customers may apply to receive additional funds from BPA's unassigned account, if additional funding becomes available.

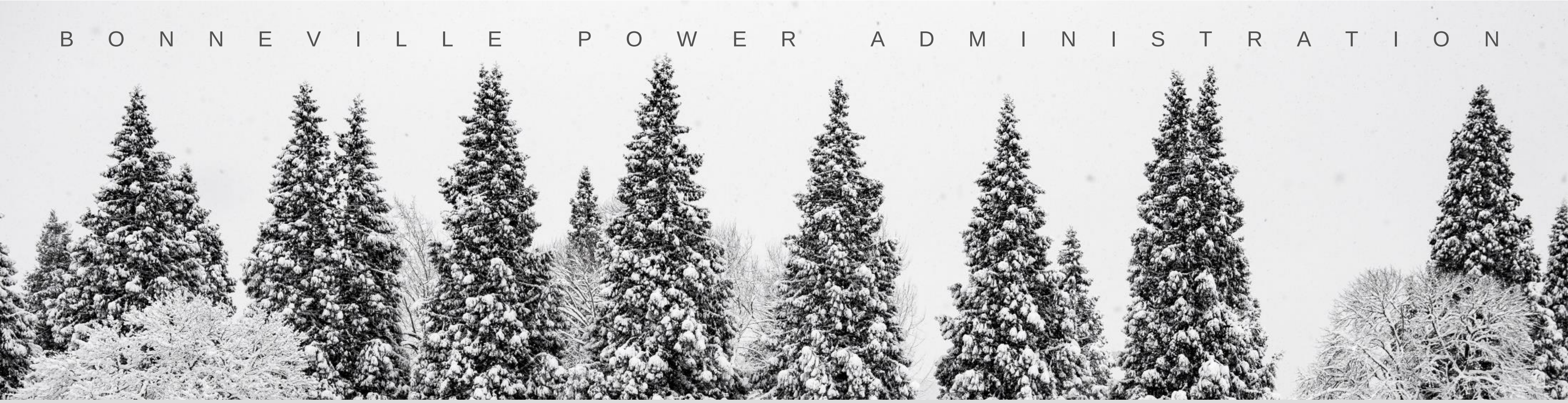
Implications for Implementation: "Matchmaking" for bilateral transfers between customers can be challenging. Unassigned account distribution funding levels are unpredictable.

Historical Context: This is the current acquisition model and has been in place since 2012, however:

- BPA added and subsequently increased the amount rollover it allows in response to customer feedback.
- The amount of funds *not* spent or rolled over has been negligible since 2012.
- Flexibility mechanisms are closely tied to the acquisition model. Any changes to the Status Quo would require a reexamination of flexibility.

Flexibility Discussion

- Is there a desire to revisit or change the bilateral transfer process?
- Is there a need for BPA-implemented direct acquisition programs that utilities can opt into and direct EEI into?
- Are there additional pooling and or utility partnership mechanisms BPA should consider?
- What other flexibility mechanisms warrant consideration?



Regional Infrastructure

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Current Model: Regional Infrastructure

Description: BPA provides customers with resources and support that may not otherwise be available at a local level, and/or that complements customer-driven implementation.

- BPA's Customer Service Engineers provide local energy efficiency engineering services.
- A portion of customer's rates are used to fund third party infrastructure programs (such as Energy Smart Industrial).
  - BPA prioritizes areas where utilities typically request support or where BPA has a higher resource need.
  - BPA services support its regional power customers; helps promotes economies of scale and regional consistency.

Implications for Implementation: Individual utilities may not find certain infrastructure services valuable relative to the unique needs of their service territory. Some utilities have also expressed a need for a deeper level of services than BPA currently provides.

Historical Context:

- BPA has offered engineering and infrastructure support since well before the implementation of the Regional Dialogue contract.
- Prior to 2012, BPA's programs included some direct acquisition; programs worked directly in utility service territories.
- BPA has offered opt-in programs in which BPA paid for program infrastructure; utilities opted in for support in their service territories (e.g. Simple Steps).

Regional Infrastructure Discussion

- What is working well and what do customers value in the current model?

- What improvements could be made?

- What are priorities for potential improvements or changes? Examples:
  - Region wide direct acquisition programs for specific savings types (e.g. midstream programs).
  - BPA-implemented direct acquisition programs that utilities can opt into and direct EEI into.
  - Support for customers meeting state and local conservation requirements (e.g. support for CPAs and potential identification).
  - Infrastructure that enables customers to better acquire efficiency in historically underserved members (e.g. poorly weatherized houses, or businesses in underserved communities).

- What other approaches should BPA consider?

Additional Resources

- Your Power account executive and/or energy efficiency representative!
- BPA's Energy Efficiency website.
- Energy Efficiency quick start guide.
- Energy Efficiency Implementation Manual.
- Provider of Choice fact sheets.
- Resource Program and Action Plan.
- 2020 Resource Mix and Energy Efficiency fact sheet
- Energy Efficiency 2017 and 2015 fact sheets.
- Regional Dialogue Concept Paper and Policy—good resources for understanding how the conversation/elements evolved, and they provide bite-size explanations of the building blocks.

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Feedback and responses

Feedback by December 21:

- post2028@bpa.gov (copy your Energy Efficiency REP, Power AE)
- Energy Efficiency Representatives
- Trade Orgs, as applicable

BPA will plan to summarize comments received and post its responses in January.

Summary of comments will be posted here with materials from these sessions.

Thank you for your time today and your ongoing engagement in post-2028 conversations.

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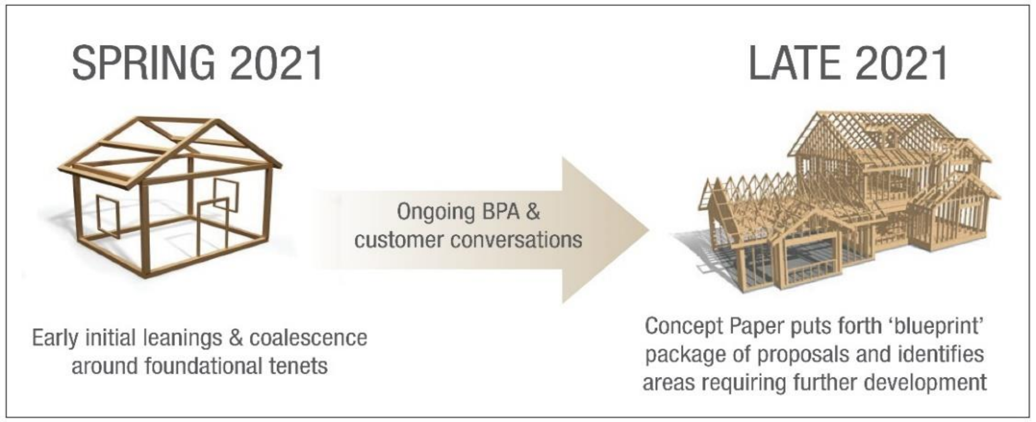
Looking back, looking forward

Where we started…



In coming months BPA will:

- Engage with customers and trade organizations development of the public power concept paper
- Circulate information gathered this year to educate staff getting on boarded to this effort.
- Plan public engagement process, which will start in 2022.