

**Energy Efficiency Post-2011 Review
Workgroup 1 Meeting 2
Wednesday, January 29, 2014
9:00am to 3:00pm
PNGC Conference Room**

MEETING NOTES

Overview/Summary

- For the purposes of moving forward in our discussion, the workgroup had consensus on continuing to use the TOCA as the EEI allocator if BPA is providing the Energy Efficiency incentives amounts either capitalized or expensed. It was also agreed that we would keep Option C on the table, if need be, with the proposed revision: “Allocation is based partly on TOCAs and the remaining funds are made available based on some criterion TBD.”
- There was a recognition that for all sizes of utilities there can be energy efficiency projects that can use all or most of the utility’s EEI funds. An approach to collecting the kWh saving from these projects is needed when the projects are available and cost effective, and that does not eliminate the ability to continue other program actions for said utility. The workgroup agreed this issue should be discussed in the Large Project Fund (LPF) workgroup (#4) in coordination with this workgroup.
- There was recognition that some utilities would like to self-manage their energy efficiency incentives. The observation from the workgroup was that there seems to be a limited number of utilities interested in this option, however, those that are interested are serious about the approach.
- Next meeting is February 18 at PNGC

Decision/Action Items

- Coordinate efforts with Workgroup 4, Flexibility Mechanism, to introduce the additional topic on LPF identified in this workgroup. Members of workgroup 1 that are also participating in workgroup 4 are asked to provide additional input in the discussion.
- Some utilities volunteered to work on cost savings calculations associated with a self-managed of EEI incentives mechanism. They will bring those calculations back to the group.
- Schedule time for Anita Mertsching and/or Kyna Alders to attend an upcoming workgroup meeting.
- Update on the Facts & Figures Document
- Obtain a copy of the 1986 BPA policy on “acquire”
- Obtain from BPA just how low the 75/25 split could go
- Provide clarity in the language to clearly identify ‘self-management of incentives’ and ‘self-funding’
- Request for BPA to provide a general estimate of BPA cost to implement the self-management of incentives approach.

Co-chairs:

Doug Brawley (PNGC)
Margaret Lewis (BPA)

BPA Participants:

Kim Thompson
Dave Moody
Matt Tidwell

Attendees in person:

Doug Brawley (PNGC)
Chuck Thurman (Monmouth)
Eugene Rosolie (Cowlitz PUD)
Irion Sanger (ICNU)
Keith Lockhart (Springfield)
Larry Blaufus (Clark)
Margaret Ryan (PNGC)
Tom Schumacher (Benton PUD)
John Walkowiak (Tacoma)
Wendy Gerlitz (NWEC)
Elizabeth Osborn (Power Council)
Sandi Edgemon (City of Richland)
Pam Sporborg (NRU)

Attendees on the phone:

Brian Fawcett (Clatskanie)
Charlie Black (Power Council)
Cheryl Talley (Flathead)
Dan Morehouse (EWEB)
Doug Case (Columbia REA)
Eric Miller (Benton REA)
Jess Kincaid (ODOE)
Jim Dolan (Pacific County)
Jim Russell (Tacoma)
Kathy Moore (Umatilla)
Kevin Smit (EES Consulting)
Linda Esparza (Franklin)
Mattias Jarvegren (Clallam)
Mike Little (Seattle City)
Rob Currier (Emerald)
Van Ashton (Idaho Falls)
Wade Carey (Central Lincoln)
Tim Lammers (Columbia River)
Mary Smith (Snohomish)

- **Welcome and review of agenda.**
- **Operational Excellence.**
 1. Doug: For this meeting and subsequent meetings, we'll provide a summary of the meeting notes (for those who want a high level overview) as well as the longer set of notes.
- **Review of desired outcomes from last meeting.**
 1. Doug: review of slides 6 and 7.
 2. Person 21: does the lowest cost resource mean we're going to go get the lowest cost kWhs, which may impact the TOCA?
 - Kim: not necessarily, although that's an option; primary focus is on keeping in mind the economics of acquisition.
- **Review of Issue Prioritization (slides 8 and 9)**

1. Margaret: how does the workgroup want to proceed with working through the issues? Based on the prioritization or the groupings?
2. Doug: working with Margaret, our thinking is that the first two issues to address are 1) EEI allocation using TOCAs and 2) utility self management of incentives (i.e., self-funding). On the one hand, we want to discuss how the funding from BPA is allocated (the former) and whether there are other alternatives for managing incentives (the latter). There are likely three types of utilities when it comes to these two issues, so it makes it complicated. One group is the I-937 utilities that are definitely interested in self-management of incentives, another group is Non I-937 utilities that are interested but have no legal backstop, the third are un-interested and favor the status quo.
3. Person 9: in addition to the three types of utilities, the advocacy community also has strong feelings about these issues and has concerns about potential changes.
4. Person 2: I'd like us to start with the issue of EEI allocation based on TOCAs.
5. Person 1: I remember Steve Klein in earlier meetings say how his program was better than BPA's. Have we looked into that?
6. Doug: self management of incentives issue raises lots of other issues we would need to think through.
7. Person 12: I wonder if SnoPud is using best practices and whether we should look to incorporate those into other programs.
8. Person 26: Our business processes and systems are built on SCL best practices. We don't participate in BPA's programs because we have been operating our own programs, but there are some options that BPA provides that we participate in that add value. I don't think we are looking to opt-out.
9. Kim: we need to solve for the allocation methodology for EEI and then figure out to whom it applies.
10. Person 21: I think we're only talking about not having Treasury dollars be used for conservation, right?
11. Doug: we're talking about that as well as the funding that is borrowed (or expense) how it's allocated.
12. Person 21: for us, it's a financial decision, if you went back to expense, we would likely want to opt-out, but if you didn't use Treasury, we would have to use cash.
13. Doug: this isn't about reducing the amount paid in incentives; it's a question about the funding source of those incentives.
14. Person 11: I suppose we are getting more in EEI than our rate payers are paying in the wholesale rate to BPA.
15. Doug: that's correct in so far as BPA capitalizes the incentives, so the amount of incentives is more than what the utility pays in rates.

16. Person 11: so we would have to make up the difference if we 100% self-funded.
 17. Person 2: at some point, we have to figure out what everyone's responsibility is. The TOCA is equitable and the appropriate mechanism.
 18. Doug: so let's begin with the issue of EEI allocation and then self-funding.
 19. Person 12: If we had a portion of utilities opt-out of BPA's capital borrowing, wouldn't 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?
 20. Kim: it has to be a sustainable design whatever we take forward.
 21. Person 2: several issues have been raised so it would be good to have the note takers jot these down so we don't have to go over them all over again when we get to the issue of self-funding.
 22. Kim: Anita M. from Finance will join at appropriate times if and when we discuss how to finance energy efficiency in a way that doesn't draw down Treasury borrowing.
- **Issue #1A EEI Allocation Using TOCA**
1. Kim: I want to test with the group that we're talking about an allocation of funding and not allocating target (workgroup agreed).
 2. Person 12: I haven't heard anybody who disagrees with the TOCA approach.
 3. Doug: let's take a straw poll about the current TOCA approach.
 4. Person 12: our membership is very favorable to the TOCA since there's a connection to origin of cost and where the benefits flow.
 5. Person 3: our understanding is that the TOCA framework is supported broadly, but we understand that certain projects won't get funded with the TOCA approach, so we're interested in discussing methodologies within the TOCA approach that allow for those projects to get captured. It's already hybridized with the 75/25 split, so we'd like to explore further hybridizing that allows for acquisition of all cost-effective conservation. Overall, the program is working well, but some projects are being left out now so how we do work with the program and do some minor tweaks?
 6. Person 22: as a utility that has aggressive industrial program, I think modifying the large project fund is the way to address this. I want us to keep in mind that there are a lot of other sectors that are a part of our service territories with rate payers that pay in rates and I'd hate to see any shift from local control and how the utility best allocates the incentives to its rate payers.
 7. Person 1: I have an issue with the adjustments that were made to the allocations the last time around and how the unspent EEI went back to the general fund.

- 8.** Person 9: I would echo the concerns about the large project fund and not leaving conservation on the table. How do we make tweaks to the existing funding mechanisms to get all acquisition? There wasn't much money that was sent back to the general fund, but it's conceivable that in the future more money is left and we don't have the ability to ensure all those funds are spent in the future. We might need to revisit this if we can't get flexibility from Finance.
- 9.** Person 2: I agree with putting more flexibility in the system given the fixed two year rate budgets.
- 10.** Margaret: given these discussions about LPF, how are we going to connect with the other workgroups? There has to be an interconnection.
- 11.** Doug: we have to be clear about where we stand and how we ask other workgroups to discuss certain issues.
- 12.** Person 3: I'd like to keep some aspect of Option C (TOCA-split) on the table. Perhaps one of the solutions would be to have the vast majority allocated on TOCA with some funding allocated differently.
- 13.** Person 8: I'm really concerned about tying in conservation potential; it's so different from utility to utility and makes it an inconsistent consideration. The TOCA is the purest and the less complication, the better.
- 14.** Margaret: I'm hearing we maintain the status quo, keep Option C on the table, and keep an eye on the other workgroup discussions regarding the large project fund.
- 15.** Person 12: how is the current LPF funded by BPA?
- 16.** Kim: it's an unfunded budget item, up to \$10M. We first see if funding is available within Power and then go to the rest of the agency (the Business Operations Board). In later rate years, the amounts paid back are used to replace the funding. Generally, the money is a shift from future EEI budgets.
- 17.** Person 1: we had a university project that if we used the LPF we wouldn't have had budget for several rate periods in the future and it still wouldn't have been enough to cover the project. LPF doesn't fit the need of small utilities with colleges/universities.
- 18.** Doug: do we have any anecdotes about what didn't get funded?
- 19.** Kim: it would be difficult for us to capture "what we didn't see."
- 20.** Person 2: we really need to think about how these projects get captured.
- 21.** Person 6: is Finance participating in the LPF workgroup?
- 22.** Doug: the savings target from the Council's plan is connected to the funding for EEI. Do you include any consideration of large projects? With the LPF we shift the EEI funding forward. If we set the EEI budgets without considering these

- projects, the LPF is seen as a penalty. So maybe there's some opportunity there for thinking outside the box.
- 23.** Doug: we are in favor of the TOCA, but it doesn't account for the lumpiness of projects or the size of certain projects. The EEI budgets makes some utilities think their budgets are all they have to spend on conservation.
 - 24.** Kim: the 75/25 allowed for the fact that the EEI budgets aren't the only funding pools for these types of projects, utilities can self-fund.
 - 25.** Person 1: we have to continue looking at this as regional issue, we too often think about it only on a utility-by-utility basis.
 - 26.** Person 7: we have to remember we had many general managers working to avoid their ratepayer dollars going to other service territories.
 - 27.** Kim: EE is a resource but we don't treat it like a generation resource. If we sited a generator, there wouldn't be this discussion about funds coming from and going to the same territory, so we really treat it differently.
 - 28.** Person 9: it seems like the expense budget is where many of the regional benefits happen, e.g., NEEA. Is there a way to capture some of the large projects of regional benefit from the expense budget? That is a cleaner place for the funding source for these projects.
 - 29.** Person 2: we have a structural problem: it's easier to borrow from the Treasury and fund the projects over time. How do we make the funds available for these projects and then allow the opportunity to pay back? Isn't there a responsibility for the people who benefit from the projects and pay for it over time? The LPF makes you pay back it over too short of a time period (two rate periods), which soaks up all the utility's EEI budget.
 - 30.** Person 12: what if we took left over EEI and put it in a new bucket to fund large projects?
 - 31.** Doug: I heard from the workgroup that the TOCA-based allocation is a reasonable and fair approach for proceeding, but there are exceptions and modifications that need to be make to make it a better approach (Option C).
 - 32.** Doug: if BPA ceased to capitalize the EEI and instead expensed it, would people think differently about the TOCA approach given that utilities have different constraints based on being a municipality, PUD, or Coop. Do you do things differently based on political limitations?
 - 33.** Person 8: the wording in Option C needs to be revised to remove conservation potential. I'm also getting caught up on "lowest cost." Is lowest cost always the best? It's cost-effective but that doesn't necessarily mean "lowest cost."
 - 34.** Person 3: let's change it to "based on some other criterion" and leave out lowest cost and conservation potential.

- 35.** Person 9: we should replace wording with capturing all cost-effective conservation. “All” is based on avoided cost for BPA. Look at a cost number and then anything that costs up to that dollar amount is cost effective and we should go and get it. I would defer to the methodology within the Council’s plan.
- 36.** Person 2: isn’t the 504 number essentially what BPA has done?
- 37.** Person 9: the Council gives a range of achievable potential and BPA took the middle range. The council’s assessment shows that the region would have been on target for the higher number. BPA’s programs are not structured to go over the target. It’s a budget issue and structural issue.
- 38.** Doug: perhaps this issue is for a big tent meeting since it goes to BPA’s approach to the plan.
- 39.** Person 7: Benton PUD’s targets are based on our CPAs and it’s not tied to BPA. So we don’t have a connection.
- 40.** Person 12: I think the middle number is a pretty good way to balance the cost and need of the conservation resource. We do it because it’s the least cost resource, we don’t do it just because it’s inherently good. We do it because it’s good for the region. Going back to the discussion on Option C, we’re talking about how to capture projects that don’t fit within a utility’s budget.
- 41.** Margaret: we can work out the details later, but we’re talking about everyone paying into this special pot of funds, so are folks interested in this approach?
- 42.** Person 6: a separate fund may not be equitable, but it could address the issue of roll over and the large project fund.
- 43.** Person 2: I would suggest we table Option C and see how the other issues are addressed.
- 44.** Person 6: well you could also try to solve this issue here which would make roll over and LPF not necessary.
- 45.** Person 21: we should minimize the amount of EEI not allocated on TOCA. No utility should have to subsidize another’s above RHWM load.
- 46.** Person 26: we are supportive of using the equity model and using the unassigned account to capture these types of projects.
- 47.** Person 3: this could be address by the other workgroup but keeping in mind that the issue is not about the Large Project Fund specifically, but rather how to get the projects that are too big relative to a utility’s EEI budget and therefore left on the table.
- 48.** Kim: the fact that there are interrelationships could cause us to never arrive at solutions as we parking lot the issues because they are interrelated.
- 49.** Person 9: there seems to be agreement about the fund but not agreement about where the funds would come from?

50. Kim: this ties to the ability to roll over funds between rate periods.
51. Person 12: rather than calling them parking lot issues, we could have them be raised at the big tent meetings.
52. Kim: the key question here is how much we have a program that is a 100% equity-based model and how much customers and stakeholders are supportive to moving slightly away from this 100% equity approach.
53. Matt: maybe we should take a vote on how people feel about changing, even slightly, the 100% equity approach.
54. Person 3: maybe we should hold on the vote and give people the opportunity to come up with creative solutions, then people would have a better idea of what they are voting on.
55. Person 31: I support waiting on the vote.
56. Person 8: the reality is my utility won't be supportive of taking any of the EEL for my utility and spreading it out. We can see what the LPF group comes up with, but we should take the vote and then move to the next topic.
57. Person 4: I'm supportive of TOCA. The money for these projects left on the table would need to come from elsewhere, like in rates, and general managers aren't going to support that. I don't think it's BPA's responsibility to take this stuff on; it's between the utility and its customer.
58. Person 12: Once we move away from the equity piece, the general managers aren't going to support a change to the 100% equity model.
59. Person 21: if it's a revolving loan, would the utility pay back the loan?
60. Person 2: yes.
61. Person 14: there are two ways this could be categorized: this workgroup is making a recommendation on our own judgment of the situation, but what I'm hearing is that the constraints on the discussion have already been determined. If that's correct, I think it would be helpful to categorize it as such and not have it reflect the work of the workgroup. I don't think it would be accurate to say the workgroup considered alternatives to the status quo if people are constrained to do that?
62. Person 6: the whole idea is programmatic savings, some utilities favor the status quo and others would favor the opportunity for funding for large projects.
63. Person 21: we aren't absolute against changing the 100% equity model, I did say "minimize." We would have to think really hard about any changes. I don't think it makes a difference about above or below RHWL load since investing today reduce above RHWL load.
64. Person 17: large projects can be funded through sharing between utilities. We must work within our budgets and remember that BPA funds are always rate-

payers money first. Don't let the discussion about large project trump all the other sectors.

65. Kim: how firm we are on the question of equity is paramount. If there's no appetite for it, then discussion about modifications is moot.
 66. Person 2: I'm in favor of the TOCA approach and seeing about other alternatives that don't affect the 100% equity approach but make the program better.
 67. Person 1: I have trouble embracing that this is not a regional issue. This isn't just a utility by utility issue. I have to convince people to embrace the regional perspective, we have to think bigger.
 68. Person 31: would thinking about the regional perspective also consider the impact on local rates. If SnoPud collects 4% plus to fund conservation and another utility only collects 1%, that presents a problem for our utility since our ratepayers are paying more in rates for conservation.
 69. Person 12: there is a lot of agreement now, but we're still looking for potential solutions and give us the opportunity to brainstorm about how to balance equity while getting projects left on the table. I need more time to consider ideas and then bring them back to the workgroup.
- Lunch
 1. Person 2: I suggest we frame the question and then have a straw poll, not a vote.
 2. Person 8: We stay with the status quo and have a qualifier, which says we stay with the 100% equity model and then be open to other options that are presented to us from other workgroups.
 3. Person 3: we are unanimous on TOCA, but there is a little flexibility for other groups to consider minor tweaks so we can move on.
 4. Doug: the EEI allocation methodology using TOCA is acceptable and we're open to hear from other groups about potential tweaks/alternatives.
 5. Person 21: if we go to third party financing, could a utility sign up for additional third party funding and then be responsible for that additional debt service?
 6. Doug: should the workgroup take this issue on? Or where should it be dealt with?
 7. Kim: there will be internal collaboration with Finance and we'll discuss with them.
 - **Issue #1A Utility Opt-out/Self-management of incentives**
 1. Doug: overview of slide 13.
 2. Matt: overview of slide 14.
 3. Person 21: does BPA actually have to "acquire" savings via an exchange of funds? What are BPA's statutory requirements?
 4. Matt: yes.

5. Person 3: can we get a copy of the 1986 BPA policy on “acquire”?
6. Person 2: there are other models here, e.g., the EPA puts the responsibility for the Clean Water Act into the hands of the states. I’m not concerned because I don’t think 100% of BPA’s customers will self-fund.
7. Person 3: are we talking about 100% self-funding or just increasing the overall percentage of self-funded savings?
8. Doug: our utilities are in favor of changing the structure of funds being collected by BPA and then allocated via the TOCA. They want to short cut the funding mechanism, but haven’t necessarily thought through all the implications of such a change.
9. Person 12: can we get clarity on how this would work within the TRM and the complexity with budgets.
10. Person 31: there’s a preference for not having “round trip” money, especially when we expense the funds but BPA capitalizes it with the debt service borne by us. There are also additional costs, e.g., having a different reporting system and then having to report things differently for BPA.
11. Person 8: yes, there are additional costs of working with BPA, but for I-937 utilities, having all that information in BPA has really helped with our audits from the state. Positive & negatives on both sides.
12. Person 31: it doesn’t do us any benefit. We paid for our own system and then have to pay for BPA’s reporting system.
13. Person 26: it does benefit us.
14. Kim: we’re only talking here about EEI, so there’s no discussion about costs increasing for utilities that don’t self-manage their incentives.
15. Person 31: if a number of utilities determined they wanted to manage 100%, there may be lower costs for BPA.
16. Person 12: if we’re just talking about EEI, could utilities in the future ask for cutting costs which would negatively impact the other utilities. I am concerned that an approach to self-funding will increase the pressure for some utilities to call for reductions in BPA’s program work.
17. Kim: we have segregated the two [EEI & BPA managed capital] and this workgroup is only considering the incentives portion of BPA’s budget.
18. Matt: the interest from some utilities to reduce costs or not pay for certain costs has already come up and BPA has come back with the working assumption that utilities cannot pick and choose which services they pay for.
19. Doug: we will however continue to use the IPR as the venue to question the costs that the Energy Efficiency program takes on.

20. Person 3: has anyone attempted to calculate the cost savings say of not having redundant reporting systems? What are the extra burdens of participating in the existing program?
 21. Doug: we have not tried to calculate cost savings of a change. We are approaching it more from a local control/management perspective.
 22. Person 7: it's more of a utility management issue, not having the money go out and then come back.
 23. Person 21: I struggle to see the cost savings.
 24. Person 31: we haven't calculated it, but there is debt service associated with the borrowed capital.
 25. Person 2: let's give the utilities choice of whether they want to stick with BPA or do their own funding. Not everyone is going to go off on their own.
 26. Kim: if we walk away from BPA funding control we would need to talk about other means for accountability.
 27. Person 31: I think that is relatively easy to work out.
 28. Person 1: if people self-manage, we lose the opportunity for bilateral transfers.
 29. Person 12: can we get a general estimate to BPA to allow utilities to go off on their own?
- **Funding Alternatives**
 - **Conservation pre-pay**
 1. Person 1: my understanding is that only the larger utilities would be able to take advantage of this, which may not be equitable. Power pre-pay is not equitable.
 - **Review the 75/25 split**
 1. Person 8: is there a way to broaden the pie? Or a scale, large utilities have a higher percentage of self-funding, etc. (a tiered approach).
 - **Program evaluation**
 1. Person 2: we're talking more about audit/savings verification rather than the invoice oversight.
 2. Person 18: is this tied only to self-managing utilities?
 3. Matt: no, the option could be for any customer.
 4. Person 31: for I-937 utilities, could you use the state audits?
 5. Margaret: we aren't sure.
 6. Doug: what will be the standards for determining whether the state audits could be used to replace BPA's oversight and verification role?
 7. Kim: we aren't sure at this point.
 8. Person 12: I want to make sure we're not adopting the requirements of state law and then applying them to utilities in other states.

9. Person 2: the I-937 utilities don't want to have BPA requirements above and beyond the requirements from the state, so we want to marry these two.
10. Kim: WA has accepted savings reported to BPA, but this may change if we move away from the invoice by invoice, measure by measure approach of today.
11. Person 8: timing of the evaluation would be important. The impact on the utility could be negative.
12. Matt: Another option that we didn't include in the slides is associated with 6h billing credits in the Power Act which allows for a utility to undertake independent conservation, not pay for those costs, but in exchange BPA reduces that amount of power sold to the customer.
13. Person 8: perhaps we could work on some cost savings calculations and bring it back to the group. This will be our home work assignment.
14. Person 5: can BPA come back to us with some information on how low the 75/25 could go? Someone talked about the CIR process as well.
15. Person 2: I'd like to have the Finance rep come in and discuss third party financing.
16. Doug: I'd like to see what the standards would be for self-management or for having the state audits replace BPA's oversight and verification. There would be an additional cost for utilities for I-937 oversight (utility burden)
17. Kim: we need time to consider whether a program evaluation approach could be pursued for those funds that flow through BPA (the EEI funds) and whether it could be consistent with our federal financial requirements.
18. Person 8: can BPA check with legal to see if there's a way to pass on the responsibility for acquiring to the utilities a la the EPA (the utility would be BPA's agent)?
19. Person 12: if we could get a general idea/estimate of that would cost BPA to implement this option.
20. Kim: it won't be free to offer choice, because that usually comes with additional complexity and therefore increased costs, but we can consider it internally.
21. Margaret: Next meeting is Feb. 18th so as not to conflict with the Transmission Segmentation Workshop on the 19th.
22. Person 22: self-management of incentives means not paying in rates whereas self-funding means supplementing the EEI funding.
23. Margaret: we'll incorporate the language into future slides.