**Energy Efficiency Post-2011 Review**

**Workgroup 1 Meeting Minutes**

**Wednesday, March 5, 2014**

**9:00 – 3:00 pm**

**PNGC Board Room**

**Overview/Summary**

* Previous action items were listed in the slide deck. We reviewed items listed and discussed any outstanding items needing attention.
* We briefly evaluated the first big tent meeting.
* BPA’s Policy on Acquisition was distributed to the group.
* We added a new working assumption to the list: BPA will pursue 3rd party financing effective FY16.
* As a follow up to an action item, there was some robust discussion around Issues 6, 7 & 8. BPA was asked to provide some clarity/input around these three topics. Issue 6, Limitations of the Post-2011 Framework, was an externally generated issue. Issue 7, Performance Payment for Regional Programs and Issue 8, Regional Program Administration, were BPA generated. There are instances where utilities have great involvement in regional programs, such as ESI. There are other programs, such as ESG, where customer participation may vary. The administrative burden for tracking performance payment based on utility engagement was discussed in detail.
* Regional Program Administration quickly veered off into a discussion of the EnergySmart Grocer program. We were reminded and tasked to address this issue from a comprehensive program level, including our current regional programs as well as those not yet identified. The workgroup determined developing a listing of criteria for regional program consideration was more valuable to BPA.
* The workgroup agreed that they still need more detail including the pros and cons of each funding alternative. An updated menu of alternatives with the pros and cons will be sent out before the next meeting so that workgroup members can provide the options that interest them.
* Follow up discussion with BPA Finance Rep Kyna Alders. Outcome was to lay out some pros/cons of each of the funding scenarios.
* The next meeting is March 17. It will be a teleconference only, solely focusing on self-management of incentives.
* Big Tent Meeting will be held March 20 in Eugene @ Emerald PUD.

**Decision/Action Items**

* It was determined by the workgroup that the administrative burden that would accompany tracking the performance payment to actual utility engagement on a programmatic level would far outweigh the benefit. As such, the workgroup has opted for Option A for a resolution – status quo. Utilities may claim performance payment s for regional programs.
* Several guiding principles were identified for regional program administration:
  + Comment: current pledge model opens risk for over scoping the contract terms and vice versa
  + Determine an existing need before changing an existing program
  + Determine utilities and stakeholders that may be impacted
  + BPA first flush out initial thoughts on new programs
  + Funnel ideas through the USB
  + Incorporate utility notification in the process
  + Align activity with I-937 reporting and timing requirements
  + Consider BPA federal procurement requirements
* Committee will flush out the pros/cons of the scenarios for self-management of utility incentives. They will also add a scenario on flexible budget – rate adder.

**Welcome, Roll Call & Review of the Agenda**

**Co-Chairs**

Doug Brawley, PNGC

Margaret Lewis, BPA

**Attendees** (P= Phone):

Bo Downen, PPC

Nancy Hirsch, NWEC, P

Ashley Stahl, City of Centralia, P

Cheryl Talley, Flathead Electric, P

Irion Sanger, ICNU, P

Eric Miller, Benton Rea, P

Duffel Gray, Coos Curry, P

Nick Brod, PECI, P

Keith Lockhart, SUB, P

Eugene Rosolie, Cowlitz

Dan Morehouse, EWEB, P

Debbie DePetris, Clark, P

Kathy Moore, Umatilla, P

Linda Esparza, Franklin PUD, P

Jim Russell, Tacoma, P

John Walkowiak, Tacoma, P

Jess Kincaid, ODOE

Wade Carey, Central Lincoln, P

Brian Fawcett, Clatskanie, P

Elizabeth Osborne, NWPCC, P

Kevin Smit, EEC, P

Wendy Gerlitz, NWEC

Vic Hubbard, Franklin, P

Jed Morrell, Monmouth

Margaret Ryan, PNGC

Mary Smith, SNOPUD

Tom Schumacher, Benton PUD, P

Charlie Black, NWPCC, P

Mike Little, SCL, P

Hank James, Wells Rural Electric, P

Sandi Edgemon, City of Richland

Van Ashton, Idaho Falls, P

**BPA participants:**

Kim Thompson, BPA

Mark Ralston, BPA, P

Melissa Podeszwa , BPA, P

Summer Goodwin, BPA

Darby Collins, BPA, P

Matt Tidwell, BPA, P

Kyna Alders, BPA

**Notes1**

* **Review of the first big tent meeting**
  + **Person 1:** it was a good meeting, but it’s hard to discuss things because some issues like self-management of incentives is still so vague and lacking in details.
  + **Matt:** there’s some flexibility in the timeline for the review process so BPA won’t artificially cut off the conversation. We may need to pursue two tracks, one for outstanding issues where we continue conversations and other issues that have been wrapped up. We can have the timing piece be an important agenda topic at the next big tent meeting.
  + **Person 27:** that is an important message to communicate. Maybe there are some things like the IM, that could be in place by October 1; some things may need more time.
  + **Person 28:** maybe we can tackle some of the easier things and get them out of the way.
  + **Kim:** our primary expectation of the first big tent meeting was to provide an opportunity for those who haven’t been engaged thus far to get them up to speed. It wasn’t necessarily designed to further any of the issues. It was a good opportunity for cross pollination of ideas. The heavy lifting of moving the issues forward is in the workgroups.
* **Action Items**
  + **Doug:** the 6(c) policy document that BPA shared is useful in understanding BPA’s requirements. Not everything BPA does falls under the category of acquisition.
  + **Kim:** the Power Act states BPA must acquire, but it also provides a list of other activities BPA can undertake to support acquisition.
  + **Person 27:** the language for the action item regarding opt-out needs to be revised to be clearer and not have an assumption that if some utilities pursue self-management that BPA will borrow the same amount of money.
  + **Matt:** we can get the language revised on that item. And then we wanted to make sure folks knew we are still working on updating the Facts and Figures document to include a breakdown of savings by sector and a look at cost also broken down by sector.
* **BPA working assumptions**
  + **Margaret:** a new working assumption is that BPA will pursue 3rd party financing effective FY16 (Oct 1, 2015).
  + **Kim:** to the extent incentives continue to be capitalized, then incentives would be pursued via 3rd party financing. The level of capital for EE is the domain for CIR.
  + **Doug:** the level of amount for incentives will either be in the CIR (if it’s capitalized) or the IPR (if it’s expensed). The workgroup will not have responsibility for setting the EE budgets; that is a CIR activity.
  + **Kim:** if we identify an alternative model to achieve our common objectives, then the model might impact the number of incentives.
  + **Doug:** this is another reason why we can’t wait to till the end of time to identify our preferred option on self-management of incentives.
  + **Person 32:** there is a public relations component to BPA using bonds through Energy Northwest based on history, so that might be something to keep in mind.
* **Clarification of Issues 6-**8
  + **Margaret:** BPA was tasked with providing the workgroup with some clarification on issues 6, 7 and 8. The issues are identified here on these slides.
  + **Matt:** issue 6 (Limitations of the framework) was externally generated and issues 7-8 (performance payments for regional programs and regional program administration) were BPA-generated.
  + **Person 27:** for issue 8, we don’t have any data to support the language for the issue, e.g., we don’t have language on administrative costs. There are sometimes duplicative administrative costs.
  + **Kim:** regarding issue 8, when we moved to the Post-2011 framework, we took a big swing in our approach to regional programs. When we moved to the EEI model for Energy Smart Grocer, we moved away from direct acquisition for that program and gave control over investments for the program to customers. This did cause some minor problems for the program. The Post-2011 policy leaves open the door for a direct acquisition model, but the question at hand is what process/regional engagement should be pursued before we decide to move away from the 12-13 approach of incentives flowing through the utility.
  + **Person 28:** the process now is working well for us.
  + **Kim:** it’s important to note that the industrial model is a heavy touch so it makes sense to have the incentives flow from the utility, but with grocer there’s a much lighter touch with the end-users, so it might make more sense to have incentives flow through a direct acquisition model.
  + **Person 28:** I’m trying to get more savings out of the existing programs. I want savings and the budget is open, but they are limited.
  + **Person 27:** the grocer program has evolved. It started out as working with national chains but now it has moved to every mom and pop shop. It does seem like we’re talking about the bookends, utilities have the control or BPA has the control, but maybe we can find a middle road where some people go through the BPA program or the utility can contract directly with the implementer.
  + **Matt:** it’s important for us to not keep the conversation limited to grocer, because BPA staff has worked with customers to identify new future program opportunities so we want to think about the process that gets us to program design that makes the most sense for those future programs.
  + **Person 10:** I want to make sure there is a set of principles on [regional] program design because I may not want to pay for certain programs or costs.
  + **Kim:** there’s an important consideration around whether one of the principles would be to let one dissenting utility stop a program from being developed, so do we need 100% sign off by all utilities? That’s one bookend and the other bookend is designing programs without consideration of utilities interest. Neither of those is probably a very good approach, so we’re looking at principles that set us on a path for something in the middle.
  + **Person 27:** the utilities ought to have the ability to talk about timing of when activity takes place. It’s not necessarily about not paying for it, but more about being able to have control of when the activities take place.
  + **Person 10:** I don’t think this issue should be talked about within this workgroup. There are a lot of different players when it comes to certain programs, so a broader conversation would be needed.
  + **Kim:** the workgroup can help identify the blueprint for engagement on regional programs so we don’t reinvent the wheel each time we undergo a new program, so there’s some design efficiency we could get by having this workgroup arrive at a set of principles.
  + **Doug:** what does BPA use now to help it determine whether a program should be direct acquisition or run through the utilities. What’s that process?
  + **Kim:** the types of factors we would consider are whether there’s a distributed skill set across the utilities or whether we need specific skills that should be hired for.
  + **Person 28:** I feel to a certain degree limited in my acquisition with the existing grocer program because grocer doesn’t have the staff, so I’m wondering if I need to contract with somebody else. I asked them if they could do a pilot project to expand the program.
  + **Person 27:** regional programs can compete with our programs.
  + **Person 32:** I wonder if local utilities could combine their interests.
  + **Person 25:** I get concerned about changing programs when many of our smaller customers are really benefiting.
  + **Person 10:** there are going to be programs where we take advantage and some programs where we won’t take advantage and we need to recognize that, I just don’t want to have to pay if BPA decides it wants to do an appliance program, I wouldn’t want to support that.
  + **Kim:** the problem with today’s EEI pledging model is that in order to secure third party services via a contract we need a good idea of funding up front so we can right size the third party contract. If we allow the pledging, there’s a big risk that we could over scope the contract and the demand is not enough to support the costs, or vice versa.
  + **Person 27:** the timing is hard and making commitments is hard.
  + **Kim:** how do we get sufficient insight to size the scope of the program correctly?
  + **Person 22:** it does seem to me that there are some programs for BPA to have the pot of money for incentives and not have to go every time to the utility to ask how much they want to put in. In some cases that doesn’t make sense.
  + **Person 32:** what are the issues that caused us to move away from the direct acquisition model?
  + **Person 16:** more control in the service territory to make sure you know what’s going on.
  + **Person 10:** with I-937, it’s about timing and knowing what’s going on so it lines up with the utility’s plan.
  + **Matt:** I’m hearing additional principles for a direct acquisition model, one is making sure the utility knows about which end-users are being contacted by the BPA program and another is making sure activity lines up with I-937 utility timing and direction.
  + **Person 13:** when grocer was under the direct acquisition model, I recall the issue of local control, but I don’t know if enough emphasis has been put on that. We like the local control and want to identify how and where the resources are being expended.
  + **Person 27:** is there a role for the USB? One of the solutions would be to revisit the charter of the USB to funnel new ideas through the USB.
  + **Matt:** so there’s another principle about process for design. An initial idea could be fleshed out by BPA and then shared with the BPA to get guidance and then request design assistance from all customers, further design, and then share out the fully fleshed out idea of the program to all customers before contracting, so that you would have escalating levels of review and utility participation.
  + **Kim:** contracting does take awhile and there must be fair competition so there is a time when BPA goes dark during the contracting phase so that certain actors don’t get unfair advantage by participating in stakeholder calls.
  + **Person 27:** BPA’s contracting makes it so we can’t be nimble and makes program creation take too long.
  + **Doug:** another principle is that BPA has to follow its federal procurement requirements. Is there a format where a utility could pursue a program before BPA completes its contracting?
  + **Margaret:** bringing the conversation to issue 7 regarding performance payments for regional programs
  + **Kim:** what I’d like to understand is if there are some principles when it doesn’t make sense for a utility to be able claim performance payments for a regional program.
  + **Person 25:** we don’t take any performance payments for grocer, but would it hurt to leave it as an option?
  + **Person 32:** the principle is that people need to do the right thing. It’s fine if we don’t claim. It’s not much.
  + **Kim:** might be more problematic to close this loophole then to leave it.
* **Issue 5:** Utility self-management of incentives
  + **Doug:** we asked customers to express their interest in self-management of incentives. Next, we wanted to look at the funding alternatives and have folks gives us an indication of what you’re interested in.
  + **Person 1:** should the Cost of Service Analysis option be removed from the list of options?
  + **Matt:** yes. We considered the alternative and it resulted in our working assumption about not entertaining a proposal based on a “menu of services.” Our assumption is that it won’t work.
  + **Kim:** Our rates aren’t structured so customers can opt in to things and not others such as lawyers, fish and wildlife.
  + **Doug:** there are four ways to finance incentives: 1) treasury; 2) expense incentives; 3) 3rd party borrowing; and 4) utility-managed options.
    - Doug: For treasury borrowing, as regional budgets and targets grow and more EEI is needed, it increases pressure on BPA’s limited borrowing ability. It also reduces near term power rates, but the debt service costs build over time and as you continue you build up a bow wave of debt costs that could grow to a substantial portion. BPA continues under a TOCA-based allocation and collects on a TOCA-based approach.
      * Person 22: the TOCA approach isn’t a foregone conclusion.
      * Kim: the TOCA is how we collect costs, but it’s not necessarily the case for allocating incentives.
    - Doug: For expensing incentives, it eliminates treasury borrowing for EEI, which is good because it allows BPA to dedicate capital to other investments but that doesn’t mean BPA’s total borrowing from the treasury doesn’t go down. Relative to the first one, it increases near term rates, but leads to lower future costs.
      * Doug: we need to re-clarify what the impact is on rates, e.g., is it for each $60M there is 1% rate increase, or is it 1% for each $20M, which we’ve heard before?
    - Kim: there’s a philosophical trade-off. Some argue we should be paying the costs over the life of the asset and others say conservation as a resource shouldn’t be capitalized.
    - Matt: if people want to see the retail impact of expense vs. capital, Tacoma has put together a great analysis that can be shared with the workgroup.
    - Doug: regarding third party financing, it’s an alternative to treasury borrowing, which provides relief on the limited treasury funds. There seems to be more flexible usage of the funds, e.g., helping with the backstop issue and the roll over issue. It’s still debt financing with the near term benefit but longer term higher costs. BPA continues to use the TOCA. BPA control on rate period funding may change.
      * Linda Esparza: would there be an interest rate savings?
      * Doug: I don’t know if we would know that. BPA’s best rate is the treasury rate, so municipal financing is probably more expensive and I don’t know what the administrative costs are for BPA with treasury or 3rd party financing.
      * Kim: it might be premature to compare them because the cost is impacted by the total amount borrowed through the 3rd party.
    - Doug: regarding utility self-management of incentives, I mean taking on the entire amount of their incentives.
      * Person 27: the impact on retail rates is going to depend on whether the retail utility already expenses conservation.
      * Kim: how do we introduce the concept of accountability into the conversation? If you can contribute to the target at a lower cost than what BPA would have budgeted for you, but what accountability mechanism do we put in place to make sure we meet the target and what are we talking about in terms of individual performance/contributions to the target.
      * Person 27: I need to remind folks that I-937 utilities have their own accountability model in place.
      * Person 10: I have a real problem with BPA banging its head against the wall regarding hitting the target exactly.
      * Kim: I agree about the false precision track.
      * Person 22: nobody is saying you have to hit the target on the dot. If BPA did everything it could but came up short, nobody would fault BPA. The pressure is coming from BPA not doing everything it could. It’s about the effort.
      * Person 1: but effort is being interpreted as just spending more dollars.
      * Person 27: there has to be some acknowledgement that it’s a 20 year target and there must be acknowledgement of various drivers, such as the economy. The plan involves a lot of guesses, so the target is based on best guesses, so we’re making our best effort, but things are changing under our feet all the time.
      * Person 22: sure the plan is based on best guesses, but it involves a lot of analysis, so if you don’t use the plan what would you use to determine best effort?
      * Person 1: BPA can be out of the money game and be more concerned about savings levels. Maybe BPA is willing to focus on savings commitments, so the question becomes about how to get there on the savings front. BPA can monitor the dollars or monitor the savings.
      * Doug: these are all thoughts this workgroup needs to take on. We are trying to make clear that this is not “opt-ing out” you don’t get out without doing anything. You’re still on the hook for something so we need to discuss what that the something is.
* **Follow up – 3rd party financing**
  + **Kyna:**  regarding the timeline for 3rd party financing and certainty of going to that model. The intent would be to have it in place for FY16 to coincide with the new conservation agreements. It’s a BPA assumption that we’ve been using for our long term debt management strategy. It’s fairly established.
  + **Kyna:** regarding roll over, in the current context of treasury borrowing, BPA doesn’t allow roll over across rate periods and recently there was a policy change that allows EE and Fish for roll over within a rate period with no cap on the amount of roll over, but EE and Fish are unique in being able to have this roll over from year to the next. BPA has to live within the budget we deliver to Congress. Regarding the question of Transmission, there is a fiscal year budget and projects are managed within the budget on a portfolio basis, so annual budgets are tied to specific projects.
  + **Kyna:** there is some openness to roll over under a third party financing model partially because of upfront bonding and not having to allocate reserves; we haven’t looked at it fully, but we’re at least open to it.
  + **Kyna:** if EE could figure out a tool to better manage EE utility budgets that allows you to maintain within its overall budget, Finance has no problem with that, but EE doesn’t have any such controls or options.
  + **Doug:** so if you could get the utilities to agree to an EEI fund of $25M that sat there and gave you flexibility as a pool of reserves, would that be possible?
  + **Doug:** doesn’t capitalizing rather than expensing reduce the risk for Finance?
  + **Kyna:** it’s not so much the risk; it’s the difficulty of trying to determine whether or not we recover our costs so we don’t have a way of tracking the expenditures. And there’s potentially slice true-up impacts.
  + **Person 2:** to summarize, BPA has roll over within a rate period, but there’s an openness to discuss roll over between rate periods with 3rd party financing.
  + **Kyna:** the decision of whether to do 3rd party financing will be an access to capital issue so if the amount to borrow was so small we probably wouldn’t pursue it.
  + **Kyna:** through CIR we are trying to arrive at budgets to work into rates. To the extent this workgroup decides on a change to the business model or if the 7th Power plan comes out, these things would change the budgets. There’s nothing in that process that impacts how this workgroup should proceed. But if people feel strongly about moving to expense or changing the 75/25 split up or down, there are implications for the CIR process. We can revisit this, but the numbers firm up as we move through time.
  + **Kyna:** regarding the funding alternatives already considered by the workgroup, changing the 75/25 split and the expense rate credit option are pretty easy, but the capital rate credit is likely to be very complicated and the prepay option is similarly not easy to implement.
  + **Doug:** we haven’t yet dug into the specifics of those two options.
  + **Person 27:** why wouldn’t Finance be able to consider how a utility would self-manage its incentives?
  + **Kyna:** there’s a lot of complication associated with giving people credits for debt service costs over time , interest rates for each bond is different, there is the timing of in and out.
  + **Matt:** there’s another mechanism for self-management from the rates perspective and that is an “adder,” which is the flip side of a capital rate credit. Each utility would have an adder on their rate corresponding to their portion of the amount of incentives borrowed via the 3rd party. Rates folks say this adder approach is easier than the capital rate credit, albeit more complicated than the current approach.
  + **Doug:** so the rate adder makes for a fifth funding alternative for us to consider whereby utilities that 100% self-manage incentives would have a zero adder and then everyone else would have an adder reflecting their portion of the amount borrowed.
  + **Kyna:** if you could articulate what you’re thinking about, you could have somebody from rates to come in and discuss the implications of the preferred alternatives.
  + **Kim:** we could get insight into the differences between “billing credits” and rate credits since the RD contracts have foregone billing credits.
* **Funding alternatives**
  + **Person 10:** I think we should put together a sub-committee to flesh out the alternatives and then sit down with rates folks. I’m concerned about timing and would like to do this sooner rather than later.
  + **Margaret:** we could have a subcommittee meet on the 17th and incorporate the results of the poll on which alternatives people preferred.
  + **Matt:** the group would need to spend some time considering all the implications of each of the alternatives that aren’t just connected to rate design.
  + **Margaret:** we’ll send out an invite for the 17th and people can participate if they’d like to.
  + **Matt:** in the meantime, I can work on beginning a document that looks at pros/cons and implications that need to be thought through.
  + **Person 32:** it would be helpful to have the pros and cons attached with the poll so that people have a better understanding of the issues before they vote.
* Next Steps
  + Draw up some more detailed scenarios for the rates people to review? Let’s get the results back from the straw poll before and decide whether or not we even want to pursue all of these.
  + Subcommittee could think about the associated issues regarding:
* Accountability
* How does this role up to the larger commitment to the plan
* Rates
* Matt and Doug will add pros/cons and something about the “adder” to the straw poll. We will send it out when we are finished. Will have the results of the straw poll before the meeting on the 17th. 17th would be the subgroup meeting from 2-4. Will invite everyone to that meeting.