

Post-2011 Review

Workgroup 1: Model for Achieving Programmatic Savings

February 18, 2014





Agenda

- Check In / Roll Call
- Operational Excellence... at a glance
- Desired Outcomes for WG1... at a glance
- Jan 29 Follow Up Items
- Special Guests – Anita Mertsching and Kyna Alders
- Continued Discussion – Self Management of Incentives
- Revisiting the Outstanding Issues
- Preparation for February 26 Big Tent Meeting, Tacoma
- Next steps - 2:50 pm
- Adjourn – 3:00 pm

OPERATIONAL EXCELLENCE

- Rules of Engagement...
 - Introduce yourself before speaking
 - One conversation at a time (minimize side- bar chats)
 - Acknowledge our phone participants
 - Think about solutions for the long term as well as short term
- Comments/Corrections/Additions/Deletions -
Jan 29 Meeting Minutes
- Big Tent Meeting February 26

Desired Outcomes...

- Proposals that are implementable
- Make the overall efficiency we accomplish better
- Meet BPA's requirements
- Appreciate the role of the utility
- Helps utilities acquire savings through easier operational mechanisms
- Agreement amongst the WG that we're on the same page moving forward (even if it means giving up on our personal perspective)
- Allow time for the WG members to process the outcomes

Desired Outcomes, cont'd...

- Regardless of size, all utilities can aggressively participate in BPA programs and obtain energy savings
- Encourage lowest cost resources; reduce barriers to lowest cost acquisition
- Work judiciously to stay on schedule
- Early identification of 'show-stoppers'
- Try to maintain the flexibility of Option 1 and Option 2 customers, especially as it relates to custom projects
- We can freely express opinions
- Keep what works

Action Items

What	Who	When/Outcome
Morph Large Project Fund issue into “capturing large projects” and introduced to Workgroup 4	BPA	February 10
Cost savings calculations associated with self-management of incentives	Tacoma, Snohomish, Others	March 5
Request for a Finance Representative to attend an upcoming workgroup meeting	BPA	February 18
Update the Facts & Figures Document based on data requests from the workgroup	BPA	March 5
Obtain a copy of the 1986 BPA policy on “acquire”	BPA	March 5
Request for BPA to provide a general estimate of BPA cost to implement the self-management of incentives approach	BPA	Deferred until the workgroup can better define the working parameters.
Obtain from BPA just how low the 75/25 split could go	BPA	Still under consideration.

Action Items

What	Who	When/Outcome
<p>Check with legal re passing on the responsibility for acquiring to the utilities, a la the EPA model (the utility would be BPA's agent)?</p>	<p>BPA</p>	<p>Not possible. Clear Air and Clean Water Acts have statutory provisions that allow state requirements with EPA oversight; the NPA has no such statutory provisions.</p>
<p>If a portion of utilities opt-out of BPA's capital borrowing, would 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?</p>	<p>BPA</p>	<p>Determined the answer is no. BPA would not support such a cost transfer under any potential new framework.</p>

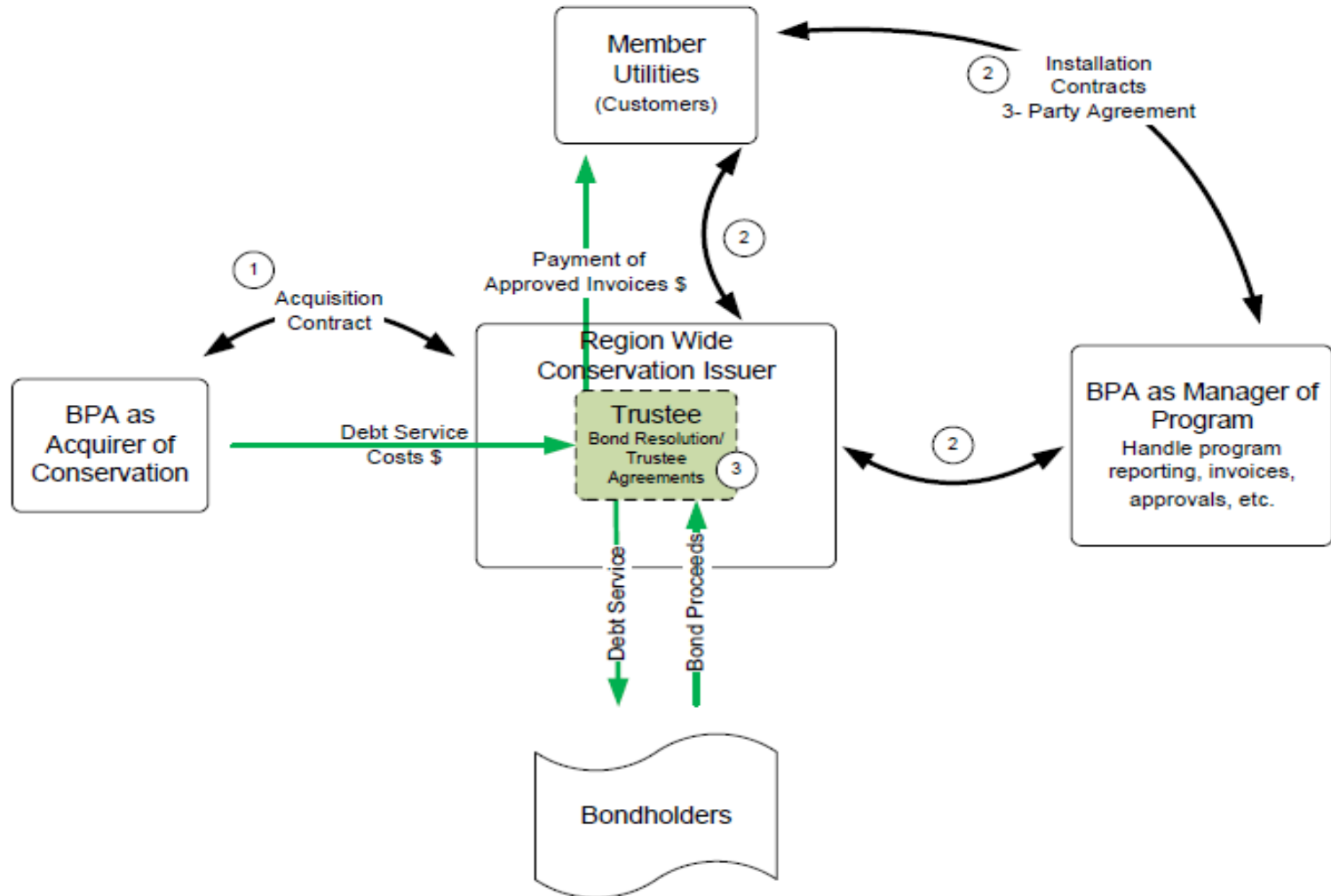
Conservation 3rd-party Financing

February 18, 2014



Financing Construct Envisioned Taxable/Tax-Exempt Financing

“BPA-backed Bond Model”



Supporting Contracts

Resource Acquisition Contract (2-Party Agreement):

- Umbrella/master contract between BPA and Issuer
- BPA, as obligor, makes hell-or-high water payment commitments
- Program specifics regarding installation of conservation measures
- Links to the 3-Party conservation contract

3-Party Conservation Contracts:

- Between Issuer, BPA customers, and BPA
- Customers install conservation measures
- Customers report through BPA and BPA approves – payments are paid through Trustee
- BPA serves as Program Manager
 - Designs program specifics (Implementation Manual)
 - Reporting (EE Central)
 - Invoice Approval
- Understanding and knowledge of the conservation measures we are purchasing will be key to obtaining 9(f) tax-exemption

Bond Resolution/Trustee Agreement:

- Between Issuer and Trustee
- Outlines flow of funds/pledge of revenue
- Trustee duties assigned
- Debt service commitment of Issuer
- Miscellaneous rights and obligations of parties



BPA Working Assumptions

- BPA must fulfill its statutory obligations, e.g., BPA must “acquire” conservation (defined in BPA policy as an exchange of funds)
- Any proposal must work within the existing Regional Dialogue policy and contracts
- Decisions need to be made in the context of other dynamic agency drivers (e.g., CIR, IPR, Access to Capital)
- Funding levels will be decided in the CIR and IPR processes
- Any proposal must be consistent with BPA’s financial and procedures and reviewed by BPA finance for consistency with sound business principles
- Any proposal should not adversely impact customers that choose not to pursue a particular alternative
- Any proposal should not consider a “menu of services” approach to funding of EE costs/services (i.e., picking which EE costs to pay for)

Issue #5 – Utility Self-Funding (Scoping Doc. Item 9 w language clarifications)

Problem Statement – The existing 75% BPA-funded and 25% utility self-funded split for delivering programmatic energy savings was created in the Post-2011 framework. Some utilities would like to take this further and “opt-out” of paying in rates for EEI funding only. Additionally, some utilities would like BPA to consider using a Cost of Service Analysis to determine the allocation of BPA’s expense and capital costs.

Options –

- A. Status quo: the 75/25 utility self-funding split remains as-is.
- B. Percentage change: a split remains but the 75/25 percentages are adjusted either up or down.
- C. Self-Management of EEI funds: electing utilities self-manage the EEI paradigm if certain conditions are met. This option does not include opting out of paying for the BPA-managed portion of EE’s capital budget. (BPA will entertain well-formed proposals that meet specific criteria supplied by BPA.)
- D. Cost of Service Analysis: BPA costs are allocated to customers using a Cost of Service Analysis.

What BPA has heard from some customers regarding funding

- **Capital:** Some customers do not want BPA to capitalize conservation costs on their behalf, especially in light of BPA's access to capital constraints.
- **EEl:** Some customers do not like the fundamental nature of the Energy Efficiency Incentive – customers pay in rates and BPA uses the funds to acquire savings.
- **Transactional:** Some customers consider it a burden to “transact” with/report to BPA in order to receive payment for savings achievements.

Funding Alternatives

- **What we will consider....**
 - **Alternative approaches to implement the EEI incentive structure**
 - **Proposals that work within the existing RD construct & other agency drivers**
 - **Proposals that are consistent with BPA financial regs & consistent with sound business practices**

- **What we won't consider...**
 - **Proposals that adversely impact other customers**
 - **Proposals that request funding for specific programmatic costs & services (e.g., third-party contract/programs)**
 - **Proposals that exclude funding for BPA administered grants (e.g., NEEA)**

Funding Alternatives

- A few options on the table to get the discussion going
 - **Revise the 75/25 Split**
 - **Conservation Prepay**
 - **Expense Rate Credit**
 - **Capital Rate Credit**
 - **Others?**

Funding Alternatives

- **Revise the 75/25 Split:** customers, *on average*, take on more responsibility for delivering savings without BPA funding. Revising down would result in reduced BPA EEI budgets for all customers.
 - Partly addresses customer issues of Capital and EEI issues
 - Would likely require some degree of utility-specific savings targets to ensure BPA achieves its target – putting BPA in an enforcement role
 - Note BPA’s targets for WA I-937 customers would likely not align with state targets
 - Could adjust split based on customer performance
 - May impact BPA’s ability to third party finance conservation

- **Conservation Prepay:** customers bring capital to BPA in exchange for a bill credit that repays the cash with interest.
 - Addresses Capital and EEI issues
 - May impact BPA’s ability to third party finance conservation

Funding Alternatives

- **Expense Rate Credit:** revert back to using a rate credit with some changes to the previous version.
 - Addresses Capital and EEI issues
 - Rate impact: ~1% increase per \$20M moved to expense

- **Capital Rate Credit:** a rate credit would be used for those customers that “elect” to 100% self-finance their savings acquisition. This would split acquisition into one bucket of self-financing customers and another bucket of 100% BPA-funded customers, thus eliminating the “on average” self-funding expectation of today.
 - Addresses Capital and EEI issues
 - Would require those electing customers to take on specific savings targets (the remainder of the target would be shared implicitly by all non-electing customers)
 - BPA’s targets for WA I-937 customers would likely not align with state targets based on conservation potential assessments
 - May reduce the opportunity for non-electing customers to find a counterparty for bilateral transfers
 - May impact BPA’s ability to third party finance conservation

Considerations on the Tee...



Issue Prioritization

1. **EEI Allocation Methodology Using TOCAs**
2. Two-Year EEI Budgets (“roll over”) 21 Votes
3. BPA Redirect of EEI Budgets (“take back”) 10 Votes
4. BPA’s Backstop Role 11 Votes
5. **Utility Self-Funding - In progress**
6. Limitations of the Post-2011 Framework 10 Votes
7. Perf Payments for Regional Programs 1 Vote
8. Regional Program Administration 8 Votes

Revisiting Outstanding Issues

- We have 6 outstanding issues to address
- 4 Remaining Meetings Scheduled through April (none currently scheduled for May).
- Scheduling – need to get staff scheduled if we want BPA participation on the issue discussions
- Discuss - April 9 conflict with USB Conference Call Meeting
- May need to table some discussions – internal BPA discussions remain ongoing
- Final Big Tent Meeting mid-June

Revisiting Outstanding Issues, cont'd

Regional Programs Administration (Issue #8)

Residential - Simple Steps

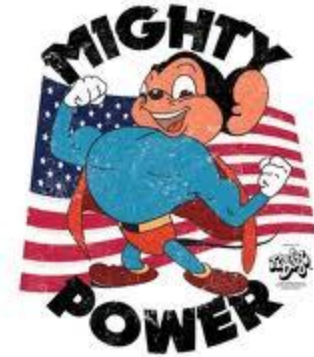
Commercial – EnergySmart Grocer, Lighting TAN

Industrial – Energy Smart Industrial, Green Motors

Potential discussion topics/information to assemble:

- Participation levels (utilities)
- Past and future potential performance
- Cost/kWh or cost/aMW
- Pros & cons to different program models (opt-in, opt-out, direct acq.)
- Areas for efficiency of scale
- Benefits and drawback for individual utilities

Can We Schedule?



- Two-Year EEI Budgets (“roll over”) 21 Votes
- BPA’s Backstop Role 11 Votes
- BPA Redirect of EEI Budgets (“take back”) 10 Votes
- Limitations of the Post-2011 Framework 10 Votes
- Regional Program Administration 8 Votes
- Perf Payments for Regional Programs 1 Vote

Thoughts? Where shall we begin?

Prep for Big Tent Meeting

- Background – Scope of the workgroup and high level overview of the issues
- Summary of Progress – Have we redefined issues? Punted issues to other WG's? Possible solutions identified?
- Request for feedback – Would we like input from others on a particular issue?

Issue Slides

To Keep as a Point of Reference if we need to have them during our discussion

Items noted in **green** indicate the group has consensus on that Issue/Topic.

Issue #1 - EEI Allocation Methodology Using TOCAs (Scoping Doc. Item 1)

Problem statement – The current methodology for allocating EEI funds on a TOCA basis is not aligned with customer conservation potential and may inefficiently/ineffectively allocate available funding.

DECISION: Option A represents group consensus, with possible revisit to Option C. Option E moved to Issue #9.

- **A. Status quo: allocation is based on TOCAs without consideration of potential.**
- B. Conservation potential: allocation is based on conservation potential (a uniform way to calculate potential would likely be needed, e.g., a standardized Conservation Potential Assessment).
- **C. TOCA-split: allocation is based partly on TOCAs and the remaining funds are made available to “low-cost/lowest \$/kWh” projects (to be defined) or redistributed via some other methodology (e.g., conservation potential).**
- D. Utility request: allocation is based on requests from utilities without consideration of potential (similar to the BPA bilateral funding model prior to October 1, 2011).
- E. EEI opt-out: electing utilities opt-out of the EEI paradigm if certain conditions are met. This option does not include opting out of paying for the BPA-managed portion of EE’s capital budget (see also “Utility Self-Funding” issue below).

Issue #2 – Two-Year EEI Budgets, aka Roll Over (Scoping Doc. Item 2)

Problem Statement – Customer EEI budgets are allocated per rate period and any EEI funds remaining at the end of a rate period cannot be “rolled over” to the next rate period, i.e., the funds are “use or lose” within a two year time horizon.

Options –

- A. Status quo: BPA continues to confine EEI budgets to a single rate period.
- B. Roll over: Customers are able to roll over unused EEI funds to the next rate period.
- C. Project-specific roll over: Customers are able to roll over to the next rate period an amount of unused EEI funds tied to specific projects (or for certain sectors).
- D. Five-year estimate: BPA offers a preliminary five-year budget to customers to help with long term planning.

Issue #3 – BPA Redirect of EEI Funds (Scoping Doc. Item 3)

Problem Statement – The EE Post-2011 Policy Framework states, “If the [EEI] budget is not being spent, a utility will be notified that a portion of the remaining funds will be made available to other utilities as supplemental funding. Other utilities that are on-track or ahead on spending expectations would then have access to all available funding.”⁴ To allow an opportunity for customers to adjust to the new EEI mechanism, the EE Post-2011 Implementation Program states, “ECA Implementation Budgets will not involuntarily be reduced during the FY 2012-2013 rate period...However, following the FY 2012-2013 rate period, BPA will periodically review a customer’s activities and consult with it prior to reducing its ECA Implementation Budget...”

Moving into the FY 2014-2015 rate period, BPA must determine whether or not it will exercise its right to take back EEI funds prior to the end of the rate period and make those funds available to other customers.

Options –

- A. Status quo: BPA does not exercise its “take back” right during the FY 2014-2015 rate period and subsequent rate periods.
- B. Take back: BPA will exercise its right to take back funds that remain unspent near the end of a rate period.

Issue #4 – BPA’s Backstop Role (Scoping Doc. Item 4)

Problem Statement – BPA’s existing backstop role is not explicitly defined and some customers and stakeholders would like more clarity. The EE Post-2011 Policy Framework provided the following on BPA’s backstop role: “If the programs in place at any given time are insufficient to achieve the necessary level of savings, then new programs, as well as looking at other avenues, would be explored and evaluated, to meet the targets.”⁶

Options –

- A. Status quo: BPA’s backstop role, as defined today, remains as-is.
- B. Explicit definition: BPA’s backstop role is more explicitly defined.
- C. No backstop: BPA has no backstop role.
- D. Conditional: BPA has a backstop role only under certain conditions or for a certain segment of customers.

Issue #5 – Utility Self-Funding (Scoping Doc. Item 9)

Problem Statement – The existing 75% BPA-funded and 25% utility self-funded split for delivering programmatic energy savings was created in the Post-2011 framework. Some utilities would like to take this further and “opt-out” of paying in rates for EEI funding only. Additionally, some utilities would like BPA to consider using a Cost of Service Analysis to determine the allocation of BPA’s expense and capital costs.

Options –

- A. Status quo: the 75/25 split remains as-is.
- B. Percentage change: a split remains but the 75/25 percentages are adjusted either up or down.
- C. EEI opt-out: electing utilities opt-out of the EEI paradigm if certain conditions are met. This option does not include opting out of paying for the BPA-managed portion of EE’s capital budget. (BPA will entertain well-formed proposals that meet specific criteria supplied by BPA.)
- D. Cost of Service Analysis: BPA costs are allocated to customers using a Cost of Service Analysis.

Issue #6 – Limitations of the Post-2011 Framework (Scoping Doc. Item 11)

Problem Statement – The design of the Post-2011 framework may be constraining public power’s pursuit of all cost-effective conservation consistent with the NW Power Act, which was a core principle of the initial Post-2011 public process. Additionally, the framework is based on BPA paying for energy savings on a “widget-by-widget” basis, which may not afford the opportunity for public power to capture savings via new, innovative programmatic approaches.

Options –

- A. Explore: BPA, customers, and stakeholders explore any inherent constraints of the Post-2011 framework to acquiring “all” cost-effective conservation and capturing savings via new programmatic approaches.

Issue #7 – Performance Payments for Regional Programs (Scoping Doc. Item 14)

Problem Statement – Customers can claim performance payments for savings resulting from regional programs (e.g., EnergySmart Grocer) even though most administration costs are borne by the program implementer. This increases the overall cost of the regional program (and makes fewer funds available for acquisition of savings) where a utility may not actually incur costs.

Options –

- A. Status quo: utilities can claim performance payments for regional programs that cover labor costs.
- B. Restriction: utilities cannot claim performance payments for regional programs that cover labor costs (perhaps unless they can document that they incurred costs).

Issue #8 – Regional Program Administration (Scoping Doc. Item 15)

Problem Statement – BPA administration of regional programs (e.g., Energy Smart Grocer) is more difficult without the direct acquisition program model and when funding commitments are variable or not firm. In order to optimize regional program performance and lower administrative costs, the region would benefit from considering conditions under which a direct acquisition program would be appropriate or by securing firm incentive funding commitments ahead of budget-years to appropriately size and focus the third party implementer's efforts.

Options –

- A. Status quo: BPA has neither control of funding to directly acquire savings via a regional program nor a mechanism to secure firm utility funding commitments for regional programs.
- B. Direct acquisition: Under certain conditions, BPA is able to control a portion of incentive funding to directly acquire savings via a regional program.
- C. Firm utility commitments: Prior to finalizing a third party contract for a regional program, BPA has the ability to secure firm utility funding commitments for the program.