Final Decision Document:

BPA's hybrid methodology for close out of BPA's Energy Efficiency capital budget, fiscal years 2013 and 2014

January 2012

Summary

In this document, BPA provides its final resolution of the Energy Efficiency capital budget overspend from fiscal year 2011. BPA recognizes the difficulty that the 2011 fiscal year capital spending situation has created for many customers, their ratepayers and regional stakeholders. Our resolution seeks to achieve the most balanced solution possible given the circumstances and the five-year budget sideboard. Our resolution reflects the following

- BPA will use a hybrid methodology to address the cost impacts from the FY 2011 overspending of BPA capital funds by customers under Energy Conservation Agreements.
- All customers will have an Energy Efficiency Incentive allocation for FY 2013 that is no less than 35 percent of their FY 2013 base case EEI.
- EEI reductions in fiscal years 2013 and 2014 will be shaped so EEI funding amounts can be similar in each fiscal year.
- In determining each utility customer's EEI budget for FY 2013 and 2014, BPA will use the average of each customer's allocation as calculated from rate period (FY 2010-2011) expenditure analysis and allocation as calculated from FY 2011-only expenditure analysis, as the basis for FY 2013 and FY 2014 EEI budgets[1].

This finalizes BPA's approach for addressing the situation as well as updating and refining the information presented in the Nov. 1, 2011, draft decision document.

Background

Since July 2011, BPA has been working to address an overrun in its capital funding budgeted for energy efficiency incentives, primarily those provided under Energy Conservation Agreements to our public utility customers to support BPA's acquisition of conservation. During this period, BPA has conducted ongoing engagement with our customers and other regional stakeholders to determine a reasonable and effective means of addressing this issue.

[1] For example, for a hypothetical customer, if BPA used rate-period expenditures in its calculations, that customer's FY13 EEI would be $100,000. However, if BPA used FY11-only expenditures, that customer's FY13 EEI would be $110,000. Because BPA will average these two approaches, the customer's FY13 EEI will be $105,000 = [(100,000 + 110,000)/2]

As the potential for a budget overspend became apparent, BPA met with customers and other stakeholders in August 2011 and outlined several approaches for managing capital spending in future years. Each of these approaches reflected our decision to keep total capital spending on energy efficiency during the five-year period (fiscal years 2010 through 2014) at or under the Integrated Program Review level of $459 million. Based on the feedback we received, BPA agreed to maintain FY 2012 EEI budgets at levels previously established while addressing the FY 2011 budget overspend by making adjustments to fiscal year 2013 and 2014 EEI budgets. The approaches for adjusting FY 2013 and 2014 EEI allocations discussed in this process are presented below.

Level impact approach: This approach spreads the impact of the FY 2011 capital overspend proportionally across all customers.

Equity impact approach: This approach targets the impact of FY 2011 capital overspend on the utility customers who spent beyond the share they would have been allocated if BPA had used the Tier One Cost Allocator mechanism for establishing EEI budgets.

Hybrid impact approach: This approach melds the impact of the FY 2011 capital overspend by reducing FY 2013 and FY 2014 budgets by applying 50 percent of the overspend using the level impact approach and 50 percent of the overspend using the equity impact approach.

BPA's draft decision document

BPA's November draft decision document proposed the hybrid method as the approach for adjusting the amount of Energy Efficiency Incentive funds our customers would be eligible to receive in fiscal years 2013 and 2014. As noted above, with this approach, 50 percent of the FY 2011 overspend is spread across all customers on a pro rata basis and 50 percent of the FY 2011 overspend is spread to those customers who disproportionately benefited from FY 2011 ECA funding (that is, they exceeded their TOCA-based share of the overall FY 2011 spending level). .

In its draft decision, BPA proposed to:

- stay within the five-year budget set in the October 2010 IPR close-out memo,
- keep FY 2012 levels at forecast amounts,
- apportion EEI reductions using a hybrid approach that allocates 50 percent of reductions according to a levelized methodology and 50 percent using an equity methodology,
- reapportion funds from utilities with proportionally low spending to offset overspending using a de facto "unassigned account" methodology,
- pursue equal reductions in FY 2013 and FY 2014 EEI allocations that would offset the overspend incurred in FY 2011 and
- provide EEI funds to our customers on a rate period basis for FY 2012 and FY 2013.

Events since the release of the draft decision document

The November 2011 draft decision document included BPA's initial totals of customer spending in FY 2011 and projections for EEI allocations for FY 2013. These totals were further revised on Nov. 18 and Nov. 23. The Nov. 23 revision provided final FY 2011 capital spending inclusive of capital costs used to fund regional programs (such as the EnergySmart Grocer and Energy Smart Industrial program), infrastructure projects (such as EE Central), and incentive and associated performance payments to customers for qualifying energy efficiency efforts under Energy Conservation Agreements.

Along with the release of the draft decision document, BPA initiated a final comment period to allow customers and other regional stakeholders the opportunity to express their opinions about the agency's proposed solution and suggest improvements or alternate methodologies to resolve the situation. We received a number of comments that are addressed in a separate response to comments [2]document.

BPA's final resolution to the FY 2011 capital overspend issue

BPA has now fully reconciled FY 2011 expenditures and distilled the feedback submitted. Given that individual suggestions made in the comment period reflected opposing positions on some of the issues noted above, BPA strove to find the middle ground to the extent possible.

Elements that remain the same

BPA has retained the elements listed below from the draft decision document.

Stay within the five-year budget set in 2009: Containing energy efficiency expenditures within the five-year budget aligned to the 6th Power Plan is important for rate stability and prudent and predictable budget management.

Maintain FY 2012 EEI allocations: Maintaining the initially projected FY 2012 EEI allocations ensures effective customer planning and allows for conservation during the decision-making process.

Use hybrid methodology: Using a hybrid approach results in a balanced and reasonable outcome because it protects against customers being disproportionately affected.

Retain EEI funding on a rate period basis: EEI funds will be available on a rate period basis for the 2012 and 2013 fiscal years to allow resources to support energy efficiency to be shifted within the two years of the rate period. This flexibility should allow for some mitigation of impacts from the reduced funds available in FY 2013 and limit the need for dramatic program reductions.

Use "unassigned account" funds to offset overspend: In the calculations for relative overspending, BPA will continue to use an unassigned account methodology to redistribute funds from customers who were proportionally low spenders to offset some of the impacts from the FY 2011 capital overspend.

Elements that are different

In response to customer comment and BPA analysis, we have made the changes below to the specific approaches outlined in the draft decision document.
Use a blend of spending during the FY 2010-2011 rate period and of FY 2011-only spending level to calculate the overspend: Defining the year or years on which to base our calculation of customer spending is a foundational decision for determining overspend amounts.

[2] This document and other information on the FY 2011 capital budget overspend situation can be found at http://www.bpa.gov/Energy/N/EECBI.cfm

BPA considered whether to use the FY 2010-2011 rate period customer spending amounts or use only FY 2011 customer spending amounts. In the final comment period, we received sound arguments for each of these approaches. As BPA considered these approaches, it became apparent that neither approach perfectly accounted for the timing of expenditures of EEI funds by customers late in FY 2010.

On one hand, an FY 2011-only analysis captures some efficiency achievements that occurred during FY 2010 but for which invoices were not received or processed until FY 2011; this approach results in an anomalously large and misleading picture of FY 2011 spending by certain customers. For these customers, use of the FY 2010-2011 rate period would provide a more accurate and equitable means of determining relative overspend. On the other hand, using the aggregate FY 2010-2011 rate period analysis minimizes the fact that the capital overspend occurred within FY 2011. Including FY 2010 shifts the composition of relative overspenders and underspenders as compared to a FY 2011-only analysis, allowing FY 2010 expenditures to overshadow the actions occurring in FY 2011.

Because of the contrasting impacts described above and given that, with a fixed overall budget, each allocation approach adversely affects customers who favor or benefit from the other approach, BPA has decided to use a blended approach. Specifically, in order to calculate each utility customer's EEI budget for FY 2013 and FY 2014, BPA will use the average of each customer's allocation as calculated from rate period (FY 2010-2011) expenditure analysis and allocation as calculated from FY 2011-only expenditure analysis, as the basis for allocating EEI budgets for FY 2013 and FY 2014. BPA believes it is reasonable to account for and use the average of these two analyses because it will minimize disproportionate impacts to affected customers when allocating relative overspending. Said differently, this approach recognizes that there is an inherent logic in both approaches to calculating relative overspending.

Adopted rate period flexibility: BPA will also allow for within-rate-period flexibility available for FY 2014-2015 and future rate periods. In offering this flexibility between fiscal years that cross two power plans,[3] BPA requests as much assistance as possible from our customers in helping to forecast expenditures to allow for effective budget planning.

Established a minimum threshold for EEI allocation: Many comments pointed out the potential adverse impacts that a near-complete elimination of EEI funding could have on several of our customers. To avoid such a result, BPA will set a minimum threshold of 35 percent of base case EEI funding for all customers. The minimum level of funding for all utilities in FY 2013 should ensure that no energy efficiency program will be dismantled and should provide for continuity of programs by our customers.

Balanced FY 2013 and FY 2014 EEI budgets: BPA will change the percentage of the FY 2011 overspend that will come out of FY 2013's capital budget to 43.5 percent and change the FY 2014 percentage to 56.5 percent as opposed to the 50 percent and 50 percent split in the draft decision document. This provides stability in EEI funding between FY 2013 and FY 2014.

[3] The current power plan is the 6th and is promulgated by the Northwest Power and Conservation Council. The 7th power plan is expected to be promulgated sometime during the effective rate period.

Conclusion

Having carefully considered all the public comments and making the above changes to the hybrid methodology, BPA will now make final FY 2013 EEI funding allocation adjustments. These figures are being released simultaneously with this decision document.

We recognize the difficulty that the 2011 fiscal year capital spending situation has created for many customers, their ratepayers and regional stakeholders. Throughout this process, BPA has attempted to engage all affected parties to create a fair and balanced solution. We realize that, regardless of the direction we take, not everyone will be pleased. Although we have arrived at what we feel is a most equitable solution, we understand that the reduction in BPA funding necessitated by the overspend may prove difficult for many of our customers.

We reached this resolution with the expectation that BPA, its customers and other interested parties will continue together to develop and achieve energy savings. The record-breaking 117 average megawatts acquired in FY 2011 was far in excess of the regional target and achieved at a cost per average megawatt substantially below the initial target. Because of the amount of this acquisition at a comparatively low cost, we expect to be able to be able to achieve more savings than we originally anticipated within our 5-year budget.

This extraordinary achievement is an accomplishment we should all be proud of and will continue to provide benefits for the region for many years to come. Although the consequences of the energy efficiency capital overspend may present challenges in meeting future conservation targets, BPA is confident that, by a renewed commitment to utility self-funding, BPA and its customers will continue to effectively achieve and exceed Northwest Power and Conservation Council targets.

We offer our sincerest thanks for the engagement our customers and regional stakeholders have provided during this difficult process.