Decision Document: Resolution for FY2011 Energy Efficiency Capital Budget Overspend

1. Background

The FY2011 capital costs for energy efficiency will exceed the authorized $115 million budget. Spending at the close of August was at $117 million with a month of invoicing on Energy Conservation Agreements (ECA) remaining in the fiscal year. However, BPA intends to keep the total capital spending on energy efficiency from FY2010 – FY2014 at or under the IPR budget set at $459 million to facilitate achievement of public power's share of the 6th Power Plan's target. Public power is well on the way to meeting this target.

On August 11, 2011, BPA shared a proposal for balancing its energy efficiency capital budget in a manner that maintains the five-year capital investment from BPA at the total level defined during IPR as appropriate to deliver BPA's programmatic share of the Sixth Power Plan. That proposal presented three scenarios for rebalancing future utility Energy Efficiency Incentives, a level-impact, an equity-impact, and a hybrid-impact. BPA proposed implementation of the hybrid-impact scenario. Since then, a subgroup of the Public Power Council has met to discuss the proposal. In addition, a number of comments have been received on the proposal. Additional proposals were also suggested by stakeholders. These are reviewed below.

2. Decisions

The following decisions are described and concluded in this document:

A. Additional funding requests added in FY2011**:** BPA will add $3.67 million to FY2011 ECA budgets for eleven customer utilities that had requested additional funding prior to BPA's stoppage of new funding, which is in-line with the BPA proposal and was generally supported at the August 4 public meeting.

B. FY2012 EEI funding remains whole: EEI budgets will remain at the level that was indicated for FY2012 in communications shared in May 2011 and make-up for the FY2011 overspending in FY2013 – FY2014.

C. Hybrid impact scenario to manage overspend: Taking feedback received on BPA's August 11 proposal into account, BPA is leaning towards an approach that is somewhere between the hybrid and equity approach, and will finalize its decision on the specific approach after the FY2011 spending levels are known (probably in late October/November).

A) Additional Funding Requests added in FY2011

There were a handful of requests for additional funding for ECA contracts for FY2011 after BPA put a hold on processing new requests on July 20. These customers (~19) that had previously communicated to BPA that they would need additional funds in FY2011 and were relying on information provided by BPA staff that they would be provided with these funds.

The total amount of funding for this limited circumstance would not exceed $4.0 million. These additional funds will be added to FY2011 ECA Implementation Budgets. If a customer requested funds, but has a negative balance in the Hybrid scenario that was previously released, they will not receive the additional funds (this excludes Grant County PUD from receiving additional funds).

On further clarification with the utilities queued for additional funding, several utilities had adjusted their program execution such that additional ECA funding was no longer required. The final queue BPA will fund totals $3.67M across 11 utility customers.

B) FY2012 EEI funding remains whole

BPA has received overwhelming feedback that many utilities have already completed the planning of their energy efficiency programs for FY2012 and how EEI funds will be used. Because of this, EEI budgets will remain at the level that was communicated by BPA in May 2011. The full energy efficiency capital budget will remain at $89 million for FY2012. Of this amount, $22 million will be used for BPA-managed program costs (i.e. regional programs). The remaining $67 million will be the EEI fund, and allocated to customers according to their FY2012 Tier One Cost Allocator (TOCA). The FY2011 capital overspend will result in adjustments to the FY2013 – FY2014 energy efficiency capital budgets, as discussed below.

C) Hybrid Impact Scenario to manage overspend

BPA has received individual formal and informal comments and accompanying strong argument from stakeholders for each of the three options that were presented in the August 11th proposal. These proposals are based on managing to a five year budget and not increasing the total capital spend beyond the $459 million for FY2010 – FY2014 that was approved in the IPR process. The agency also heard from a number of stakeholders that budgets should be increased to accommodate the strong demand for energy efficiency incentives – by borrowing from reserves, increasing capital borrowing or making cuts in other BPA programs. Although these approaches received serious consideration, they all fail to achieve our overall objective of managing to the total five year budget, and have detrimental impacts on the BPA financial situation or could impact other BPA energy efficiency programs. After taking all comments into consideration, BPA is leaning towards an approach that is somewhere between the Hybrid and Equity Impact approach for establishing individual EEI budgets in FY2013-14, and may consider modest variations of these. BPA will determine the exact approach and individual budgets after FY2011 spending levels are fully known.

The Hybrid approach proposed in the August 11th proposal blends elements of the Level-impact approach (with future EEI budgets sharing budget reductions on a pro-rata basis) with the Equity-impact approach (with future EEI budgets receiving targeted budget reductions based on individual utility spend levels as compared with an allocated spend). In the Hybrid impact scenario, a proportion of the FY2011 overspend would be spread across all customers, with the remaining proportion targeting at specific utilities that, comparatively, had high BPA capital expenditures. BPA will decide on the exact split, with the impact spread evenly between FY2013 and FY2014, in the fall of 2011 after the full FY2011 spend is known.

Under the 50/50 Hybrid Impact approach there are several customers who would not be able to make up the difference between their FY2011 spend and their future funding in FY2013 and FY2014 (the "negative" values in the scenario). This difference will be made up by levelizing the uncaptured spend across all utilities. The total make up amount will be determined after the close of FY2011, but the range that would need to be recaptured is expected to be from $800,000 to $3 million. Additionally, BPA has set a cap on the FY2011 BPA managed program costs at $32.3 million. Any spending above that amount will be taken from the FY2012 and FY2013 BPA managed capital budget and the EEI fund will not be further impacted.

Other Alternatives Considered

In addition to the three scenarios that were initially analyzed in the August 11th proposal, BPA was asked to do a similar analysis that included FY2010 spending. After doing this analysis and looking at the impact of using rate-period based spend, BPA is planning to stay with the original view. Because there is no aggregate benefit in factoring in FY2010 data, BPA will only consider FY2011 invoicing and apply the hybrid impact approach. The base level impact is still an approximate 15% reduction to future EEI (actual impact pending final magnitude of FY2011 expenditures), with targeted reductions beyond that for the relative high-spenders. With FY2010 firmly in the past, introducing future adjustments based on FY2010 and FY2011 invoicing may be perceived as further penalizing those with an increased adverse impact. Additionally, there were several different drivers in FY2010 that do not apply in FY2011. Those include the incentives to self-fund for the conservation adjustment to the CHWM and the fact that the decrement on ECA funds applied to slice customers for part of the year.

There was also a proposal with the following elements suggested:

1) Increase the $459 million in capital for FY2010 – FY2014 by the amount that is spent over $115m in FY2011.
2) Cover the overspend with 1/2 coming out of BPA-managed programs, 1/4 from reserves and 1/4 from borrowing.
3) Apply unused EEI funds at the end of FY2014, if any, to reduce the amount of overspend that needs to be covered with reserves and borrowing.

While these are creative solutions, for the reasons mentioned above, BPA does not intend to adopt any option that would result in an increase in the $459 million capital budget.

Finally, BPA also received a proposal with a number of suggestions, including bringing together a group of about 30 knowledgeable representatives for a 3-day solutions workshop. BPA appreciates these suggestions as well as all of the comments and thoughts from stakeholders. Given that there has already been robust input and discussion about potential solutions, BPA is not initiating such a workshop approach at this time but will maintain this concept as a viable approach for future engagements.

D) Should EEI budgets be managed on a rate period basis?

BPA is not deciding at this time whether EEI funds will be provided on a rate period basis or alternatively, on an annual basis, because the recent budget overspend has highlighted a potential risk with the rate-period approach. For example, if EEI budgets are provided on a rate period basis, this could lead to the energy efficiency capital budget being exceeded in the first year of the FY2012-13 rate period, thereby creating an even bigger reduction in FY2013. BPA will also likely decide on the rate period vs. annual approach this coming fall.