Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

July 20, 2011

In reply refer to: KL-1

Dear Utility General Manager:

As we began this fiscal year, one of our biggest challenges appeared to be continuing a dramatic ramp up of energy efficiency programs to meet our shared goal of accomplishing public power's portion of the Northwest Power and Conservation Council's energy efficiency target contained in the Sixth Power Plan. Fiscal Year (FY) 2011 is a particularly important year, as cheaper measures that currently count toward the target will be phased out after this year; once more efficient federal lighting standards go into effect. This created an incentive to peak the program now in order to minimize costs of meeting the five-year target.

It is now clear that, working together, we have far exceeded what appeared to be lofty performance expectations at the start of the year. In fact, funding requests incorporated into the Energy Conservation Agreements (ECA) with utilities now exceed this year's budget. Currently we have approved budgets totaling $175 million, although we expect only about $143 million in spending based on our conversations with utilities. Even that far exceeds the $115 million we have budgeted.

We are working closely with our public power customers and the Public Power Council to manage this situation well as we transition to the new energy efficiency implementation framework for 2012. We invite you to a customer meeting on the subject on August 4th.

The consequences of the spending dilemma are a bit unique. Spending beyond budget this year would put us further ahead as a region in terms of the ramp up we established to meet the Council's energy efficiency goals at the least cost. Based on utility submittals, it does appear that the utility funding requests for FY2011 are roughly in the same range of cost per megawatt (MW) as anticipated for this year and below what we have budgeted for FY2012-2014. Hence, acquiring more MWs now could be compensated for by decreasing planned spending and MW acquisition in future years and still achieve the 5-year (FY2010-14) MW acquisition target. Consequently, for BPA, we do not have a net revenue, rates, or access to capital problem as we would not expect this situation to result in an increase in spending over the FY2011-2014 period. In fact, if we proceed with the programs based on current requests, it would result in slightly reduced overall spending compared against our current budgets.

However, increased spending during FY2011 under the utility acquisition program has the likelihood of resulting in significant inter-customer equity issues. Inter-customer equity issues arise because the current ECA program is based on responding to individual utility requests using one collective source for funding from BPA. These dollars are not allocated to each utility based on load, as will happen beginning in FY2012. So, those utilities that have been proportionately slower in requesting or using ECA funding from BPA during 2011 could be at risk of having their post 2011 funding diminished to support a higher regional activity in 2011. This is because it is my intention to assure that actual spending for the 2011-2014 period will not exceed the planned budgets for energy efficiency. As we have managed in the past, we would plan for any spending above budget in 2011 to be offset by reduced spending for the remainder of the period of the five year Council target.

We take seriously the magnitude of the projected FY2011 capital cost overrun and have initiated discussions with the Public Power Council (PPC) and its conservation workgroup to explore our current situation and mitigating actions. BPA has identified a set of actions the agency will take immediately to control the degree of our financial exposure while we move forward with a program management strategy for the balance of FY2011. Our intention is to seek to manage to the FY2011 budget, unless the consequences with respect to wholesale and retail customer satisfaction are too severe, at which point we would manage in a fashion where any increase in budget and MW acquisition now is offset by decreases across FY2012-14. In order to determine the severity of the impact of this strategy we need your feedback.

The actions we are taking now are:

- BPA will confirm any forecast under-spending against authorized utility Energy Conservation Agreement budgets and will seek to formally reduce those committed funds. Additionally, BPA will seek additional funding decreases as agreed with individual utilities. BPA's energy efficiency representatives will work with each utility to identify and coordinate available adjustments.
- BPA will not proceed to fund ECA funding requests that have not already been fully approved until discussion at the meeting scheduled for August 4th (see below) can be factored into our final determination.
- BPA will cease new project development and identification of new projects from its third-party regional programs for the remainder of FY2011, shifting their focus to closing and completing existing commitments.
- BPA will not allow early-reporting in FY2011 of projects scheduled for FY2012 completion.
- BPA will not allow funding source changes from Conservation Rate Credit (CRC) to ECA.

Additionally, we want to work with you to determine planned spending for FY2011. We have the opportunity to work together as a community to resolve how best to handle this situation. Each utility's decision adds to the whole of what we should and will accomplish. There is an opportunity here to determine collectively how best to move forward with the transition to the post-2011 methodology for energy efficiency funding.

In this spirit, public power is sponsoring a customer meeting on August 4th from 1:30 p.m. to 5 p.m. at the Sheraton Hotel at the Portland airport. The purpose of this meeting is to seek your input regarding funding levels for the remainder of FY2011 and the period through FY2014, and the administrative measures BPA has taken or should take to control costs and achieve energy efficiency measures for the balance of this year. We will gather your views regarding the actions we are proposing to take on additional funding requests above those already approved and also additional actions utilities may choose to take to address the equity issues described above. Between now and August 4th we will be providing the region with more data regarding the use of ECA funds both for this year and FY2010.

The fact that we have approved planned spending beyond our budget means our management systems for this program were inadequate. This year's results come on the heels of the program having a long track record of achieving annual savings targets while keeping spending at or below budget. It appears we may have become complacent. We will explore this and perform a lessons-learned review to better understand and rectify shortcomings and assure that nothing similar could occur in the new implementation system for the 2012 contracts. While we have an immediate financial challenge to resolve, you have my firm commitment that our current circumstance will not result in overspending for the FY2011-2014 period for the energy efficiency program.

I look forward to receiving your input on August 4th so we can collectively determine the best path forward for our energy efficiency programs and the accomplishment of our energy efficiency targets.

Sincerely,

Stephen J. Wright
Administrator and CEO