BONNEVILLE
POWER ADMINISTRATION

Energy Efficiency Post-2011
Phase 2

Workgroup 1 Meeting 1

July 20, 2010
9:00 am – 12:00 pm
Bonneville Power Administration Rates Hearing Room
911 NE 11th Avenue
Portland, OR

Meeting Overview

- Kyna Powers of BPA presented a discussion document on several ways to think about using the EEI funds.
- The various financial constrains faced by BPA regarding the management of EEI funds across time were presented.
- How to determine when a utility's EEI funds would be released to the "common pool" was debated.
- The "common pool" of EEI funds vs. "utility pooling" was explored.

Decision/Action Items

- It was decided a representative of BPA's finance department would come to the next meeting to present on the financial sideboards.
- Megan Stratman volunteered to jot down some ideas on utility pooling and submit a document to the group to help further the discussion.

Meeting Notes[1]

Facilitators:
Megan Stratman (NRU)[2]
Margaret Lewis (BPA)

BPA Participants:
Josh Warner (BPA)
Matt Tidwell (BPA)
Matt Hayes (BPA)
Kyna Powers (BPA)
Rasa Keanini (BPA)

1. KP: Citing bullet 1, not about how long, but about on what basis.
    a. ML: what are the details that define the EEI?
2. Need to understand when you open up the fund; want to understand how we're going along in the rate period and how we're going to open up the fund.

[1] **Due to privacy concerns, only BPA staff and workgroup co-chairs are listed in these meeting notes.
[2] Please note comments made by Megan Stratman do not necessarily represent the views of NRU and are for discussion purposes only.

    a. The timing is going to be critical
    b. ML: Kyna was trying to capture the time component
3. Need to take into account what the utility's plans are, the period may be coming to the end, but they may be having a big project coming up; need a clause for projects that are committed but not yet completed
    a. ML: so how do you work the transition?
4. What constitutes a project in the pipeline, a signed contract, a proposal, etc.?
5. Seems like we already have a mechanism for carrying forward (e.g., transitioning projects across contract period by providing a listing to BPA); is it true that the existing carry forward mechanism could be used?
    a. JW: don't know if we have that answer today; a key piece though
6. Seems like we already have a mechanism
    a. ML: you're right, there is a mechanism, but there's no definition of qualifying projects, there's still some grey
        i. We know they need to make the list, but what makes them get on the list. Commitment to end-use customers by utilities? Commitment by BPA to pay for a project?
7. KP: X, what were you trying to get at? There are mechanisms to make sure the work continues, but not the money
    a. If we commit funding during a rate period, we would want to make sure that funding is available for the next period (carry forward)
        i. How do you decide which projects qualify
8. ML: we're just looking for anything that is missing on the list. Rambling is OK.
9. In the rate case, they're talking about expense vs. capital, so I would think there wouldn't be such an issue with carrying money forward? Allowing funding across rate periods?
    a. KP: we'll talk about that later, even the capital dollars are lined up on a rate case by rate case basis
10. My recollection that in the IPR, I thought I heard Mike Weedall say, because of the 6th power plan approach, we would see actions that look like BPA's spending plan over a five year planning period; I took that to mean that there was a spending plan, so the issue that there's a constraint imposed on the funding, is confusing
    a. JW: these are important points, we have to delve into this
    b. There are two pieces: 1) how we plan at the EE level on a utility basis, i.e. what's the budget for a utility level; 2) BPA level, if something doesn't get spent during a rate period can it be set aside for a future rate period, but this is where we run into problems; we can commit to pay the dollars in the future, but we can't use the same dollars from the previous rate period
11. This requires a big place holder; we're planning on capitalizing, so that looks a little different than the expense through the IPR
12. JW: this is going to require pushing and probing against the finance folks at BPA
13. KP: we think more about our budgets…?
14. Utilities are expected to self-fund about 25%, that should give them leeway with projects that straddle two rate periods; utilities could front load the BPA money and make this less of a big deal

15. That's easier said than done
16. There's nothing in the agenda about BPA's backstop role
    a. JW: more likely to be discussed in Workgroup 5; we will define the backstop moving forward; may not define it in this process; in the policy document, we think we'll be successful in reaching the targets; if we don't we'll look at programs to see how to make them more successful…
17. ML: one of the agenda items is creating a common funding pool, any comments on this?
18. Will BPA manage the fund?
    a. JW: an open question. BPA or utilities in the pool.
19. I've always seen the pool as how do you define the ground rules for the participation in the pool; it's a matter of the rules of the game
20. KP: the answers to the questions depends on whether the pool is managed by BPA or outside
21. MS: We do support the further discussion on the pooling and we want to keep the pool on the table
    a. We should now turn to the straw proposal
22. KP: this wasn't intended to be a proposal; was meant to raise some of the issues to discuss and to give background on where BPA can and can't go
    a. How do we create the most flexibility for utilities to have access to their funds for the longest period time to give them the opportunity to spend their funds, but also to balance achieving the goals and to make sure the money is spent
    b. We also don't want to make it administratively expensive and keep it in line with the BPA sidebars
    c. We went to the finance department to ask about carrying funds from one period to the next
    d. The administrator makes the decision to capitalize conservation; he can choose whether it's an expense or capital line item
    e. Another constraint is our borrowing authority, on an annual and rate period basis, this is managed at the whole agency level; during the rate process, sometimes one department of the agency uses more while another department uses less to make is all work out
        i. This is why we can't just take extra money and set it aside; this way we don't have to set really high budgets every year
    f. MS: this year EE needed more funds and required taking money from other parts of the agency; can you talk about that, how/why did that happen this year?
    g. KP: when we sets rates before, there was no 6th power plan; if we underspend it's good for rates, but the extra funding is not something we can set aside to use for future conservation
    h. MS: is this more of an annual thing than a rate period thing?
    i. KP: it's a combination of both; we manage the budgets annually; we have a bit more flexibility within rate periods than across them; if we are exceeding the budgets that are reported to congress, then we can get in trouble and have to go through congressional loops

        i. People were asking whether we can carry over money from one rate period to the next, but we can't do that
        ii. There isn't this pot of money for EE that we can just move from one rate period to the next, it's not like a bank account
        iii. We can bring somebody from rates to come in if needed
        iv. In terms of the EEI, what we're really saying is: we need to think about ways to manage our budgets within every year; we can't always depend on some other part of the agency underspending
    j. MS: it seems like there are encumbered funds in other parts of the agency; is there something that we could do for EEI dollars
    k. JW: there are various reasons why residential exchange dollars can be set aside because of certain accounting issues; this is an issue that the finance folks can explain more
        i. What's important is to make sure we get those questions so the finance staff can come prepared to respond to
23. Maybe another fix would be to raid somebody else's capital budget, but they can't raid EE's
    a. KP: this is part of the reason why the agency doesn't want divisions within the agency to set up their own mechanisms such as being proposed, because then during the rate cases each department has to ask for the full funding of its budget {clarify}
    b. KP: How can we create flexibility for each utility? There are a lot of ways to work on this portion of the draft document. How do you think about creating flexibility
24. KP: should we be talking about what % a utility has spent, e.g. 75% through the rate period a utility needs to spend 60% of its allocated funding
    a. Or should it be based on a plan, e.g. a utility's plan for spending and how its doing
25. These are use or lose it type funds (an incentive is avoiding tier two for the utilities), there are big incentives for the utilities to use the money, so I don't want to get bogged down with a bunch of rules
    a. Best to be based on budgets; utilities make budgets and if its in the budgets, it most likely to spend those funds in the budgets on conservation
    b. Why not just have the utilities submit the budgets and use that as the mechanism
    c. If a utility says they can't budget, you take the money and you reallocate it; let's not make this too crazy; budgets are passed by boards; nobody is going to fake that they are going to use it, but not really do so
        i. If there are problems we can deal with these rules down the road
        ii. When I was on X Electric's board; BPA used to reallocate money then; we should get some of the older folks to see how it was done then; let's not reinvent the wheel
            1. JW: so you're advocating the plan-based mechanism
            2. conservation isn't linear, they go and they go down; this is what we want to be conscious of; we want mechanisms to make sure there's this flexibility

    iii. Utilities are expected to spend 25%, so this provides some flexibility, which could help

d. MS: perhaps it might help to discuss the flexibility that utilities have, maybe we should discuss how funds can be shared with other utilities
e. KP: if there are a bunch of small utilities that have one big project every couple of years, that they're might be a way to pool funds or transfer funds from utilities to make sure this can happen; in part c, there are lots of ways to go about this
    i. Utility pool could be managed within or outside of BPA, e.g. PNGC, one utility could get more one year and the other utility could get more down the road
    ii. If that group of utilities wanted to manage, that could happen if the utilities agreed to it
    iii. A utility transfer is another way: utility A needs more this year than utility B, B could give funds to A this year and then B get funds from A later on
f. Who would be the agent in this? It might be nice to have BPA manage the pool
    i. Utility to utility could be a real mess, utilities might have to go to the board for approvals to transfer funding
    ii. The funding would still be within BPA, so it wouldn't be a utility directly transferring money to another
g. KP: there is the idea of the queue
h. I want this to be an open process; like the idea of making it available to all, not negotiating with another utility
i. It's important that we don't become too restrictive, that we keep this as flexible as possible to give people enough move to maneuver
j. JW: PNGC's experience with pooling funds in the past could shed light on how to do this; if we went down this pooling route
k. KP: should we explore different pooling options; PNGC has experience in managing a pool, that would be helpful; we would like to find something that's relatively simple and transparent and amenable to working within our budget
l. MS: NRU supports the pool; good way for smaller utilities to manage their conservation dollars; also like the queue idea, I hope we don't have to get to the point to choose between one or the other; I think the two can be combined
m. Seems related to a conversation about a pool associated with BPA's backstop role; could put aside a certain amount that could be accessed by utilities but utilities would have to spend their budgets first; but this has a risk of collecting funds in rates but then losing it
n. JW: we've talked about the EEI, but I don't think we've talked about setting up a pool up front; only talked about EEI funds and if they're not spent in a timely manner, then they would roll into a common pool and who then would have access to those

    o. JW: we're talking about two different pools: we've been talking about a PNGC-like pool with the EEI funds; we don't have dollars to set up a "safety net" type pool like X suggested

26. When we transition, we should be able to distinguish
27. ML: how about referencing them as utility pool vs. common pool
28. JW: want to provide a utility by utility flexibility, e.g. we could have ten utility pools and each could have a plus or minus of their budget assuming one is going to be high and another is going to be low; we're trying to build a framework to spend down during a rate period
    a. How we define the pools would be important
    b. MS: so you're assuming that some pools would underspend and others would overspend
29. Would all utilities have to be a in a utility pool?
    a. JW: might depend on how we set up the structure; would BPA set up the pools, or would the utilities decide on their own
30. If we do form utility pools, for reach rate period could the pools be reorganized?
    a. JW: if there are advantages of moving in and out of a utility pool
        i. Trying to keep things simple as possible
        ii. We need to know what's most important to customers re: how to create these frameworks
31. Already getting complicated; need to be careful about having penalties; there might be utilities that consistently over or under spend; you wouldn't want to penalize those utilities that over spend
32. MS: we could do the utility pool and one pool could be one customer; we could also have the queue where each pool could line up in the queue; combining the two concepts, if one utility says its has 50k it could say who wants it and another pool that needs the 50k could take it
    a. How would this transaction take place?
    b. JW: having BPA do this would make it the most transparent
33. I'm worried about utilities pooling; if I were to game this, I would try to get as many utilities together in my pool that wouldn't spend it so that I could spend it all
34. I would like to know my budget using the TOCA funds and if I can't use it then it goes into a pool for other utilities have access to it; I'm trying to figure out who I would pool with, that's a level of complexity, I don't want to deal with, want to know my budget and then try to spend it; much simpler
35. JW: on a philosophical level, I agree, but we're trying to think of two year rate periods being short and if you're looking at taking funds from one utility and putting into a common pool, when do you do that - 12 months? This is difficult to do within a two year rate period. We're trying to think of mechanisms to provide flexibility for utilities in these short two year rate periods. We should always check back about whether the complexity is worth it.
36. The real value would be carry money forward from one rate period to the next; this is what we really need
37. I'm perplexed by this road block

    a. JW: difference between commitment levels on the utility level vs. funding at the agency level; if BPA we underspend in one rate period by 10 million and in another we spend over, we can't put the 10 million in a bank account and use it in a future period

Break

1. MS: I suggest we continue to think about this, but thinking forward, I would like to have the BPA finance folks come to the next workgroup meeting to get an idea of the restrictions so that we can have that discussion and go from there in terms of figuring out which road we should go down. I'm going to jot down some thoughts on a pooling approach to circulate to the workgroup and anyone else could circulate. We should brainstorm and in the next meeting we could about this some more
2. Under the sideboards, no. 3, we need to take another look and distinguish between capital dollars and expense dollars because the two have a different impact on rates
    a. Needs to be reworded to distinguish between the two
    b. JW: we're going to invite the finance folks and it would be a good idea to have as many questions prepared as possible
        i. There's a new email address for the workgroup if you have questions, but could also use it for circulating ideas and questions for the finance folks
        ii. Jim: I'll submit something
3. KP: I think it would be useful to spend some time thinking about how they want it to work for their utility and then to think about it for all of utilities; we're trying to get at a mechanism that works for the utilities and Bonneville. We need to think about "bundles" of strategies.
4. MS: to add, this is intended to be a collaborative process and the customers need to make sure their bringing ideas forward. I want to encourage everyone that this is supposed to be a two-way street.
5. Let's say a typical utility's budget should be 1 million dollars in a two year rate period; 75 from BPA/ 25 from the utility; I think utility should accept that the utility is going to spend the money; 250k is a lot of leeway for the utility; for projects that get delayed into a later period, the self-funding could be used for that. There's almost no need to have BPA in this role. Let's accept budgets. With ¾, there's a lot of leeway, which will give a utility the ability to have a project be delayed. We're going to make this so complicated and inside complications, there's always gaming, so keep it simple.
    a. What's in the budget, people are hired, programs are advertised, the equipment is in place; utilities can move around, but having BPA trying to move the money sounds too complicated
6. KP: So what I'm hearing is more of a "rate-based" credit
7. Yes; a utility is going to have to prove it saved energy, so all that still has to happen, and a utility is ultimately accountable if a utility takes the $750k and spends it on salaries. If it's in the budget, it's going to be spent.
8. MS: X, you touched on the important topic of the 75/25 split. BPA has been thinking of the split on average, so this adds a nuance

9. Not all the utilities self-fund, so X's idea wouldn't work for everybody
10. 1) I thought the rate credit concept was not being widely embraced; 2) regarding the budget-style, utilities don't always have as much flexibility as described by X
    a. You're right, I'm only familiar with a few utilities
11. JW: regarding the 75/25 split, on the issues page, the main reason this is on the ideas sheet….
    a. The split is on average, not every utility will be 75/25.
    b. A number of comments received on the proposal spoke to this as a concern to some utilities; we need to take this into account when developing the mechanism so it's not forgotten. It is not our intention to more formalize the 75/25, i.e. incorporating the three sub-bullets on the issues list.
    c. What do you mean by "don't allow early start"?
        i. JW: previously, under the CRC, utilities could pull from future rate periods, but under the EEI, this doesn't make sense if there's an expectation that there will be 25% self-funding
12. We need to take some time to flesh out the issues here
    a. JW: when should we do that?
13. The BPA budget is going to be set at 75% at what it thinks is sufficient to reach the targets; this needs to be talked about. The whole program depends on a whole lot of money coming from the utilities.
    a. MS: if we go do the queue approach, a utility would have to spend all of their EEI dollars and their 25% share before accessing the common pool; from a timing perspective that might flow pretty well. Would give people more time to spend their own dollars before they go into the pool.
14. This is an incentive to spend your own money, because if you want to access the pool, you'd have to spend your own
    a. ML: but this brings up again those utilities that can't do 25% since the 75/25 is an average (same concern as before).
    b. KP: the timing question also needs to be raised, e.g. a utility doesn't spend its EEI in four years, but in year five it wants to spend a lot, so not looking at everything on a year to year or rate to rate basis
15. Most utilities do want to spend some of their own money; getting into the pool with this rule is an added incentive (and of course, tier 2 is a big incentive).
16. I know that we're not going to be able to spend…
    a. Maybe the 25% could go toward staffing or other non-program expenses
    b. JW: could you talk more about the "hardship" concern for small utilities?
17. Smaller, rural utilities may not be able to spend the 75% and then the 25% self-fund, so this could be a hardship
18. There's no real incentive to spend their own money first; there's going to be a lot of money on the table; there will be utilities that won't be able to spend their EEI funds on conservation. So we need to take a lot time to think of all the ramifications of this.
19. one of the disincentives for self-funding in the past was the potential to having to pay back if you failed to utilize all your CRC dollars. We have made a

commitment to use BPA, EEI funds at the beginning and use self-funding at the end
   a. KP: would there be an incentive to use the funds if you lost the funds at a certain point?
20. It seems like it would be difficult to require somebody to do self-funding up-front.
21. I think of this the other way around; EWEB budgets all of the expenditures and then request reimbursement from BPA, so I don't think about which money is being spent when, I just think about total spent and total reimbursement. It's difficult to say when to spend the 75/25. We've been doing the EEI for a long time.
22. I still think there's a real incentive to use the EEI funding at the beginning/first.
23. Have to consider tier 2 rate structure and how this is going to affect utility's trying to reduce their load
24. ML: we're looking at more of an account to draw down, than a rate credit
    a. JW: you'll know upfront how much you'll have to spend, but you won't receive a bag of money
25. MS: please send any comments to the email address: workgroupone@bpa.gov
26. Next workgroups
    a. MS: does the group want to keep the schedule as is? With a next meeting on August 3rd?
    b. We can aggregate comments to the email and send it out to think about before the next meeting
    c. JW: Monday of next week, the 26th would be preferable to receive comments
    d. ML: then we could get something out by Wednesday
27. Are we talking about every other Tuesday?
28. ML: yes
29. Will notes be available?
30. JW: yes