Department of Energy

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ENERGY EFFICIENCY

August 18, 2010

In reply refer to: KL-1

To the Region:

Over the past 18 months, the Bonneville Power Administration (BPA) and a number of regional stakeholders have engaged in a very productive public process on the agency's energy efficiency framework for the post-2011 time frame. The robust dialogue that took place helped BPA to better understand customer and other stakeholders' needs and will make us collectively more successful in meeting public power's aggressive regional energy efficiency target.

In July 2007, BPA released its Regional Dialogue Policy, which provided, among other things, policy direction for BPA's post-2011 energy efficiency program. Beginning in January 2009, BPA kicked off a series of public meetings around the region to discuss alternatives for the post-2011 conservation program framework. More than a dozen public meetings and two public comment periods were held to solicit and collect input on BPA's role in energy efficiency under the Regional Dialogue power sales contracts. Throughout these discussions, there was a significant amount of constructive dialogue that helped shape BPA's *Energy Efficiency Post-2011 Proposal* (Proposal).

As a result of the public process, BPA gained a better understanding of its customers' concerns about existing energy efficiency programs and their needs for the new framework. It is also clear from the comments received on the Proposal that stakeholders feel that they have generally been listened to, even if every concern was not fully assuaged. As expressed by PNGC, "Phase 1 was a worthwhile effort because it provided a vehicle for the utilities and BPA to better understand each other's needs for accomplishing energy efficiency savings and implementation under the Regional Dialogue contracts."

The Proposal was released for public review and comment. BPA received comments from 21 parties, which are available at:
http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=97.

Attached to this letter are BPA's "Response to Public Comments," a redlined version of the Proposal, and the final "Energy Efficiency Post-2011 Policy Framework."

I would like to take the opportunity to briefly mention some of the main points that were aired during the public process and comment period, which have been addressed by the Policy Framework. First, one of the major concerns about the existing energy efficiency framework is the presence of cross subsidization, i.e., the amount one customer pays in rates for conservation may be used to help pay for the programs of another customer. To address this concern, the

Post-2011 Policy Framework creates a mechanism that will collect funds and make them initially available to each customer for energy efficiency acquisition on a Tier One Cost Allocation (TOCA) basis. Therefore, each customer will have first access to the funds that it pays in rates for its energy efficiency acquisition.

Second, the desire on behalf of BPA's customers to have local control and self-fund energy efficiency was clearly articulated, so BPA has incorporated a funding split, which will entail BPA collecting in rates enough to achieve 75% of public power's share of the regional target and utilities self-funding the remainder. The purpose of the split is to provide more flexibility in how utilities achieve conservation savings and to provide an avenue for self-funding.

Lastly, given many of the fundamental changes that will result from the new program, the Policy Framework allows for a review of implementation policies prior to the FY 2014-2015 rate period to identify any areas for improvement, which would provide additional efficiencies.

The comments received on the Proposal were thoughtful and productive. BPA appreciates the work that many stakeholders have devoted to this process to date. The process provided a very productive venue for customers and BPA to discuss many high level policy issues as well as specific program implementation details. This will assist BPA and customer utilities in achieving the aggressive energy efficiency targets defined by the Northwest Power and Conservation Council's Sixth Power Plan at the lowest cost to the region and in the most efficient and effective manner. The dialogue between BPA and stakeholders that has taken place so far is continuing with Phase 2 of the public process, where implementation details are being discussed.

Thank you again for a productive conversation to date, and I look forward to the continued dialogue.

Sincerely,

/s/ Mike Weedall

Mike Weedall
Vice President, Energy Efficiency

Response to Public Comments Regarding Bonneville's Post-2011 Energy Efficiency Proposal and Phase 1 Close-out

In July 2007, BPA released its Regional Dialogue Policy, which provided, among other things, policy direction for BPA's post-2011 conservation program. Since then, BPA has been engaged in continuing discussions with its preference utility customers and interested stakeholders. Beginning in January 2009, BPA kicked off a series of public meetings around the region to discuss alternatives for the framework of the post-2011 conservation program. More than a dozen public meetings and two public comment periods were held to solicit and collect input on BPA's role in energy efficiency under the Regional Dialogue power sales contracts. Throughout these discussions, there was a significant amount of constructive dialogue that helped shape the *Energy Efficiency Post-2011 Proposal – Public Comment Draft* [Proposal].

BPA thoroughly reviewed and analyzed various innovative structure proposed by preference customers. Aspects of these proposals directly influenced the shaping of BPA's Proposal; in particular, the desire of customers to have local control over conservation activities in their service areas. As expressed by PNGC, "Phase 1 was a worthwhile effort because it provided a vehicle for the utilities and BPA to better understand each other's needs for accomplishing energy efficiency savings and implementation under the Regional Dialogue contracts." The Proposal is intended to foster a closer nexus than exists today between the achievement of regional conservation goals, on the one hand, and the benefits of conservation realized on an individual customer basis, on the other hand.

The Proposal was released on April 12, 2010 for public review and comment. The comment period closed on May 26, 2010. BPA received comments from the following 21 parties:

- Akin, Bill (general public)
- Bonnors Ferry
- Broderick, J (general public)
- Cowlitz PUD
- Darlain, Teresa (general public)
- Dorse (general public)
- Eugene Water & Electric Board
- Flathead Electric Coop
- Franklin PUD
- Industrial Customers of NW Utilities
- Idaho Energy Authority (IDEA)
- McClure Engineering
- NW Requirements Utilities
- NW Energy Coalition
- NW Power and Conservation Council
- PNGC Power
- Public Power Council
- Snohomish PUD
- Tacoma Power
- Western Public Agencies Group
- Western Montana G&T

The full comments are available at:
http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=97

The comments received on the *Energy Efficiency Post-2011 Proposal – Public Comment Draft* were thoughtful and productive. BPA appreciates the work that many stakeholders have devoted to this process over the past 19 months. The process provided a very productive venue for customers and BPA to discuss many high level policy issues as well as specific program implementation details. This will assist BPA and customer utilities in achieving the aggressive

energy efficiency targets defined by the Northwest Power and Conservation Council's Sixth Power Plan at the lowest cost to the region and in the most efficient and effective manner. The on-going conversation throughout this process should continue and will serve us well in working toward our mutual conservation goal.

Response to Comments

The comments expressed a broad array of general and specific issues and suggestions related to the Post-2011 Proposal framework (Phase 1) and its implementation (Phase 2). This response focuses on the issues and suggestions that pertain to Phase 1, and will be categorized by the general themes that were submitted as well as some specific comments (cited in parentheses). The response will not respond to program specific issues in the comments, including specific comments that regard Phase 2. Those comments have been forwarded to the appropriate staff within BPA and will be addressed in Phase 2 or otherwise as necessary.

- **Tiered Rates** – Preference customer comments generally expressed a desire for consistency with BPA's Regional Dialogue power sales contracts and Tiered Rates from the perspective that conservation should not solely be a Tier 1 cost because it is a resource choice that can be made as a Tier 2 option (Bonners Ferry; Cowlitz; Franklin; NRU; Snohomish; Tacoma; WMG&T; WPAG). Many commented that with the advent of state renewable portfolio standards and BPA's tiered rates, customers are incented to use conservation as a resource similar to physical power. For example, WPAG stated: "The Proposal fails to recognize the significant changes in incentives wrought by the TRM, and fails to provide preference utilities with the same degree of programmatic and financial freedom of action for the acquisition of energy efficiency as they have for acquiring generation. . . . [T]reat conservation as a resource on par with generation" (WPAG at 2-3).

  Response – The *Long-Term Regional Dialogue Final Policy* released in July 2007 is very clear that BPA "will recover the costs of achieving this conservation in Tier 1 rates" (Section VI.B., p. 30). The policy also states that conservation will be accomplished in partnership with public utilities at the lowest cost to BPA. BPA is confident that the Proposal will allow BPA and its public utility customers to achieve regional cost-effective conservation targets at the lowest possible cost. The Proposal also allows for significant flexibility in achieving the targets and provides for a reopener (prior to the second rate period under tiered rates (FY2014-15))of the framework if there are efficiencies to be gained .

  It is important to recognize that conservation/energy efficiency as articulated in the Northwest Power Act is a unique resource and is distinct from physical power and or generation. It is BPA's priority resource:

  > [S]ection 6(a) . . . requires the Administrator . . . to implement all conservation measures and acquire consumer-installed renewable resources as are cost-effective, through a variety of measures including loads and grants to consumers for insulation and weatherization. Section 6(b) permits the Administrator to acquire other resources to meet his contractual obligations but only after taking into account planned conservation savings under section 6(a). . . . Thus, section 6(a) and (b) together require the

> Administrator to achieve all available conservation and prevent him from acquiring non-conservation resources without first taking into account planned savings from conservation. (H. Rep., Rept 96-976, Part II, 96th Cong., 2d Sess. at 36-37 (Sept. 16, 1980)).

Conservation does not generate electricity that "turns" on lights; instead, conservation reduces the amount of electricity that is consumed. When successfully acquired, conservation serves to reduce the need to build new physical generation resources. As such, conservation and physical generating resources are not on par. BPA notes that during the mid-1990s it was the region's experience, specifically BPA's preference customers, that when the price for power in the region dipped below BPA's power cost that conservation took a back seat. Utilities diversified their resources, choosing to reduce the amount of power they bought from BPA and buying from other power suppliers. They did not increase the amount of conservation resource in the region but rather reduced their efforts to achieve conservation. Over the past 10 years regional conservation has been successfully resurrected with new and innovative programs. BPA's post-2011 framework continues this success and balances the expected achievement of future conservation with the Regional Dialogue contracts and the Tiered Rates Methodology (TRM).

In addition to BPA's statutory obligation to encourage, acquire and achieve conservation, the Northwest Power Act also provides that the cost of conservation, like fish and wildlife measures and other such costs, be equitably allocated to its power rates. As noted above, conservation is unique and distinct from generation resources. By reducing the need for BPA to acquire power from conventional generating resources, conservation measures and energy efficiency usage reflect regional costs which benefit all of BPA's customers and, ultimately, their retail consumers since BPA meets its firm power obligations with integrated resources. BPA recognizes that certain utility customers will now be required by state law to pursue and achieve conservation. Notwithstanding such requirements, BPA must also meet its legal requirements. BPA's post-2011 program strikes a balance between meeting BPA's obligations and giving customers the flexibility to meet their obligations. Customers remain free to meet their new requirements and can use the program offered by BPA to satisfy them.

- **Backstop** – Several preference customer comments expressed concern about BPA "backstopping" the entire public power share of the regional target when the entire load is not served by BPA. Bonners Ferry stated that BPA should only backstop conservation for the loads it serves and not that part of the load served by other resources (Bonners Ferry at 2). Franklin commented that it would like to understand the legal basis for BPA's backstop role (Franklin at 3). Tacoma disagrees that BPA's responsibilities extend to the portion of public utility load served by their own resources (Tacoma at 2).

  Response – BPA and its preference customers have shared a successful history of working together to acquire cost-effective energy efficiency savings in the region. For the post-2011 time period, BPA is committed to continuing this important partnership with its customers. In order to achieve the shared goal of meeting public power's share of the regional target we want to continue a strong partnership. We believe that by working collectively we can

enhance the efficiency and effectiveness of energy efficiency acquisition. A shared goal of accomplishing public power's share of regional energy efficiency is intended to create an alignment of interests between BPA and its customers, i.e., "we are in this together." The self-funding provisions of the policy do, however, allow utilities to "go their own way" if they so choose.

In addition, the *Long-Term Regional Dialogue Final Policy* states that "…BPA will pursue conservation equivalent to all cost-effective conservation in the service territories of those public utilities served by BPA…" Customers have concerns that BPA has committed to backstopping the entire target, even though some of the load of customers is served with non-federal resources. Backstopping arises as a default activity to collectively support public power if we -- BPA and its preference customers -- are behind in the achievement of conservation targets, which includes public power's share of the regional target. This issue is at least partially addressed by the fact that BPA has committed to collecting in rates enough to achieve only 75% of the conservation target. The other 25% of the target is expected to be achieved by utilities self-funding conservation. The percentage of funding that will be provided by the Energy Efficiency Incentive (EEI) from BPA is based on the Tier One Cost Allocation (TOCA), but will vary as a percentage of each individual utility's total retail load. BPA expects that those utilities with a lower percentage of power purchased from BPA relative to their total retail load will provide a higher percentage of the self-funding than those that purchase more power from BPA to serve their load. If this expectation is met, it will alleviate the concern about BPA committing to backstopping the entire public load that is served by BPA.

BPA has an interest in supporting or backstopping the efforts of its preference customers to pursue and achieve conservation over their entire loads, notwithstanding the use of non-federal power serving parts of the load. Under the Northwest Power Act, BPA is obligated to serve the full firm power requirements of its preference customers. That obligation is guided by the non-federal resources a customer has determined to use to supply its load, consistent with the requirements of sections 5(b)(1)(A) and (B) of the Northwest Power Act. Consistent with the statute, under the terms of the Regional Dialogue power sales contracts all preference customers can place load growth on BPA.

In terms of future load, the potential exists that BPA's load obligation will increase over time not only within power sales contract periods but from contract period to contract period. Consequently, it is reasonable and prudent to establish a conservation target and to develop mechanisms to ensure conservation is captured for the entire preference customer load, not just the portion served by BPA. This is consistent with section 6(e)(1) of the Northwest Power Act, which provides that "[i]n order to effectuate the priority given to conservation measures" under the Act, "the Administrator shall, to the maximum extent practicable, make use of his authorities under this chapter to acquire conservation measures…, to implement conservation measures, and to provide credits and technical and financial assistance for the development and implementation of such resources and measures." BPA has a strong interest in seeing the entire conservation potential is tapped because that load may return to BPA and because conservation accomplishments cannot be segregated based on whether or not the load is served by BPA. By supporting all customers through a backstop role, BPA

provides preference customers benefits. In doing so, BPA exercises its authorities to support the development and achievement of conservation -- the region's least cost resource -- thereby minimizing the need to acquire additional, and potentially higher cost, physical power.

- **Local Control** – Franklin commented that conservation is best implemented at the local level and that while BPA's plan for the initial post-2011 period is more hands-on than Franklin would like, Franklin appreciated and supports BPA's commitment to reassess giving more responsibility to the utilities (Franklin at 1).

  Response – BPA listened and heard that local control of energy efficiency programs is a critical part of success in achieving savings targets. The framework that was constructed allows for a significant amount of flexibility and local control in the choice of implementation mechanism the utility uses as well as allowing the use of both BPA and non-BPA programs, to achieve savings. BPA remains committed to working through its customer utilities to acquire savings and allowing the utility to work directly with the end-user.

  As it stands now, the framework continues to allow cost-effective savings to be claimed for reimbursement to BPA, either through the Standard Agreement or the Pay for Performance mechanism, whichever fits the individual utility's need best. Utilities can take advantage of BPA offerings or design and implement their own programs. As noted already, BPA will initially collect in rates only enough to fund achieving 75 percent of public power's share of the regional target. The other 25 percent is expected to be self-funded by utilities. This allows for local control.

  In a related comment on conservation funds available to customers to use toward achieving their conservation measures and energy efficiency goals, WPAG suggested four principles to serve as a basis for developing specific procedures for determining when BPA would redirect such funds to others. WPAG suggested that these principles be considered in Phase 2 (WPAG at 5). This is a reasonable suggestion and will be considered in Phase 2.

  WPAG's first and second principles related to local utility opportunity to use funding are very much within the intent of what is in the Proposal. The specific consultation that will take place between BPA and an individual utility will be defined in Phase 2. However, to clarify the Proposal, the text "in consultation with the customer utility" has been added to page 5. The third principle, regarding the redirection of funding through a bilateral agreement between two customers, is a detail that can be discussed during Phase 2, but will not be added to the Proposal as it has not been discussed with stakeholders. The fourth principle, related to the availability of redistributed funding being as broadly known as possible among customer utilities to achieve the maximum amount to savings, is also a sound one and text will be added to the Proposal to convey this intent.

- **Tier One Cost Allocatoion (TOCA) for Allocating Costs** – Several comments expressed support for using a utility's conservation potential as the conservation cost allocator instead

of using the TOCA. NRU commented that conservation potential differs among service territories and does not necessarily correlate with a utility's Tier 1 load (NRU at 2). NRU encouraged BPA and customers to continue working toward an approach where conservation costs are collected from customers on a basis that reflects their conservation potential (*Id.*). Western Montana commented that it believes CPAs are a superior mechanism to the TOCA for the allocation of BPA costs (Western Montana at 3). PPC commented that the Proposal charges utilities for conservation based on their BPA Tier 1 load as opposed to the conservation that is actually available in their service territories, which is not necessarily related to the size of their Tier 1 load (PPC at 3). EWEB stated that cost allocation based on the TOCA "was implemented for expediency in the first post-2011 rate case. While well understood, the traditional method of collecting revenue for conservation based on load share does not account for past conservation in a customer's territory or the cost to acquire conservation in that territory" (EWEB at 1). Snohomish PUD stated that "the proposed TOCA-base allocation of conservation costs spread conservation costs proportionately across all customers, without regard to individual customer's planned use of BPA programs" (Snohomish PUD at 2). WPAG expressed an opposite view in its comment, stating that so long as energy efficiency costs are treated as Tier 1 costs, the TOCA provides an equitable manner in which to allocate them (WPAG at 4).

Response – The allocation of funding for conservation based on customers' TOCA is a reasonable and equitable allocator to recover the cost of conservation through BPA's priority firm (PF) power rate. Some commenters suggested that the conservation potential in individual utility service territories would be a better allocator of funding. BPA appreciates such comments; however, the source data and information upon which CPAs need to be based has not been gathered for all public utilities and does not exist today. There is no debate over this point.

BPA allocates the conservation costs pursuant to section 7(g) of the Northwest Power Act, which states that such costs be equitably allocated to power rates. In the discussion with customers and stakeholders, BPA heard a variety of suggestions on how to allocate conservation costs. Many comments expressed dissatisfaction with BPA's rate design, which collects revenue that some argue covers the cost of programs used by a small subset of BPA's customers. For example, Western Montana commented: "[S]ignificant amounts of funding provided by WMG&T members has been spent outside of Western Montana and thus has only indirectly benefited the WMG&T members" (Western Montana at 1). With those concerns and section 7(g) in mind, BPA's Proposal allocates conservation costs to utility customers based on the TOCA relative to the amount of energy efficiency that needs to be acquired to reach the public's share of the regional target. As noted before, by reducing the need for BPA to acquire power from conventional generating resources, conservation measures and energy efficiency usage reflect regional costs which benefit all of BPA's customers and, ultimately, their retail consumers since BPA meets its firm power obligations with integrated resources. Under the framework, each customer has the opportunity to fund conservation acquisition with EEI funds (using either BPA designed or utility designed and implemented programs following the Implementation Manual guidelines) up to the customer's TOCA percentage of the incentive funding. This is intended to minimize concerns over any cross-subsidies that may exist in incentive funding.

- **Conservation Potential Assessments** – There is widespread support for BPA assisting with developing tools and potentially standards for CPAs. Exactly how far BPA should go with standards and requirements is still an open question. PNGC commented that "focus on developing CPAs fits well with PNGC vision and approach. We look forward to working with BPA on the tools to support the development of CPAs" (PNGC at 2). PPC states that CPAs "have the potential to improve the way in which BPA determines not only the portion of the Council's regional target it will backstop, but also more accurately determine where the savings are available in public power service territories" (PPC at 3). EWEB states that CPAs "should guide the acquisition of future conservation resources across the region. Bonneville is in a unique role to provide leadership to ensure CPAs are performed by all utilities and that the varying levels of detail and rigor in utility CPAs are recognized and made comparable" (EWEB at 2). The Northwest Power and Conservation Council supports BPA's establishing guidelines or standards for conducting CPAs and developing tools that utilities could use to estimate their energy-efficiency potential (NWPCC at 3).

  Response – The support for emphasizing CPAs is an encouraging development as part of this process. Almost all stakeholders that have participated in the process have voiced support for BPA providing resources to help with assessing conservation potential at the utility service territory level. BPA will work with stakeholders in Phase 2 of the public process to define what services BPA can and should provide. There is a broad range of options. These may include developing tools for utilities to use to get a rough estimate of potential, providing data collection/surveys for all of public power service territory, developing standards and guidelines for conducting CPAs, or working with a 3rd party to assist utilities with individual CPAs. The range of services that should be provided will depend largely on what outcome is desired from the work.

  There was also a comment from PNGC requesting that EEI funds be allowed to pay for individual CPAs (PNGC at 2). The intent of the EEI is to fund the acquisition of savings, not provide infrastructure.

- **Targets** – There is a mix of support and disagreement that there will be no individual utility savings targets. Snohomish PUD suggests they support individual targets: "Utilities worked with BPA to answer questions around self-funding and to provide assurances that self-funding utilities were capable of running programs. Furthermore they agreed to commit to savings goals to minimize risks of regional underperformance in achieving conservation targets" (Snohomish PUD at 2). These are balanced by other utilities that support not having individual utility targets or are silent on the issue. For example, the Idaho Energy Authority wrote: "We support the position that no individual utility targets (or penalties) will be established" (IDEA at 1).

  Response – There was much discussion of whether or not individual utilities should be assigned a portion of the larger public power target. BPA understands the position expressed in such comments; however, there is currently no easy way to allocate the larger target. While some utilities have completed or are in the process of completing CPAs, there is no

consistent or standardized way that CPAs have been conducted to help move toward individual targets. If this situation changes in the next couple of years, the issue could be revisited, if appropriate. It is also important to note that BPA has not based its conservation programs on individual customer targets. Instead, BPA's conservation efforts have been spread across its customer base so that achievement of conservation has been accomplished by their combined measures and actions. By constructing a program based on individual customer targets there would be increased accountability across customers to meet their target. Failure to meet targets could lead to individual customer conservation surcharges, as provided for in section 4(f) of the Northwest Power Act. To date, BPA has not had to establish conservation surcharges. BPA and public power have a strong history of meeting regional targets.

- **Capital Availability** – A handful of commenters are interested in exploring further the idea of having capital available to utilities, in excess of the EEI, to fund large projects. The specific customer would repay these funds. PNGC stated that it is "supportive of the concept of BPA making capital funding available for large projects in excess of the utility's EEI budget and requiring that utility to repay the funding, this latter piece being very important to our support" (PNGC at 2). NWPCC is also supportive of this concept: "Bonneville should consider creating a line of credit for energy efficiency that utilities could access for short-term loans and to take advantage of opportunities that arise outside of established plans and budgets. The credit line would be an operational strategy to provide access to capital separate from regional infrastructure and EEI funding" (NWPCC at 2).

  Response – This suggestion would facilitate the acquisition of large energy efficiency projects which may be beyond the financing ability of an individual utility. It may be in the best interest of the region for BPA to promote such a mechanism. While there are clear challenges with this idea, such as BPA budgeting for the capital expenditure and methods of repayment, it is a worthy issue to discuss in Phase 2.

- **Self-funding** – There is concern that customer self-funding for conservation will not materialize because there are no specific targets or rate relief. PPC states that "the proposal funds the entirety of the program via the Tier 1 rate and does not include a meaningful recognition in BPA rates for specific self-funding undertaken by a utility. Utilities are concerned that by not doing so, BPA may have unintentionally removed the incentive for utilities to conduct additional self-funded efforts" (PPC at 2). Snohomish PUD states "[t]he BPA proposal does not include a mechanism for recognizing specific self-funding commitments by utilities from a planning, programmatic, or rate standpoint. Absent an allocation mechanism and rate treatment for self-funders, it is doubtful that the 25% self-funding that BPA has assumed will materialize" (Snohomish PUD at 2).

  Response – BPA heard throughout the public process that strong drivers exist for utilities to pursue cost-effective conservation on their own. These include tiered rates, conservation as the least cost resource, and various state mandates to achieve cost-effective conservation. BPA agrees that these drivers are strong, in addition to facilitation by BPA infrastructure and incentive offerings. BPA took these drivers into consideration for including the funding split

between BPA collecting in rates cost expected to achieve 75 percent of the regional target and utilities self-funding the remaining 25 percent of the target.

Some customers contend that there is no incentive for a utility to self-fund savings because the EEI exists. BPA understands this view, but it seems out of line with the strong drivers to achieve cost-effective conservation. The drivers that exist beyond the EEI structure to acquire conservation, currently the least cost resource, should overwhelm other disincentives. Whether the acquisition takes place using funds from the EEI or directly from utility funds the conservation will still offset other more expensive resources. In addition, BPA has stated that if the overall public power conservation target is not being met, one of the options available to help reach the target is to increase the dollars that are collected in rates to achieve the target. This should also be a motivating factor.

Knowing in advance the funding that will be available for EEI funding should allow utility customers to plan how much additional funding will be required to achieve specific levels of savings. However, if additional incentive is needed to encourage self-funding, various mechanisms can be explored in Phase 2.

- **Technical Assistance for Pay for Performance** – In commenting on the two implementation mechanisms offered in the Proposal, Standard Agreement and Pay for Performance, WPAG commented that "the major change regarding the contractual approach is BPA's commitment to provide medium and small utilities with the engineering support needed to participate in the pay for performance contract" (WPAG at 3).

  Response – WPAG has misread the Proposal related to the support provided by BPA for the Pay for Performance implementation mechanism. In reference to the Pay for Performance path, the Proposal states: "A utility choosing this option is expected to have access to non-BPA planning, evaluation and engineering services" (Proposal at 5). While the Proposal does state that BPA engineers can provide some assistance on measurement and verification, it would be limited, as discussed on page 6:

  > Customers manage projects, decide the appropriate M&V to apply to a project, calculate the benefit/cost ratio and submit completed projects to BPA for reimbursement. After customers implement the program they report program accomplishments into the PTR. While BPA would not review individual custom projects up-front, it would be available to assist if there are questions on M&V (e.g., length of time for pre & post measurement, which system/sub system to measure for best results, etc).

  The extent of engineering assistance available under the Pay for Performance path will be limited, but will be further discussed in Phase 2 of the public process.

- **Low Income Weatherization –** The Idaho Energy Authority (IDEA) commented that it was not supportive of supplemental funding for low income weatherization programs. IDEA stated that because this program gets funding through other federal, state, local and tribal agencies it should not get additional funding through Tier 1 rates (IDEA at 1). Western Montana commented that savings realized through weatherization funds provided to state, county or tribal entities should be credited to the local utility. In particular, Western

Montana suggested that any tribal energy efficiency effort need to be facilitated through the local utility to avoid unnecessary confusion and conflicts (Western Montana at 4).

Response – BPA has long provided funding for low income weatherization programs. BPA believes low income weatherization is an important sector and one that is at risk when it comes to developing measures that achieve and deliver energy savings. Adequate continued funding is necessary to ensure that this difficult to reach sector can take advantage of appropriate energy efficiency programs. This is a critical piece of infrastructure funding that BPA provides to public service territories in the region. BPA provides a centralized funding source for the low income weatherization providers to ensure some regional consistency, regardless of individual utility support. Western Montana makes a reasonable suggestion to make sure there is better coordination between BPA's power customers and assisting tribes on energy efficiency. Since tribal persons, including commercial and industrial sectors, make up the retail load that may be supplied by a BPA power customer, it makes sense that BPA coordinate with the local serving utility regarding Tribal energy efficiency efforts. Communications between BPA and utilities will be strong regarding work that takes place with tribal members that are utility customers.