Energy Efficiency Post-2011 Policy Framework

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As a result of the Long-Term Regional Dialogue process and the resulting power sales contracts, we have reviewed the BPA energy efficiency framework. Past and current programs have been a successful partnership between BPA and its public utility customers with achievements of over 1,100 aMW of conservation since the passage of the 1980 Northwest Power Act. Moving forward there is a significant amount of cost-effective energy efficiency still available in the region. The Energy Efficiency Post-2011 process set out to create a framework that will facilitate the continued success of energy efficiency development and acquisition in the Northwest at the lowest cost to the region. Throughout the collaborative public process there has been a robust dialogue to seek an understanding of the needs and constraints for the framework moving forward.

Through the public process a set of principles was developed to help shape the outcome.

Principles

- Develop public power's share of all cost-effective conservation consistent with the NW Power Act.
- Provide services that maximize regional economies of scale, market influence and local assistance opportunities.
- Leverage resources to maximize existing infrastructure and avoid duplication of effort across the region.
- Ensure consistency with the principles of tiered rates.
- Provide choices to be responsive to the diversity of needs across the region.
- The bulk of conservation is best managed at the local level.
- Balance increased flexibility with cost.
- Manage risk associated with change.
- Support long-term high customer satisfaction.
- Advance energy efficiency in the Pacific Northwest.

These principles, along with the Long-Term Regional Dialogue Final Policy, have guided the development of this Policy Framework.

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Themes

Several themes have shaped the Policy Framework as well.

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1. BPA and public utility customers are more likely to succeed in achieving public power's share of the regional energy efficiency target working together in partnership.
2. BPA's regional program will support and encourage acquisition of energy efficiency at the lowest cost possible.
3. There are opportunities to acquire energy efficiency more efficiently through regional programs.
4. BPA's programs should be efficient and effective in order to attract utilities to participate in new programs and form durable partnerships.

Overview of Policy Framework

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The Policy Framework retains the collective public power target that has successfully been achieved or exceeded for at least the last eight years. BPA will continue existing regional programs and provide new offerings in other market segments that can clearly benefit from economies of scale and a regional presence. The framework does not require the establishment of individual utility targets or establish consequences for utilities not meeting a specific level of conservation. The cost for energy efficiency will be in the Tier 1 cost pool, consistent with the established Regional Dialogue Final Policy. There would be two components of the money collected in rates for energy efficiency, both paid equally by all public utility customers on a Tier One Cost Allocation (TOCA) basis. The first component would be for regional infrastructure as well as program design and implementation costs (implementation funding mechanism). The second component is for acquisition incentives (funding mechanism) and would also be in the Tier 1 cost pool.

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The framework addresses many of the concerns utilities have expressed during the post-2011 public process guided by the principals and themes, including balancing the need for simplicity and flexibility, which are often opposing goals. Utilities are still encouraged to self-fund energy efficiency to a level that is appropriate for their individual service territories, allowing for resource acquisition decisions to essentially be made at the local level. This builds upon the growing amount of energy efficiency occurring in the Northwest funded and developed outside of BPA programs, e.g., utility self-funded energy efficiency, Recovery Act funding, etc. Customers will have a fundamental choice between two implementation mechanisms: Standard or Pay for Performance. Under either mechanism, a utility could acquire savings through either BPA designed program offerings or utility designed programs or a combination of both.

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BPA will work with customers so that their load forecasts accurately reflect the conservation initiatives they undertake. In addition, BPA is proposing a number of program changes to further enhance implementation mechanisms.

The framework that is proposed is flexible enough to evolve over time and adapt to new and changing drivers in the energy efficiency marketplace. BPA will work closely with public utility customers and other stakeholders during Phase 2 of the public process to ensure the framework is robust and meets the needs of customers. The framework will be reviewed once BPA and the public utilities have gained experience operating under tiered rates to determine if there are changes that will lead to more effective delivery of energy efficiency in the region. The Agency is committed to commencing this evaluation of the energy efficiency framework prior to the second rate period under tiered rates (FY2014-15).

The framework is comprised of three primary sections: 1) regional infrastructure; 2) incentive funding mechanism; and 3) implementation mechanism.

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Regional Infrastructure

Regional infrastructure covers funding for region-wide conservation and energy efficiency activities. Regional infrastructure is acknowledged as a valuable use of funds and has been broadly supported during the public process. The functions are characterized by economies of scale, activities that require regional market influence, leveraging existing infrastructure and activities and services that benefit most utilities in the region. The functions include but are not limited to:

Acquisition Support

- Program Tracking and Reporting
- Regional Technical Forum (RTF)*
- Market Transformation (Northwest Energy Efficiency Alliance (NEEA))*
- Market research
- Program evaluation
- Non-programmatic savings tracking
- M&V protocols (working with the RTF)
- BPA Oversight
- Engineering services

New Measure Development and New Technology

- Research & Development (R&D)[1]
- Demonstration & Deployment (D&D)
- Energy Efficiency Emerging Technologies (E3T)*
- Regional Energy Efficiency Emerging Technology Advisory Committee (RETAC) (collaboration with NEEA)
- Efforts to deem new measures
- Data collection*
- Pilot programs
- Regional program development and implementation (e.g. 3rd party programs, trade ally network)

Regional Support

- Conservation Potential Assessment assistance
- Networking/coordination (e.g., brown bags, commercial new construction focus group, etc.)
- Collaboration with the Department of Energy and other national entities
- Sponsorships (e.g., Electric Power Research Institute, ESource, conferences)
- Low-Income Weatherization (state & tribal funding)
- Federal facility work

(*In coordination with other regional entities, including IOUs)

Conservation Potential Assessments (CPAs) are a critical tool for identifying what energy efficiency opportunities exist and where. Some customer utilities have already completed or are in the process of completing CPAs for their service territories. Others have not yet begun or may not have plans to complete a CPA. Given the common goal of BPA and its customers to identify opportunities for and achievement of all cost-effective conservation, BPA proposes to support the development of customer utility CPAs or other means to assess utilities' conservation potential. This support could take the form of helping to establish guidelines or standards for conducting CPAs and/or developing a tool that utilities could use to estimate their conservation potential. BPA expects that its efforts would complement utilities' efforts, and would depend on the specific need for the assessment of conservation potential.

[1] R&D is funded by BPA's Technology Innovation office, not Energy Efficiency.

BPA is currently testing a high level tool that, with some utility specific data inputs, can provide an assessment of potential at the individual utility level. BPA proposes to collect the data inputs required for the tool for all of BPA's public customer utilities. The output would be provided to each utility and will help direct the planning for regional programs. Utilities that already have CPAs can also provide those to BPA for the same purpose.

There will be on-going discussions to determine the most efficient and effective way to support the creation and use of CPAs throughout the region. After there is more regional experience with CPAs and BPA's utility potential calculator, BPA will evaluate, in collaboration with its public utility customers, whether utilities' savings potential should play a more key role in BPA's conservation program design.

As a note, the Regional Dialogue contracts require reporting of utilities' conservation plans to BPA. BPA does not intend at this time that CPAs would be necessary to fulfill those plan reporting requirements. BPA will work with customers to determine how they can best fulfill their conservation plan reporting requirements under the contracts.

Incentive Funding Mechanism

Incentive funding provides money to public utility customers to implement conservation and energy efficiency measures/projects. Today, the two primary funding mechanisms are the Conservation Rate Credit (CRC) and individual bilateral funding agreements with customers (formerly Conservation Acquisition Agreements "CAA," currently Energy Conservation Agreements "ECA"). The goal moving forward is to create a BPA funding mechanism – Energy Efficiency Incentive (EEI) – that allows for transparency in how much revenue is collected and paid to customers through this mechanism. There is agreement on the need to have a stable funding source to allow for long-term planning of conservation programs for utilities. Today's CRC is not completely compatible with that need. However, because BPA currently expenses the costs of CRC, its funding is tied to the two year rate period cycles that will apply during the Regional Dialogue contract period. This leads to the need for frequent true-ups and results in frequent "start-stop" activities. One benefit of bilateral funding over a rate credit type mechanism is that a true-up of spending by the customer is not necessarily required at the end of each two-year rate period. This has the potential for eliminating the "start-stop" that a rate credit currently requires at the end of the rate period. BPA and customers want a system that affords the individual customer greater use of BPA conservation funds.

BPA would include the cost of the EEI to acquire conservation in its PF rate. The revenue collected in the PF rate earmarked to fund the EEI would be allocated by BPA to utility customers based on the Tier One Cost Allocation (TOCA) relative to the amount of energy efficiency that needs to be acquired to reach the public's share of the regional target. 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[2] 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. The total budget amount for EEI would be set on a rate case-by-rate case basis depending on the collective historic achievement of the regional target. BPA intends that the utility self-funding portion of the target could increase on a pro rata basis with the savings target (e.g., the percentage of self-funding is proposed to continue, for BPA budgeting purposes, at the current level of 25% of the savings target). This helps provide utilities the flexibility to choose how much conservation they acquire. The funding for EEI can decrease or increase to accommodate over performance or under performance relative to reaching public power's share of the regional target.

[2] The Implementation Manual can be found at: http://www.bpa.gov/Energy/N/implementation.cfm.

While each utility will have first access to its share of EEI funds, in order to encourage the most efficient use of this funding to acquire savings, spending would be reviewed, in consultation with the customer utility, at a predetermined time during a rate period to determine if each utility is on-track to fully spend its EEI funds. If the budget is not being spent, a utility will be notified that a portion of the remaining funds will be made available to other utilities as supplemental funding. Other utilities that are on-track or ahead on spending expectations would then have access to all available funding. This will be done in such a way as to make the availability of funds as broadly known as possible among customer utilities to achieve the maximum amount to savings.

This proposal allows for the near real-time reimbursement of incentives when measures/projects are reported. As with today's bilateral agreements, invoices would be paid on a monthly basis as they are submitted to BPA. In addition, BPA will work internally and with customers to explore the idea of making capital funding available for large energy efficiency projects that need funding in excess of an individual utility's EEI budget. This funding would be repaid by the individual utility.

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Implementation Mechanism

Each utility customer will be given a choice between two primary implementation mechanisms: Standard or Pay for Performance (Non- Standard) agreement. These options will provide utilities with the opportunity to decide which implementation mechanism best fits their local needs. Both of these options would include the program enhancements that are described below in the *Additional Refinements* section.

Standard Agreement

The Standard Agreement option is similar to the current BPA program. Utilities will be able, as today, to utilize BPA technical assistance and other BPA services. Customers choosing to engage in activities under the Standard Agreement will follow the guidelines published in BPA's Implementation Manual. Participation in activities under the Standard Agreement will be similar to today's implementation. BPA intends to continue fine-tuning activities, measures, and processes covered by the Implementation Manual based on the input it receives from customers. This option is for customers who's needs are generally being met with BPA's current delivery mechanism and/or do not have access to non-BPA technical staff, either hired or contracted for, to perform some functions that are required in the Pay for Performance option. This implementation option would apply to all funding sources including self-funded energy savings attributable to the regional targets.

Under the Standard Agreement option, BPA works with utilities to set reimbursement levels for specific measures and custom projects. Customers then choose to pass those incentives through to customers at a level that best matches local market conditions. While having a regional deemed measure database results in significant efficiencies and thus keeps administrative costs low, BPA is willing to work with customers to identify situations where further segmentation of measures due to regional differences would enhance acquisition efforts. There will continue to be specific areas where we will strive for regional consistency to provide trade allies, program implementers, contractors, equipment wholesalers, national and regional business and end-use customers with stability and program requirements as they provide services in multiple service territories. BPA would work closely to provide utilities with increased opportunity to implement measures and projects that fit their end users' needs (e.g., small and rural areas) so there becomes a closer nexus for the customer to benefit locally from dollars that are collected for energy efficiency in BPA's wholesale power rates. This work will be started as a workgroup in Phase 2 of the public process.

Pay for Performance (Non-Standard Agreement)

The Pay for Performance option is designed for utilities that prefer to design, set incentive levels, implement and provide measurement and verification (M&V) for a portfolio of cost-effective programs. Output from these programs is then purchased at a pre-determined price. A utility choosing this option is expected to have access to non-BPA planning, evaluation and engineering services. Under Pay for Performance, customers will be given flexibility in implementing one or more requirements that are in the Implementation Manual. This could range from one change (e.g., only changing the way commercial lighting projects are implemented) to encompassing several variations from the Implementation Manual (e.g., a utility does their own up-front work on custom projects, uses a modified benefit/cost ratio calculation and pays a predetermined $/kWh for the output of all their custom projects). The outcome is still a rigorous review of savings, but flexibility is afforded in that the individual utility takes on more responsibility and risk for technical review of projects. BPA will work with customers to ensure that this option is as accessible as possible to customers with a broad variety of characteristics.

Customers that choose the Pay for Performance option would have more local program control than utilities electing Standard Agreements. A balance is established by minimizing the number of BPA/Utility implementation touch points in order to provide greater flexibility to customers, while maintaining an adequate level of assurance, documentation, and oversight. For example, the utility selects and designs their portfolio of programs, decides what incentive levels they want to offer and makes decisions on free-ridership. The customers under this option would not have to pre-submit custom project proposals and individual M&V plans to BPA for approval. While this provides more local flexibility, it does shift the risk of measure approval to the utility. Rather than BPA approving custom project proposals and M&V plans upfront during project development, this role would shift to the utility and BPA oversight shifts to after the project is completed. BPA reviews the output of the programs and will purchase that output provided the measure or programs meet the guidelines of the Pay for Performance agreement. While this enhances utility flexibility, it also helps optimize the use of limited BPA staff resources.

The Pay for Performance agreement and requirements would apply to all funding sources, including self funded energy savings attributable to the regional targets. The following would apply to the agreements:

- Only cost-effective measures or programs count toward utility claims and the regional target.
- Measurement and verification, using approved protocols, is required for non-deemed measures.
- All savings (including self-funded savings) must be reported to the (Planning, Tracking, and Reporting (PTR) system, or its successor.
- Documentation, to allow for BPA oversight, is required for all claims.

In short, BPA would only pay for cost effective energy savings delivered from customer designed programs. The customer identifies programs they expect to implement; BPA reviews and approves the programs (e.g., the process steps), the M&V protocols to be applied, the utility established requirements for end users, and negotiates the specifics of the Pay for Performance agreement. While the Pay for Performance option affords more local program control, this option requires the participating utility to invest additional resources to define, manage, and enforce the negotiated elements of its agreement.

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). Oversight of savings claims under the Pay for Performance option is based on contract requirements (e.g., if the utility indicates they will review a specific type of project through a certain process, oversight would consist of a review to ensure the process defined by the utility was followed). The Pay for Performance option can

include deemed measures and custom projects, though it is weighted toward custom projects. BPA has made available a generic Pay for Performance Agreement online[3].

BPA would use a standardized Pay for Performance template and negotiate specific issues tailored for individual utility needs. This would work to create a balance between the cost of individual negotiations and providing flexibility.

Combining Funding and Implementation Mechanisms

Any funding mechanism can be used to provide incentives for savings that are achieved through any implementation mechanism, up to the maximum BPA budget for EEI. For example, a utility can acquire savings through either a BPA designed program or a utility designed program and request reimbursement through EEI or simply report the savings in the PTR and not request a reimbursement (self-funded).

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Funding Mechanism
• Energy Efficiency Incentive (EEI) (capital and/or expense)
• Utility Self-funding
• Irrigation Rate Mitigation Program (IRMP)
Implementation Mechanism
• BPA program/3rd Party program
• Individual utility program
• Combination of BPA and utility program

Reporting, Measurement & Verification and Oversight

Utilities will continue to report cost-effective energy savings into the PTR system, both BPA- and utility self-funded measures and projects as required in the Regional Dialogue Contracts. Today, this is done on a semi-annual basis. Moving forward customers have asked for more flexibility in reporting timelines. Specifically, some customers would like the ability to report on a quarterly basis to more easily accommodate fiscal year and calendar year reporting. This enhancement can be met, while still allowing utilities that prefer to report on a semi-annual basis to continue.

Measurement and verification (M&V), as well as oversight, are key to ensuring that the energy-efficiency resource that is reported is real, persists, and will reduce BPA's and/or a utility's load. This will be of particular importance to individual utilities and BPA in a tiered-rates framework because we will rely on energy efficiency to reduce load and to offset market priced purchases. It is important to ensure that an appropriate amount of M&V and oversight takes place. This will require close collaboration and flexibility in the relationship between BPA and customer utilities to meet the needs of the agency and individual utilities at the same time.

BPA will continue to work with the RTF in developing an M&V framework including a portfolio of M&V protocols that utilities would follow, at a minimum, when conducting M&V for conservation measures and custom projects. BPA expects that M&V requirements moving forward will emulate current procedures.

[3] http://www.bpa.gov/Energy/N/post-2011/pdf/Draft_Generic_Pay_for_Performance_Agreement.pdf

BPA would conduct oversight of project and program accomplishments and M&V protocols for all customer utilities, regardless of implementation mechanism or how the programs are funded to ensure the savings are real and can be counted toward the regional target.

This complies with the Regional Dialogue Power Sales contracts:

> *«Customer Name» shall verify and report all cost-effective (as defined by section 3(4) of the Northwest Power Act) non-BPA-funded conservation measures and projects savings achieved by «Customer Name» through the Regional Technical Forum's Planning, Tracking and Reporting System or its successor tool. Verification protocols of conservation measures and projects, reporting timelines and documentation requirements shall comply with BPA's Energy Efficiency Implementation Manual or its successor.* (§18.1.2.2)

BPA Backstop Role

Determining BPA's backstop role to ensure public power meets its share of the regional energy efficiency target has been a key topic in the Post-2011 public process. Under this framework, BPA's backstop role would continue similar to today. BPA will provide a full compliment of programs, which will be bolstered by individual utility programs. This has been sufficient historically to achieve and often exceed the public's share of the regional target. If the programs in place at any given time are insufficient to achieve the necessary level of savings, then new programs, as well as looking at other avenues, would be explored and evaluated, to meet the targets.

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Additional Refinements: Specific Program/Framework Changes and Enhancements

There exist a variety of ways to accomplish more energy efficiency and provide customers with more flexibility. Below is an initial list of potential program refinements that would either enhance existing systems or changes that allow for more savings to be acquired. The details of these enhancements and refinements would be worked through with customers in Phase 2 of Energy Efficiency Post-2011 public process.

- BPA will work toward changing to program level cost-effectiveness from the current measure by measure review. This will allow for the implementation of a bundle of measures, which collectively are cost-effective and provide more flexibility in implementation.
- Support development and implementation of utility custom programs.
- Auto-upload of program accomplishments into the PTR.
- Create a small/rural/residential utility program focus.
- Strive to streamline acquisition through deemed measures, deemed calculators, common M&V protocols and other technically appropriate approaches.
- Provide tools and assistance for individual utility potential assessments.
- Track non-programmatic and ARRA savings for the region in a robust and transparent manner for utility and regional credit.
- Work with customers so that their load forecasts reflect the conservation they undertake.