

BPA Post-2011 Conservation Conceptual Rate Design

BPA is currently having discussions with the public to help determine BPA's role in the development and use of energy efficiency (conservation) during the post-2011 period under BPA's new Regional Dialogue power sales contracts. Discussions so far have brought various stakeholders together in a collaborative process to help inform the direction of the agency.

To build on the region's leadership and low-cost acquisition of conservation and to remain consistent with BPA obligations under the Northwest Power Act, BPA's overarching goal from the Regional Dialogue Final Policy is as follows:

BPA will work collaboratively with its public utility customers to pursue conservation equivalent to all cost-effective conservation in the service territories of customers at the lowest cost to BPA.

The conservation program framework that will be established must ensure that this goal can be met with a high degree of certainty. A key element in BPA's future role is the development of a rate concept that will allow the framework that is established to appropriately allocate conservation costs to customers. The allocation of the costs will be discussed in the public process mentioned above.

One necessary condition that must be met before BPA establishes its post-2011 conservation framework and rate construct is that it must be neutral to the Residential Exchange Program (REP) benefit levels. This means that there can be no adverse or favorable impacts to the REP as a result of the new conservation framework.

Rate Concept

In order to implement the idea of allowing utilities the choice of self-funding conservation or participating in the BPA conservation program, a new conceptual rate design is needed. In this new concept, self-funding utilities do not pay for the BPA conservation program in their rates beyond regional infrastructure, which is funded by all customers. The BPA conservation program costs are included in the Tier 1 rates, but an equal and opposite revenue credit counterbalances these costs for those not using BPA's conservation program. The funding for the revenue credit comes from customers that participate in BPA's conservation program. The majority of the revenue is collected through two conservation specific rates:

- 1) Conservation Expense Acquisition Rate.
- 2) Conservation Annual Capital Acquisition Rate. This rate is paid in installments for the length of the capitalization per installed MWh (currently five years).

The difference between these two rates is simply the financial difference between the recovery of a single annual expense versus the recovery of the capital-related annual costs over the lifetime of the investment (in this case five years).

A third rate, the Conservation Program Overhead Rate, is by default paid by all utilities. However, utilities that self-fund conservation can partially or fully avoid paying the

Conservation Program Overhead Rate depending on the amount of conservation achieved through their own conservation program. This calculation is based on the overhead of the BPA conservation program costs and would not include conservation infrastructure costs.

Conservation Cost Delineation

As stated in the Tiered Rates Methodology (TRM), all conservation costs would be included in the Composite Cost Pool (the Tier 1 rate paid by all PF Preference customers). Revenue credits from Conservation Program Overhead Charge, Conservation Expense Acquisition Charge, and Conservation Annual Capital Acquisition Charge would be credited to the Composite Cost Pool to counterbalance conservation costs. The costs and revenue credits would be separated as follows:

1. Conservation Infrastructure Costs & Other (Examples: NEEA, RTF, PTR, engineering services, Low-Income Weatherization, DSM Technologies, Legacy, etc.)
 - a. All customers would pay their proportionate share based on their Tier One Cost Allocator (TOCA).
2. Conservation Program Overhead Costs
 - a. There would be a Composite Cost Pool revenue credit equal to the Conservation Program Overhead Rate times the MWhs supported by BPA's conservation program. The number of MWhs supported by BPA would be determined by taking the annual target amount of MWhs of conservation less 1) MWhs of conservation achieved through infrastructure, and 2) MWhs of conservation achieved by self-funding utilities (amount of overhead MWhs subtracted for self-funding is limited to a utility's TOCA share). Costs and revenue credits would be equal.
3. Conservation Expense Acquisition Costs – acquisition costs above and beyond infrastructure that BPA plans to expense for program implementation purposes.
 - a. There would be a Composite Cost Pool revenue credit equal to the Conservation Expense Acquisition Rate multiplied by the MWhs purchased by customers. Costs and revenue credits would be equal.
4. Conservation Annual Capital Acquisition Costs – acquisition costs above and beyond infrastructure that BPA plans to capitalize for program implementation purposes.
 - a. There would be a Composite Cost Pool revenue credit equal to the Conservation Annual Capital Acquisition Rate multiplied by the MWhs purchased by customers. Costs and revenue credits would be equal.

Other Points

1. New Conservation Annual Capital Acquisition Cost will need to be created each year – a maximum of five posted Conservation Annual Capital Acquisition Rates assuming five-year capitalization.
2. Customers paying the Conservation Expense Acquisition Charge & Conservation Annual Capital Acquisition Charge will have first access to expense and/or capital dollars through the BPA conservation program. However, if dollars are not spent by an individual utility, those funds may become available to be spent by other customers in the BPA program pool.

3. Proof of BPA's acquisition of self-supplying MWhs will need to be demonstrated through some contract arrangement such as that proposed by Mark Thompson from PPC in a previous workshop. It will be necessary to develop a contract mechanism that is legally sound to support the following: in exchange for BPA agreeing to allow customers to do their own conservation (and hence not require that all PF customers are paying for conservation costs in BPA's PF rates), customers will agree that BPA can claim such conservation savings for purposes of section 7(b)(2) of the Northwest Power Act and in meeting the Council's conservation targets. This preliminary rate concept provides no explicit acquisition of conservation by BPA for 7(b)2 purposes aside from a contractual arrangement.