Energy Efficiency Post-2011 Phase 2 Response to Public Comment

The Bonneville Power Administration (BPA) released the "Energy Efficiency Post-2011 Implementation Proposal" on January 12, 2011 for public review. To discuss the Implementation Proposal and address stakeholders' questions and concerns, BPA held a series of public meetings throughout the region during the week of January 24, 2011. The public comment period was open through February 14, 2011. In response, BPA received public comments from the 46 parties listed below.

- Benton PUD
- Benton Rural Electric Association
- Canby Utility
- Central Lincoln PUD
- City of Seattle
- Clearwater Power Company
- Columbia REA
- Columbia River PUD
- ConAgra Foods Lamb Weston
- Consumers Power, Inc.
- Cowlitz PUD
- Emerald PUD
- Eugene Water & Electric Board
- Fall River Rural Electric Coop.
- Franklin PUD
- Harney Electric Coop.
- Hermiston Energy Services
- Idaho Conservation League
- Idaho Energy Authority
- Industrial Customers of Northwest Utilities
- Inland Power
- Longview Fibre
- Milton-Freewater City Light and Power
- North Pacific Paper Corporation (NORPAC)
- Northwest Energy Coalition
- Northwest Energy Efficiency Alliance
- Northwest Food Processors Association
- Northwest Power and Conservation Council
- Northwest Requirements Utilities
- Oregon Trail Electric Coop.
- PECI
- Pend Oreille Public Utility District
- PNGC Power
- Ponderay Newsprint Co.
- Public Power Council
- Raft River Rural Electric Coop.
- Salmon River Electric Cooperative
- Snohomish PUD
- Springfield Utility Board
- Tacoma Power
- Umatilla Electric Cooperative
- Washington State Department of Commerce, Energy Office
- Wells Rural Electric Company
- Western Montana Electric G&T Cooperative

The public comments received on the Implementation Proposal provide thoughtful and valuable input. In short, the comments expressed a broad array of issues and suggestions relating to the Post-2011 Implementation Proposal (Phase 2) with a handful of comments relating to the Policy Framework (Phase 1). The responses below focus on the issues and suggestions that pertain to Phase 2 and are categorized by issue with specific public comments cited in parentheses. For ease of reading and understanding BPA's responses, it is recommended that the Implementation Proposal be reviewed.

Running Regional Programs – Beginning in the fiscal year (FY) 2012-2013 rate period, incentives for third party regional programs will flow through customers via their Energy Efficiency Incentive (EEI) budgets rather than being administered directly by BPA.

Comments – Franklin PUD "believes the funding change described [in the Implementation Proposal] is an improper, after-the-fact, change in policy. Any programs, such as Track and Tune, should be paid for as advertised and understood by the program vendor, BPA field staff, customers, and utilities" (Franklin at 4). BPA understands this to mean that Franklin would like incentives for these types of measures to be paid directly by BPA.

As a result of the change in BPA's conservation delivery model, collaboration between BPA and its customers on developing and running regional programs will be very important. In the Implementation Proposal, BPA pledged to work collaboratively and be transparent regarding regional program design and the decision-making process. In this regard, Snohomish PUD commented, "BPA should provide clear and early notification of regional program plans for [utility] budgeting purposes…. Early notification also allows utilities to provide meaningful input to BPA's decision making and contracting processes" (Snohomish at 2).

Hermiston Energy Services and Umatilla Electric Cooperative stated the current approach of some third party programs, such as EnergySmart Grocery, "has the potential to over extend the utility budget and EEI dollars available at the local level," and "a structure that would require coordination through the participating utilities would resolve this problem" (Hermiston at 1, Umatilla at 1). One such structure suggested by multiple customers was, as Northwest Requirements Utilities (NRU) offered, "to have BPA distribute a customer's EEI funds on the customer's behalf to regional third party programs *if the customer so elects*" (NRU at 2, Columbia River PUD, Emerald PUD). More specifically, Seattle City Light proposed that "on behalf of a Utility and at their optional request, BPA establishes an account or allocates or sequesters funds from the Utility's Energy Efficiency Incentive to make incentive payments directly to retail customers through third-party contractors" (Seattle at 1).

The Idaho Conservation League (ICL) was "dismayed the proposal does not offer any specifics on how BPA will evaluate and select possible regional programs…. ICL encourages BPA to fully explain the criteria it intends to use to evaluate proposed regional projects" (ICL at 1). Similarly, Snohomish stated BPA should work with utilities to review cost options, adding that the Implementation Proposal is not clear on how BPA plans to review costs and the cost-effectiveness of regional programs. Snohomish said the costs of operating regional programs should be more transparent so that utilities and BPA can work together to review and improve the overall cost-effectiveness of energy efficiency efforts of the region (Snohomish at 2).

Both Snohomish and Franklin PUD expressed concern about the amount of capital dollars being set aside by BPA for the Regional Program Delivery Fund and the total amount of funds that could end up being spent on administrative costs. Specifically, Franklin commented that it would like to see a breakdown of these expenses. Franklin would like to know how much of BPA's budget, whether in a capital budget or on the expense side of the budget, goes to administrative costs, and how much goes to direct acquisition. Franklin would like to know what the total administrative cost is when the 20 percent performance payment and whatever the BPA administrative budget becomes, are added together. According to Franklin, an estimated 40 percent to 45 percent of capital allocated to administrative costs rather than incentives would be unacceptable (Franklin at 11).

On the other hand, Emerald PUD wanted to make clear that "BPA should ensure that savings resulting from third-party run programs are allowed to count towards a utility's performance payment" even though doing so could drive up overall administrative costs (Emerald at 8). Specifically related to the amount dedicated to the Regional Program Delivery Fund, Snohomish "is concerned that the amount allocated to regional program delivery expenses, not including incentives, is high relative to the amount of savings expected from those efforts" (Snohomish at 5). In short, Snohomish is concerned that large administrative costs will adversely affect regional program cost-effectiveness and that BPA should provide "a mechanism to transfer any Regional Program Delivery Funds that are not utilized to the EEI Unassigned Account, making it available to local utilities for local program implementation" (Snohomish at 7).

Response – In response to Franklin's comment that to have incentives for regional programs flow through customers instead of directly from BPA is an after-the-fact policy change, the Phase 1 Policy Framework clearly explained the post-2011 process for collecting and allocating energy efficiency 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 guidelines) up to the customer's TOCA percentage of the incentive funding (Policy Framework at 4).

Concerning Snohomish's interest in BPA transparency, BPA intends to communicate early with customers on regional program planning. That said, contracting is a lengthy process, and BPA cannot definitively communicate the details until contracts are finalized. Also, note that BPA's recent outreach to customers on program planning for the EnergySmart Grocery and Performance Tested Comfort Systems (PTCS) programs was designed to help improve BPA's communication with customers and stakeholders.

BPA agrees with Hermiston and Umatilla's assessment about the potential for regional programs to overextend a customer's budget and will work with customers, to the extent possible, to mitigate this risk. However, the potential risk is part and parcel of increased budgeting responsibility on behalf of customers under the post-2011 framework combined with the unique characteristics of regional programs.

Responding to the suggestion that BPA should set aside a portion of a customer's EEI budget (*if the customer so elects*) to directly pay regional program incentives, BPA has previously discussed this option with customers and will put it into practice. Functionality and availability, however, may vary by program.

In response to ICL and Snohomish's comments about wanting more detail on how BPA will evaluate possible regional programs (including costs), the nature of collaborating with customers on regional program design necessarily implies that BPA *and* customers will decide on the applicable criteria. For example, over the past few months, BPA has engaged with customers on potential updates to the grocery and PTCS programs to improve program efficiency and effectiveness. While BPA continually asks for and incorporates customer input, BPA must make final program decisions based on what is best at the regional level, not just for one customer or a subset of customers.

Franklin and Snohomish raise a concern about the amount of Energy Efficiency's (EE) capital budget that will or may go to cover "administration." A few points of clarification are in order. First, not all of the funds set aside for the Regional Program Delivery Fund will go strictly to cover administrative costs, broadly defined. As mentioned in the Implementation Proposal, a small amount of the funds will be used to cover incentives for BPA direct acquisition programs, such as the Green Motors Program. It is for this reason the Regional Program Delivery Fund was not termed the "Regional Program Administration Fund." Second, the exact cost breakdown of the Fund cannot be provided because BPA does not yet have the contracts in place for some post-2011 regional programs and is actively working to get the best value from these contracts. Third, the costs associated with certain programs will vary due to their volumetric nature, i.e., the more the program delivers, the more it will cost, but the more efficient it will be as well. Thus, costs are fungible such that it does not make sense to give a specific, fixed program-by-program cost breakdown. Fourth, referring to the amount of the EEI Fund that may go toward administration, it is unknown how much will actually be claimed by customers to cover administrative costs as opposed to being claimed by customers to in turn pay incentives to end-users and achieve more savings.

More broadly, BPA is always sensitive to reducing costs, but the agency does face conflicting customer interests. For example, the comment from Emerald above, as well as the many comments from customers who advocated for the performance payment, illustrates the broad support for having a significant portion of the EEI Fund potentially go to cover administrative costs. Per Snohomish's suggestion to transfer unused capital dollars from the Regional Program Delivery Fund to the Unassigned Account, BPA is putting in place the necessary transfer mechanism.

In response to Emerald's request that customers be able to claim performance payment for regional programs, the ability to do so will be program specific. For new programs, this aspect of a program will be decided during the program design phase.

Communication and Education – In the Implementation Proposal, BPA committed to better communication with customers on energy efficiency issues.

Comments – The Public Power Council (PPC) commented that conservation brownbags, utility roundtables, the Utility Sounding Board (USB), and other current vehicles are not effectively communicating messages to utility conservation staff and managers. This has resulted in regular problems with understanding the implications of changes to BPA programs. Given the scope and prominence of energy efficiency, PPC hopes BPA will work more directly with BPA communications staff and account executives to make certain these messages are more broadly and accurately distributed to BPA customers more frequently and more effectively (PPC at 4-5). Franklin PUD noted that it does not believe "the USB should be considered as a good tool for dissemination of regional ideas or decisions" (Franklin at 5).

Overall, as NRU stated, the substantial changes that are occurring post-2011 make it even more important that BPA communicate regularly and effectively with customers so they can adapt their local utility programs as needed (NRU at 4). More specifically, Emerald PUD commented that the role of BPA Energy Efficiency Representatives (EER) will be increasingly important when developing and implementing third-party programs. Emerald stated the need for communications from EERs that are consistent and reliable and a defined schedule of regular roundtables that BPA should commit to for at least the duration of the inaugural post-2011 rate period (Emerald at 2-3).

Response – BPA recognizes the need to ensure that its communications regarding energy efficiency need to keep customers fully informed and agrees with NRU that regular and effective communication with customers is more important than ever given the many post-2011 changes that will take effect. In response to the need for regular communication, BPA has begun sending to customers "BPA Energy Efficiency Weekly Announcements." Furthermore, after considering the benefits and costs, BPA is committing to at least two utility roundtables per fiscal year for at least the first post-2011 rate period and will reassess this commitment with customer input. These roundtables will be in addition to the annual utility summit. As for the USB, BPA agrees that it is not a good tool for information dissemination as it was not set up to necessarily serve such a purpose. Therefore, BPA will focus on maximizing the role of the EERs in communicating consistent, reliable, and valuable information. The USB will continue to be used as a "sounding board" for new ideas and program changes.

Six Month Negative Change Notice – In the Implementation Proposal, BPA proposed leaving the negative change notice of six months in place and including savings decreases in addition to the previously established negative changes.

Comments **–** BPA received an equal number of comments in favor and against having negative change notices every six months (there was no opposition to including savings decreases). Those customers against the proposal argued that six-month notices hamper their ability to meet their savings goals and make necessary changes for local program delivery, as well as damage relationships with their members (PNGC, Clearwater Power, Raft River, Fall River, Umatilla). Franklin PUD stated that it does not believe the six-month notice provides enough flexibility for large industrial projects that can span across rate periods unless the rules and funding available are set at the time of the commitments made to the end user (Franklin at 4).

Other customers favored maintaining the six-month notice (IDEA, Emerald PUD, Seattle). Emerald PUD, for example, argued that six months provides enough time for utilities hoping to develop a new or increased program offering to accelerate their spending on qualified programs

(Emerald at 3-4). The Idaho Conservation League added that six-month notices balance the administrative burden with the need to maintain accurate accounting of conservation achievements (ICL at 2).

Response – BPA appreciates the concerns expressed in some comments that the six month notice can result in administrative difficulties and costs for customers and, in some cases, strain customer relations with their end-users. BPA, however, is not persuaded by such concerns that it is necessary to change the current six-month notice. BPA finds that the current notice appropriately balances BPA's need to adapt to marketplace trends and technology changes with customer needs to have adequate time to make changes to their programs. Although annual negative change notices may be less burdensome to some customers, such a change risks BPA having to reimburse customers for savings that do not count toward meeting the Council's targets.

While Franklin expressed concern over flexibility for large projects, not changing the six-month notice will not decrease the flexibility that is already provided under the current program since it will continue to be the case that the rules (e.g., BPA's willingness to pay) in place when a custom project proposal (CPP) is accepted will be the rules applied to that project.

Northwest Energy Efficiency Alliance (NEEA) Funding – In the Implementation Proposal, BPA proposed that EEI funds could not be used as general contributions to NEEA, to fund NEEA for a customer's regular dues, or for market transformation programs that generate savings that cannot be attributed to customers on a customer-by-customer basis (Implementation Proposal at 7). The stated reason for this proposal was that BPA's capital policy prevents the use of capital dollars for expenses not directly tied to specific conservation acquisition.

Comments **–** NEEA asked BPA to clarify the intention and application of BPA's capital policy as it relates to NEEA funding (NEEA at 4). NEEA and the Idaho Energy Authority (IDEA) both pointed to what seems to be a contradiction in that performance payments will not directly result in energy efficiency acquisition yet will be paid out of the EEI (NEEA at 4, IDEA at 2-3).

In the Implementation Proposal, BPA tried to draw the distinction between funding NEEA for future savings (the Conservation Rate Credit model) and reimbursement for NEEA initiatives after savings are delivered (the EEI model). This led to confusion and misunderstanding, as NEEA noted:

> The Proposal draws a distinction between funding for "base" NEEA operation and "incremental" programs. However, both yield energy savings that are reported to funders. By drawing a distinction between the two types of expenditures, the Proposal is also drawing a distinction between the savings generated between the two types of efforts ("program" savings versus "market transformation" savings). The rationale for this distinction in savings in not entirely clear in the Proposal (NEEA at 3).

NEEA added that it would be helpful to NEEA and its direct public funders if BPA could clarify the exact requirements under which savings generated and reported would be eligible for reimbursement under the EEI. Clarification of the distinct requirements between third party providers and NEEA also would be helpful (NEEA at 4).

In another comment, Cowlitz County PUD stated that a utility should be permitted to use EEI funds to support NEEA (Cowlitz at 4). Emerald PUD and Eugene Water & Electric Board (EWEB) commented that excluding direct NEEA contributions from EEI funding runs the risk of causing reduced funding for NEEA (EWEB at 3, Emerald at 4). Furthermore, EWEB stated there would be a trade-off between funding NEEA and other conservation programs but that this decision should be based on local choice rather than on a regional exclusion (EWEB at 4). The Idaho Conservation League, on the other hand, agreed with BPA's proposal to disallow the use of EEI funds for base operations since BPA's proposal allows customers to use EEI funds for NEEA sponsored (or potentially implemented) programs that provide energy savings specifically attributable to the customer's service area (ICL at 2). Other direct funders of NEEA did not comment on this issue.

Response – BPA affirmatively reiterates its support of NEEA's efforts and agrees completely that market transformation energy savings are substantive and vitally important, which is why BPA recently signed a five-year funding contract with NEEA.

There appears to be some confusion regarding BPA's funding for NEEA. First, BPA provides funding directly to NEEA in accordance with BPA's five-year funding grant of approximately $68 million. Such funding is provided as an expense cost (as opposed to a capital cost) and provides continuity on the part of BPA (and other NEEA stakeholders) to provide support for market transformation development.

Previously, customers were allowed to fund NEEA with Conservation Rate Credit (CRC) dollars. This funding mechanism will no longer be available post-2011. In its place, BPA is implementing the EEI model under which reimbursements will be provided to customers for invoiced energy savings that have been developed and acquired, i.e., an "invoice-and-reimburse" approach. BPA has explained that for NEEA-sponsored programs that provide savings that can be specifically attributed to a service territory on a customer-by-customer basis, EEI funds can be used and will be reimbursed to customers for delivered savings reported through the PTR system or its successor. The timing of the delivered savings is fundamental since BPA is capitalizing the costs of EEI.

Under BPA's capital policy, the agency cannot use capital dollars for savings not yet acquired. As noted above, BPA pays NEEA for market transformation savings out of expense dollars. Typically, BPA does not fund the same activity (e.g., NEEA) with both expense and capital dollars. As such, it would be inconsistent to allow customers to use BPA capital dollars to fund market transformation savings. Finally, BPA is cognizant that acquiring public power's share of the regional targets is contingent upon customers self-funding, on average, 25 percent of the savings and there is no restriction on customers using self-funding dollars to support NEEA. Therefore, customers are free (and encouraged) to support NEEA as a part of that self-funding.

<u>Carryover of EEI</u> – BPA will allocate EEI funds to customers on a rate-period-by-rate-period basis and if funds allocated to a customer during a given rate period are not completely used, BPA will not allow a "carryover" of any unspent EEI funds to subsequent rate periods.

***<u>Comments</u>* –** The Northwest Energy Coalition (NWEC) commented that limiting the use of EEI funds to BPA rate periods creates a "use it or lose it" result. NWEC commented:

> The restriction on making commitments across rate periods is inconsistent with BPA's statutory requirement to treat conservation resources similarly to other resources. It seems likely that BPA honors contracts for projects like generation or transmission that straddle rate periods. The same should be true for EE incentive for large projects…. There should be a way that unspent funds – securely tied to committed projects – can be set aside for conservation projects across rate periods (NWEC at 3).

Others also commented that BPA should commit funds to conservation projects that extend for more than one rate period (Northwest Power and Conservation Council, Umatilla, Snohomish). The Northwest Food Processors Association commented that it believes the rate period restriction will result in particular impacts for the industrial sector (NWFPA at 1).

<u>Response</u> – BPA understands the concerns expressed in the above comments; however, BPA is taking a strategic and focused path to match its program costs, i.e., BPA's budgets today and in future rate periods, with the savings targets.

BPA is shifting its practice of acquiring conservation post-2011. In the past, BPA was reliant upon the development of conservation by a limited number of BPA's customers. Under BPA's new post-2011 conservation implementation program, BPA seeks to engage all of its public utility customers in developing energy efficiency measures that will lead to the acquisition of cost-effective conservation by motivating customers to develop and implement energy efficiency measures through EEI funding allocated on a TOCA basis. With this new design, BPA intends for the EEI program to forge a closer nexus between customers and the achievement of conservation on a local level. This approach, however, does not translate into an indefinite entitlement of funds to customers.

The amount collected and allocated for conservation will be budgeted in accordance with the amount of savings needed to achieve the savings targets, as determined by the Administrator. If a particular customer is unable to fully utilize its EEI allocation, it is up to that customer to make arrangements, such as a bilateral transfer, with other customers or BPA to ensure unused funds are moved to where conservation can be acquired in that rate period. If funds are not used or moved to other service territories to acquire conservation, BPA will need to collect more in rates the subsequent rate period to ensure the set targets are met. The "use it or lose it" outcome is the result of BPA needing to acquire targeted amounts of conservation at the regional level during a given rate period while allocating conservation dollars equitably based on customer TOCAs. As for large projects that span rate periods, BPA has worked with customers to address the carryover concern for large projects, as discussed below.

In response to NWEC's comment that BPA's approach is somehow inconsistent with statute, BPA disagrees. First, the Northwest Power Act grants the Administrator broad authority to establish the measures and programs by which to acquire conservation from BPA's customers. BPA's post-2011 energy efficiency program is consistent with this authority and is intended to develop cost-effective conservation in the retail loads served by BPA's public utility customers. Second, as noted previously in BPA's responses to comments on Phase 1 of the Implementation Proposal, it is important to recognize that conservation as articulated in the Northwest Power Act is a unique resource and is distinct from physical power and/or generation. By definition, conservation reduces the amount of electricity that is consumed, and, when it is successfully developed and acquired by BPA, it correspondingly reduces the amount of physical power BPA needs to acquire. As such, conservation and physical generating resources are not on par.

Low-Income Weatherization – In the Implementation Proposal, BPA proposed allowing customers to be reimbursed for cost-effective low-income weatherization.

Comments – The Idaho Energy Authority (IDEA) commented that, while it has not supported BPA's past funding for low-income programs because these activities received support from other federal and state agencies, it could support this activity under the EEI construct. IDEA suggested that, if individual utilities deem it prudent to allocate their EEI dollars to these activities in their service areas, they should be allowed to do so (IDEA at 2).

The Idaho Conservation League also stated its support for allowing the use of EEI funds for low-income weatherization: "Currently, Idaho does not require any low-income weatherization funding and federal stimulus funds are now drying up. It is appropriate, now more than ever, for BPA customers to use EEI funds to pay for acquired conservation in this sector" (ICL at 2). As for needed clarification, Franklin PUD commented: "BPA should clarify whether all measures that are deemed cost effective in the PTR are deemed to be cost effective for CAP [Community Action Partnerships] low income weatherization" (Franklin at 6).

Response – BPA will allow customers to be reimbursed for cost-effective low-income weatherization. Regarding Franklin's need for clarification, all measures that are deemed cost-effective in the PTR (or its successor) are deemed to be cost-effective for CAP low-income weatherization.

Conservation Potential Assessments – In the Implementation Proposal, BPA put forth two options for what BPA's future role should be regarding conservation potential assessments (CPAs). Option 1 stated that BPA would not develop prescriptive CPA standards and methodologies nor require customers to perform CPAs. Option 2, on the other hand, stated that BPA would develop prescriptive standards and methodologies and require all customers to perform CPAs.

Comments – Many comments expressed opposition to BPA requiring the use of CPAs (Columbia River PUD, Springfield, Canby, Tacoma). The overwhelming response from customers was that BPA should adopt more of a hybrid approach in line with the original intent of Workgroup Three (Tacoma, Umatilla, NRU, Central Lincoln, WMG&T, Emerald PUD, Benton PUD, Snohomish PUD, PPC).

Western Montana Electric Generating& Transmission Cooperative (WMG&T) suggested a hybrid approach be adopted in which BPA establishes parameters and guidelines for performing CPAs but does not actually require or regulate their preparation (WMG&T at 2). WMG&T added that whatever guidelines and protocols BPA and its customers establish must recognize that one approach to CPAs will not fit all utilities (WMG&T at 2). On the hybrid approach, Emerald PUD suggested that BPA define and publish minimum standards that are regularly updated to promote consistency from one CPA to the next and increase the usefulness of CPA results as they are aggregated and scaled up for use by regional planning institutions like the Northwest Power and Conservation Council (Emerald at 4). Some customers, however, were concerned that collecting and aggregating CPA information may result in increased savings targets imposed by BPA on customers (Clearwater Power, Raft River, Fall River). In contrast, EWEB stated that regional consistency and aggregation is necessary as “CPAs are the path to the future for conservation funding allocation and program targeting” (EWEB at 3).

Regarding the costs associated with the hybrid approach and BPA’s proposal to have such costs considered as an infrastructure expense, Canby Utility commented that it does not want BPA’s approach to lead BPA to add staff or major costs to the rates paid by preference customers (Canby at 1). The Idaho Conservation League, on the other hand, “agrees that developing standards and methodologies should be considered an infrastructure expense” (ICL at 2).

Response – BPA will adopt the hybrid approach and work with customers to define standards for CPAs. These standards will aim for consistency among customer-conducted CPAs and consistency with state standards (e.g., Washington’s I-937) and the Northwest Power and Conservation Council’s methodology. BPA will also develop a template for reporting conservation potential results and will periodically review and refine the template to ensure its usefulness. BPA will help identify data collection protocols and prioritize collection of those data elements that significantly influence overall potential assessment. BPA will act as a repository for examples of best practices for conducting CPAs, data collection instruments (e.g., survey instruments, site visit guides, etc.) and methodological guidelines. BPA will *not* mandate that customers conduct CPAs; however, this does not exempt customers with loads greater than 25 aMW that do not purchase all of their power from BPA from providing a biennial conservation plan to BPA in accordance with the Regional Dialogue contracts (§18.1.2.2). The template described above will be used to provide information to BPA to meet the contract requirement.

BPA believes that aggregating CPA information at the regional level, consistency in data, and more granular detail would result in a better idea of regional conservation potential. Whether this would increase or decrease savings targets is unknown at this time. BPA is sensitive to and understands Canby’s concern about the costs of BPA’s CPA efforts and will strive to maximize existing resources and keep costs to a minimum.

Energy Efficiency at Federal Facilities – In the Implementation Proposal, BPA classified federal facilities as falling into one of three types: 1) facilities served by BPA just like any other customer utility; 2) facilities served by one of BPA's customer utilities; and 3) facilities that receive power directly from generation facilities, i.e., reserve and station power facilities. BPA proposed having a small set-aside, the Federal Acquisition Fund, out of EE's capital budget to fund projects at facilities of the third type.

Comments – Canby believes capital improvement for sister federal agencies directly served and/or funded by BPA should come from the respective agency's funding, not incentive funds. Canby commented that energy efficiency to avoid Tier 2 power costs at these government agencies already should be the top capital planning priority, without federal set-asides (Canby at 1-2).

Pertaining to BPA's proposal to work collaboratively with customers on federal projects of the second type, Tacoma Power appreciates BPA's commitment to work together to set specific guidelines and protocols for communication and project coordination and stands ready to work with BPA to develop detailed implementation protocols (Tacoma at 3). Seattle City Light commented that it would be advantageous if BPA retained the option of having the incentive payment made directly to the federal end-user by BPA with a corresponding reduction in the serving customer's EEI (Seattle at 2).

Regarding the third type of federal facility, Franklin believes funds BPA will set aside for these facilities "should be included in the EEI pool and distributed to Federal customers based on the same allocation for public customers" (Franklin at 11).

Response – In response to Canby's comments, sister federal agencies directly served by BPA (facilities of the first type) pay for conservation in their rates to BPA on a TOCA basis and, therefore, will receive an allocation of EEI funds based on their TOCA, as with all other direct-served customers. For sister federal agencies served by one of BPA's customer utilities (facilities of the second type), it will be up to the serving utility to decide how much, if any, of its EEI budget to allocate to federal end-users. As for sister agencies that have facilities of the third type (reserve/station power), such as hydro facilities within the U.S. Army Corps of Engineers, all customers benefit because acquiring savings at reserve/station power sites increases the amount of Tier 1 power available.

In response to Franklin's comment, Franklin misunderstands the relationship between these types of federal agencies and BPA. Federal reserve power facilities are not wholesale power customers of BPA purchasing power from BPA pursuant to section 5(b) of the Northwest Power Act and do not have a serving utility and are not even metered in many cases. Federal agencies that have reserve power draw upon their power needs before the federal power that is produced at federal projects gets marketed by BPA. Thus, it would be impossible to allocate EEI funds to those facilities in the same way as funds will be allocated to federal direct-serve facilities or customer utilities in general. BPA's interest in directly producing energy savings at these federal agencies' facilities is to increase the amount of Tier 1 power.

Pertaining to the suggestion that BPA should set aside a portion of a customer's EEI budget, if the customer so elects, to directly pay project incentives at federal facilities served by BPA customers, BPA will evaluate offering this option. BPA has previously discussed this possibility with customers and intends to pursue this "optional set-aside" approach if it is administratively viable.

Utility Transitional Projects Fund – BPA proposed holding aside funds out of the EE capital budget to pay for projects qualifying as "transitional."

Comments – In general, most comments were unsupportive of BPA's proposal. Some argued that the bar was set too high, i.e., the criteria were chosen retroactively in such a way to exclude too many projects that had already received commitments of funding (Umatilla, Franklin). Columbia River PUD commented that retroactively establishing project submittal dates to forestall a floodgate of project submittals is not the correct policy solution to ease budget problems (Columbia River PUD at 2). Others requested additional information from BPA on how the criteria were selected and on what the impacts would be on the EEI Fund if the criteria were changed or if a smoother transition for customers could be possible (PPC, Columbia REA, NRU).

In terms of specific suggestions, Inland Power, despite its opposition to having funds set aside from the EEI Fund to pay for qualifying large projects, offered: "We believe all CPP's [custom project proposals] that were pre-approved prior to October 1, 2010 with completion dates set in 2012-2013 rate period should be covered under the Transitional Projects Fund" (Inland at 2). Seattle City Light offered a different angle: "The proposed criteria, whereby an individual project must represent more than 20 percent of a utility's 2012-2013 EEI, results in projects of equal size being treated differently across different utilities. An alternative approach could supplement the proposal by adding a project criteria based on an absolute dollar value" (Seattle at 2).

Response – Based on the comments received, BPA recognizes more explanation is needed on how BPA defined the parameters of the Utility Transitional Projects Fund.

Background
Between December 17 and December 20, 2010, BPA sent, via e-mail, to its utility customers guidance on how the agency would transition from its current opportunity-focused funding model to its future, post-2011 equity-focused funding model. This guidance defined projects eligible for transition funding that BPA would fund using a set-aside out of the EEI Fund to be allocated to utilities for the fiscal year 2012-2013 rate period.

BPA's general approach to define projects eligible for transition funding was to examine BPA's existing obligations to fund custom projects under current Energy Conservation Agreements (ECA) and to identify a subset of custom projects that would cause an undue burden on the specific utility customer should it have to use its EEI funds to pay the project's incentives. As part of its examination, BPA reviewed over 300 current custom projects and found that for those projects that did not qualify, a utility's estimated EEI would cover the utility's custom project(s) and other conservation programs in its portfolio.

BPA defined transitional projects as those custom projects approved by BPA in advance of October 1, 2010 with expected completion prior to the end of fiscal year 2012 and having total BPA funding incentives exceeding 20 percent of the utility's estimated EEI budget for the 2012-2013 rate period.

BPA's Implementation Manual (updated on October 1, 2010) included the following language:

> Beginning October 1, 2011, Implementation Budgets in Exhibit A of the ECA will be based on the Tier One Cost Allocation for determination of the Energy Efficiency Incentive. Pursuant to Section (c) of the ECA, BPA shall not be liable for payment of any amount above the implementation budget. If the sum of the invoices for deemed or custom projects exceeds the implementation budget in Exhibit A, BPA shall not pay the excess.

Any cutoff date that BPA could have selected after October 1, 2010 would have been in conflict with the Implementation Manual language.

BPA selected the 20 percent funding threshold in response to utility input received from the Post-2011 Phase 2 Workgroup One, which requested that any transition funding mechanism be designed to minimize the impact on the EEI Fund. This sentiment of upholding equity was further expressed to BPA during the regional meetings the week of January 24 and the Phase 2 public comments in the context of the Large Project Fund. BPA will make available to utilities their entire rate period EEI budgets at the beginning of the rate period. Thus, utilities will have the flexibility and time to weigh priorities and options for project funding.

Additionally, through the allocation of EEI funds to each utility BPA is providing adequate funding to cover the incentive costs associated with those projects that did not qualify as transitional projects. Although the particular funding mechanism will be different post-2011 (EEI allocations as opposed to bilateral funding), BPA will, nonetheless, follow through on its funding commitments.

Magnitude of transitional projects and funding approach
BPA has actively worked with utilities to identify and consider custom projects that meet the eligibility requirements for transition funding. There are three projects from three separate utilities, which break down as shown below:

Project 1, Estimated Incentive ≈ \$100,000	≈ 169 percent of estimated EEI
Project 2, Estimated Incentive ≈ \$300,000	≈ 23 percent of estimated EEI
Project 3, Estimated Incentive ≈ \$10,000,000	≈ 88 percent of estimated EEI

With the goal of minimizing the impact of a transitional project fund on the EEI Fund, BPA has worked with those utilities with qualifying projects to use mechanisms other than an FY 2012 set-aside to pay for the incentives for the projects. Thus, the Utility Transitional Projects Fund, as proposed in the Implementation Proposal, will not be necessary.

Magnitude of a lower threshold or different date
Between projects submitted in the Planning, Tracking, and Reporting (PTR) system and projects documented by nonstandard utilities, there were over 300 distinct projects that made up the pool of possible projects using the October 1, 2010 criterion. The incentives for these projects exceed $21 million. Each day, additional projects expected to be completed in FY 2012 are identified consequently increasing this total incentive projection. Thus, lowering the 20 percent threshold or selecting a different cutoff date, would dramatically decrease the amount of EEI available for allocation to all customers.

Large Project Fund (LPF) – In the Implementation Proposal, BPA sought input from stakeholders on whether BPA should set aside funding out of EE's capital budget specifically for large projects. Option 1 suggested having no set-aside, whereas Option 2 proposed a set-aside and provided various criteria for accessing the fund.

Comments – Several parties commented that they did not see the need for a large project set-aside and/or viewed such a set-aside as a violation of the equity principle established in Phase 1. Regarding the equity component, Tacoma stated that BPA's proposed set-aside raises serious equity issues since most utilities will not have large qualifying projects. Such utilities would not have access to the LPF and, as a result, would inappropriately subsidize those few utilities that do (Tacoma at 1). Countering Tacoma's view, Cowlitz County PUD commented that given the lumpy nature of its project profile, equity can be seen in another light: "Through our rates we will pay a considerable amount of money to fund the EEI effort, but given the nature of our load, we will consistently be unable to recoup our fair share of this money" (Cowlitz at 1).

Central Lincoln PUD commented that a set-aside is unnecessary because there will be other options to fund large projects, such as pooling with other utilities in the same situation. Central Lincoln also commented that BPA could set up a loan fund through which those utilities that have a need for funding a large project could borrow against their future EEI funding (Central Lincoln at 2). Similarly, WMG&T offered additional options, such as the utility raising funds from its own borrowing, raising rates, or using retained earnings to support the necessary spending (WMG&T at 5). PPC commented that maintaining the equity of the Phase 1 principles and avoiding other inadvertent equity issues while also providing certainty for large projects appears available via other avenues (PPC at 2).

On the other hand, several parties see a need for an LPF and made suggestions to improve the fund. Regarding the fund's necessity, Industrial Customers of Northwest Utilities (ICNU) urged BPA to substantially modify its proposal because "the current allocation of conservation funds among the utilities and the restrictions on access to such funds will likely prevent BPA from meeting its conservation obligation under the Northwest Power and Conservation Council's 6th Power Plan, generally, and, in particular, with regard to industrial conservation" (ICNU at 2). North Pacific Paper Corporation (NORPAC) stressed the importance of funding certainty (as exists under the existing bilateral funding model) and stated that the option for the LPF was not viable because the "amount of funding is not sufficient" and there "is no flexibility to provide consistent, guaranteed funding from rate period to rate period" (NORPAC at 1). Umatilla argued for modifying the fund's eligibility criteria because it believes "the provisions for accessing these large project funds would set the bar too high for most utility projects to meet" (Umatilla at 2).

Aside from whether there should or should not be an LPF, comments also suggested other means to help the region acquire savings from large projects. Cowlitz stated that it is very important that BPA include a mechanism for providing progress payments to larger projects and suggested that projects with a BPA reimbursement amount equal to or greater than 10 percent of a customer's EEI budget should be eligible for progress payments (Cowlitz at 3). ICNU also recommended lowering the eligibility criteria for progress payments and advocated (along with ConAgra Foods) for allowing an industry to aggregate projects within a utility (ICNU at 5-6; ConAgra at 3). Regarding the prospect of creating a revolving fund, NRU suggested that a customer should also be able to "bank" its unused EEI and be able to use it in a future rate period, which can be thought of as "prepaying" the loan (NRU at 4). PNGC stated that very large projects (on the order of 10 to 20 aMW) may necessitate individual contracts that address the longer timing and funding needs and these projects may be candidates for third party financing or a reasonable amount of a host utility's self-funding (PNGC at 3).

Lastly, both Pend Oreille County PUD and Franklin warned of possible negative repercussions of BPA's proposal. Pend Oreille made clear that BPA putting out a plan that is indifferent to large opportunities would send a negative message to industrial customers (Pend Oreille at 1). More specific to the industrial sector, Franklin stated that there is a disconnection between the program design of Energy Smart Industrial and the EEI funding design: "The incongruity of the proposal with the expectations induced by the Energy Smart Industrial program will likely create a credibility issue with the regional industrial sector" (Franklin at 13).

Response – BPA is fully committed to working with customers to achieve not only the industrial sector savings targets but the targets for all sectors. Offering two options in the Implementation Proposal was a signal that BPA is concerned about large project opportunities. BPA understands and appreciates the inherent conflict between upholding the Phase 1 equity principle *and* acquiring savings from relatively large projects that require a significant portion (or all) of a customer's EEI budget. Workgroup One recommended having no set-aside for the LPF, albeit in the absence of considerable deliberation, but BPA considered it necessary to at least offer the option for a set-aside. After BPA's Phase 2 Implementation Proposal was made public and the comment period closed, BPA followed up with a public meeting to specifically discuss the LPF.

BPA wants to make available a "safety net" for those projects that may not be captured via those other means suggested by Central Lincoln, et al. To this end, BPA will move forward with a revised proposal (different from that in Implementation Proposal) for large project funding that BPA sent out to interested parties on Friday, February 18. In short, BPA will make available funding (up to $10 million per rate period) for large projects without reducing the overall amount of EEI funds available to customers. While there may be other options, such as self-funding, utility pooling, bilateral transfers, or borrowing external funds, BPA believes that its approach provides reasonable assurance that there will be a "safety net" for large project funding.

Budget equity will be maintained over time via reductions in a participating customer's future EEI budget(s). Since BPA will not reduce customer EEI budgets to create a fixed LPF, BPA will have first priority to funds released into the Unassigned Account. *This priority, however, will only occur if and when BPA provides funding to eligible large projects*. For example, if, at the scheduled six-month allocation of funds in the Unassigned Account, BPA has not allocated LPF funds to a project expected to be completed in that rate period, BPA will not have priority. On the other hand, if, at the scheduled 18-month allocation, BPA has allocated LPF funds to a project expected to be completed in that rate period, BPA will have priority to available funds in the Unassigned Account. Such funds from the Unassigned Account would be used to reduce the risk that BPA will exceed its EE budgets due to a payout from the LPF. Language pertaining to the specifics of the LPF is available in the Implementation Program and will be included in the updated Implementation Manual of April 1, 2011.

Due to the significant interest BPA received in using progress payments as a tool to help end-users acquire large project savings, BPA reviewed its progress payment policy and will update the Implementation Manual on April 1. These updates include a minimum project timeline of 12 months, a BPA progress payment of at least $100,000, and an estimated overall incentive payment of at least $250,000. This is a change from today's thresholds of 24 months and $500,000 for the overall incentive amount (the minimum progress payment of $100,000 will remain).

In response to the suggestion that BPA allow a utility to aggregate multiple projects into one LPF-eligible project, BPA's existing rules regarding how a project is defined will remain unchanged. Managing a project consisting of several other subprojects poses multiple oversight and budgeting complications. Furthermore, the LPF is geared toward projects that represent a significant portion of a customer's EEI budget. Other projects should be able to be captured as a result of the other multitude of funding vehicles mentioned in the comments above, such as utility pooling, bilateral transfers, borrowing external funds, etc.

As for the notion that customers should be allowed to "bank" unused EEI funds to a future rate period, BPA is unable to support the carryover of EEI funds for the reasons provided in the section above on EEI carryover.

EEI Budget Letter – BPA proposed to send each customer an EEI Budget Letter and have each customer return it signed indicating the amount of the customer's EEI allocation it would like to claim.

Comments – Benton PUD commented that BPA's proposal would be administratively wasteful. Benton stated that because utilities are planning on pursuing conservation there is no need for the utility to submit a letter to BPA confirming the request for its EEI budget. Benton PUD recommends that if a utility elects not to accept its budget or a portion thereof, then the letter should be submitted to BPA (Benton PUD at 2). Fall River commented that BPA should look at alternatives other than to zero out a customer's budget on October 1 if the customer does not return the EEI Budget Letter by September 15 (Fall River 2).

Response – BPA maintains that there is value in each customer actively committing to utilizing all, none, or a portion of its EEI allocation. BPA thought it prudent (and accepted the recommendation of Workgroup One) to have each customer actively acknowledge its commitment to acquire conservation via EEI funds rather than just passively accept the funds. After further internal deliberation, however, BPA has decided not to require that customers return the EEI Budget Letter to BPA. Instead, BPA will notify each customer of its EEI allocation via an EEI Budget Letter and the customer can choose to "opt-in" or "opt-out" of its allocation. By not returning the letter a customer is presumed to opt-in, resulting in the customer's explicit commitment to use the funds. To opt-out, the customer must return the letter to BPA indicating the amount (or none) of its allocation it commits to using. Any difference between the allocated and accepted amounts would be transferred to the Unassigned Account. Thus, under this change, there will be no zeroing out of Energy Conservation Agreement budgets, as was proposed in the Implementation Proposal.

Performance Payments – In the Implementation Proposal, BPA proposed placing a cap on the amount of performance payments a customer could claim and that the cap would be dependent upon the customer's TOCA.

Comments – Comments indicate a clear preference for BPA to adopt Workgroup Two's recommendation that performance payments be based on whether a customer is "small, rural, or residential" (SRR) rather than BPA's TOCA-based approach. In short, the comments stated that the TOCA-based approach does not account for the difficulties and higher costs borne by rural and residential customers in acquiring conservation. For example, Raft River stated:

> While 20 aMW might describe a small utility, it does not necessarily include the very rural utilities. Raft's density is just over two customers per mile of line and we provide service to 6,000 sq. miles in Idaho, Utah, and Nevada. A single site visit to evaluate or verify efficiency improvements could take 12 hours and 400 miles of travel. Very rural utilities depend on additional administrative assistance to help make our efficiency programs successful (Raft River at 1).

Inland Power commented that to define a utility's needs and challenges based solely upon its TOCA seems counterintuitive and falls well short of the workgroup's recommendation (Inland at 2).

In the Implementation Proposal, BPA justified its TOCA-based approach, in part, as a result of Energy Efficiency's planning assumption that, in order for public power to achieve its savings target, no more than 20 percent of the EEI Fund should be paid out as performance payments. In response, WMG&T commented that "Bonneville appears to be stuck on a 20 percent cap for performance payments as a proportion of total EEI payments. This somehow magical number appears to have no basis other than as an arbitrary standard the agency wishes to apply" (WMG&T at 3). Additionally, PPC wrote that BPA should not be overly conservative in terms of surpassing the 20 percent planning threshold (PPC at 4). NRU suggested that BPA

> be less conservative and more realistic in its assumptions regarding how much performance payment will actually be claimed by utilities. It is reasonable for BPA to assume that not all utilities will claim their entire performance payment cap, particularly the larger utilities with robust conservation programs, existing staffs and strong motivation to acquire all cost-effective conservation, such as Initiative 937 in Washington and tiered rates…In addition, BPA and customers recognize that the first rate period (FY 2012-13) is meant to be a transition and the EE program will be evaluated and adjusted as needed. Therefore, if, contrary to our expectations, all utilities claim their entire performance payment, then BPA can modify the performance payment caps for the next rate period. However, it is unreasonable to modify them now without evidence that utilities will indeed fully access their performance payment (NRU at 2).

Regarding the criteria for classifying customers, customers generally disagreed with BPA's rationale for using the TOCA, which BPA argued was more reliable than, for example, U.S. Energy Information Administration (EIA) data to define a utility as "residential." NRU, however, made clear, "If BPA is not comfortable with the vintage of the EIA data used to calculate 'residential,' then the customers that are interested in being classified as 'residential' should be responsible for submitting their most recent annual report data to BPA upon request" (NRU at 2).

Response – In light of the customer feedback received during regional public meetings held the week of January 24 and the overwhelming support for the SRR-approach in the public comments, BPA has decided to adopt Workgroup Two's SRR approach. Therefore, customers will be classified as SRR or non-SRR. "Small" will be based on the size of a customer's TOCA, "rural" will be based on whether a customer qualifies for BPA's low density discount, and "residential" will be based on EIA data. If EIA data is not available or not sufficiently up-to-date to make an accurate assessment, BPA reserves the right to request a customer's most recent annual report as annual reports typically stipulate a customer's percentage of residential load.

BPA will also heed the advice of customer input not to be overly conservative about more than 20 percent of the EEI Fund being claimed as performance payment. SRR customers will be eligible to claim up to 30 percent of their EEI budgets as performance payment, whereas non-SRR customers will be eligible to claim up to 20 percent. The rate (cents per kilowatt-hour) at which SRR customers claim performance payment will be higher than non-SRR customers so that SRR customers are actually able to claim the full 30 percent by the end of the rate period, if they choose to do so. All performance payments will come out of a customer's EEI budget and are capped so different rates do not translate into an unfair benefit for SRR customers over non-SRR customers.

BPA will review the impact of these decisions on public power's ability to reach its savings target during the program review prior to the FY 2014-2015 rate period and will adjust or make changes as necessary to ensure the necessary and sufficient balance between incentive dollars and performance payment dollars. As mentioned, in the past, BPA has used a planning assumption for budgetary purposes that no more than 20 percent of incentive funds will go toward performance payments. If this threshold is exceeded, BPA will evaluate whether thresholds should be revised or if more budget should be devoted to performance payment.

Flexibility Mechanisms: Utility Pools and Bilateral Transfers – In an attempt to provide customers with as much flexibility as possible in terms of being able to maximize their EEI allocations, BPA included in the Implementation Proposal different types of Utility Energy Efficiency Pools (UEEPs) and the ability to bilaterally transfer EEI funds.

Comments – WMG&T commented that the approach to UEEPs "needs considerable additional development and clarification" and the "overly broad and unclear language needs significant work before it is likely any UEEP would be formed or can be expected to operate" (WMG&T at 4). Additionally, Fall River "would like to see BPA's description of how the Implementation-Only Pool will function in the post-2011 period" (Fall River at 2).

Columbia REA, as well as NRU, noted that it is "important that pooling and bilateral transfers are not administratively or legally burdensome; otherwise, this will discourage pooling and bilateral transfers" (Columbia REA at 2, NRU at 4). Franklin PUD expressed its skepticism of available flexibility mechanisms because it believes utilities will not freely give up funds without a return of the benefits, the contractual process would be too lengthy, and the mechanisms would not likely result in utilities being able to provide industrial customers with the assurance they need of funding in future years (Franklin at 15).

Response – BPA agrees that the flexibility mechanisms should not be administratively burdensome to customers and BPA. BPA, with input from the workgroups, has designed its implementation program to be flexible, within certain limits. It is important that newly created entities or customers managing funds for other customers be authorized and qualified to legally enter into the arrangements that are required for them to perform. Before BPA will sign an Energy Conservation Agreement (ECA) with a newly created entity, BPA must receive requisite documentation attesting to the entity's legal authority to represent and be liable for the pool participants. Similarly, if a customer with an existing ECA chooses to act as a representative of other members, BPA must be confident that the customer is legally able to do so. The reason for this is to assure BPA that the entity is legally authorized to contract with BPA and, should any legal issues or disputes arise, has the ability to sue and be sued. These two types of pools involve pool participants transferring EEI funds to another party. In the case of the Implementation-Only pool, each pool participant does not transfer EEI funds, but elects to have a pool manager perform administrative duties on its behalf (e.g., the pool manager enters measures into the PTR or its successor, but reimbursements are still made directly to the customer).

Franklin raises valid concerns that BPA has heard voiced by other customers. Workgroup One developed these mechanisms and BPA agrees with the workgroup that they are good attempts to bring flexibility to the system. These mechanisms, although not without costs and potential burden, go a long way toward providing customers with the opportunity to work together to acquire the needed conservation without BPA playing its prior role of moving funds to where it deemed the most effective.

Lighting under the Nonstandard Path – BPA proposed a post-2011 change that nonresidential lighting projects would be considered as deemed and, therefore, could not be run as custom projects under either the standard (Option 1) or nonstandard (Option 2) path.

Comments – Three customers that already use the nonstandard path for custom lighting projects commented against such a change (Tacoma, Snohomish, Seattle). Tacoma opposes the proposal because "re-entering the data in BPA's calculator requires redundant detailed data entry that would add significant costs with no commensurate benefits" (Tacoma at 3). These same customers, however, made clear their understanding of BPA's need to have a better and more detailed understanding of nonresidential lighting savings at the measure level and encouraged BPA to work with nonstandard customers to find a position that satisfies both customers and BPA (Tacoma, Snohomish, Seattle).

Response – BPA appreciates the concern expressed in these comments that requiring customers pursuing the nonstandard path to use BPA's standard lighting calculators would require duplicative administrative efforts and costs on behalf of Option 2 customers. BPA's reason for including this in the Implementation Proposal was intended to assist BPA in gaining more detailed information at the measure level. Currently, BPA has no direct ability to obtain such information from the nonstandard path customers for purposes of verifying and evaluating savings. Moving forward, BPA will exercise its right to review and approve calculation methodologies and/or calculator tools used to calculate savings in nonresidential lighting programs administered under Option 2. Option 2 customers will not, contrary to the Implementation Proposal, have to adopt BPA standard lighting calculators, although they may choose to use this tool. They will, however, need to provide BPA measure-level data on individual projects, upon request by BPA. This data will include, for example, baseline lighting condition, installed efficient lighting condition, hours of operation, building type, project cost, etc.

Additional Small, Rural, Residential (SRR) Assistance – In addition to allowing SRR customers the ability to claim up to 30 percent of their EEI budgets as performance payment, BPA also expressed its interest in offering additional support to SRR customers given the unique conservation hurdles they face.

Comments – Columbia REA supports BPA's proposal to pursue more deemed and easily implementable measures (Columbia REA at 1). Wells Rural Electric commented that it supports efforts to simplify program management with more deemed measures and reasonable efforts to reduce site visits, including the acceptance of photographs of installations, especially for smaller, routine projects (Wells Rural at 1). NRU supports the use of photographic documentation of certain measures as well as BPA offering more turnkey programs (NRU at 2). PNGC also supports the development of turnkey programs for SRR customers and encouraged BPA to "follow through with its Phase 1 commitment for these programs" (PNGC at 4).

The Idaho Conservation League, on the other hand, commented that the Proposal is too vague since, as the region shifts away from low hanging conservation to more detailed, complex, or innovative options, BPA must redouble its efforts to assist small, rural, and residential customers. ICL added that, because administrative payments will be tied to kilowatt-hour savings, BPA must provide even more assistance to SRR utilities to ensure they have a fair shot at accessing EEI funds (ICL at 3).

Franklin expressed skepticism, commenting that it believes some efforts by BPA to streamline actually impede achieving the most cost-effective conservation, such as the most current changes BPA made in the lighting calculator, which Franklin described as a hurdle instead of a tool for lighting trade allies (Franklin at 22).

Response – At this juncture, BPA is unable to be as specific about additional SRR assistance as many of the comments requested. Many commitments to specific changes first require adequate internal analysis as well as an assessment of the agency's business rules and how such changes may or may not violate established rules. For example, the suggestion by some that photographic evidence be allowed raises issues over the potential for fraudulent claims since the agency may be unable to verify that a photo was taken of what someone purports is the utility's measure. BPA intends to work collaboratively with customers, as it has recently done on the grocery and PTCS programs, to identify SRR opportunities and determine which of the many opportunities are most worth pursuing. Furthermore, BPA commits to working with the Regional Technical Forum to get more deemed measures approved that are of interest to SRR customers.

Regarding Franklin's comment on the lighting calculator, the new lighting calculator was designed to support utilities administering lighting programs by ensuring accurate entry of information and calculation of incentives that conform to program requirements. While the transition to the new tool is ongoing, an enhanced ability to handle control technologies and hard-coded confirmation of eligible measure baselines supports utility interest in high-reimbursement rates consistent with good stewardship of acquisition dollars.

Mandatory Pass-Through – IDEA commented that fixed incentive mandate policies (such as the Energy Smart Industrial Program) also need to be re-evaluated. IDEA stated that, while the increased incentives for this program have been successful in engaging customers that were previously hard to reach, it also creates potential problems associated with much larger incentives that can quickly deplete a utility's EEI budget (IDEA at 2).

Response – Fixed incentive mandate policies have been re-evaluated and changes will be made to the Implementation Manual with the April 1 update.

Review of Phase 1 and Phase 2 – Springfield Utility Board (SUB) requested that BPA affirmatively state that Phase II will also be reviewed in conjunction with any review of Phase I. SUB also suggested that BPA indicate that the review(s) will include regional input (SUB at 1). Regarding an issue that was decided on in Phase 1, Franklin PUD and EWEB both expressed an interest in having BPA review the use of the TOCA as an allocator of energy efficiency funding (Franklin at 10, EWEB at 2).

Response – BPA affirmatively states that Phase 2 will also be reviewed in conjunction with the review of Phase 1 that will take place prior to the FY 2014-2015 rate period. This comprehensive review will include regional input and collaboration with stakeholders. BPA intends that the review will cover an assessment of the TOCA. Further comment on the issue is out of the scope of this Phase 2 document.