

**Energy Efficiency
Bonneville Power Administration**

Final Post-2006 Conservation Program Structure

This document describes BPA's final Post-2006 Conservation Program structure. A companion document, "Response to Key Issues Raised in Public Comment Process," summarizes the key issues raised in the 56 public comment letters and e-mails BPA received regarding BPA's Post-2006 Conservation Program Proposal. The companion document also summarizes BPA's final decisions on these key issues that are incorporated into this final program structure. This document is organized as follows.

Section I: Introduction. The program purpose and BPA's strategic direction are described in this section. The five-year (FYs 05 – 09) aMW targets are identified. The five program principles that were included in BPA's Final Record of Decision on the short-term Regional Dialogue Policy are described along with seven key policy directives that help frame the post-2006 conservation programs. Finally, the timeframe anticipated for implementation of these final programs is explained.

Section II: Program Portfolio and Structure. This section includes a description of the portfolio of programs followed by a more detailed description of program design features for each of the four portfolio components: a rate credit; utility and federal agency customer bilateral contracts; third-party contracts; and regional infrastructure support. Features that are consistent across all programs are identified up front. Oversight requirements and tracking and reporting activities are described in Appendix 1 and the small utility option for the rate credit program is described in Appendix 2.

Appendices:

1. Sample of BPA Reporting, Oversight, and Evaluation Requirements.
2. Small Utility Option under the Conservation Rate Credit

I. Introduction

Purpose

The purpose of this document is to describe the portfolio of programs that BPA will offer during the 2007 through 2009 timeframe and through 2011 (pending the outcome of post-2009 rate case decisions and/or future long-term power sales contract requirements). BPA anticipates that this portfolio will: (1) facilitate BPA's ability to achieve its share of the regional conservation targets as defined by the Northwest Power and Conservation Council's (Council) Fifth Power Plan; (2) enable BPA to achieve its strategic objective described below; and (3) provide consistency with BPA's Regional Dialogue policy decisions. In addition, the seven BPA policy directives described below provided supplemental guidance to the portfolio design.

Strategic Direction

Strategic Objective 3: BPA ensures development of all cost-effective energy efficiency in the loads BPA serves, facilitates development of regional renewable resources, and adopts cost-effective non-construction alternatives to transmission expansion.

Explanation of S3: BPA will continue to treat energy efficiency as a resource and define our goals in terms of megawatts of energy efficiency acquired. Even if we adopt tiered rates, we are very likely to continue to need limited amounts of new resources. We expect conservation to continue to be a cost-effective resource to meet this limited need, with first priority by law. Accordingly, our goal is to continue to ensure that the cost-effective conservation in the load we serve gets developed, since this amount is very unlikely to exceed our total need. We will ensure this amount is developed with the smallest possible BPA outlay. We will do this through a combination of acquisition of conservation, adoption of policies and rates that support others' development or acquisition of cost-effective conservation, and support of market transformation that results in more efficient electric energy use.

Program Principles

The following five conservation principles were included in BPA's Final Record of Decision on the short-term Regional Dialogue Policy (dated February 2005). They provide the framework for future conservation program design purposes.

- **Conservation Targets from Council's Plan:** BPA will use the Council's plan to identify the regional cost-effective conservation targets upon which the agency's share (approximately 40 percent¹) of cost-effective conservation is based.
- **Conservation Achieved at the Local Level:** The bulk of the conservation to be achieved is best pursued and achieved at the local level. There are some initiatives that are best served by regional approaches (for example, market transformation through the Northwest Energy Efficiency Alliance). However, the knowledge local utilities have of their consumers and their needs reinforces many of the successful energy efficiency programs being delivered today.
- **Achieve Conservation at Lowest Cost Possible to BPA:** BPA will seek to meet its conservation goals at the lowest possible cost to BPA. While only cost-effective measures and programs are a given, the region can benefit by working together to jointly drive down the cost of acquiring those resources.
- **Administrative Support:** BPA will continue to provide an appropriate level of funding for local administrative support to plan and implement conservation programs.
- **Funding for Education, Outreach and Low-Income Weatherization:** BPA will continue to provide an appropriate level of funding for education, outreach, and low-income weatherization such that these important initiatives complement a complete and effective conservation portfolio.

¹ Based on the FY03 White Book information.

In addition to the five approved principles listed above, BPA's Post-2006 Conservation Program Structure is guided by the following key policy directives:

- **Benefits Must Flow to BPA:** BPA must realize directly the benefit of the savings achieved from the conservation acquisition programs it funds. (Note: the decrement will only be required in conjunction with slice/block customers' bilateral acquisition agreements and in some third-party contractor programs, as appropriate and with utility agreement.)
- **Cost-Effective Measures:** BPA will only pay for cost-effective measures as defined in the Council's Power Plan.
- **Accountability:** BPA needs to be sure it is getting what it pays for -- incremental, reliable and verifiable conservation savings. Measurement and verification will be included in all program mechanisms. This will include managing performance risks upfront such that BPA will avoid any need to "backstop" underachievement.
- **Tracking Progress:** BPA will monitor and report, on a regular basis, how our utilities and other parties are spending the conservation funds it provides across all components of the conservation portfolio.
- **Flexibility:** BPA will retain flexibility to shift budgets and targets across all program elements of the conservation portfolio and across program years to ensure the Council's target is met at the lowest cost possible.
- **Leveraging and Coordination:** BPA will coordinate and synchronize its efforts with those of others as part of an effective and efficient regional effort to achieve cost-effective conservation.
- **Local Control:** BPA will foster local utility initiative and control of conservation efforts to the maximum extent it can, consistent with meeting cost and verification goals.

Timeframe

It is anticipated that this program structure will be implemented for BPA's FYs 2007 to 2011 period. However, new power sales contracts and/or post-2009 rate case decisions may require that elements of this program structure be adjusted. This program approach will be ready for implementation on or before October 1, 2006. BPA will allow customers that have used all their C&RD credits and have filed a final closeout report to spend their funds under the new rate credit starting in calendar year 2006 (targeted for January 1, 2006) and to claim spending on approved, cost-effective measures when the new rate credit kicks in (October 1, 2006). This approach will require customers to indicate their willingness to participate in the new rate credit program (should it be approved in the rate process) and follow the implementation rules as defined by BPA. Only qualified ECMs implemented after the customers have satisfied their C&RD obligations and indicated to BPA that they want to begin the new program will be allowed. (Note: *There is a risk to utilities if they begin before the new rates are finalized. This is similar to the risk some utilities assumed when they started their rate credit conservation activities early in 2001 before the start of the current rate period.*) BPA will include a

mechanism or procedure for customers to discontinue participation in the rate credit. However, should they choose to discontinue participation, they will have to pay the full PF or appropriate power rate, including the 0.5 mill adder, for the remaining portion of the rate period.

BPA will offer new bilateral contracts for execution by customers in the fall of 2005 (targeting October 1, 2005). Customers may choose to close out current ConAug contracts and transition to new bilateral conservation acquisition agreements. Customers can begin implementing projects and receiving reimbursement from BPA under the new contracts (with modified terms and incentive levels) once the new contracts have been executed. However, commercial and industrial projects already purchased or approved under ConAug will be subject to the current ConAug incentive levels and contract terms. Payment for projects under the new bilateral contracts can only occur after the execution date for the new agreement. BPA believes this approach will allow BPA to maximize the use of existing rate period conservation budgets to facilitate achieving the higher targets presented in the Council's Fifth Power Plan.

Commitment to Achieving the Target: BPA believes it is important to maintain a steady level of support for conservation over time and will continue to provide a strong energy efficiency program with a firm commitment to achieving its share of the Council's conservation target. This commitment has been demonstrated in the current rate period. BPA more than quadrupled its budget for installing energy conservation measures and capturing conservation savings from about \$15M in 2001 to over \$70M in 2002. Since that substantial increase in funding for conservation, BPA has maintained a high level of support for delivering conservation savings each year. In the 2007-09 rate period, BPA proposes to continue this support and increase the funding level from about \$70M/year, on average, to \$80M/year, on average.

II. Program Portfolio and Structure

Program Design Features

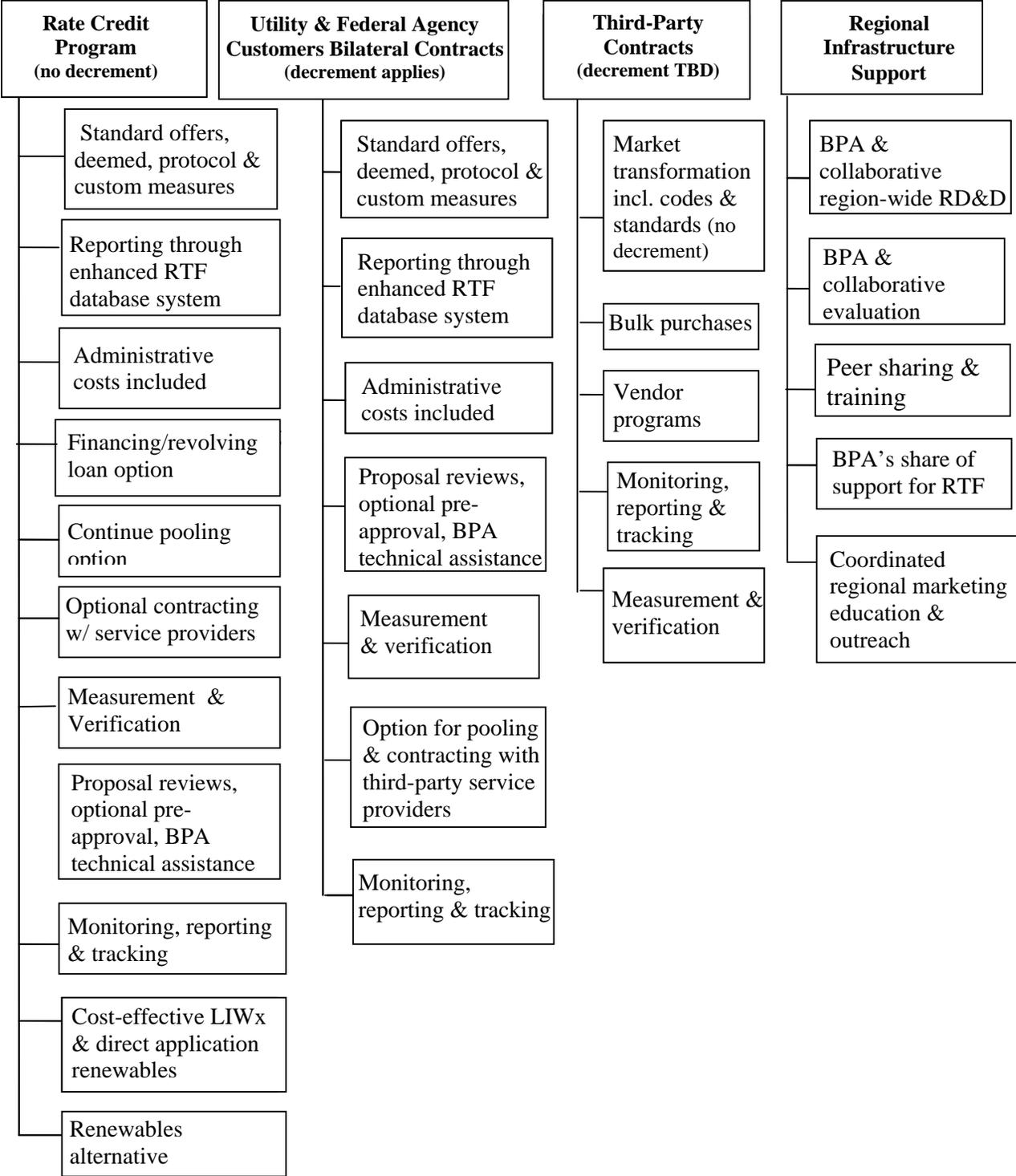
BPA's Post-2006 Conservation Program is a portfolio of programs and supporting activities designed to achieve BPA's share of the regional cost-effective conservation target (as identified by the Council's Fifth Power Plan). The portfolio includes: (1) a rate credit program; (2) utility and federal agency customer acquisition program; (3) third-party acquisition initiatives; and (4) support for regional infrastructure necessary to effectively carry out the other portfolio elements. Options are provided under the rate credit program for small utilities. In addition, under the rate credit program, a renewables alternative is provided.

The program portfolio is shown in the following chart and explained in further detail in the remainder of this document.

Post 2006 Conservation Program aMW Targets

Based upon the Council's Fifth Power Plan, there is a regional conservation target over the 2005-2009 period of about 700 aMW. BPA's responsibility to achieve its share of this regional target is based on the amount of regional firm load that BPA supplies with federal power. BPA estimates that it is responsible for about 40 percent of the 700 aMW or 280 aMW. While this amount equates to an annual target of 56 aMW, BPA will adjust the amount of its target to take

BPA's Final Post-2006 Conservation Program Structure



into account the estimated amount of “naturally occurring” conservation (about 7 percent or 4 aMW/year). This results in an average annual conservation target of 52 aMW/year for a total of 260 aMW over the 2005-2009 period. BPA will increase its near-term conservation targets for the 2005-09 period, rather than the originally proposed 2007-11 period. This change reflects an adjustment and commitment by BPA to align the new conservation targets with the same five-year planning horizon in the Council’s Fifth Power Plan. BPA expects to meet its 2002-06 target (220 aMW averaging 44 aMW/year) by the end of FY 2006. To meet the 52 aMW/year target in 2005 and 2006 (i.e., an additional 8 aMW/year from the Council’s new target), BPA will seek to acquire an additional 16 aMW in 2006.

BPA will conduct an evaluation to estimate the accuracy of this assumption about naturally occurring conservation and whether the assumption should be modified going forward. BPA’s commitment is to ensure development of the five-year target, recognizing that there will be variations in the pace of the delivered savings on an annual basis.

As indicated in the March 28 proposal, BPA will count all conservation savings achieved with its funds toward the new target. For example, BPA will count 50 percent of NEEA’s conservation acquisition towards BPA’s targets since BPA provides 50 percent of NEEA’s funding. BPA will also count the conservation savings that result from IOU rate credit expenditures.

Eligibility

All BPA customers (including the IOUs), with the exception of the aluminum-related DSIs, will be eligible to participate in the rate credit program. All BPA preference and federal agency customers will be eligible to participate under the bilateral contract program.

Incremental Requirements

BPA’s conservation funding must be used by our customers for energy efficiency savings and related activities beyond what they are required by state law and/or regulatory requirements to accomplish. A public utility board of directors decision to pursue a particular conservation program, for example, would not, in itself, make that funding non-incremental.

Decrement

BPA believes, as stated in the original proposal, that decrementing is necessary to minimize cross-utility subsidies and to ensure that the benefits from conservation flow to BPA and its customers. BPA will continue its current practice of not decrementing the slice/block or participating IOU customers under the rate credit program, but will continue requiring a load decrement for these customer groups in conjunction with the bilateral contracts program. The decrement will not apply to the NEEA contract. Whether or not the decrement applies to other third-party contracts involving slice/block customers will be determined on a case-by-case basis. Customers will be asked if they want to participate in any third-party program in their service area. Customers will be informed if a decrement applies to the program at the time they are asked.

This approach continues the policy we currently apply and ensures that BPA realizes a load reduction from the conservation BPA pays for and that BPA and its customers see the full benefit from the conservation acquisitions. For the rate credit program, this approach, while not resulting in a BPA load reduction, reduces a barrier to utility participation in BPA’s conservation

programs and is consistent with the Conservation Workgroup's recommendations. However, BPA does not believe this approach is consistent with how conservation should be acquired, so the decision to not decrement the rate credit program for the 2007-09 rate period is not meant to set any precedent for future conservation program activities post 2009.

BPA considers this strategy, along with the change to pay only for cost-effective measures, a positive step toward BPA's goal of achieving cost-effective conservation at the lowest possible cost.

Renewables Alternative

Under the rate credit program, eligible customers can choose to use their credits for qualified renewable resource related activities. BPA will require a three-month advance notice prior to each year of the rate period (2007-09) with a \$6M/year cap that will be pro rated if customers over subscribe. Small utilities (7.5 aMW and under) and BPA's federal agency power customers will be exempt from this *pro rata* requirement. This is intended to provide sufficient advance notice to BPA regarding the amount of rate credit and thus aMW that will be achieved with the rate credit funds, and provides additional flexibility for customers that manage their rate credit on an annual basis. A list of eligible renewable measures will be distributed for public review and comment prior to the start of the new rate credit program.

Budget

BPA's annual budget (capital and expense) for acquiring the target of 52 aMW/year is \$80 million (see Table 1). BPA has an additional \$6 million per year from BPA's Generating Renewable Program Fund for renewables. For the 2007 – 2009 rate period, the rate credit will be \$0.0005/kWh (1/2 mill) on utility-purchased power from BPA and the equivalent treatment for IOU residential benefit payments. This equates to roughly \$42 million (including

Table 1: Program Annual aMW Targets and Budgets

<u>Program</u>	<u>aMW</u>	<u>Budget</u>	<u>Cost/aMW</u>
Rate Credit (at 0.5 mills = \$42M*/year with IOUs and Pre-Subers included)**	20	\$36M	\$1.8M
Utility & Fed. Agency Bilateral Contracts**	17	\$26M	\$1.5M
Third- Party Contracts	5	\$7M	\$1.4M
Market Transformation (via NEEA)	10	<u>\$10M</u>	\$1.0M
Infrastructure Support and Evaluation	---	<u>\$ 1M</u>	---
Total	52	\$80M	\$1.5M

* Assumes \$6M/year of the \$42 M/year from a separate renewable budget will be spent on renewables.

** Includes a 15 percent administration allowance.

participation by pre-subscription contract holders and IOUs). BPA anticipates that \$6 million per year will be spent on renewable resource related initiatives. As shown in Table1, BPA will pay a weighted average of \$1.5 M/aMW (which includes a 15 percent administration allowance for the rate credit and bilateral contracts programs) across the entire portfolio of programs.

Features Consistent For All Programs

There are several features that will be consistent across all of the conservation programs:

- BPA will pay only for qualified cost-effective measures from the RTF list as defined by the Council's Fifth Power Plan, as well as for approved calculated and custom program designs, and for additional deemed measures that are approved throughout the rate period.
- The list of qualified, cost-effective measures, deemed kWh savings and payment rate per measure will generally be consistent across programs. However, BPA retains the flexibility to negotiate custom agreements.
- BPA's willingness to pay may vary by sector and measure, and will reflect the actual cost to acquire resources in each sector. It may also reflect program implementation realities.
- BPA's will consider measure life in our determination of willingness to pay levels for specific measures.
- BPA will strive to simplify implementation by using averages that take advantage of measure similarity.
- Packaging of measures will be allowed, but BPA will only pay an amount equivalent to payment for the cost-effective measures in the package.
- BPA will attempt to minimize the frequency of adjustments to willingness to pay adjustments. For example, BPA may adjust payments with six months notice, if necessary, to compensate, for changes in codes, market prices, technology penetration or, if needed, to stay on pace with targets. Adjustments will apply to measures installed after the date the adjustment notice is effective. No retroactive adjustments will be applied.
- Utilities may request the RTF review the eligibility of new measures or measures previously deemed to not be regionally cost effective. If the RTF recommends the requested measures as cost-effective, BPA will review the RTF's recommendations to determine whether or not BPA will pay an incentive for the measure.
- Semi-annual reporting will be required.
- BPA retains the flexibility to shift funds between programs and program elements, and across fiscal years as needed to ensure the conservation targets are achieved at the lowest cost possible.
- Oversight and verification will be similar to the current requirements under the ConAug program. Participating utilities will be required to support evaluations (see Appendix 1).
- Information on individual utility expenditures and achievements resulting from BPA funding will be made available to the public, as appropriate.

Rate Credit Program

Overview

A rate credit will be established to facilitate local development of conservation. The aMW purchased with rate credit money will be counted towards BPA's aMW target. Load forecasts will not be reduced and no decrement off block or slice will be required. If IOU's participate,

they will participate under the same rules and conditions that apply to all utilities. Utilities will make a commitment to BPA if they plan to participate in the rate credit program no later than three months prior to the start of the rate period (program start October 1, 2006; notification to participate required by July 1, 2006). The utility will make the commitment by submitting a letter to BPA that states that the utility will participate and that the utility agrees to abide by the program rules as documented in the appropriate GRSPs and the Implementation Manual. If a utility chooses to discontinue participation, the utility must provide BPA notice no later than July 1 for the following October 1 to September 30 fiscal year period. A Rate Credit Implementation Manual, similar to the existing C&RD Implementation Manual, will be prepared and distributed approximately six months prior to program implementation and three months before utility commitments to the rate credit are required. An overview of this program is shown on the chart. Key features of this proposed program include:

Key Features

- Customers may choose to be reimbursed from the rate credit for administration costs at a rate of up to 15 percent of the customer's eligible annual rate credit.
- Monthly credit amount is equal to the forecasted eligible annual credit/12.
- Each utility may choose the incentive level to pay the end user but is credited only the amount BPA offers for each cost-effective measure.
- Rate credits will be provided for qualified deemed, deemed calculated, custom/protocol projects and standard offers.
- BPA engineers will provide custom proposal reviews to the extent engineering resources are available
- Utilities will report at least semi-annually to BPA via the RTF reporting system. If, at the second semi-annual report (end of the first full year of the program), the utility is not meeting its targets (50 percent or less of its expected rate credit spending), the utility will have to prepare and have BPA approve an Action Plan that provides sufficient proof of achievable intent by the end of the first year after the program starts (10/1/07). BPA staff will be available to assist utilities in developing an Action Plan that will indicate how the utility will spend its rate credit funds by the end of the rate period (9/30/09). BPA's goal is for every participating utility to spend the full amount of its rate credit on qualified conservation and/or renewables activities by the end of the rate period. If at the 18-month period (third progress report – 4/1/08) participants still have not made sufficient progress on their rate credit spending (i.e., 75 percent or less of their expected rate credit has been spent), then BPA may send a notification letter that the rate credit will be withdrawn for the third year of the program (i.e., customers will be required to pay the full PF or other appropriate power rate) so the funds can be reallocated. After the end of the third year of the rate credit program (9/30/09), there will be a final true-up required for participating utilities.
- The existing RTF web-based information and reporting system will be used. The RTF database will include all measures in the current C&RD database and the cost-effective measures for which BPA is willing to pay an incentive during the new rate period (FYs 2007-09). The reporting system will be enhanced to include means for utilities (at their option) to enter savings acquired from non-cost-effective measures, measures the utility pays for with its own money, and for identifying savings from lost opportunity measures.
- Measurement and verification for non-deemed measures at a level similar to that done under the current ConAug program will be required (see Appendix 1).

- Utility records related to spending of BPA funds will be subject to federal financial review.
- BPA will conduct an annual oversight visit (see Appendix 1 for further detail).
- Pooling of utility funding is allowed (optional), but there will be a 15 percent cap on total administration costs for the pool.
- Utilities may contract independently with third-party service providers to operate their programs (optional).
- An annual commitment to renewables will be allowed (see earlier Renewables Alternative section).

Rate Credit Eligibility

- Only qualified, cost-effective conservation and direct application (customer side) renewable measures will be eligible for a rate credit and renewables option.
- There will be a no cap on the total dollars in the rate credit program that a utility may either contract to low income weatherization organizations or spend on utility low income programs. No double counting of savings will be allowed, and utilities may not claim administration costs on the amount of money contracted or passed through.
- Third party subcontracts with energy organizations will be allowed provided cost-effective aMW savings result. Utilities may not take administration payments on pass-through contracts. BPA will include these funds in determining its share of the NEEA aMW achieved and will count these aMWs toward BPA's target.

Small Utility Option

Overview

Small utilities are defined as those with a 7.5 aMW or smaller total load. BPA wants to make participation in the rate credit feasible for small utilities, while ensuring that dollars actually go to cost-effective conservation and renewables. Small utilities will be required to acquire cost-effective measures (or renewables) in order to participate in the rate credit program. BPA will allow up to 30 percent of their rate credit for administrative costs, ensure that small utilities who wish to spend their rate credit dollars on renewables can do so without being affected by a *pro rata* adjustment if renewables are over subscribed by customers (exceed the \$6M/year cap), provide a checklist of simple programs and initiatives suitable for a small utility to implement, and modify the performance reporting requirements to align more with their capabilities. More detail on these changes is included in Attachment 2.

Utility and Federal Agency Bilateral Contracts Program

Overview

BPA anticipates this bilateral program component of the program portfolio to be a five-year program and is committing funding for a three-year period (2007 through 2009). This program is needed because the conservation resources are not evenly distributed across the region. BPA may shift money between the bilateral contract and other programs in the portfolio, as appropriate.

Streamlined, standardized umbrella agreements will be written with interested utilities (participation is optional). Similar to the current ConAug program, each agreement will have exhibits that provide specific program details. Utilities can select from available program exhibits to customize the selection of programs best suited to their service territory. BPA will fund both standard offer and custom designed programs. BPA (or its designated contractor) will conduct oversight. BPA will make a budget commitment to the utility for the duration of the contract subject to utility performance. Similar to the current ConAug program, BPA (or its designated contractor) will provide limited engineering assistance for project scoping and, if requested, pre-approval of projects. The proposed Utility and Federal Agency Bilateral Program is an acquisition program and, as such, the decrement will apply to all slice/block customers. Key features of this proposed program include:

Key Features

- Reimbursement of administration costs at a rate up to 15 percent of the allowable costs may be included with the project budget and reimbursed by BPA.
- Each utility may choose the incentive level to pay the end user but is credited only the amount BPA offers for each cost-effective measure.
- BPA engineers will provide custom proposal reviews to the extent engineering resources are available.
- Measurement, verification and oversight will be similar to that done under the current ConAug program.
- Incentives will be provided for qualified deemed, standard offers and custom/protocol projects.
- BPA will explore augmenting the existing RTF database to allow bilateral contract reporting -- so that tracking for both programs will be through the same database. Invoicing for BPA payment will be separate.
- Stranded cost repayment provisions will be put in place between each participating utility and BPA.
- BPA will strive to provide simplified contracts.
- BPA will strive to provide a streamlined approval process

Measure Eligibility

Only qualified cost-effective conservation and direct application (customer-side) renewable measures will be eligible.

Third-Party Contracts

Overview

This third-party contract component of the program portfolio will allow BPA to contract to third parties when these contracts will lower the cost of acquiring conservation or where needed to affect markets that cannot be changed at a local level. BPA will only pay third parties to work in utility service territories that have agreed to participate in the third-party program. This policy of requiring pre-approval of utility partners is a continuation of BPA's current policy. In general, regional programs will be designed to operate in coordination with local utility programs. For example, regional bulk purchases of a technology might be delivered locally. BPA anticipates transferring funds between third-party contracts and utility and federal agency bilateral contracts,

as needed, to balance the level of effort needed at both the regional and local levels and to achieve the targets at the lowest possible cost.

Pre-committed funding for NEEA (\$10 million per year for the 2007-09 period) is included in this mechanism and no decrement will be applied for the NEEA contract.

Key Features

- BPA will negotiate reasonable administration costs for third-party contracts.
- Region-wide programs and efforts will be coordinated with local utilities.
- The decrement will not apply to NEEA.
- A determination of whether or not a decrement applies for other third-party programs will be determined on a case-by-case basis.
- Customers will be notified as to whether or not a decrement will apply to any third-party program of interest to the utility before the utility agrees to participate.

Infrastructure Support

Overview

A number of proposed support activities will be undertaken to optimize expenditures through BPA's energy efficiency programs, to leverage other available resources and to reduce the overall cost of accomplishing the conservation. These activities may include:

- Setting up a mechanism for peer sharing (e.g., so utilities can share successful program ideas and marketing materials).
- Conducting limited BPA and collaboratively funded RD&D to ensure we are developing the next wave of energy efficiency technologies.
- Performing evaluations (process and impact) and market assessments to ensure BPA's programs are achieving the intended result and to gather the information necessary to make mid-stream program adjustments. Co-funding from other affected organizations may be solicited for these evaluations/assessments. BPA may also contribute to a regional evaluation designed to assess how much naturally occurring conservation has been achieved.
- Enhancing and supporting the RTF database to include expanding the reporting elements and website to allow bilateral contract acquisition reporting and tracking and to track lost opportunity acquisition.
- Developing, with utility guidance, tool kit components such as utility program marketing and implementation materials that utilities need and may choose to use to launch new programs.
- Developing templates and other program design "off the shelf" materials that small utilities can easily use.

Tracking and Reporting

BPA is upgrading the RTF/C&RD database to allow utilities to report both bilateral and rate credit program accomplishments in an on-line database. BPA will continue to rely on invoicing for reimbursement under bilateral agreements. BPA is also expanding the database to allow utilities to report conservation savings from other funding sources as well.

Appendix 1

Sample of Reporting, Oversight, and Evaluation Requirements

Reporting:

Purpose: Tracking progress to meeting the regional goals in real time will be important if the region is going to be able to respond and adapt to shortfalls. In addition, the use of public funds requires a minimum level of accounting.

All utilities will report at least semi-annually, using the RTF database, on their accomplishments and expenditures of funds, whether from the rate credit or bilateral contracts. BPA will strive to have this single source of reporting meet as many needs as possible to avoid duplicative or inconsistent reporting needs. All data received will be in the public domain except where consumer business confidentiality is needed.

Oversight and Verification:

Purpose: The expenditure of funds included in the published BPA rates for purposes of achieving conservation (and renewables, if applicable) is an activity for which BPA has fiduciary responsibility. In addition, by providing constructive oversight, BPA may be able to provide assistance to utilities to improve the programs and reporting. BPA will aim to have one oversight visit per year for all of its conservation programs for each participating utility, unless major issues surface.

(a) Bonneville Power Administration (BPA) or BPA's agent shall have the right to conduct inspections of units or completed units and monitor or review a utility's procedures, records, verified energy savings method and results, or otherwise oversee the utility's implementation of conservation programs funded through dollars included in BPA's rates. The number, timing, and extent of such audits shall be at the discretion of BPA. Such site reviews are expected to be conducted annually. Such audits shall occur at BPA's expense. Financial audits shall be in compliance with the audit standards established by the Comptroller General of the United States. BPA may contact appropriate federal, state, or local jurisdictions regarding environmental, health, or safety matters related to units or completed units.

(b) Prior to any oversight visit physical inspection, BPA shall give the utility written notice. If physical inspections are required by BPA, the utility shall have 30 days to arrange for the inspection of units or completed units. The oversight visit will include: review of energy audit or measure installation procedures, technical documents, records, and/or verified savings methods and results.

Evaluations:

Purpose: Evaluations are needed to determine barriers to program success, identify ways to improve programs, help track program accomplishments, and to assess the market conditions,

the accuracy of the savings estimates, and to answer the ultimate question of whether programs are meeting their expected goals.

(a) BPA may conduct, and the utility shall cooperate with, evaluations of conservation impacts and project implementation processes to assess the amount, cost effectiveness, and reliability of conservation in the utilities' service areas or region. After consultation with the participating utilities, BPA shall determine the timing, frequency, and type of such evaluations.

(b) BPA anticipates that many of the evaluations will be done collaboratively with other organizations to share costs and improve the usefulness of the evaluations. In some cases, this will result in the evaluation being managed by another party on behalf of BPA and others. Such evaluation contract management responsibilities might be shared with other parties, including among others, the NEEA, the RTF, the Power Council, the Energy Trust of Oregon, or another utility.

(c) BPA will determine the specific requirements for evaluations with consideration for the schedules and reasonable needs of the utility and the utility's customers.

(d) Unless requested by the program managers to improve program operation, any evaluation of the project initiated by BPA shall be conducted at BPA's expense or shared regional expense and such costs shall be excluded from the implementation budget. Utility or other entities who cooperate with the evaluation are implicitly recognized as providing some resource/cost, but will not be considered for direct reimbursement by BPA, except under unusual circumstances. Cooperation with the evaluation is a cost of the partnership in delivering the programs.

Appendix 2

Post-2006 Conservation Program: Small Utility Option under the Conservation Rate Credit

BPA will continue to define small utility as those utilities with loads of 7.5 aMW or under. BPA intention is that small utilities acquire cost-effective conservation (or renewables) in order to receive the conservation rate credit (CRC). The following CRC Program elements will be available to small utilities:

- Up to 30 percent of a small utility's CRC amount may be used for administrative costs, (which include information, education and outreach (marketing) efforts regarding energy efficiency).
- Only one BPA oversight visit will be required during the three-year CRC rate period (unless the utility requests a more frequent review).
- Third-party (or utility pooling) to run utility conservation programs (using some or all of the 30 percent administrative allowance to pay the third-party) is allowed.
- Small utility customers can satisfy their remaining 70 percent CRC spending by implementing appropriate (to their service areas) cost-effective measures, such as:
 - CFL programs
 - Appliance Rebate programs
 - SGC Manufactured Homes program
 - Energy Star New Construction program
 - Other qualifying cost-effective measures and standard offers

However, if small utility customers don't have sufficient opportunities to implement cost-effective measure programs with their end-use consumers, then the following options are available to help ensure that they will be successful in meeting their full CRC obligation:

- Donations for cost-effective measures to low income weatherization organizations with no cap (e.g., CFLs).
- Purchase of the renewables (with no *pro rata* adjustment if renewables are over subscribed ((i.e., exceed \$6M/year cap)) by CRC participants).
- Donations to NEEA (or other organizations that will use BPA's funds to install cost-effective measures) with no cap.

BPA's AEs and EERs are available to work with small utilities to develop a reasonable game plan for achieving CRC success under the new program requirements. BPA will continue to explore new program options for small utility customers.