Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

ENERGY EFFICIENCY

June 18, 2014

In reply refer to: PEH-1

Dear Customers and Stakeholders:

It has been a busy year since we kicked-off the Energy Efficiency Post-2011 Review with you last November. This public process has been invaluable in our efforts to refine and improve the BPA Energy Efficiency Post-2011 framework. Through your dedicated participation in the work groups and public meetings, you provided comprehensive feedback and discussion on numerous issues. We are very close to making several changes that I think you will agree improve how we operate. I am proud to share this proposal with you and look forward to your comments.

Through a combination of in-person and teleconference participation, we estimate more than 150 participants in the process, and I would like to personally thank everyone who participated in the regional and work group meetings. I am also very grateful to the utilities that hosted work group and big tent meetings, without your support the process would have been much more challenging. Finally I want to give a special thanks to the work group co-chairs who dedicated a tremendous amount of time and effort to get to consensus-based recommendations.

WG 1: Doug Brawley, PNGC and Margaret Lewis, BPA
WG 2: Ross Holter, Flathead Electric Cooperative and Dan Villalobos, BPA
WG 3: Eugene Rosolie, Cowlitz PUD and Boyd Wilson, BPA
WG 4: Ray Grinberg, Lakeview Light and Power and Melissa Podeszwa, BPA
WG 5: Mary Smith, Snohomish PUD and Mark Ralston, BPA

After the work groups finalized their recommendations, BPA developed proposed revisions to the March 2011 "Energy Efficiency Post-2011 Implementation Program" (Implementation Program). The proposed revisions are captured in the attached document, entitled "Proposed Revisions to the BPA Energy Efficiency Post-2011 Implementation Program" (Proposed Revisions). For those who would like a quick reference capturing the work group recommendation and BPA's proposal for each issue, there is a table at the end of the document. Along with the Proposed Revisions, BPA is providing a redlined version of the Implementation Program to clearly illustrate what the proposed revisions would be in final form.

BPA is seeking public review and comment on the Proposed Revisions. **The comment period closes July 19, 2014**. After considering the public comments, BPA will make a final decision, update the Implementation Program, and prepare for the implementation of the changes, including updating the Implementation Manual.

To assist with customer and stakeholder review and public comment on the Proposed Revisions, BPA is holding a regional meeting to walk through BPA's proposal.

Post-2011 Review Proposal Meeting
Friday, June 20, 2014
9 a.m. to 3 p.m.

New Rates Hearing Room in Portland and by telephone and LiveMeeting. Information here.

The Post-2011 Review has been a very effective process for BPA to engage with customers and other stakeholders to improve our energy efficiency program. It is this kind of collaboration and partnership that helps Northwest Public Power continue to effectively acquire energy efficiency, the region's least-cost resource, and it also ensures our place as national leaders in energy efficiency. Thank you again for your involvement. I look forward to discussing this proposal with you on June 20.

Sincerely,

Richard Génecé

Richard Génecé
Vice President, Energy Efficiency

Proposed Revisions to the BPA Energy Efficiency Post-2011 Implementation Program

Prepared by:

Bonneville Power Administration

June 18, 2014

Introduction

BPA's Energy Efficiency (EE) organization conducted the Energy Efficiency Post-2011 Public Process from January 2009 to March 2011 to align EE's program with BPA's Long-Term Regional Dialogue Policy and Tiered Rates Methodology[1] and to engage customers and other regional stakeholders about the role BPA should play in developing, incentivizing and monitoring energy efficiency programs after fiscal year 2011, hence the name "Post-2011." The public process resulted in two documents that together form the foundation of BPA's Post-2011 EE program:

- "Energy Efficiency Post-2011 Policy Framework": sets forth the high level policy framework for BPA's conservation program.
- "Energy Efficiency Post-2011 Implementation Program" (Implementation Program): provides implementation specifics that nest within the larger policy framework, such as utilizing and transferring Energy Efficiency Incentive funds.

BPA agreed to review its program after sufficient experience had been gained to consider improvements to the BPA EE program put in place on October 1, 2011. In the spring of 2013, BPA began planning for such a review and officially launched the "Energy Efficiency Post-2011 Review" (Review) in November 2013.

To facilitate robust collaboration with customers and stakeholders, BPA prepared the "Post-2011 Review Scoping Document and Process Approach" (Scoping Document) which contains fifteen issues of importance that had been earlier identified by customers, stakeholders, and BPA. With the Scoping Document as a starting point, five workgroups were created to discuss the issues and provide BPA with recommendations for resolving them through changes to the program.

In May 2014, the workgroups provided their recommendations to BPA. BPA then completed this "Proposed Revisions to the BPA Energy Efficiency Post-2011 Implementation Program" (Proposed Revisions), which entails proposed revisions to the Implementation Program document mentioned above. The proposed revisions take into consideration the recommendations provided by the Review workgroups.

BPA is seeking public review and comment on the Proposed Revisions until July 19, 2014. After the public comment period closes, BPA will consider the public comments, finalize the revisions, publish an updated version of the Implementation Program and prepare for implementing the revisions.[2] The Scoping Document and workgroup recommendations provide helpful context to understand BPA's Proposed Revisions.

Structure of the Proposed Revisions

This document contains proposed revisions to the "Energy Efficiency Post-2011 Implementation Program" (Implementation Program). To maintain continuity with that document, this proposal

[1] "Bonneville Power Administration Long-Term Regional Dialogue Final Policy," http://www.bpa.gov/power/PL/RegionalDialogue/07-19-07_RD_Policy.pdf.
[2] BPA intends to periodically review the EE program to identify opportunities for improvement.

provides referenced to the Implementation Program along with BPA's proposed revisions and rationale. The Proposed Revisions is organized the same way as the Implementation Program rather than the order in which the issues were documented in the Scoping Document or by Review workgroup. BPA's rationale is provided to assist customers and stakeholders to better understand the proposed change(s) and with generating public comments. BPA has published a redlined version of the Implementation Program to identify exactly how the proposed revisions would modify the Implementation Program.

Some workgroup recommendations did not necessitate a change to the status quo and, therefore, are not addressed in the main body of this document. For reference, a table of the issues from the Scoping Document with a note on whether BPA is proposing a change is included as an appendix.

I. Regional Programs and Infrastructure

Throughout the Post-2011 public processes, customers and stakeholders have acknowledged that regional programs[3] and infrastructure are a valuable and effective means to develop cost-effective conservation. Regional programs and infrastructure are characterized by economies of scale and include activities that require regional market influence.[4]

1. Developing Regional Programs

The Implementation Program currently states, "BPA's regional program design and decision-making process will be collaborative and transparent" (page 5).

Proposed revision:

When developing new regional programs, BPA will follow a structured process that is transparent and collaborative and guided by the following considerations:

- Customer benefits and costs at the local level;
- BPA wholesale system benefits and costs;
- Opportunity for all customers to participate in one or more regional programs;
- The number, scale and possible geographic location of participating customers needed for the success of a regional program;
- Customer relationships with end-use consumers and the impacts on/complements to existing efficiency programs at the local level; and,
- Impact on local vendors and suppliers.

Rationale:

BPA finds the considerations proposed by the Review workgroup are important for ensuring regional programs provide as much broad-based benefit as possible. Additionally, BPA would follow a structured process for the development of new regional programs. A structured process is important for BPA to implement. Prior to the Post-2011 framework, regional programs were not developed by following a structured process. Doing so would be more aligned with greater local control and allocated incentive budgets under the Post-2011 Implementation Program.

2. Frequency of Publishing the Implementation Manual

BPA currently publishes the Implementation Manual (IM) every six months on April 1 and October 1 to align with the Implementation Program direction that, "BPA will leave the timing of notices unchanged at six months in order to provide a balance between notice needs and program implementation needs" (page 6). BPA currently announces changes according to the following policy:

[3] Regional programs are defined as programs contracted for by BPA and implemented by third parties, e.g., the Energy Smart Industrial and Energy Smart Grocer regional programs.
[4] A list of infrastructure support examples is provided in the Phase 1 Policy Framework document.

Minimum of Six Months of Notice Required	No Notice Required
Savings change up or down	New measure
Payment amount change, up or down	Optional lighting calculators
Adding or substituting a requirement	Removing a requirement

In addition, corrections are introduced at anytime to fix ambiguous or incorrect language or to align conflicting terms between BPA's rules (e.g., Implementation Manual, standards of conduct, spreadsheets, calculators, outside specifications and the BPA Energy Efficiency reporting system).

Proposed revision:

BPA will publish the IM annually on October 1 beginning October 1, 2015. Changes that require notice will be announced the previous April in a separate change document. BPA's new change policy will be as follows:[5]

Minimum of Six Months of Notice Required *(Notice of changes will be published in an April changes document. The changes themselves will be published in the October 1 IM.)*	**No Notice Required** *(Changes will be published in the October 1 IM.)*
Savings change up or down	New measure[6]
Payment amount change, up or down	Optional calculators (such as lighting)
Adding or substituting a requirement	Removing a requirement
Expiration of a measure	

BPA will research savings that change during the course of an annual IM publication, which could lead to BPA adjusting savings totals. These changes to aggregate totals will be captured in the Resource Energy Data (RED) book but will not lead to adjustments to specific customer achievements.

Rationale:

While the Review workgroup recommended publishing the IM once per rate period, BPA is concerned about the length of time between changes and the risk that savings will not be captured as accurately as possible. BPA would move to an annual publication and would assess the results of its savings research and whether there are unforeseen consequences of moving to annual publication prior to considering a less frequent publication cycle.

3. Low-Income Energy Efficiency

The Implementation Program states, "Customers may be reimbursed for low-income weatherization activities with Energy Efficiency Incentive (EEI) funds as long as those activities generate cost-effective energy savings" (page 7). It does not require customers to direct EEI funds to low-income opportunities. BPA is not proposing to require customers to direct EEI funds to particular opportunities. Rather, BPA recognizes customers often confront various constraints that can hamper their ability to serve low-income consumers and

[5] Corrections to the IM will continue to be made at anytime, per the existing policy.
[6] New measure is defined by a new reference number. A new version to an existing reference number requires six months of notice.

is seeking to facilitate collaboration and coordination among those undertaking low-income energy efficiency activities.

Proposed revision:

To help BPA customers provide access to energy efficiency services for low-income consumers, BPA will work with its customers, low-income agencies and advocates to increase coordination and collaboration among the parties involved with low-income energy efficiency. BPA will sponsor a low-income workgroup (and necessary sub-groups) to explore ways to overcome some of the constraints to serving low-income consumers, such as:

- Creating opportunities for small utilities to increase low-income measure achievements.
- Streamlining data and reporting for low-income energy efficiency measures.
- Developing best practices for communication, coordination and collaboration.
- Developing best practices for increasing the efficiency and minimizing the cost of low-income energy efficiency investments.
- Enhancing BPA's role in facilitating access to low-income efficiency opportunities.
- Increasing and improving training opportunities for program implementers and contractors.
- Establishing guidelines for structuring agreements between BPA customers and low-income agencies.

Rationale:

Through the meetings of the Review workgroup, BPA saw the benefit of bringing together customers and low-income advocates and, therefore, would like to continue to play a regional coordination role to facilitate increasing low-income energy efficiency savings achievements.

The Review workgroup recommended BPA put in place a method or process that would allow customers to designate to BPA some of their EEI funding or other utility funding and have BPA serve as an intermediary for low-income energy efficiency investments. However, BPA is not proposing to implement such a process at this time. BPA recommends that the idea continue to be explored by the low-income workgroup to assess its merits, feasibility, cost, etc.

II. Incentive Funding Mechanism

BPA's Phase 1 Policy Framework established the Energy Efficiency Incentive (EEI) as the funding mechanism for BPA-funded conservation acquisitions after October 1, 2011. Each customer is allocated an EEI budget based on its Tier One Cost Allocator (TOCA). The mechanism for BPA to assign customers their EEI budgets is through Energy Conservation Agreements (ECA).[7]

BPA updates each customer's ECA in accordance with its EEI budget, i.e., the ECA is the contract and the EEI is the funding amount that is included in the ECA. EEI funds come out of BPA's capital budget and are expended for the purpose of acquiring cost-effective energy savings. The Review workgroup recommended BPA, at an appropriate time, move the capital program back to expense. Workgroup members provided a variety reasons for this request, such as reducing the long run cost of acquiring conservation by eliminating borrowing costs. BPA will further explore this recommendation internally and externally. It should be noted that moving to expense would have implications for the proposed revisions in the section below and may necessitate later revisions to align with an expense program.

1. Assignment of the Energy Efficiency Incentive

The Implementation Program describes the allocation of EEI funding and how the total percentage of EEI funding, for FY2012-2013 only, would be at least 70 percent of the EE capital budget (pages 11-13).

Proposed clarification:

On a prospective basis, BPA plans to allocate at least 70 percent of the EE capital budget to customer incentive budgets (EEI) with the remaining 30 percent allocated to BPA-managed capital costs.[8]

Rationale:

BPA is proposing to clarify BPA's allocation policy after FY2012-2013 because it was not articulated in the Implementation Program. The proposed clarification would be for the remainder of the Regional Dialogue contracts.

2. Utility Self-Management of Incentives

Under current power rates, BPA allocates and collects the cost of the Post-2011 EE program to all priority firm (PF) customers based on a PF rate Tier One Cost Allocator. Through the ECA, each customer receives "an EEI budget based on its Tier One Cost Allocator (TOCA)" (page 10). After invoicing BPA for energy savings achieved, customers receive payment from BPA (not to exceed their ECA implementation budget).

In 2006, the State of Washington passed Initiative-937, formally known as the Energy Independence Act. Of import for purposes of BPA's conservation program is the direction in the law that qualifying Washington utilities acquire conservation. BPA has monitored implementation of the law and has observed the independent actions of its customers subject to the law to develop and achieve cost-effective conservation. BPA finds that these independent actions may result in conservation savings in the same load for which BPA is

[7] The existing ECAs will be modified in advance of the next rate period (FY2016-2017) to account for BPA's planned use of third-party financing of conservation instead of U.S. Treasury borrowing.

[8] Note the full amount allocated to EEI may not be used based on customers electing billing credits (see "Utility Self-Management of Incentives" section below).

obligated to supply. As such, BPA is interested in exploring development of a conservation billing credit program pursuant to section 6(h) of the 1980 Pacific Northwest Electric Power Planning and Conservation Act that focuses on the independent conservation activity of BPA's customers and the potential of that activity to reduce the Administrator's need to acquire resources, including those same energy savings.[9]

BPA thinks there could be several benefits of having such a conservation billing credits program. First, it would recognize the ongoing independent actions of customers complying with state law. Second, as a result of the conservation being achieved independently by customers, BPA's need to acquire those same conservation savings would decrease. This would reduce BPA's need to bilaterally acquire those savings under the ECA through EEI funding with those customers. However, there are many implementation details yet to be considered, including the need to revisit BPA's 1993 Billing Credits Policy. Additionally, the proposed revision is predicated on BPA's current approach of capitalizing the EEI program and borrowing for it.

Proposed revision:

BPA will consider customer requests for billing credits in exchange for independent conservation performed in the FY2016-2017 rate period and throughout the duration of the Regional Dialogue contracts (assuming BPA continues to finance conservation incentives).

- **How it would work:** A customer would propose to take independent conservation activity instead of developing and implementing conservation measures for BPA payment under BPA's Energy Conservation Agreement (ECA).[10] BPA would review the customer proposal and, if approved, BPA would provide the customer billing credits offsetting the effect on BPA's revenue requirement of the customer's TOCA-based portion of EEI.[11] This billing credit would continue for the projected service life of the investments, currently 12 years, which coincides with the length of time the customer is paying in rates for those investments. Those customers not electing billing credits would continue to pay their portion of the EEI program's effect on the revenue requirement. Customers electing billing credits would still have an ECA and would not be precluded from other flexibility mechanisms, e.g., bilateral transfers, Unassigned Account allocations, etc.

  For example, assume BPA borrows $60 million for overall EEI funding in a given year. The amortization and net interest costs on that amount would be calculated for the 12-year life of the investment, averaging in total $6.5 million per year. Assume that a customer with a 0.10 TOCA proposes to take independent conservation actions and requests a billing credit. Over the amortization period of the investment, the customer would pay in rates $0.065 million per year and receive billing credits for the same amount. This would occur for each rate period over the amortization period. For each

[9] It should be noted that under section 12.1 of the Regional Dialogue power sales contract customers waived their rights to request billing credits for Generating Resources.
[10] A customer would elect billing credits in place of 100 percent of the EEI budget it would otherwise receive.
[11] Note the timing of when billing credits show up on a customer bill will match the timing of that customer paying in rates for EEI investments.

new rate period wherein billing credits are provided, those credits would be added to the amounts for previous rate periods.

- **Implementation Requirement:** The agency's Billing Credits Policy of 1993 would require a revision. The Policy change would be targeted to implement this approach under the Regional Dialogue contracts rather than a wholesale revision of the 1993 Policy.
- **Contractual Agreement**: Upon BPA approval of a customer proposal to undertake independent conservation, BPA and the customer would enter into a conservation billing credits contract. The contract would include the following provisions:
    - Measures and projects must be consistent with BPA's Implementation Manual.
    - Customer will be required to report savings to BPA and will have a minimum amount of savings it must report during the rate period. The required amount of savings will be calculated prior to contract signing and will be based on the customer's status quo EEI budget (i.e., the EEI budget it would have received were it not receiving billing credits) divided by the average programmatic incentive cost[12] used by BPA in determining its EE Action Plan for the rate period in question. For example, if a customer's status quo EEI budget for the FY2016-2017 rate period is $5 million and the average cost BPA used for that rate period in the EE Action Plan is $1.8 million per average megawatt (aMW), then the customer would be required to report to BPA, at a minimum, 2.78 aMW of rate-period energy savings that are compliant with BPA's Implementation Manual.[13]
    - If the customer does not report to BPA the required amount of savings prior to the end of each rate period and/or if BPA determines certain savings are not consistent with the Implementation Manual and therefore are not considered to be "reportable" savings, a financial true-up will be trigged and BPA will make a credit adjustment on the customer's bill.[14] The credit adjustment amount will be calculated by multiplying the same average programmatic incentive cost amount used in determining the customer's rate period savings target by the customer's shortfall of BPA-accepted savings. For example, if, at the end of the rate period, the customer has reported only (or BPA has accepted as reportable) 2.28 aMW of the 2.78 aMW to BPA, BPA would make a credit adjustment of $900,000 on the customer's bill (0.5 aMW multiplied by $1.8 million/aMW), which would reduce the amount of the customer's billing credit.
    - Savings achievements must be reported quarterly.

[12] The average programmatic incentive cost is calculated by dividing the total amount BPA pays out in EEI (both incentives and performance payments) by the total amount of programmatic savings (both BPA-funded and utility self-funded) reported to BPA. Therefore, administrative and program costs are not included in the average cost for the purpose of calculating the savings requirement.
[13] This target is to allow for the billing credit mechanism and does not purport to assign a portion of the overall public power target to a customer receiving billing credits.
[14] Details remain to be worked out, but the intent would be to have the amount of the true-up be deployed elsewhere within the EE program, e.g., the Unassigned Account.

- BPA's oversight and verification role will be the same as it is for customers pursuing conservation within BPA's ECA with EEI funding.
- Receipt of billing credits in no way diminishes the customer's responsibility to contribute to customers delivering, on average, 25 percent of BPA's programmatic savings target or the contractual obligation to report savings (including self-funded savings beyond those required by the billing credit agreement) under the Regional Dialogue Power Sales Contract.
- Pursuing independent conservation does not remove the customer's relationship to BPA's savings target and, therefore, with BPA's backstop role, i.e., should BPA need to exercise its backstop role, the customer receiving billing credits would still be subject to BPA's backstop actions just as all other customers would be.

Rationale:

- BPA's obligation to acquire the equivalent amount of conservation would be reduced.[15] BPA believes it is appropriate to count the billing credit conservation savings toward public power's share of the Northwest Power and Conservation Council's regional target. Public power savings targets, therefore, would not be changed by introducing billing credits.
- Billing credits is an alternative that comes from the Northwest Power Act and, therefore, provides BPA a statutory mechanism to provide customers flexibility.
- During the course of the Post-2011 Review, alternatives to the status quo funding model were considered by the Review workgroup as a means to accomplish two primary objectives: 1) reduce or eliminate the borrowing costs associated with capitalizing the EEI for those customers who otherwise would prefer not to debt finance conservation incentives, and 2) eliminate the need for invoicing BPA in order to receive payment from BPA. Customers that pursue independent conservation would be credited for their share of amortization and interest costs and, therefore, would reduce the amount of borrowing costs the electing customer would otherwise pay over time. Customers that pursue independent conservation through billing credits would avoid having to invoice BPA and might, therefore, reduce some of the administrative burden associated with invoicing BPA and waiting for payment.
- Billing credits for independent conservation would have no impact on non-billing credit customers, i.e., the billing credits alternative is rate neutral.
- A savings target would be included in the conservation billing credits contract. BPA has elected to use the average programmatic incentive cost because that is the cost metric EE assumes for all EEI funding and, by using this calculus, BPA would maintain consistency with its cost assumptions across all programmatic savings.

[15] Independent conservation undertaken by a customer that qualifies for billing credits is a customer resource that affects the customer's net requirements, i.e., the load BPA is obligated to supply. BPA assumes energy savings under the proposed billing credit program would likely lower the load growth rate of participating customers and thus no reduction would be made to a customer's Rate Period High Water Mark beyond that already accounted for in BPA's net requirement calculation.

3. Inter-Rate Period Budget Flexibility

The Implementation Program allows for customers to move EEI funds between fiscal years within a rate period, but it does not allow for inter-rate period budget flexibility, i.e., moving EEI funds from one rate period to the next. The proposed revision below is predicated on BPA using third-party financing and would need to be altered should BPA elect to move conservation acquisition to expense.

Proposed revision:

Beginning October 1, 2015, customers will have the ability to move EEI funds from one rate period to the next rate period consistent with the following:

- BPA will forecast up to five percent of the start of rate period EEI budget to be rolled over to the next rate period. The amount forecasted will be added to EE's budget in the following rate period. Rates for the following rate period will be set accordingly. The difference between the amount collected in rates in the first rate period and the actual amount borrowed based on actual EEI expenditures would go into BPA's reserves. Over time, any over collection in rates should be compensated for in a lower revenue requirement as a result of increased reserves. BPA's forecast will be made by March 1 of the second year of each rate period to align with BPA's financial processes, such as the Capital Investment Review.
- Each customer may roll over no more than five percent of its start of rate period EEI budget to the following rate period.[16] The amount of funds remaining at the end of a given rate period, not to exceed the five percent customer cap, will be added to the customer's EEI budget for the following rate period. There is no requirement that roll over funding be tied to specific projects or programs and there is no requirement of customer notification to BPA, i.e., the roll over is automatic up to the 5 percent cap. The table on the next page captures an example of how roll over would theoretically work through time.

[16] BPA could forecast a percentage less than 5 percent and not exceed that amount in aggregate while still allowing a multitude of customers to roll over the maximum of 5 percent.

Roll Over Example	Rate Period I	Rate Period II	Rate Period III
EEI budget from the Integrated Program Review	$100M	$106M ($102M base case plus the $4M forecasted roll over)	$110M ($105M base case plus the $5M forecasted roll over)
Start of rate period EEI budget	$100M	$104M ($102M base case plus the $2M actual roll over)	$106M ($105M base case plus the $1M actual roll over)
Forecasted roll over amount (not to exceed 5 percent)	$4M	$5M	$2M
Amount expended in the rate period	$98M	$103M	$104M
Amount moved to BPA reserves	$2M	$1M	$2M

Rationale:

- The Review workgroup recommended roll over be connected to specific projects. After consideration, BPA has chosen a simple administrative path. While the proposed revision may not meet all the needs of any one customer, it would provide increased flexibility relative to the status quo. In instances where roll over would not provide enough funding flexibility for a specific project, the customer may choose to combine roll over flexibility with other options.

4. Redirect of EEI Funding

The Implementation Program states, “ECA Implementation Budgets *will not involuntarily* be reduced during the FY 2012-2013 rate period…However, following the FY 2012-2013 rate period, BPA will periodically review a customer’s activities and consult with it prior to reducing its ECA Implementation Budget consistent with Exhibit A of customer ECAs” (page 15).

Proposed revision:

For the FY 2014-2015 rate period, BPA thinks there will not be a need to redirect EEI funds and will not redirect EEI funds during the period.

While BPA expects it would not need to redirect EEI funds over the longer period remaining under the Regional Dialogue contracts, BPA will continue to periodically review customer achievements to ascertain the effectiveness of the ECA and, if necessary, will engage in further discussions to develop criteria for redirecting funds in future rate periods.

Rationale:

The Review workgroup recommended BPA not exercise its right to redirect EEI funds in the FY2014-2015 rate period, but it recommended further discussions to develop criteria for redirecting funds in future rate periods. After consideration, BPA finds there are adequate drivers in place that ensure customers will use their EEI funds, which decreases the likelihood that funds are left unspent. The introduction of EEI budget roll over further weakens the risk of unspent EEI to warrant BPA redirect of EEI funds.

5. Large Project Program

The Large Project Fund (LPF) in the Implementation Program is intended to provide incentives above and beyond rate period EEI budgets to customers for "large" projects (pages 13-14). The Implementation Program contains eligibility criteria and administrative details regarding the LPF. The proposed revision below is predicated on BPA using third-party financing and would need to be altered should BPA to move conservation acquisition to expense.

Proposed revision:

BPA will change the Large Project Fund to the Large Project Program (LPP). The LPP will provide incentives above and beyond rate period EEI budgets to customers for "large" projects. The cost of LPP acquisitions will be limited to customers that request additional funds.

Beginning the later of October 1, 2015 or when third-party financing is in place for BPA conservation acquisition, BPA will establish a LPP focused on large industrial and commercial conservation projects that produce cost-effective energy savings. So that BPA can acquire savings from these projects without disrupting the existing TOCA-based EEI allocation policy, BPA will establish the Large Project Targeted Adjustment Charge (LPTAC). The LPTAC will apply to a participating customer that requests funds to pay for savings from large projects. The LPTAC will be based on the cost BPA incurs to borrow money to pay for the projects. BPA will not establish the amount of the LPTAC in advance, but rather will set it at the level of cost BPA incurs when it borrows. Through the use of the LPTAC, the LPP will maintain equity among customers over time. The LPP is predicated on BPA borrowing capital from a third party and will be administered according to the following:

- ***Cap:*** BPA is placing a cap of $10 million on its overall support for the LPP in a single rate period.
- ***Eligibility:*** At any time during the rate period, a customer may submit a project to BPA for consideration of payment through the LPP and must do so via the COTR Request and Acknowledgement Procedure. The submission must include a completed project proposal per the terms in the Implementation Manual. "Large" is defined by the customer, i.e., the LPP will not have defined criteria, to account for different project sizes across public power. BPA's payment for savings through the LPP may be

combined with other sources of customer funds, but there is no requirement for the mix of funds to be used for payment to the consumer.

- ***Allocation of Funds:*** BPA will review customer requests for acceptance on a first-come, first-served basis according to the date BPA receives the custom project proposal. In order to ensure the funds in the LPP are used to acquire energy savings from a diversity of projects and customers, BPA will exercise discretion on whether to commit LPP funds to a proposed project (or a sum of projects from a single customer) when the request (or sum of requests) exceeds $2 million. For example, BPA may choose to fund a $6 million project because it provides low-cost savings and wholesale power system benefits. On the other hand, it may reject funding multiple projects from one customer in the interest of spreading the benefit of the LPP across BPA's customers.
- ***BPA Payment***: Payment will be made upon BPA approval of the project completion report.[17] If a project is not completed within the rate period it is proposed to be completed, the LPP allocation (or any remaining funding to be allocated per the terms of progress payments[18] agreed to by BPA and the customer) may be revoked and the customer may have to resubmit for funds during the rate period in which the project is completed.
- ***Large Project Targeted Adjustment Charge (LPTAC):***[19] A customer that participates in the LPP would be charged BPA's cost to acquire the customer's LPP energy savings through an LPTAC. BPA and the customer would enter into a LPP agreement that would include the terms and conditions for BPA's acquisition of LPP energy savings from the customer. Exhibit D of the Regional Dialogue power sales contract would identify the LPP agreement. BPA would need to propose and establish the LPTAC in a section 7(i) rate proceeding. As conceived today, it is BPA's intent that the LPTAC would apply long enough to recover the amortized amount of the LPP borrowing (currently 12 years), but the customer could choose an expedited repayment schedule.

Rationale:

- For the sake of administrative ease and streamlining, BPA has proposed a Large Project Program that is less complex than the existing LPF, e.g., criteria have been relaxed.
- By helping to address the unpredictable nature of conservation, i.e., large projects do not always match nicely with BPA's TOCA-based EEI budgets, BPA finds that managing a LPP would help the agency in its efforts to "pursue conservation equivalent to all cost-effective conservation in the service territories of those public utilities served by BPA and will accomplish this in partnership with public utilities at the lowest cost to BPA" per BPA's Long Term Regional Dialogue Final Policy.

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[17] Only the balance will be paid if progress payments have been used for the project.
[18] See the Implementation Manual for information on progress payments.
[19] There remain implementation details to work out and BPA Finance issues to resolve before BPA could begin acquiring LPP energy savings.

- From the customer perspective, a BPA-managed Large Project Program offers a potentially lower-cost alternative than seeking funds elsewhere. Additionally, the existing BPA-customer relationship reduces transaction costs in securing funds for large projects.

6. Assignment of Funds from the Unassigned Account

The Unassigned Account is the repository for BPA-managed capital and EEI funds that are not assigned to customers. The Implementation Program states funding in "the Unassigned Account will be reallocated pro rata based on the customers' dollar amounts requested." The Implementation Program also established first and second priority for accessing the Unassigned Account (pages 19-20).

Proposed revision:

As of the date of the revised Implementation Program, funds in the Unassigned Account will be allocated on a TOCA-weighted[20] basis that reflects the pool of customers requesting additional funds (with no levels of priority). Customers will submit a "Request for Funding" and indicate whether a TOCA-weighted allocation or a conditional amount not to exceed their TOCA-weighted amount is preferred.

For example, if there were $2 million in the Unassigned Account with three customers requesting funds with TOCAs of 0.1, 0.05, and 0.025, the $2 million would be allocated as follows:

Amount Available: $2 million	Final Proposal/Net Requirement TOCA	Weighted TOCA	Amount Allocated
Customer A	0.1	0.571	$ 1,142,857
Customer B	0.05	0.286	$ 571,429
Customer C	0.025	0.143	$ 285,714

Rationale:

BPA's proposed revision is the same as the Review workgroup's with the addition of the ability for a customer to indicate a conditional amount of funding. This allows a customer to limit its allocation to a defined maximum amount while ensuring no customer receives more than a relative proportional share of the available funds.

7. Timing of Customer Reporting and Forecasting to BPA

In the Implementation Program, there is no concrete language about the timing of customer reporting of savings and forecasting of EEI expenditures.

[20] BPA will allocate funds by normalizing the TOCAs (i.e., adjusting to sum to 1.0) of those customers requesting funds (BPA will use the TOCAs from BPA's final proposal and net requirements process for the first year of the rate period). Thus, a given customer's allocation is a function of its TOCA relative to all others requesting Unassigned Account funding.

Proposed revision:

Beginning October 1, 2014, BPA will promote the best practice of all customers reporting savings (both BPA-funded and self-funded) to BPA on a monthly basis and, at a minimum, a quarterly basis. BPA will not require any mandatory customer reporting. BPA will also continue the best practice of quarterly forecasting of savings (both BPA-funded and self-funded) by certain customers and periodic forecasting of EEI expenditures by all customers.

Rationale:

The Review workgroup recommended different schedules for reporting and forecasting from what is being proposed. While there were sound rationales for the timing, BPA is instead proposing reporting and forecasting at the same intervals for the sake of simplicity despite the likelihood that during specific months or quarters a customer(s) may not have information to report or forecast.

Appendix

Issue from the Scoping Document	Workgroup Recommendation	BPA Proposal	Summary of Proposed Change
1. EEI Allocation Methodology Using TOCAs	Recommend status quo.	Minor revision to Implementation Program provided in "Assignment of the Energy Efficiency Incentive" (p.7)	New language would extend the minimum 70 percent allocation of EE's capital budget to EEI for the duration of the Regional Dialogue contracts.
2. Two-Year EEI Budgets	Recommendation for roll over to next rate period. Did not include details.	Change to Implementation Program addressed in "Inter-Rate Period Budget Flexibility" (p.11)	Customers would be able to roll over up to 5% of start of rate period budget.
3. BPA "Take Back" of EEI Funds	Recommend status quo.	Revision of Implementation Program addressed in "Redirect of EEI Funding" (p.12)	BPA does not intend to involuntarily reduce ECA implementation budgets for FY2014-2015 rate period and beyond.
4. BPA's Backstop Role	Recommend status quo.	No change to Implementation Program	
5. Unassigned Account Allocation Methodology	Recommendation for weighted TOCA distribution	Revision of Implementation Program addressed in "Assignment of Funds from the Unassigned Account" (p.15)	Allocation of funds from the Unassigned Account would be TOCA-weighted with an option to elect a conditional amount.
6. Large Project Fund	Recommendation for new criteria for Large Project Fund	Revision of Implementation Program addressed in	If third-party financing for EE is put in place, BPA would make available through a Large Project Program (LPP) up to $10M for large

		"Large Project Program" (p.13)	projects on a first-come, first-served basis. BPA may reject requests for more than $2M. The costs of the LPP would be collected from participating customers via a Large Project Targeted Adjustment Charge.
7. Frequency of Changes to the Implementation Manual	Recommendation for rate period manual, or at least annual manual.	Revision of Implementation Program addressed in "Frequency of Publishing the Implementation Manual" (p.4)	The IM would be published annually beginning October 2015. Changes that require six month notice would be announced in April.
8. Directing EEI Funding to Low-Income Residential Energy Efficiency	Recommendation for convening workgroup in future, adopting a principle and preamble and exploring a new model for working with CAP agencies.	Change to Implementation Program addressed in "Low-Income Energy Efficiency" (p.5)	A workgroup on low-income energy efficiency would be facilitated by BPA to improve coordination and collaboration between customers and low-income advocacy groups to overcome some of the barriers to acquiring low-income energy efficiency.
9. Utility Self-Funding	Recommendation for moving EEI to expense and to explore billing credits.	Change to Implementation Program addressed in "Utility Self-Management of Incentives" (p.7)	BPA would consider customer requests for billing credits in exchange for independent conservation. If customer request is approved, BPA would provide the customer billing credits offsetting the effect on BPA's revenue requirement of the customer's TOCA-based portion of EEI. Customer would be required to report savings to BPA and would have a minimum amount of savings it must report during the rate period.
10. BPA Role in Verifying Self-funded Savings	Recommend status quo. Best practice to treat same as savings from EEI- funded measures.	No change to Implementation Program	

11. Limitations of the Post-2011 Framework	Recommendation to improve process for third party programs and address innovative approaches elsewhere.	No change to Implementation Program	
12. Timing of Utility Reporting to BPA	Recommend best practice. Report monthly, or at least quarterly. Forecast mid-way through each fiscal year.	Change to Implementation Program in "Timing of Utility Reporting and Forecasting" (p.15)	BPA would promote best practices related to reporting of savings and forecasting of savings and expenditures.
13. Reporting and Consistency of Utility Self-funded Savings	Recommend status quo.	No change to Implementation Program	
14. Performance Payments for Regional Programs	Recommend status quo.	No change to Implementation Program	
15. Regional Program Administration	Recommend improved process for regional program design.	Revision to Implementation Program addressed in "Developing Regional Program" (p.4)	BPA would follow a structured process that is transparent and collaborative and guided by several considerations when developing new regional programs.