BPA Energy Efficiency Post-2011 Review Response to Public Comment

The Bonneville Power Administration (BPA) released the "Proposed Revisions to the BPA Energy Efficiency Post-2011 Implementation Program" (Proposed Revisions) on June 18, 2014 for public review. To discuss the Proposed Revisions and address stakeholders' questions and concerns, BPA held a public meeting on June 20, 2014. The public comment period was open through July 19, 2014. In response, BPA received public comments from the 32 parties listed below.

Benton PUD	Mason County PUD 3
Big Bend Electric Coop	Midstate Electric Cooperative
Cascade Energy, Inc.	Monmouth Power & Light
City of Ashland	Northwest Power and Conservation Council (NWPCC)
City of Richland	Northwest Requirements Utilities (NRU)
City of Rupert	NW Energy Coalition, et al.
Clatskanie PUD	Northern Wasco County PUD
Community Action Partnership Association of Idaho	PNGC Power (PNGC)
Community Action Partnership of Oregon	Public Power Council (PPC)
Community Action Program of East Central Oregon	Snohomish County PUD No. 1
Emerald PUD	Tacoma Power
Eugene Water & Electric Board	Tillamook PUD
Franklin PUD	Washington State Department of Commerce
Industrial Customers of Northwest Utilities (ICNU)	Wells Rural Electric Company
Idaho Energy Authority	Western Montana G&T (WMG&T)
Lower Valley Energy	Western Public Agencies Group (WPAG)

The public comments received on the Proposed Revisions provide thoughtful and valuable input. The BPA responses below 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 Proposed Revisions be reviewed.

General Comments – BPA received a couple of comments pertaining to the process for the Post-2011 Review and BPA's plans to further explore moving EE's capital budget to expense.

Comments – Regarding BPA's process approach for the Post-2011, Western Montana G&T members "are very concerned by the amount of process complexity involved with the Post-2011 EE review. The split up into multiple workgroups and the extended series of meetings, created a significant burden that limited small utility participation. In the future, a more efficient, streamlined review process should be developed taking into account the travel and staff impact that limits individual utility participation" (WMG&T at 1).

Emerald PUD, in looking ahead to future efforts to improve BPA's energy efficiency program, suggested "BPA should consider extending the time available for public dialogue on each of the identified topics of the workgroups. Especially considering the time devoted to the development of the Phase 1 framework" (Emerald at 2).

Although the issue was not a part of the Scoping Document, the Post-2011 Review allowed for a robust discussion of whether BPA's Energy Efficiency capital budget should be expensed rather than financed through borrowing. In support of expensing energy efficiency, PPC stated "Expensing conservation due to its relatively short measure life, its classification as a regulatory asset, and in offering the ability to avoid debt service may be a reasonable way to finance energy efficiency" (PPC at 2). However, PPC is concerned about the rate impact of moving to expense and, therefore, is supportive "of BPA continuing to work with the region to determine whether there is an appropriate time to return to expensing the program with minimal rate impact" (PPC at 2).

As for continuing the discussion, NRU finds "it is not clear to us as to how BPA intends to proceed and what the interface will be between the Finance and Conservation staff, as well as customers" (NRU at 2). PNGC "is very interested in participating in this work and we think that because of the issues involved this activity should start earlier rather than later" (PNGC at 1).

In the event energy efficiency is expensed in the future, several customers found it important to note that "some of the recommendations are tied to BPA relying upon third party financing for conservation programs, and these would need to be thoroughly reviewed…" (Tillamook, Wells Rural, Monmouth, Richland, Lower Valley Energy, Big Bend, Northern Wasco, Midstate).

Response – BPA agrees with the WMG&T that the process for the Post-2011 Review was intensive and posed a challenge for some customers to fully participate. BPA was aware of this pressure at the outset and designed the process with this in mind. Knowing that it would be difficult for customers of all load sizes to participate in the workgroups, BPA scheduled and held several regional "big tent" meetings with the explicit purpose of giving all customers the opportunity to engage in the process and to do so at little cost given participation was possible via conference call and LiveMeeting. BPA always welcomes feedback on ways to improve its relations and processes with customers and stakeholders and welcomes particulars on how to have future processes be more efficient and streamlined. BPA will take these comments into account for future processes.

Regarding the issue of moving EE's capital budget to expense, as stated in the Post-2011 Review closeout letter, BPA will further evaluate, in collaboration with customers and stakeholders, moving from capital to expense. BPA will engage the region in evaluating the business case for moving to expense and strategies for making a capital to expense transition, if warranted, prior to the BP18 initial proposal. A decision on what to assume in the initial proposal would occur in the 2016 Integrated Program Review with opportunity for public input. BPA will also engage customers and stakeholders to think through any changes to the EE program that would be necessary as a result of moving to expense, such as modifying the EEI funding mechanism and budget flexibility mechanisms. In the meantime, as stated in BPA's Access to Capital Strategy, BPA is pursuing third-party financing for funding approximately 70% of EE's capital program (EEI portion) with FY 2016 as the target date for implementation.

Developing Regional Programs – When developing new regional programs, BPA will follow a structured process that is transparent and collaborative and guided by several considerations.

Comments – Writing generally about conservation programs, WMG&T wanted "to particularly focus BPA's attention on the principle of providing customer benefits at the local level. Too often, we feel like conservation programs get focused on the population centers of the I-5 corridor ignoring the rural utilities and significant differences at the eastern edge of BPA's service area" (WMG&T at 1). Additionally, WMG&T finds that "third party programs must also show more transparency regarding the function of the program and the associated costs" (WMG&T at 3).

Concerning BPA's existing regional programs, Emerald encourages BPA to apply the proposed structured process "to evaluate existing regional programs so that all the listed considerations in the Proposal are being met by these programs" (Emerald at 2).

Thinking about new regional programs, Snohomish suggested that "BPA should consider a model that could better support its customers at sub-regional or 'cluster' levels based on need…BPA may identify a certain set of services for utilities along the I-5 corridor, or a different set of services that are better suited for similar small, or rural customers. In either case, BPA could, if requested by customers, facilitate these same utilities working together, sharing a common solution" (Snohomish at 2).

Response – BPA takes seriously the aim of providing broad regional benefit with regional programs, such as Simple Steps, Smart Savings, Energy-Smart Grocer, and Energy Smart Industrial. Therefore, BPA is concerned that WMG&T thinks that benefits are disproportionately experienced by certain parts of the region. Over the coming months, BPA plans to undertake a comprehensive effort to demonstrate the broad regional benefit of its third party programs. This will include, as suggested by WMG&T, more transparency regarding the functions and costs of the programs. In the meantime, BPA finds that it is important to list some of its focus areas that do or will provide a benefit to Montana customers or those in heating zone three, such as offering a Montana House measure set (new construction), Line Voltage Thermostats, performing additional field testing of heat pump water heaters, and trying to site a High Performance Manufactured Home in Heating Zone Three.

In response to Emerald's suggestion that BPA review existing regional programs to ensure the listed considerations are being met, the list of considerations applies to designing future rather than existing programs. The existing programs have contracts in place and, therefore, could not easily be redesigned. Instead, BPA is committed to the structured process and the listed considerations for upcoming programs and looks forward to collaboratively designing new programs with those considerations in mind. Feedback on existing programs, however, is always welcome.

BPA appreciates input on new design approaches to regional programs, as suggested by Snohomish. As BPA moves forward with a structured process for stakeholder input in designing regional programs, input, such as designing programs at "sub-regional or cluster levels," is welcome and will be considered along with all other program approaches brought forth by BPA, customers and stakeholders.

Frequency of Publishing the Implementation Manual – BPA will publish the Implementation Manual annually on October 1 beginning October 1, 2015. Changes that require notice will be announced the previous April in a separate changes document. After the October 1 publication, BPA may only make two types of changes to the language put in place on October 1, at anytime: 1) corrections, as necessary; and 2) changes resulting from BPA supply chain contract actions for program support services. Aside from those two changes, no changes to the language put in place on October 1 will be made for a year. In the April changes document, along with change notices for the forthcoming October, BPA will remove requirements, as applicable, and also introduce any new measures and calculators (such as new lighting calculators) that will be optional as of the changes document publication date. The goal of the new publication policies will be to provide more stability for customers to run their programs as well as to provide BPA some flexibility to introduce optional changes half way through the publication cycle.

Comments – Many customers agreed with transitioning "to an annually published manual and periodically monitoring results" (City of Rupert, Tillamook, Wells Rural, Monmouth, Richland, Lower Valley Energy, Big Bend, Northern Wasco, Midstate).

In support of its move to an annual publication rather than moving immediately to a rate period manual, BPA stated its concern about the length of time between changes and the risk that savings will not be captured as accurately as possible. BPA committed to assess this risk through research of changes to savings during the course of an annual IM publication. Idaho Energy Authority is "doubtful there will be material adverse consequences moving to a Rate Period IM, we will look forward to seeing the results of the research into this issue. Hopefully this can be completed quickly and a move to the Rate Period IM can be made as soon as possible" (Idaho Energy Authority at 1).

Several comments supported the move to annual publication, but encouraged BPA to continue pursuing publication once per rate period. Franklin found that “annual publication of the IM is a reasonable compromise between the current six-month schedule and what customers requested (rate period). We would further suggest that customers be able to implement those items that require six months’ notice sooner than that, if the customer so desires” (Franklin at 1).

Similarly, WMG&T stated “the proposal to change this to annual updates is a step forward but WMGT members were disappointed that the recommendation to match implementation manual changes to the 2 year rate period was not adopted. Small utilities face an added staff burden of keeping up with changes and the 2 year duration would have provided more consistency and a lesser staff burden. We are not convinced by the argument that savings would not be captured accurately” (WMG&T at 1). PPC believes that “BPA and its customers should continue this discussion to determine whether a rate period update would provide more benefit without significant addition of risk. If it is determined that is the case, BPA should fully implement the workgroup’s recommendation to update the manual on a rate period basis” (PPC at 5).

Tacoma also encouraged a rate period publication and finds that “the IM can serve as a ‘living’ document subject to change when new measures are defined using manual addendums as needed” (Tacoma at 2). Clatskanie “supports the move to an ‘annual manual,’ but would like to see positive savings and payment up changes occur without six months notice” (Clatskanie at 1).

Response – BPA is committed to researching changes to savings during the annual publication of the IM, such as savings changes made by the Regional Technical Forum. BPA would like to clarify that its commitment does not entail a de facto change to a rate period publication if the risk of savings changes is found to be minimal. There may be other factors that, after additional consideration, would prevent BPA from publishing the IM once per rate period.

Franklin suggested that customers should be able implement the changes noticed in April before they take effect in October. Unfortunately, BPA is unable to support that flexibility due to the serious challenges of tracking variable adoption calendars by customer and by measure.

BPA agrees that small customers face added staff burden of keeping up with changes made in the IM, which was one of the drivers for BPA to propose moving to annual publication. BPA also appreciates that customer staff burden could be further reduced by moving to a rate period publication, but BPA finds this benefit must be considered along with all other pros and cons of moving to a rate period publication. As mentioned above, BPA has committed to considering IM publication frequency in the future and will most certainly factor in customer staff burden into that consideration.

Regarding Tacoma’s suggestion of treating the IM as a ‘living’ document that allows for new measures, BPA has decided to allow the introduction of new measures halfway through the year. Clatskanie requested that increases to savings and BPA payments be allowed without notice, but BPA finds that increasing savings and BPA payments without notice would cause too much customer concern about disruption to existing programs and a lack of time to prepare for those changes.

Low-Income Energy Efficiency – BPA will sponsor a low-income workgroup to explore ways to overcome some of the constraints to serving low-income consumers.

Comments – In response to BPA not proposing the recommended low-income preamble and principle, PNGC asked that "BPA recognize and reconsider the first recommendation of the work group which did indeed reach a consensus and that is BPA 'Adopt a low-income energy efficiency guiding principle'" (PNGC at 3). The Community Action Partnership of Oregon similarly requested that BPA "include the original mission statement and include the need for additional low-income work" (Community Action Partnership of Oregon at 1).

Some initial research on how low-income consumers are being served was discussed during the Post-2011 Review. For example, NW Energy Coalition et al. shared in their comments that "information from BPA indicates that in 2014 only 23 (out of 133) utilities reported information regarding low-income energy efficiency savings" and they declared that "the need for specific, targeted, low-income energy efficiency services is high; demand is greater than current resources can meet" (NW Energy Coalition, et al. at 2). Additionally, they commented that low-income consumers "pay into the BPA system through their bills but the cost structure of regular energy efficiency programs makes their participation unaffordable. Fairness requires that these customers have access to programs they can afford" (NW Energy Coalition, et al. at 2). Washington State Department of Commerce stated that "as a region, we should recognize the barriers created by limited income and make programs available that are fair and affordable for all" (Washington State at 1). One such barrier identified by the Idaho Energy Authority "is that the current program does not cover all costs of allowable measures (Idaho Energy Authority at 1).

In support of additional research on the degree to which low-income consumers are being served, the Northwest Power and Conservation Council recommended that "Bonneville review whether low-income customers in some areas are receiving their share of the benefits of energy efficiency" (Northwest Power and Conservation Council at 3). Washington State Department of Commerce shared the "concerns of the Northwest Power and Conservation Council and agree that it would be helpful to understand the scale and scope of the low income energy efficiency need in our region" (Washington State at 2).

BPA's proposal to sponsor an ongoing workgroup to increase coordination and collaboration among parties involved with low-income energy efficiency was met by broad support. PNGC "encourages the region to work towards improving processes that currently exist between all low-income agencies (BPA, state, federal and local)" (PNGC at 3). Either through the BPA-sponsored low-income workgroup or some other venue, Mason 3 "would like to encourage BPA and stakeholders to find common denominators for reporting energy savings to both the State and BPA, and identify a way for utilities (especially I-937 utilities) to claim energy savings that are achieved through the weatherization and energy efficiency work of CAP agencies" (Mason 3 at 2).

BPA did not propose, as was recommended, to allow customers to voluntarily set aside some EEI funding to be directed by BPA for low-income energy savings. Washington State Department of Commerce found that a set-aside method or process for incentive funds "makes sense, especially for smaller utilities that are committed to helping their customers improve energy efficiency, but do not have the capacity or expertise to administer robust low-income energy efficiency programs (Washington State at 2). NW Energy Coalition, et al. does not believe that "BPA devoted sufficient resources to exploring this recommendation and we urge BPA to implement this recommendation" (NW Energy Coalition, et al. at 2). Similarly, the Community Action Partnership of Idaho perspective was that "the ability for BPA utilities to designate EEI funding to support low-income energy efficiency programs has already been discussed during the workgroup process and the resulting recommendation should be adopted by BPA" (Community Action Partnership Association of Idaho at 1 and 2).

Commenting on BPA's low-income role, Monmouth does not believe sponsoring a workgroup "is a role to be undertaken by BPA. Rather…BPA should consider implementing new, or enhancing existing, measures that will qualify as deemed measures in the future programs…we prefer BPA expend its efforts on program enhancement rather than direct funding of CAP programs" (Monmouth at 1 and 2). Benton stated that "implementation of the Low Income Program should be governed by BPA but should be kept at the local level" (Benton at 2). Tacoma encouraged "BPA to continue to allow utility customers the option to continue their own low-income programs" (Tacoma at 2) and Snohomish discouraged "any BPA spending to develop a separate low-income tracking system beyond what is already in use by utilities for reporting savings to BPA" (Snohomish at 3).

Outside the scope of the Post-2011 Review due to their focus on BPA's low income grant program, Snohomish urged "BPA to ensure that both expensed and capitalized low-income EE funding allocations remain consistent with public power's Tier One Cost Allocation (TOCA). Snohomish further requests that BPA review with its customers the annual grants to States for low-income weatherization (Snohomish at 3)." Emerald held a similar opinion that "low-income energy efficiency dollars should only come from local utilities and BPA should reduce or eliminate the amount of dollars committed to state grants for low-income energy efficiency. Alternatively, these dollars should be re-directed towards the local utility for them to manage their local low-income programs in the best way for their local service area" (Emerald at 3).

<u>Response</u> – BPA recognizes the need for low-income energy efficiency services and is dedicated to working with customers and stakeholders to increase the amount of low-income energy savings throughout the region. In response to the broad support for BPA adopting the recommended low-income principle, BPA will revise its proposed revision as follows:

> "Given the need for serving low income consumers while not requiring customers to direct EEI funds to specific opportunities at the retail level, BPA believes the following considerations should be added to help guide customers serving low-income consumers:
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> - Financial constraints limit low-income ratepayers' participation in traditional incentive-based efficiency programs.
> - There are a large number of low-income households throughout BPA's service territory that could benefit from energy efficiency measures.
> - Existing sources of funding, including state and federal resources, are insufficient to meet current low-income efficiency investment needs.

- The high number of funding sources used for this work and the number of entities involved complicates effective and efficient program implementation and reporting.
- Current efforts sometimes lack coordination and could benefit from improved communication.
- Management and administration of programs usually works best when there is involvement at the local level, i.e., from the utility and low-income agencies.
- One single solution will not work in every electric service territory and for every customer the management and administration of low-income initiatives is best done at the local level.
- BPA encourages customers to provide, whenever reasonable to do so, equitable access to energy efficiency services tailored for low-income consumers funded through utility self-funding and/or BPA incentive dollars.

> To help support the broad implementation of this guidance, BPA will work with its customers and low-income agencies to increase coordination and collaboration among the parties involved with low-income energy efficiency. To that end, BPA will sponsor a Low-Income Energy Efficiency (LIEE) workgroup (and necessary sub-groups) that will meet regularly to continue exploring some of the discussions identified during the Post-2011 public processes. As part of this effort, BPA will prioritize further review of an EEI set-aside method as one of the goals of the workgroup. BPA will also continue researching (potentially through a sub-group or other means) streamlining reporting and adopting a better methodology for CAP agencies and customers to report and track savings."

BPA agrees with the Northwest Power and Conservation Council and Washington Department of Commerce about understanding the scale and scope of the need for low-income energy efficiency services in the Northwest. That undertaking could take place as part of the BPA-sponsored low-income workgroup's efforts. BPA is interested in exploring with customers and stakeholders the full spectrum of how customers and others serve and provide services to low-income consumers.

In response to Idaho Energy Authority's comment that the current program does not cover all costs of allowable measures, BPA refers readers to pages 90-92 of the April 2014 Implementation Manual, which states, "Funds may be used for repair work" (at 90) and "all costs directly attributable to the installation of the measure are eligible for dollar-for-dollar reimbursement…including costs that protect the integrity of the measure" (at 91).

BPA disagrees with Monmouth's comment that sponsoring a low-income workgroup is not a role for BPA to play. The majority of comments expressed support for BPA playing such a role. BPA finds itself in a unique position of being able to bring together customers and stakeholders to further many of the discussions that occurred between such parties in the Post-2011 Review. In addition to further considering ways to streamline reporting and addressing other barriers, BPA agrees with Mason 3 on looking for ways customers can claim energy savings for weatherization and energy efficiency programs managed by CAP agencies.

In response to comments by parties advocating for BPA to adopt the recommendation to allow customers to voluntarily set-aside EEI funds to be managed by BPA for low-income investments, BPA maintains its position that the idea deserves further consideration to explore its merits, feasibility, cost, etc. This is actually in line with a suggestion in the workgroup recommendation, which states "It is recommended that BPA spend time to determine if and how best this [the proposed method or process] could work best for Utilities, the CAPs, other Stakeholders, and BPA" (Workgroup 3 Recommendation Report at 3). BPA will propose further consideration of such a method or process to the forthcoming low-income workgroup sponsored by BPA.

It should be noted in response to the comments by Benton, Tacoma and Snohomish that neither the workgroup nor BPA has proposed or is proposing anything that is mandatory for customers. The focus of workgroup discussions centered on identifying the barriers that exist at the local level to serving low-income consumers and possibilities for overcoming those barriers. BPA is not proposing anything that would force customers to do something they would not otherwise want to do. BPA has sought and will continue to seek ways to bolster services to low-income consumers while supporting customer local control.

Although BPA's low-income grant program was out of scope for the Post-2011 Review, it will be within scope of the forthcoming low-income workgroup. BPA supports further consideration in that workgroup of Snohomish's proposal that those grants should be consistent with the TOCA allocation methodology. BPA does not support Emerald's opinion that the funds BPA provides to its state low-income grant program should be re-directed to customers. Ensuring low-income consumers throughout BPA's service territory receive energy efficiency benefits is an important public service. The states and Community Action Agencies and other low-income groups generally have the experience, infrastructure and resources to ensure that public service is provided broadly, especially in those areas where customers may not have adequate resources to provide the public benefit on their own.

Assignment of the Energy Efficiency Incentive – On a prospective basis, BPA proposed to allocate at least 70 percent of the EE capital budget to customer incentive budgets (EEI) with the remaining budget allocated to BPA-managed capital costs.

Comments – While Clatskanie PUD agreed with "the proposed clarification of BPA's allocation policy with at least 70% for EEI budgets and the remaining amount for BPA-managed capital costs (Clatskanie at 1), WMG&T argued that "BPA must be much more transparent on the flow of funds to the 30% BPA-managed programs especially with regard to overhead costs and the use of third-party contractors. WMGT members are particularly concerned whether the 30% costs provide value to our ratepayers and are an efficient use of ratepayer funds" (WMG&T at 2). In a similar vein, Snohomish recommended that "BPA engage its customers in a review and prioritization of the BPA-managed portion, or approximately 30-percent, of its capital funding levels. This recommendation extends to a review of BPA's EE expense budgets as well. It is not clear that the BPA-managed portion of the capital budget needs to increase in the same proportion that EEI funding increases. As the total EE capital budget increases, the percent allocated for BPA-managed programs should decrease, through efforts to minimize overheads for public power EE" (Snohomish at 3).

Response – BPA agrees with WMG&T that the region would benefit from increased transparency on the 30% BPA-managed funds. To that end, by the end of the calendar year, BPA intends to publish details about what is funded and accomplished with these expenditures.

BPA reviewed is expense budget at a workgroup meeting based on Snohomish's recommendation that demonstrated that a sizeable portion of the expense budget goes to paying the debt service on previous capital borrowing for energy efficiency. This realization lent support to the argument that BPA should expense rather than capitalize EE investments to reduce the amount of debt service costs over time. As noted earlier, BPA expects to further discuss expensing EE in the FY 2016 Integrated Program Review (IPR).

Snohomish also requested clarity as to why the 30/70 split must increase proportionally over time. BPA has set the 30% as a maximum threshold amount. To date, BPA has deployed fewer funds than the 30% limit in each year since October 1, 2011 and allocated unspent funds to customers via the Unassigned Account. BPA believes it is more reasonable to set an upper-bound limit and reallocate unspent funds via the Unassigned Account than have too low of a limit that could mean missed opportunities of regional benefit. Finally, maintaining the program at no more than 30% provides flexibility to adjust to changes in the cost of third-party regional programs which often escalate as program adoption ramps up. For example, programs such as Energy Smart Industrial rely on in-the-field engineers to perform services and achieve energy savings. As BPA increases the amount of incentives that flow through a program to capture savings, more resources, such as engineers, are often needed to adequately deploy those incentives, which can increase the cost of programs proportionally to the amount of incentives.

Utility Self-Management of Incentives – BPA will consider customer requests for billing credits in exchange for customers undertaking independent conservation activities beginning in the FY 2016-2017 rate period and through the remaining term of the Regional Dialogue power sales contracts (assuming BPA continues to debt finance conservation incentives (EEI)).

Comments – A number of comments focused on the proper sequence for considering implementation of the proposed billing credits program: "BPA should complete the analysis of expensing conservation, and in conjunction with customers, draw conclusions as to the future approach [to funding conservation] prior to implementing a new billing credits program (Northwest Requirements Utilities, Tillamook, Wells Rural, Monmouth, Richland, Lower Valley Energy, Big Bend, Northern Wasco, Midstate). WPAG recommended that, after further exploration and development, BPA should "provide the region another opportunity to review and comment on the billing credit proposal before it is implemented" (WPAG at 1). In reference to BPA's requirement to revise its existing policy on billing credits, WPAG requested workshops to allow "BPA's legal staff [to] walk participants through its analysis as to the application of section 6(h) to the conservation billing credit proposal" (WPAG at 2).

BPA stated its intent to consider billing credit requests beginning in FY2016, but Snohomish expressed "its willingness to 'test' or pilot implementation of the billing credit concept as soon as BPA has systems in place" (Snohomish at 3).

WMG&T "is very concerned about the lack of clarity about how this process would work and the specific details associated with development of the Billing Credits Contracts. The contract development and specific details should not be developed in a manner that would favor a small number of large utilities or utilities only located in the state of Washington with unique statutory requirements. Smaller utilities from outside Washington should be given an equal opportunity to participate in the efforts to develop the Billing Credits Contract specifics and determine whether the use of billing credits would provide the opportunity to customize their Energy Efficiency programs to better reflect their unique circumstances…In short, in order for this proposal to be a durable improvement it must be designed to offer an equitable opportunity for participation" (WMG&T at 2). Similarly, PPC stated "there must be recognition in the program that not all utilities are the same. The contract for the billing credit must provide a workable solution for all types of utilities, small and large, as well as urban and rural (PPC at 3).

Regarding customers not requesting billing credits, City of Ashland expressed its concern that those customers "are not negatively impacted" (City of Ashland at 2). WPAG is similarly concerned and commented that "billing credits could increase the rates of non-billing credit customers in one of two alternative ways: First, by increasing the cost of BPA's EE program due to increased costs to BPA in its implementation, including but not necessarily limited to increased BPA oversight and administrative costs; Second, by keeping BPA's EE program costs relatively flat but by spreading those costs over fewer utilities and a smaller number of billing determinants" (WPAG at 2).

WPAG is also concerned that "one potential outcome of the proposal would be a diminution in the conservation services and options provided by BPA to non-billing credit customers." They are also interested in knowing "whether the billing credit program would create any administrative savings for BPA and, if so, whether such savings would help reduce the overall size of BPA's energy efficiency budget" as well as how "any remaining conservation billing credits will be treated at or following the expiration of the current Regional Dialogue Contracts in 2028" (WPAG at 2).

In its proposal for billing credits, BPA proposed that a customer receiving credits would have a minimum amount of savings to report during a given rate period. Franklin commented that "there must be a reporting and accountability mechanism for customers that choose this option" but it did not think that "a savings target is appropriate. EEI reimbursements are currently based on dollars spent on approved measures, and it seems that under self-management, a similar accounting should be sufficient to ensure that the energy savings are being delivered (Franklin at 1). PPC cautioned that "utilizing the billing credit should not be overly onerous" and made clear that a savings target is "a requirement that those remaining in the program do not have" (PPC at 3). PPC and Benton agree that "any energy targets must be compatible with the energy targets that are required by state law, current or future, including Washington's I-937. Where utility conservation potential assessments do not align with an applied portion of the regional target, BPA should work with the utility to reconcile the difference (PPC at 3 and Benton at 2). PPC also wanted clarification that the responsibility of customers to contribute to the overall 25% self-funded savings expectation would not be included in a customer's billing credit savings target (PPC at 3).

Snohomish commented that “BPA must work to support a local utility’s savings targets when such targets are based on the utility’s formal conservation potential assessment, and its formally adopted Integrated Resource Plan (IRP)…Snohomish questions BPA’s proposal to assign a utility-specific savings target to a utility solely because it elects billing credits…a separate savings target should not be assigned at the individual utility level, exclusively for those utilities electing to receive billing credits…Snohomish looks forward to working with BPA and the region to specifically clarify and resolve this situation in a manner that does not create additional complexity and risk for Washington utilities subject to Initiative 937” (Snohomish at 4).

Several entities shared concerns about the potential for unforeseen implementation consequences of billing credits and stated “there are some disadvantages, both to the customer and to BPA, particularly if it is only an interim solution:

- It will increase BPA’s administrative costs to offer two different mechanisms to fund incentives.
- Billing credits could pose questions as to how the remaining unamortized amount of the credits would be recovered post-2028 when Regional Dialogue contracts expire.
- Having utilities utilize two different funding approaches could create opportunities for different perspectives within the public power community regarding the future role and budgets of BPA for conservation” (Northwest Requirements Utilities, Tillamook, Wells Rural, Monmouth, Richland, Lower Valley Energy, Big Bend, Northern Wasco, Midstate).

PNGC stated “additional details on the financial, rate effects and actual contract language are needed to determine the ultimate usefulness” of billing credits and asked whether billing credits would be possible for a pooling group such as PNGC (PNGC at 2).

The Council “supports the Billing Credit approach provided it retains Bonneville’s backstop authority, through Energy Conservation Agreements and the option to suspend the Billing Credit in the event of a shortfall. We recommend timely evaluation of participating utilities’ progress toward the savings contracted through Billing Credits” (Northwest Power and Conservation Council at 2).

Snohomish reiterated its comment that “any residual unamortized balance from EEI borrowing at the end of the Regional Dialogue contracts must not be assigned to utilities that did not create the need for the borrowed funds. This is core to the equity principle agreed upon as part of the post-2011 allocation of EEI. It would create unacceptable risk to a utility choosing billing credits unless there is contractual assurance that customers using billing credits are not subject to repaying the debt” (Snohomish at 4). Snohomish also took issue with BPA’s proposal to keep its oversight and evaluation role the same even if a customer pursues billing credits and stated the “Proposal reserves all of BPA’s requirements for EEI without any recognition that the funds are not borrowed…(Snohomish at 4).

Response – BPA agrees with the multiple comments about the proper sequencing of implementing billing credits and that the ideal situation would be to first decide the expense issue. BPA will further consider, in collaboration with customers and stakeholders, moving EE’s capital budget to expense, but this will take time to study and work through. If BPA waits until the expense issue gets decided customers would miss out on the opportunity for billing credits in the near term. BPA believes it can move expeditiously to draft a billing credit contract template and provide a public process to allow customers and stakeholders the opportunity to review and comment on the draft contract and draft supplement to BPA's existing Billing Credits Policy for implementation in FY 2016, providing more to gain than lose by moving forward on billing credits now. This quick timeline for implementation is designed to get as close as BPA feels is possible to meeting Snohomish's request for making billing credits available as quickly as can be accomplished.

BPA understands the importance of gathering customer and stakeholder input on how to implement billing credits and will provide customers and stakeholders in October 2014 the opportunity to review: 1) a draft billing credits contract; and 2) draft revisions to the agency's 1993 Billing Credits policy. This public engagement period will provide the customer requested opportunity to discuss with interested parties the application of section 6(h) of the Northwest Power Act to conservation billing credits.

WMG&T and PPC expressed concern about billing credits being a workable solution for all types of customers. From the outset, this has been BPA's intention. BPA is confident that conservation billing credits could work for all its customers, so long as a customer is willing to perform the independent conservation and agree to meet the targets stipulated in its billing credits contract.

Ashland and WPAG are concerned for non-billing credits customers. BPA recognizes this issue and intends to ensure that those customers are not harmed by some customers receiving billing credits. Consistent with the Northwest Power Act, BPA intends that the rate impact on its other customers from providing conservation billing credits will be neutral. As for WPAG's concern that implementing billing credits may increase the cost of BPA's EE program, BPA understands the concern and is planning to administer and oversee conservation billing credits at minimal cost. BPA believes its oversight of billing credits customers will be the same as for non-billing credits customers and intends to require the same adherence to the Implementation Manual whether a customer chooses to take EEI funds or receive billing credits.

As for WPAG's concern about EE's program costs being spread over a smaller number of billing determinants, BPA intends to structure its conservation billing credits program to ensure the costs (e.g., the credits) provided to participating customers align with the corresponding reduction in the customers' EEI budgets under their Energy Conservation Agreement, or its successor. As such, only the funding amount of a customer's EEI budget would be eligible for billing credits, so non-billing credits customers are not expected to see a higher rate than they otherwise would in a program without billing credits.

Franklin, PPC, Benton and Snohomish all took issue with BPA's proposal to include a savings target in the billing credits contract but BPA believes such a target is necessary pursuant to requirements established in section 6(h) of the Northwest Power Act. The language in section 6(h) provides that the customer is undertaking independent conservation activities which relieve the Administrator from otherwise having to acquire resources. The customer enters into an obligation to develop and achieve an amount of conservation. Without the savings target there would be no way to determine the size (i.e., amount of savings) the customer's independent conservation resource is expected to produce. Under section 6(h) the billing credit amount is based on actual savings achieved which reduce the customer's net requirements. Therefore, BPA believes there must be a savings target reflecting the customer's independent conservation activities.

As customers and stakeholders will see upon review of the draft billing credits contract, the savings target will also be accompanied by a spending target that matches what a customer's EEI budget would be were the customer in the EEI program. Although not originally envisioned in the Proposed Revisions, BPA finds that a spending target is also necessary. BPA believes that the combination of a spending target and a savings target is necessary to ensure that customers pursuing billing credits invest in and deliver energy savings at a level at least consistent with the performance they would have achieved under the EEI program.

Regarding PPC, Snohomish, and Benton's comments about billing credits being compatible with state law, BPA understands the concern, but does not agree that it can be a primary design criterion. Billing credits are provided by BPA under the Northwest Power Act, which is not circumscribed by state law. In this instance, BPA is cognizant that some customers are required by state law (Washington's I-937) to develop and acquire conservation and is supportive of those customers. From a more practical standpoint, BPA hopes customers can appreciate that negotiating individual targets with each billing credit customer would be rife with difficulty. Rather than pursue such a course, BPA has opted to arrive at individual targets, regardless of utility characteristics or state mandates, using a straightforward calculation that represents the EEI budget a customer would receive were it a part of the EEI program. If this poses substantial complexity or risk for a Washington utility subject to I-937, or any customer, there is always the choice not to elect billing credits.

In response to PPC's request for clarification, the responsibility of billing credits customers to contribute to the overall 25% self-funded savings expectation will be above and beyond the savings target in a customer's billing credit contract. The billing credits savings target will represent an average level of savings a customer would have achieved given the amount of EEI funds that customer would have received were it an EEI customer. As is the case today, it is expected that 25% of the BPA's programmatic target will be met by customers, in aggregate, delivering savings above and beyond the savings corresponding to EEI budgets and billing credit contracts.

As for the concerns about unforeseen consequences raised by NRU and other customers, BPA will be structuring billing credits so that customers can participate with no significant changes in BPA's overall costs or administrative burdens. Regarding the concern about any unamortized billing credits after 2028, "unamortized" billing credits are not the same as "unamortized" debt (billing credits and EEI are both collected for in rates, but only EEI incurs a cost). A billing credits customer could continue to receive a credit after 2028 so long as it continues to take service from BPA. If a customer were to terminate its service relationship with BPA, then the credit would end as well without other customers having to bear any costs. In either case, non-billing credits customers would be held harmless. As for the concern about different perspectives within public power as a result of some customers receiving billing credits, BPA views billing credits solely as an alternative funding means for energy efficiency incentives. BPA is structuring billing credits in a way that should allay WPAG's concern about a diminution of services to non-billing credit customers since billing credits only covers a customer's EEI portion of BPA's EE capital budget.

In response to PNGC's query about pooling groups such as PNGC being eligible to receive conservation billing credits, BPA does not see any barrier that would prevent PNGC from being eligible for conservation billing credits. PNGC, as a joint operating entity, is a customer and purchases firm power from BPA to supply the needs of its members—preference utilities that formerly purchased directly from BPA. As a customer, PNGC would be eligible to request conservation billing credits that would be based on conservation savings achieved by PNGC member utilities.

BPA appreciates the Council's support of BPA's proposal to offer conservation billing credits. Billing credits will not change BPA's commitment to the Council's Power Plan target and will not modify BPA's backstop role or any BPA customer's obligation to participate in the costs of BPA fulfilling that role. Billing credits will be offered on a rate period-by-rate period basis and if there is underperformance in one rate period, BPA reserves the right to not extend new billing credit offerings for subsequent rate periods. BPA supports the Council's recommendation for timely evaluation of performance and, to that end, the billing credits contract, as proposed, will include a provision for quarterly reporting of accomplishments.

Regarding Snohomish's concerns about unamortized debt after 2028, BPA, as with all other debt incurred by the agency, cannot and will not cordon off a part of its debt and provide assurance to certain customers that they will not be responsible for paying those costs in the future. In the case of conservation, BPA must ultimately recover its costs from its customers. As for the concern about BPA's proposal not to change its oversight and evaluation role for billing credit customers, the source of funding for incentives does not change BPA's need and statutory obligation to ensure energy savings are real and reliable. From a more practical point of view, BPA intends to keep parity between EEI and billing credit customers.

Inter-Rate Period Budget Flexibility – Beginning October 1, 2015, assuming third-party financing is on track to be implemented in FY 2016, customers will have the ability to move up to five percent of their start of rate period EEI budget to the subsequent rate period. This means customers will be able to move up to five percent of their start of FY 2014-2015 rate period EEI budget to the FY 2016-2017 rate period.

Comments – WMG&T members "are concerned that the revision to allow a utility to rollover up to 5% of their EEI dollars between rate periods is an amount too small to be useful. Members have determined that the 5% rollover is too low and would serve no useful purpose. In order to be useful, we suggest that the rollover amount be up to 25% with a specific not to exceed threshold" (WMG&T at 2). Similarly, Clatskanie stated the "proposed five percent maximum would severely limit our ability to use such a provision. As a utility with mostly industrial load, many of our energy efficiency measures are custom projects that are larger than five percent of our budget. Clatskanie PUD supports a rollover provision that also has a project specific approach, with approval by the COTR" (Clatskanie at 1).

Emerald recommended BPA consider moving funds back and forth between rate periods: "BPA should consider going even further by allowing a utility to move more than 5% of its rate period EEI into future rate periods and allowing a utility to pull 5% or more of its forecasted rate period EEI into the current rate period" (Emerald at 3). IDEA also supported a mechanism that "would allow utilities to move forward with their program should they expend their EEI budget before the end of the Rate Period" (Idaho Energy Authority at 2).

Looking ahead, PNGC hopes that "when the transition back to expense is made that BPA will be able to retain this roll over flexibility" (PNGC at 2).

Response – In response to the comments about increasing the five percent maximum, BPA appreciates that the amount may not be adequate to cover all projects or be sufficient for those customers, such as Clatskanie, that may not have consistent conservation opportunities. However, the roll-over mechanism as proposed was intended to only solve for the end of rate period stress on customers and BPA that results from customers trying to invoice BPA for every last EEI dollar. In addition to the difficulty of administratively tying roll-over funding to specific projects, BPA finds that there are other means to address the problem of projects slipping into a subsequent rate period, such as bilateral transfers and utility self-funding.

BPA will not allow customers to pull money from future rate periods because it would likely lead to several potential problems, such as how to properly track budgets through time, how to synchronize the use of funds from a rate period with changes to programs resulting from different power plans, and undercutting the assumption of 25% utility self-funding as customers pull money forward instead of self-funding.

Redirect of EEI Funding – For the FY2014-2015 rate period, BPA will not redirect EEI funds. For rate periods beyond, BPA will periodically review customer achievements and, if significant underspending of EEI takes place, engage in discussions with customers and stakeholders to develop criteria for redirecting funds.

Comments – WMG&T commented, "BPA should also clarify its vague statements about periodically reviewing customer achievements as it implies future re-direct efforts may occur" (WMG&T at 3).

Response – The recommendation from the workgroup included a request for further discussions to develop criteria for redirecting funds after the FY2014-2015 rate period. In the Proposed Revisions, BPA stated further discussions were unnecessary given the drivers in place that ensure customers use their EEI budgets. BPA was also clear that it was not relinquishing its ability to redirect funds if unforeseen circumstances arise, which will involve periodic monitoring of expenditures. If unforeseen circumstances do arise, BPA will engage with customers and stakeholders to develop criteria for redirection.

<u>Large Project Program</u> – Beginning October 1, 2015, BPA will change the Large Project Fund to the Large Project Program (LPP). The LPP is a BPA energy efficiency acquisition program that will provide incentives above and beyond rate period EEI budgets to customers for "large" projects on a first-come, first-served basis. The LPP is contingent upon third-party financing and the cost of LPP acquisitions will be collected via a targeted adjustment charge from those customers that receive LPP funds

<u>Comments</u> – BPA has proposed to exercise discretion as to whether or not to fund LPP requests of more than $2 million. EWEB thinks "it would be nice to see a decision criteria that might include things like what it is doing for the local area, like job creation. Thinking there should be more than just it looks like they are installing some great measures" (EWEB at 1).

City of Richland and others support the proposed LPP and "encourage BPA to also continue to work on other tools, such as the pay for performance option" (Richland, Tillamook, Wells Rural, Monmouth, Lower Valley Energy, Big Bend, Northern Wasco, Midstate).

Mason 3 would like to "clarify and/or encourage BPA to allow LPP project submission at any time of the project's lifecycle during the rate period…up until the Completion Report is prepared and submitted…having the flexibility on when to submit a project for LPP consideration will be helpful" (Mason 3 at 1).

WMG&T is "very concerned that the Large Project Program will be narrowly focused on large utilities near the population centers in the I-5 corridor. The focus on large industrial and commercial projects precludes the usefulness of this program for small, rural utilities. BPA needs to provide additional assurance that the Large Project Program will not adversely [impact] utilities that have no ability to participate in the program. It is not at all clear how BPA will limit the cost of LPP projects only to those customers requesting use of the program" (WMG&T at 3).

Benton, Tacoma, PPC, Emerald and Clatskanie support a revision that would allow utilities to pay back the LPP funds with unspent EEI or future TOCA-based EEI funds (Benton at 2, Tacoma at 1, PPC at 4, Emerald at 4, and Clatskanie at 2).

Clatskanie cautioned that "the possible revocation of funds for projects not finished in the rate period causes a large risk for the utility and its customers. Many large projects cross rate periods and without a guarantee that funding will be available in the next rate period, the risk of not having funding at the end of a project could keep the project from being approved at some industrial facilities" (Clatskanie at 2). Similarly, Cascade Energy supports "a mechanism that allowed projects to straddle periods without risk of losing incentive funds would be extremely beneficial" (Cascade Energy at 1).

While it generally supports the LPP, PPC would like to see "additional detail from BPA regarding the rate structure that would be put in place to provide this option. To date, this detail has been minimal and BPA needs to provide assurances that it will be applied equitably to participating and non-participating utilities" (PPC at 4). PNGC would like to know "exactly how BPA plans to execute and manage the proposed 'Large Project Targeted Adjustment Charge

(LPTAC)'over time." In addition, PNGC would like to know why the "targeted rate for a Large Project Program is allowed under the TRM and the Regional Dialogue contracts, but the notion of a rate adder as an EEI self-management tool was not" (PNGC at 3).

PNGC has been a vocal proponent of moving EE's capital budget to expense, so "creating another capitalized incentive program seems to defeat this purpose. Further, PNGC's members feel that they will have no need to borrow from BPA since they currently have cost effective methods of borrowing within their own community" (PNGC at 3).

ICNU pointed out that "concerns over equity may result in lost opportunities to pursue cost effective energy efficiency projects that would benefit the region as a whole" (ICNU at 1). ICNU also took issue with BPA's proposal to allocate LPP funds on a first-come, first-served basis. ICNU believes that "the funding for any LPF [sic] should be merit based, and allocated based on the cost effectiveness of the large energy efficiency projects being considered. If funds are allocated on a first come, first serve basis, there may be projects that are not funded, despite being more cost effective than all other alternatives... [BPA could] establish a window, within which all projects must submit their funding requests" (ICNU at 2).

<u>Response</u> – In response to EWEB's concern about BPA's discretion, BPA has proposed applying its discretion to requests or a request totaling more than $2 million simply as a check to make sure no one customer is unfairly benefiting from the LPP to the detriment of others. BPA intends its proposal to deter a customer from leveraging the LPP solely as a way to access capital at a lower cost than the customer could access elsewhere rather than utilizing the LPP for genuinely needed funds to capture energy efficiency savings from large projects. Therefore, the discretion would be exercised in the interest of other customers.

Several customers requested that BPA continue to explore other tools for capturing large projects. At this point, BPA is not going to consider other approaches, such as the customer proposed pay for performance option. BPA intends to assess the performance of the LPP, customers' need to capture large project savings, and BPA's achievements toward its savings target. BPA may reconsider its approach to large project savings in the future if conditions merit.

Regarding Mason 3's request for flexibility of when to submit a LPP request, BPA agrees there should be flexibility and is supportive of a customer being able to apply at any point in the project lifecycle, prior to the completion report, and will include the necessary language in the Implementation Manual.

BPA finds WMG&T's concern about the LPP narrowly benefiting large customers along the I-5 corridor is unfounded. BPA has been explicit that the LPP is for "large" projects *as defined by the customer*. So, one industrial project could be several million dollars for one customer while a small commercial project could be $25,000 for another customer and both would be equally eligible for LPP funds, on a first-come, first-served basis. The LPP should not adversely affect customers that do not participate in the program because the costs for the program will be recovered via a targeted rate mechanism from the individual customers that receive funds through the LPP.

Several customers suggested a revision that would allow utilities to pay back the LPP funds with unspent EEI or future TOCA-based EEI funds. BPA does not support such a revision because customers wanting to participate in the LPP will be reporting energy savings to BPA for which BPA will acquire separately from savings it is acquiring under the ECA. Customers seeking funding from BPA under the LPP will be placed in a separate cost pool and will be charged a targeted Large Project Targeted Adjustment Charge (LPTAC) that collects the cost BPA incurs to fund its individual acquisitions (i.e., each project will receive its own targeted rate). BPA also opposes such a revision for the reasons explained above as to why it opposes pulling EEI forward from future rate periods.

In response to Clatskanie and Cascade Energy's comment about the need for funding certainty for projects that span multiple rate periods, BPA believes it is reasonable to structure its agreement to fund a LPP project in a way that assures the funding will remain in place regardless of the rate period in which a project completion report is submitted to BPA.

In response to providing additional detail on the LPTAC, BPA intends to propose and establish the LPTAC in the upcoming BP-16 rate case. BPA will provide testimony on the charge and customers will have the opportunity to ask questions, file rebuttal or even offer testimony regarding the proposal. As for PNGC's request for knowing why the LPTAC is allowed under the Tiered Rates Methodology (TRM), Section 5.4 of the TRM allows for the establishment of adjustments, charges, and special rate provisions applicable to Tier 1 rates, including targeted adjustment charges, unauthorized increased charges, conservation credits or surcharges. Given section 5.4, BPA believes it is reasonable to propose the LPTAC in its next rate case given its customers interest in funding large projects.

In response to ICNU's suggestion that funding for any large project should be merit based, and allocated based on the cost-effectiveness of the project, BPA believes it is more reasonable to apply the simplicity of a first-come, first-served approach. This approach outweighs the more complicated and time-consuming merit-based allocation. Additionally, a "window" to submit projects does not align with the reality of projects happening throughout a rate period.

Assignment of Funds from the Unassigned Account – BPA will allocate funds in the Unassigned Account on a TOCA-weighted basis that reflects the pool of customers requesting additional funds.

Comments –Monmouth commented that "through the Post 2011 process it was reported between 1.8 and 5.0 million EEI dollars stayed with BPA as unspent/unallocated funds…EEI funds collected from customers should be spent on EEI projects benefiting the customers, not returned to the BPA general fund as reported" (Monmouth at 2). BPA has since responded to Monmouth's comment with further information for all customers regarding EEI funds left unspent at the end of the FY 2012-2013 rate period.

IDEA would like to see an allocation methodology that allows "for providing funds for perhaps a single project that may be important to a utility. While this could be accommodated, the concept was rejected because it would require more staff time for review" (Idaho Energy Authority at 2).

Snohomish requested affirmation that "a customer electing billing credits is equally eligible for receiving a TOCA-weighted assignment of funds from the Unassigned Account" (Snohomish at 4).

Response – Monmouth misunderstood the status of the amount transferred between customers via bilateral transfers ($5.5 million) and the amount of EEI left unspent at the end of the rate period ($1.05 million). BPA understands that the $1.8 million figure provided in the comment was provided in the initial version of the "Facts and Figures" document, which was later updated to reflect the correct amount of $1.05 million (Energy Efficiency Post-2011 Review: Facts and Figures at 4).

The proposed allocation methodology does allow for a customer to request a conditional amount but that amount cannot exceed its TOCA-weighted amount. So, if a specific project exceeds the greater of the two, then the customer would need to find another means to fund the project, such as a bilateral transfer or utility self-funding.

BPA affirms that a billing credit customer will be eligible for receiving funds in the Unassigned Account on a TOCA-weighted basis. To make this contractually possible, a billing credits customer will need to sign a billing credit contract as well as an Energy Conservation Agreement, which is the contractual vehicle for allocating EEI funds, including Unassigned Account funds.

Timing of Customer Reporting and Forecasting to BPA – BPA proposed to promote the best practice of all customers reporting energy savings (both BPA-funded and self-funded) to BPA on a monthly basis and, at a minimum, a quarterly basis. BPA proposed not to require mandatory customer reporting. BPA also proposed to continue the best practice of quarterly forecasting of savings by certain customers and periodic forecasting of EEI expenditures by all customers.

Comments – As a means to simplify schedules, Snohomish prefers "BPA consider 'best practice' reporting of savings (both EEI and self-funded) be performed on a quarterly basis. This reporting is in alignment with best practice timing for forecasting. This certainly does not preclude a utility from reporting more frequently, if desired" (Snohomish at 5).

Response – BPA finds that monthly rather than quarterly reporting by customers should be the best practice and will encourage all customers to move to monthly reporting, if possible. Monthly reporting by customers would reduce reporting lags, help BPA evaluate progress toward regional targets in a more timely way, and provide more lead time to make adjustments. BPA is committing to publicly disclose its progress toward its targets on a quarterly basis. Monthly reporting by customers, therefore, will assist BPA's efforts in providing the region with timely and accurate reporting of achievements.

BPA's Backstop Role – In the appendix to the Proposed Revisions, BPA supported the workgroup recommendation calling for no change to the status quo, i.e., BPA maintains having a backstop role, albeit not clearly defined, to ensure BPA meets its savings targets per the

Council's Power Plan. In the event it is necessary for BPA to exercise its backstop role, BPA is committed to convening customers and stakeholders to identify the reason(s) behind a savings shortfall as well as ways to mitigate the shortfall.

Comments – "Given the increase in regional conservation targets identified in the Sixth Plan and relatively flat budgets outlined by Bonneville," the Council recommends that "Bonneville now assess its ability to meet targets going forward. If the assessment indicates a significant potential shortfall, Bonneville should evaluate the necessity for any backstop remedies along with the timing and structure of implementing any needed backstop mechanisms." (Northwest Power and Conservation Council at 2).

Not necessarily specific to BPA's backstop role, but with respect to BPA's energy efficiency role more broadly, "Snohomish believes that ongoing discussions are needed between BPA and its customers to more clearly define BPA's future role in EE. Market conditions have significantly changed since the Northwest Power Act went into effect some 30 years ago, and the electric industry business model is facing changes" (Snohomish at 5).

Response – With respect to the Council's recommendation to assess BPA's ability to meet Sixth Plan savings goals with the budget proposed by BPA, BPA has performed the assessment and updated its EE Action Plan accordingly. The updated plan shows that BPA expects to meet the savings goals for fiscal year 2015-2017 and to be able to do so with the budgets it included in the Integrated Program Review (IPR). Therefore, BPA does not anticipate the need to exercise its backstop role between now and anticipated release of the Seventh Power Plan.

BPA recognizes that in fact market conditions have changed over the past 30 years as has BPA's approach to energy efficiency. However, BPA's obligations under the 1980 Northwest Power Act have not changed. BPA and its customers have worked collaboratively to shape BPA's program in a way that balances BPA's obligations with the needs of customers, particularly customers that are now subject to requirements under state law to develop and acquire conservation, such as Washington I-937 utilities. BPA believes its program revisions accommodate the needs and desires of many customers to more independently develop and achieve conservation in the loads they serve yet still provide BPA with direct bilaterally acquired conservation savings and additional savings that meet the region's broader conservation goals at the lowest cost.

BPA Role in Verifying Self-funded Savings – In the appendix to the Proposed Revisions, BPA supported the workgroup recommendation calling for no change to the status quo, i.e., BPA treats BPA-funding and self-funded savings the same as it relates to verifying energy savings.

Comments – Despite the workgroup's consensus recommendation that "verification requirements should remain the same for self-funded savings as for BPA-funded savings" (Workgroup Five Recommendation Report at 5), Snohomish would like to see a change to BPA's approach to verifying savings: "BPA's practice is again based on a 30 year old paradigm that needs review. For Snohomish, BPA's review and verification of all dollars and savings for regional cost-effectiveness is redundant and inefficient – an alternative solution to satisfy BPA contracting should be explored. Furthermore, in Washington State, expenditures and savings are required to be verified on a bi-annual basis by the State Auditor's office" (Snohomish at 5-6).

Response – BPA is obligated by statute to acquire conservation pursuant to the 1980 Northwest Power Act. The Act provides that contracts for conservation must "insure that the Administrator exercises effective oversight, inspection, audit, and review of all aspects of construction and operation" (See section 6(i)(3)). That contract mechanism for BPA is the Energy Conservation Agreement, which comprises the Implementation Manual that contains the contractual basis for BPA's oversight and verification by stating, "BPA may conduct oversight inspections of **all** measures, contact end users to verify reported measures, monitor or review the customer's procedures and records and conduct site visits to verify claimed energy savings and oversee implementation" (April 2014 Implementation Manual at 10). Regardless of how energy savings are paid for, BPA has the obligation to ensure those savings are reliable and cost-effective and it does so through multiple means, including performing oversight and verification. The particulars of how BPA conducts oversight and verification is continually being reviewed and updated to reflect the need for reliable energy savings as well as minimizing costs. BPA has worked with and can continue to work with the Washington State Auditor to minimize any existing redundancies that may exist for the subset of customers that are required to work with the Auditor.

The workgroup that discussed this issue raised a number of points that led it to recommend that BPA treat BPA-funded and customer self-funded savings the same with respect to verifying savings. BPA agrees with those points. Namely, BPA agrees that "allowing a different set of requirements for self-funded savings could add unnecessary complexity." BPA agrees that when BPA pulls a "sample of projects for oversight, it shouldn't matter whether the projects were self-funded or BPA-funded. It should be the same cost to audit either one. It is administratively easier and less expensive not to separate them." Furthermore, BPA agrees that rather than some Washington state utilities relying more on the Washington state auditor to verify self-funded savings, "if the State Auditor would accept BPA verification, this could lower audit costs" (Workgroup Five Recommendation Report at 5). BPA believes that efforts to bifurcate savings into BPA-funded and self-funded with different BPA verification approaches would result in more cost not less for customers. While there is room for debate, this line of thought was supported by other Washington customers during the course of workgroup discussions. In a world where BPA did not conduct verification of self-funded savings, the reduction in BPA's costs would be so negligible as to have no impact on BPA's wholesale rate; yet, more work conducted by the state auditor to make up for work not performed by BPA would mean immediate higher costs.

BPA agrees that customers can collaborate with BPA on verification and oversight to reduce costs, learn from each other's verification experience, and improve the process. BPA welcomes the opportunity to continuing the discussion on how oversight and verification could be performed more efficiently without compromising savings, reliability and cost-effectiveness.