2014 Integrated Program Review 2

February 24, 2015

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Agenda

Start Time	Topic	Presenter	Duration
9:30 AM	Welcome and Introduction	Mark Gendron & Javier Fernandez	0:10
9:40 AM	Review Agenda	Mary Hawken	0:05
9:45 AM	EE Acquisition Budget	Kim Thompson	0:20
10:05 AM	IPR Spending Levels	Brian McConnell	0:25
10:30 AM	Rate Context and Uncertainty	Peter Stiffler	0:20
10:50 AM	Capital to Expense Scenarios	William Hendricks & Alex Lennox	1:00
11:50 AM	Lunch		1:10
1:00 PM	Other Implications: Residential Exchange	Ray Bliven	0:15
1:15 PM	Other Implications: Programs	Kim Thompson	0:20
1:35 PM	Other Implications: 3rd Party Financing	Kim Thompson & Javier Fernandez	0:20
1:55 PM	Next Steps	Mary Hawken	0:10
2:05 PM	Initial Customer Feedback	Mary Hawken (Facilitator)	0:30
2:35 PM	Wrap up and End	Mark Gendron	0:05

ENERGY EFFICIENCY ACQUISITION BUDGET

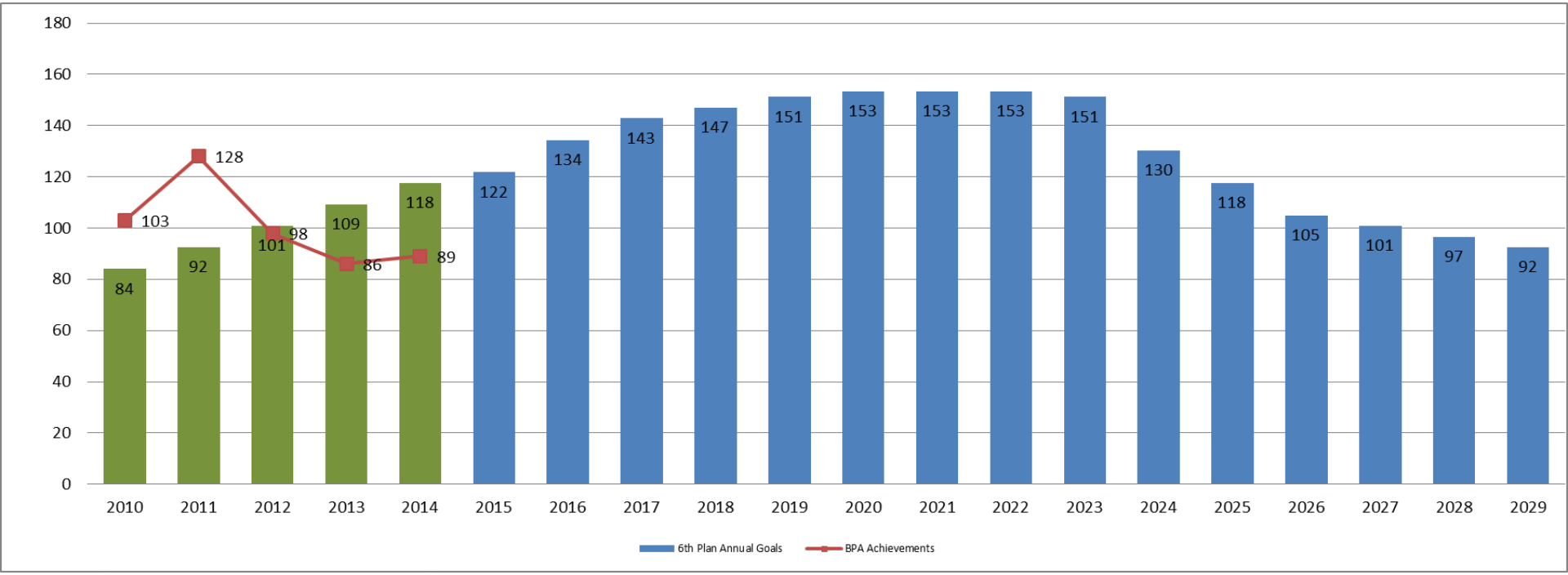
Energy Efficiency Background

- Investments in energy efficiency allow BPA to avoid having to buy more expensive power and additional transmission assets to deliver that power.
- Investments in energy efficiency represent the least cost resource. EE is less than half the cost of the next least cost generating resource on a levelized lifecycle basis.
- BPA uses its EE investments as a power resource in our integrated resource planning process.
- The Northwest Power Act established the Northwest Power Planning Council who prepares a 20-year power plan every 5 years which guides BPA's actions.
- BPA has taken responsibility to achieve public power's share of regional energy efficiency targets (42%).
- BPA sets annual goals to achieve the overall 5-year power plan target.

BPA and the Power Plan

- Since 2010, BPA has been operating against the 6th Power Plan. The Sixth Plan called for 504 aMW from 2010-2014, nearly doubling the 5th Plan targets.
- BPA and Public Power met the 5-year targets set forth in the 6th Plan.
- BPA is committed to achieving the share of the EE target in the Council's Power Plan represented by the load of BPA's Regional Dialogue contract customers.
- The Seventh Plan is still pending and presents a significant unknown.
- We are committed to the out year goals in the 6th Plan until the 7th Plan is approved in December 2015.

6th Plan Annual Savings Goals



504 aMW Goal
595 aMW Achieved

BPA Share - 42% of regional target

Sources of Energy Savings

Source	BPA Funding?	Description
Programmatic Savings	✓/✗	Savings from discrete projects and programs, reported to BPA from customer utilities.
Momentum Savings	✓	Momentum Savings are all energy savings above the Council plan baseline but not purchased by utilities' energy efficiency programs or NEEA investment.
Market Transformation	✓	Savings driven by holistic market development activities that shift product/technology availability.
Federal Standards Adjustment	✗	Savings resulting from a federal standard that was not accounted for during Power Plan development.
Baseline Adjustment	✗	Changes to the Power Plan baseline informed by market data.

Notable Context

- Momentum savings is significantly higher than expected.
  - The new 7th Plan baseline may impact the amount of momentum savings going forward.

- Self-funding has exceeded expectations.
  - FY 2012-14 delivery equated to slightly more than 29% of total programmatic savings.
  - 39 of 133 (29%) customers self-funded for at least one year during FY 2012-14.

- Several areas exceeded forecasts but are moving into the 7th Plan baseline.
  - Some Commercial Lighting
  - TVs

Looking Forward – Interim Goals

- The 6th Plan anticipated 400 aMW 2015-2017*. BPA targets will not be finalized until 7th Plan publication, expected late in 2015. BPA will assess performance against 7th Plan targets when available, identifying necessary adjustments.

Savings by Funding Source	2015 Estimate	2016 Estimate	2017 Estimate	Total Savings
BPA-Funded Programmatic Savings	49	46	47	**143**
Utility-Funded Programmatic	16	15	16	**48**
Market Transformation (NEEA)**	6	6	5	**16**
Momentum Savings – mid-range estimate	48	50	49	**146**
Federal Standards Adjustment	21	23	23	**67**
Total Annual Savings**	**140**	**139**	**140**	**420**

* Public Power's load-share allocation of 6th Plan Figures
** Includes NEEA net market effects over the Sixth Plan Baseline. Other NEEA-reported savings are included in Momentum savings.

Energy Efficiency Cost Trends And Funding Needs

Cost Calculations for Programmatic Savings

- BPA calculates programmatic savings cost based on historical reporting and cost forecasts.
- Current estimates suggest BPA's costs for programmatic savings payments to utilities are roughly $1.7 million per aMW in the near term (inclusive of performance payments).
- Current CIR funding levels are estimated as sufficient to achieve programmatic savings, assuming the mid-range estimate of momentum savings is realized.

Funding Needs for Savings Acquisition	2016	2017
CIR Total Budget ($M)	94.8	97.6
BPA-Funded Programmatic Target (aMW)	46	47
Assumed Cost per aMW ($M/aMW for utility payment only)	1.7	1.7
Calculated EEI Needed ($M)	78.2	79.4
BPA Managed Funding Needed ($M)	14.2	15.7
Calculated Total Capital Needed ($M)	92.4	95.1
Difference Between CIR and Calculated Budget ($M)	**2.4**	**2.5**

Cost Reduction Option

- Change ratio of BPA-funded to self-funded savings from 75/25 to 70/30.
- Programmatic Savings Funding Approach.
  - BPA currently budgets to acquire 75% of the programmatic savings target, covering the cost of Energy Efficiency Incentives and BPA-managed programs.
  - Utilities, on aggregate, are expected to deliver 25% of the programmatic savings target through utility self-funding.
  - Current construct has been successful, with self funding meeting or exceeding expected aMW targets.
  - However, only 29% of utilities participated in self-funding energy efficiency savings during at least one year between 2012 and 2014.
- Potential Cost Impact: Reduces EEI costs by $5.1 million in FY 2016 and $5 million in FY 2017.
- Risks
  - No specific obligations to self-fund.
  - Many factors beyond BPA's control (e.g., decreased WA I-937 targets likely to impact overall self-funding).
  - Time lag in ability to course correct.
  - Increasing self funding increases risk to achievement of programmatic savings.

Risk Going Forward

- 7Th Plan is a significant unknown.
- Plan may shift mix of savings types and costs required.
  - Increased targets could require increased program scope and budgets.
  - Decreased targets could require decreased program scope and budget.
- Self-funding accomplished by a small number of utilities, mostly large.
  - A change in performance by any of these utilities could dramatically impact achievement.
- Decreasing potential could reduce I-937 targets (20% reduction in 2014-15 biennium), which could impact regional achievements.

IPR SPENDING LEVELS

IPR Spending Levels Objective and Background

Objective

- To discuss and receive feedback on the following requests from customers:
  - Provide additional information on Power's $20 million undistributed reduction and its intended use in future rate periods.
  - Examine BPA's personnel-related expenses in the FY 2016-17 rate period and look for other opportunities to reduce BPA's revenue requirement.

Background

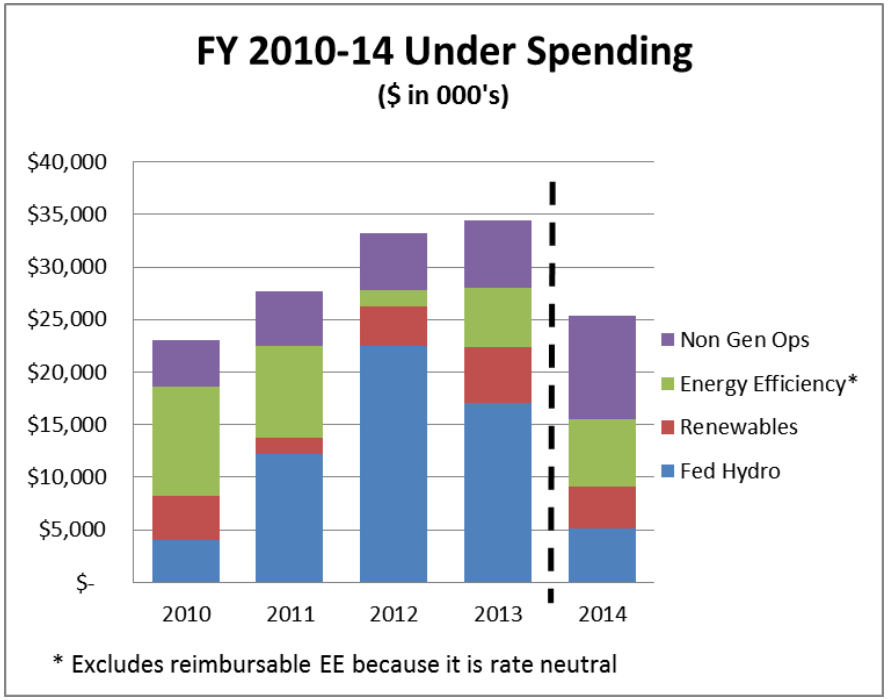
- For the 2014 IPR process, BPA revised its approach for developing initial spending levels. Spending levels are:
  - Based on actual spending, as opposed to prior year budgets.
  - More strategic in nature – planning pool concept.
  - More internally scrutinized prior to public release.
- The new spending level development process resulted in $13 million in annual reductions when compared to the prior method.
- As part the undistributed reductions, BPA included $30 million in additional reductions that account for historical underspending.

Undistributed Reduction Method

- As described in the IPR Initial Publication (page 12), "BPA has in recent years systematically underspent what was put into rates as a whole."
- To account for systematic under spending in IPR programs, BPA assigned an undistributed reduction to each planning pool (Chief Operating Officer, Deputy Administrator, Power, and Transmission).
- The steps used to determine the undistributed reduction amounts were as follows:
  - FY 2010 through FY 2012 planning pool underspending was reviewed.
  - Based on the data, FY 2011 was chosen as the base year since it was the most conservative.
  - 80% of the total FY 2011 underspending ($14.7 million) was used in calculating undistributed reductions and allocated between the planning pools:
    - $5 million to Power
    - $2.1 million to Transmission
    - $3.8 million to the Chief Operating Officer
    - $3.8 million to the Deputy Administrator
  - Chief Operating Officer and Deputy Administrator pools are allocated to Power (48%) and Transmission (52%) resulting in $3.6 million being allocated to Power and $4.0 million allocated to Transmission.
- Actual spending, which may reflect realization of the undistributed reductions in the FY 2016-17 rate period reset the baseline used in future IPRs to this new lower level. Over time and as the budget development culture changes, the amount of the undistributed reduction will likely decrease as the budget levels begin to more accurately reflect BPA's ability to execute on them.

Power Undistributed Reduction

- The Power Services $5 million reduction is based on 80% of FY 2011 underspending for the Non-Generation Operations program.
- BPA determined that it could increase the undistributed reduction for Power Services by $15 million to factor in historical underspending for the Corps of Engineers, Bureau of Reclamation, Renewables, and Energy Efficiency programs.
- FY 2010-13 underspending ranged from $23 million to $34 million per year with large annual swings driven in part by one-time events.



Review of Spending levels in FY 2016-17

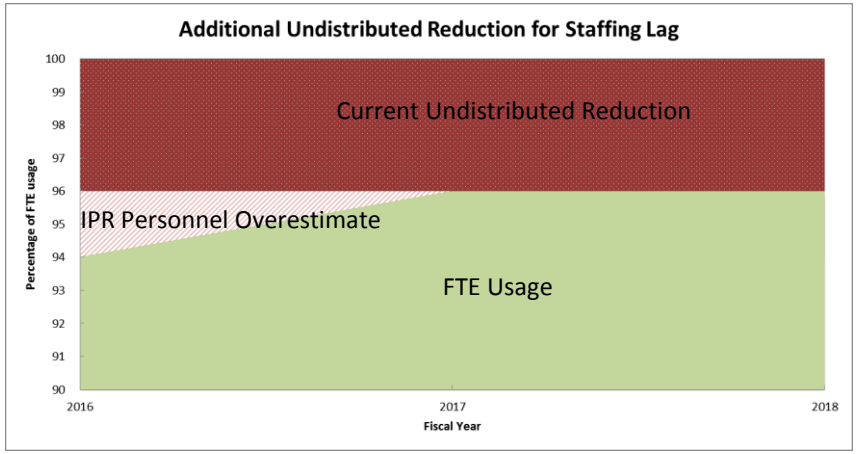
- At the request of customers, BPA's budget organization conducted reviews of:
  - IPR spending levels for Power Services and Agency Services with managers to determine if there were known changes identified after the IPR closeout report was issued.
  - Personnel-related underspending associated with the ramp up of position strength.

- As part of BPA's spending level review, analysts performed data analysis and managers reassessed the funding needs of their programs for FY 2016-17.
  - Analysts assessed IPR spending levels to check for consistency with updated actuals and budget data.
  - Managers were asked at a high level to review the financial commitment, scope, resource constraints, and timing of expected work to determine if there were any material changes in assumptions since the IPR close out.
  - This yielded small increases and decreases to programs.

- The net result was that known changes yielded minimal reductions to programs.

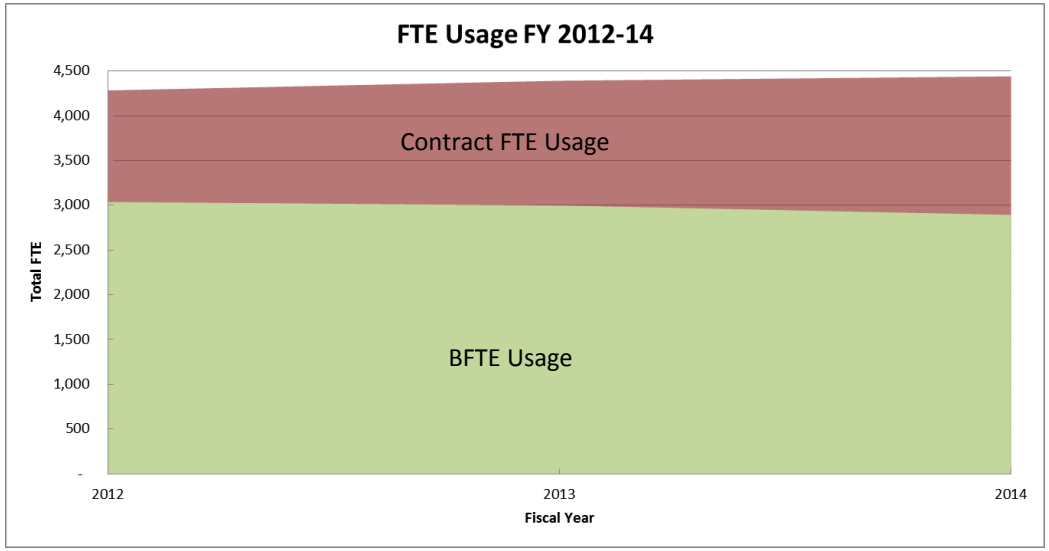
Personnel-Related Cost Analysis

- Per customer's request, BPA looked for possible reductions in personnel costs.
- IPR spending levels project full staffing.
- Historic underruns in personnel costs was factored into undistributed reductions.
  - FY 2011 underspending was used as the basis for the undistributed reduction.
  - FTE usage in FY 2011 was 96%.
- Current low-end forecasts anticipate BPA position strength to be 94% at the beginning of FY 2016 and 96% at the beginning of FY 2017. Based on these forecasts, position strength is expected to be at levels assumed in the undistributed reduction by the end of FY 2016.
- Total underspending related to position strength equals an annual average of $2.1 million not assumed in the IPR undistributed reductions. The power revenue requirement would receive $0.7 million and the transmission revenue requirement would receive $1.4 million. This results in a power rate decrease of less than 0.1% and a transmission rate decrease of less than 0.2%.
- Additional contract staffing (CFTE) and Bonneville employee (BFTE) overtime are currently being used to augment the workload of the vacant BFTE positions. CFTE and overtime usage is excluded from the above rate analysis.



Personnel-Related Costs Additional Considerations

- BPA's analysis revealed that potential overestimates of personnel costs had an immaterial rate impact.
- Additional risks:
  - BPA has hired additional contract labor to augment staffing, and their pay rates may increase as market rates go up.
  - Some of the savings expected due to lower BFTE numbers may be partially offset with increased overtime.
  - BPA may increase BFTE staffing at a faster rate than anticipated.
- The following chart illustrates that CFTE more than offsets the decline in BFTE.



- In conclusion, analysis indicates that up to $2.1 million is available in additional undistributed reductions. However, this reduction comes with the risks stated above.

RATE CONTEXT AND UNCERTAINTY

BP-16 Rate Context

- To provide context to the discussion about expensing conservation, BPA took a look at natural gas prices.

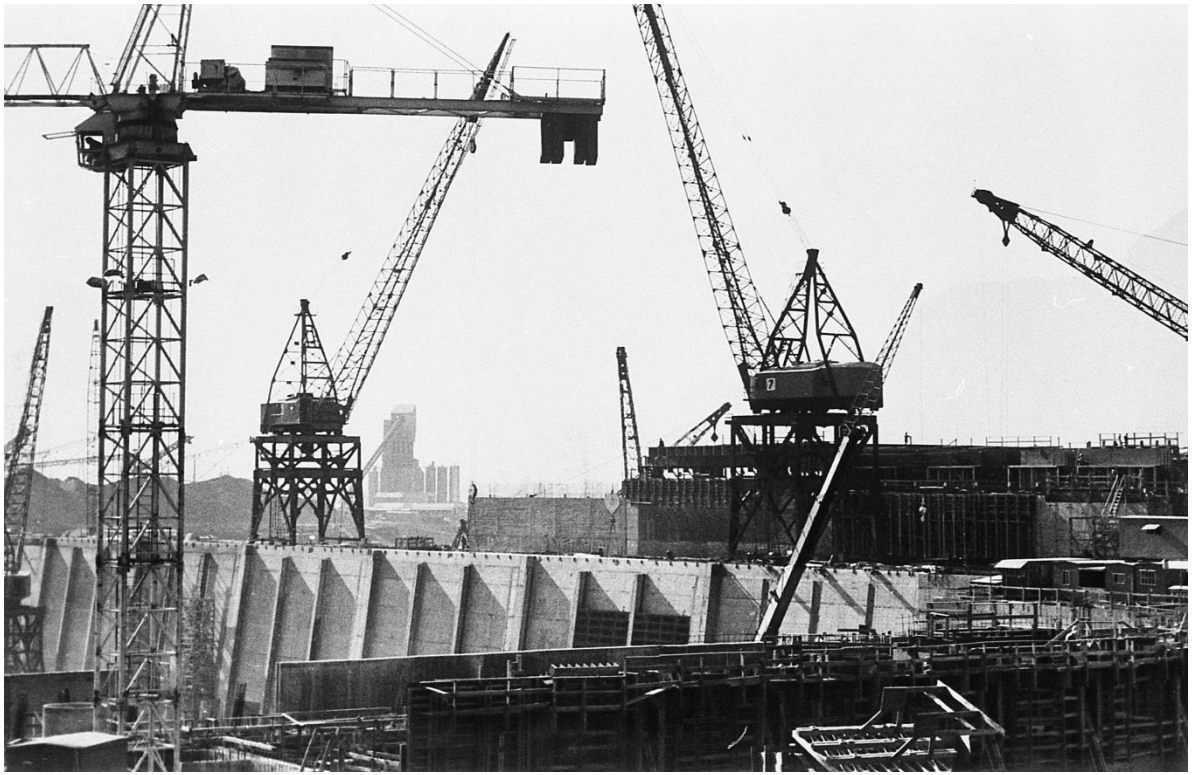
- The preliminary updated natural gas price forecast decreased the BP-16 Henry Hub price by an average of $0.30/MMBtu due to:
  - Low-cost natural gas production growth resulting from additional drilling efficiencies and an influx of pipeline expansions has been stronger than expected.
  - Demand for natural gas has not kept pace with supply growth.
  - Storage inventory is currently rebounding to the five-year average level. With surplus supply leading to strong storage injections during the injection season, storage inventory will likely be strong going into the winter of 2015-2016.

- The current view of BP-16 Power rates is an estimated increase of about 0.5% (to 7.2%) due to this preliminary natural gas price forecast.

- As always, there could be additional changes before the final proposal.

BP-18 Rate Forecast

- Due to a customer request, BPA developed a rough estimate for the BP-18 period. These assumptions were developed without any consultation with our business partners (Bureau of Reclamation, Corps of Engineers, and Energy Northwest).
- BPA developed a rough estimate for the BP-18 period assuming:
  - Load and resource forecasts for the BP-18 period as estimated for the BP-16 Initial Proposal
  - Program expenses started with 2014 IPR forecasts, adjusted for inflation and current long-range plans for Columbia Generating Station, the Bureau of Reclamation, and Corps of Engineers.
  - Capital-related costs assume full regional cooperation debt extension and non-Federal financing of energy efficiency investments.
  - Updated market price forecast consistent with the revised (lower) expected price for natural gas.
  - Net Secondary revenues and balancing purchases forecasts from the BP-16 Initial Proposal estimate for the BP-18 period.
- Generally speaking, upward rate pressure of 6-8 percent from BP-16 is attributable to:
  - Expected increases in BPA program expenses at CGS, Bureau of Reclamation and Corps of Engineers, and Fish and Wildlife increases associated with the Fish Accords without consultation with these partners.
  - Known increases in Residential Exchange Program (REP) expenses, consistent with the 2012 REP Settlement schedule of benefits.
  - Higher transmission and ancillary services costs associated with SE Idaho load service.
  - Reduced revenues associated with the expiration of half of the WNP 3 Settlement obligation to PGE and Puget.
    - This will be partially offset by an increase in the Tier 1 System Firm Critical Output, which will increase Tier 1 loads, and (all other things equal) lower the Tier 1 rate. This is not modeled.
- Significant uncertainty remains regarding a BP-18 rate forecast



CAPITAL TO EXPENSE SCENARIOS

Overview

- Customers have asked BPA to examine scenarios for transitioning the conservation capital program to expense and smoothing the rate impact.
- There are a few possible ways to do this:
  1. Transition from capital to expense over several rate periods
     - Rather than move to expense all at once, there could be a shift to expense over multiple rate periods.
     - Risks stalling the transition at some point leaving part of the program expensed and part capitalized.
  2. Extend CGS regional cooperation debt due in 2016-18
     - This approach involves extending debt that was part of the calculation of debt service reassignment (DSR). This debt was subject to the Slice settlement agreement.
     - The maturing bonds would be extended and assigned to Power Services. Funds raised through rates to repay the maturing debt are freed up with debt extensions (bond proceeds pay off maturing debt) and would be used to smooth rate effects of expensing projected conservation capital.
     - New debt would be assigned to Power Services. The DSR obligations paid by Transmission Services would not be affected.
     - The amount of CGS regional cooperation debt that is available for this strategy is $134.4 million in BP-16 and $181.9 million in BP-18.

Overview

- These approaches to shifting the conservation program to expense would be designed to ensure that:
  - There are minimum impacts to program implementation.
  - Capital financing needs are covered over the next 10 years.
  - BPA is able to meet its capital requirements at low-cost in the near and long-term.
  - There are no cost shifts between Slice and Non-Slice customers.

- BPA sees multiple benefits in moving to expense, including lower interest expense, reduced use of U.S. Treasury Borrowing Authority, and lower outstanding debt.

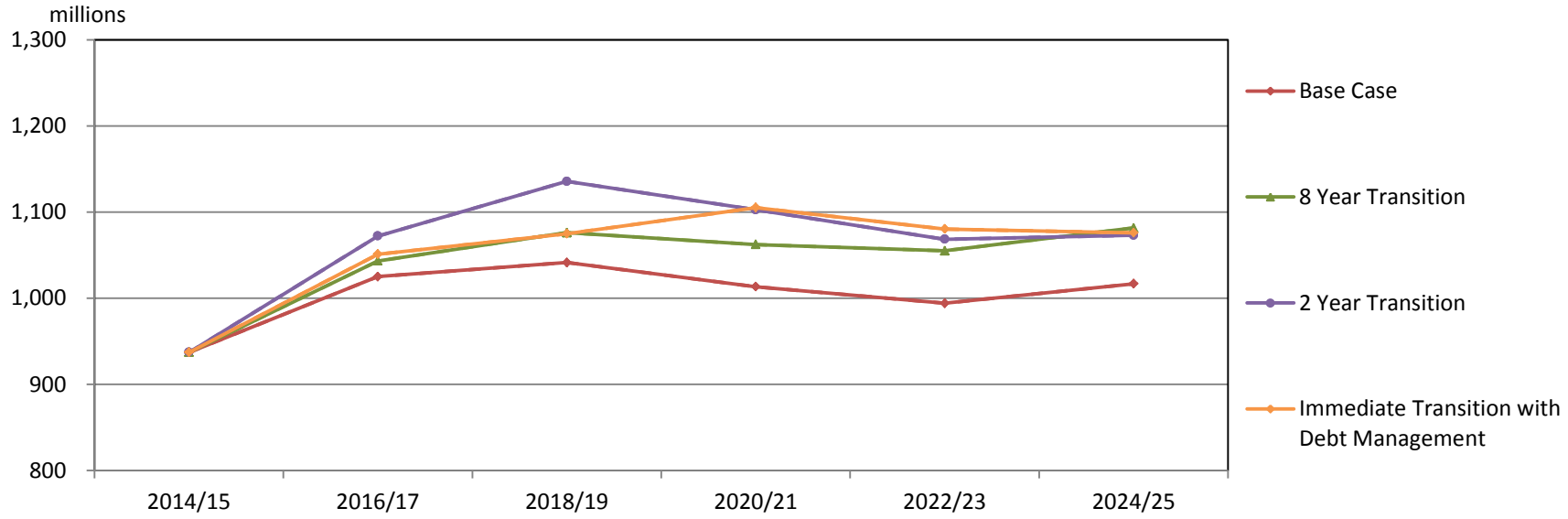
Scenario Descriptions

1. Base Case
   - Consistent with most recent Access to Capital Scenario.
   - All regional cooperation debt currently assigned to Power Services is refinanced and matched with equivalent federal payments.
   - 70% of projected conservation capital is financed through 3rd party entities with 12-year maturities.
2. 8 Year Transition
   - Projected conservation capital is expensed according to the following schedule ($ are per year):

     2016/17 – $20m | 2018/19 – $40m | 2020/21 – $60m | 2022/23 – $80m | 2024+ – entire program
   - Any projected conservation capital that is not expensed is borrowed from the U.S. Treasury.
3. 2 Year Transition
   - Projected conservation capital is expensed according to the following schedule:

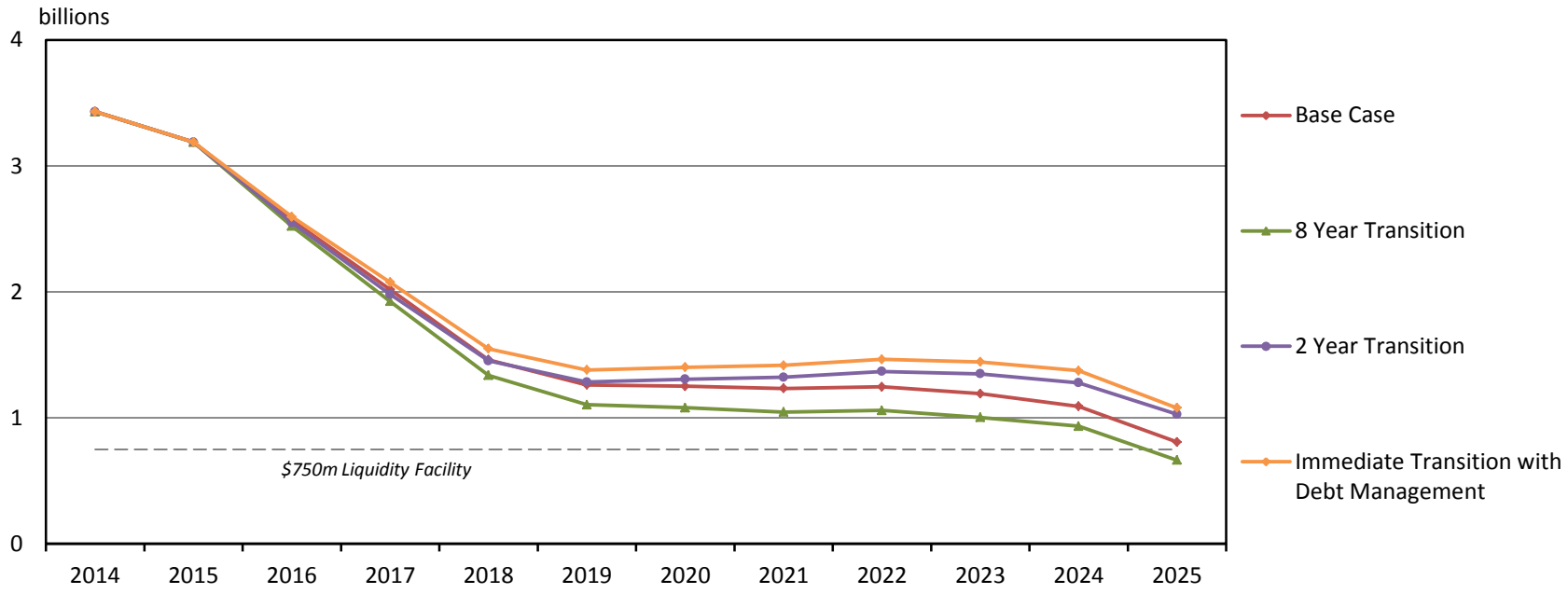
     2016/17 – half of the program | 2018+ – entire program
   - Any projected conservation capital that is not expensed is borrowed from the U.S. Treasury.
4. Immediate Transition with Debt Management
   - Projected conservation capital is entirely expensed starting in 2016.
   - CGS debt associated with debt service reassignment is extended from 2016-17 ($134.4 million) and most from 2018 ($121.7 million), the new debt is issued with 12-year maturities and would be assigned to Power. This would require approval by Energy Northwest.

Power Capital Related Costs with EE Expense



	Scenario (millions)	2014/15	2016/17	2018/19	2020/21	2022/23	2024/25
1	**Base Case**	937	1,025	1,041	1,013	994	1,017
2	*Year After Year Change*	-	88	16	(28)	(19)	23
3	**8 Year Transition**	937	1,043	1,076	1,062	1,055	1,082
4	*Year After Year Change*	-	106	33	(14)	(7)	27
5	*Comparison to Base Case*	0	18	35	49	61	65
6	**2 Year Transition**	937	1,072	1,136	1,103	1,068	1,073
7	*Year After Year Change*	-	135	63	(33)	(34)	5
8	*Comparison to Base Case*	0	47	94	89	74	56
9	**Immediate Transition with Debt Management**	937	1,051	1,075	1,105	1,080	1,076
10	*Year After Year Change*	-	114	24	30	(25)	(4)
11	*Comparison to Base Case*	0	26	34	92	86	59

Availability of U.S. Treasury Borrowing Authority



Note:
1. As availability of U.S. Treasury Borrowing Authority is depleted in 2025, the data becomes unreliable and results are not shown.

- Compared to the Base Case
  - The Immediate and 2 Year Transition scenarios make available additional U.S. Treasury Borrowing Authority.
  - The 8 Year Transition scenario results in slightly lower available U.S. Treasury Borrowing Authority. Implementing this scenario would need to be paired with 3rd party financing.

Scenario Results: Principal and Interest

- Shifting the projected conservation capital needs to expense from capital:
  - Reduces the amount of outstanding principal.
  - Results in interest savings through 2025.

Millions

	Base Case	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Sum
1	Outstanding Principal	9,995	10,312	10,429	10,531	10,254	10,177	10,084	10,050	10,016	9,979	9,911	
2	Interest Paid	454	458	428	427	405	406	406	406	408	410	418	4,626
	8 Year Transition	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Sum**
3	Outstanding Principal	9,995	10,282	10,377	10,448	10,130	9,992	9,839	9,724	9,609	9,470	9,301	
4	*Comparison to Base Case*	0	(30)	(52)	(83)	(124)	(184)	(245)	(326)	(407)	(509)	(610)	
5	Interest Paid	454	457	425	423	398	396	393	389	387	384	387	4,494
6	*Comparison to Base Case*	0	(1)	(3)	(4)	(7)	(9)	(13)	(17)	(21)	(26)	(31)	(132)
	2 Year Transition	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Sum**
7	Outstanding Principal	9,995	10,260	10,327	10,332	9,950	9,766	9,563	9,415	9,263	9,124	8,955	
8	*Comparison to Base Case*	0	(52)	(102)	(199)	(303)	(411)	(521)	(635)	(752)	(854)	(956)	
9	Interest Paid	454	457	424	419	391	386	381	375	370	367	369	4,393
10	*Comparison to Base Case*	0	(1)	(4)	(8)	(14)	(19)	(25)	(31)	(37)	(43)	(49)	(233)
	Immediate Transition with Debt Management	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Sum**
11	Outstanding Principal	9,995	10,282	10,377	10,494	10,112	9,928	9,724	9,577	9,425	9,286	9,117	
12	*Comparison to Base Case*	0	(30)	(52)	(37)	(141)	(249)	(360)	(473)	(591)	(692)	(794)	
13	Interest Paid	454	457	424	422	397	392	387	381	376	373	376	4,439
14	*Comparison to Base Case*	0	(1)	(3)	(5)	(8)	(14)	(19)	(25)	(32)	(37)	(42)	(186)

Scenario Implementation: Next Steps

To pursue the Immediate Transition with Debt Management scenario, BPA will need to take additional actions.

- Rate Case
  - The scenario requires that BPA submit a supplemental proposal in early March that provides flexibility and outlines the changes that would be needed to address Slice implications.
  - The proposal would be contingent on a decision to move forward and the selection of the Immediate Transition smoothing strategy.

- Outreach with Energy Northwest
  - The Immediate Transition with Debt Management scenario is dependent on support from Energy Northwest.
  - BPA will brief the EN Board on these scenarios February 25th.
  - Depending on the final decision, board support would be requested in March.

Slice Implications of Immediate Transition

- The Immediate Transition with Debt Management scenario requires some adjustments to ensure equitable treatment of Slice and non-Slice customers.
- The scenario requires adjustments to the RAM cost table and to Table G used in the Slice True-up.
  - A new credit will need to be inserted into the RAM cost table. It would display the offset to expensing conservation investments.
  - A comparable credit would need to be inserted into Table G which is used for the annual true-up. The credit will never appear in an actual financial statement because it is a use of cash to offset the rate effect of transitioning from capital to expense. As a result, a new line is needed to ensure that the true-up is not adversely affected by the higher actual expenses.

OTHER IMPLICATIONS: RESIDENTIAL EXCHANGE POST 2028

Residential Exchange Implications Post 2028

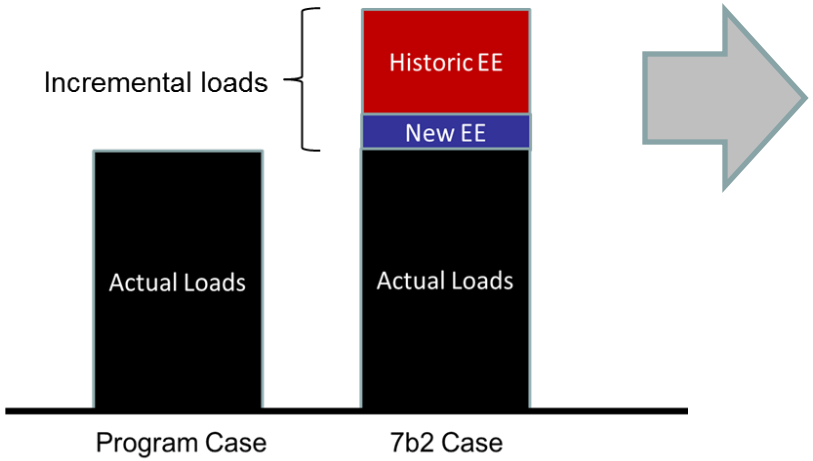
Background:

Under the Power Act, BPA compares a “Program Case” PF rate that looks at costs and loads as they occurred and are expected to continue to occur, to a “7b2” case PF rate that looks at costs and loads that would have hypothetically occurred absent the Power Act. The amount by which the Program Case rate exceeds the 7b2 rate determines the amount of program costs that should be shifted away from the PF rate to the PF exchange rate thus reducing REP benefits.

Residential Exchange Implications Post 2028: Loads

Background

- The program case reflects actual loads that are lower due to accumulated conservation enabled by the Power Act, as acquired by the Administrator. By contrast, the 7b2 case increases those program case loads by the amount of accumulated conservation that would have not been acquired but for the Power Act.
- It is the larger loads in the 7b2 case that drive the REP benefits because they create the energy deficit and need to pull from the resource stack, which raises the 7b2 case PF rate, lowers 7b3 protection, and increases REP benefits.
- These higher loads create an energy deficit in the 7b2 case, which is met by pulling resources from the "7b2 resource stack."
- Conservation acquisitions are considered resources, and included in this stack.



Higher loads increase the 7b2 rate by adding the cost of more expensive non-FCRPS resources into the rate.

Residential Exchange Implications of Expensing Conservation Post 2028

- We will assume that the Administrator would decide to retain a useful life of conservation consistent with the Council's applicable Power Plan.
- If this is the case, there is no change in amount of accumulated conservation which is added to the load obligation in the 7b2 case.
- However, if BPA moves to expensing conservation, the per-year cost of conservation resource included in the 7b2 stack rises, since it will be spread over a smaller amount of time (and no longer capitalized over the useful life).
  - This will increase REP benefits.
  - From the REP-12 proceeding, REP benefits were expected to more than double after 2028.
  - This could raise PF Public rates in the years following the Regional Dialogue contract period.

OTHER IMPLICATIONS: ENERGY EFFICIENCY PROGRAMS

EE Program Model

Current program

- EE program was established during the initial Post 2011 Public Process.
- Uses Tier 1 Cost Allocator (TOCA) to establish equitable Energy Efficiency Incentive (EEI) budgets.
- Costs of energy efficiency collected in Tier One rates.
- Utilities receive incentive payments from EEI budgets upon reporting to BPA.

Going forward

- High degree of support for continuing this approach during the recent Post 2011 Review.
- No substantive change would be possible before FY 2016, even with a consensus mandate to do so.

Potential Program Impact from Expense Transition

Program impact

- Several program features would need to be reexamined:
  - Within Rate Period Budget Flexibility
  - Cross Rate Period Budget Roll Over
  - Billing Credits
  - Large Project Program

- BPA may be able to support some of these features should we move to expense, though we may have to limit some flexibility.
- EE and BPA Finance are working to establish a path forward for each feature.

Within Rate Period Budget Flexibility

Program

- Customers have full discretion to use their EEI budgets at any point during the rate period.
- BPA must manage to annual budgets.

Status After an Expense Transition

- It is very likely but not certain that BPA will be able to continue this policy after a transition to expense.
- It is unlikely but possible that BPA may need to enact some constraints on the amount customers can roll over between years.

Cross Rate Period Budget Roll-Over

Expected Program from Post-2011 Review

- BPA agreed to allow for roll-over of up to 5% of the start of rate period EEI budget.
- This minimizes the need to "spend to the penny" at the end of the rate period.

Status After an Expense Transition

- It is likely, but not certain, that BPA will be able to continue this policy after a transition to expense.
- EE is working with Finance to establish an acceptable method to do so.

Large Project Program (LPP)

Expected Program from Post-2011 Review

- BPA agreed to allocate no more than $10 million that could be used by utilities to support large projects.
- This would be paid back over the course of 12 years as a targeted adjustment charge on the customer's power bill.

Status After an Expense Transition

- It is likely, but not certain, that BPA will be able to continue this policy after a transition to expense.
- Since funds are paid back over time it must be a capital program.
- To offer the LPP would require that BPA use Treasury borrowing authority or undertake targeted 3rd party financing.
- Our approach will be dependent on capital prioritization.

Billing Credits

Expected Program from Post-2011 Review

- Allows for individual customers to eliminate capitalization costs associated with energy efficiency incentives.
- Customers fund their own efficiency programs and receive billing credits for the money BPA would have collected in rates to support their EEI budgets.

Status After an Expense Transition

- Billing Credits would not be meaningful or necessary within an expense financing paradigm.
- This program would no longer be offered in an expense scenario, but may be made available during a long transition to expense.

Program Benefits of Expensing Conservation

- The use of capital has some limitations that would be addressed by a move to expense.
  - Relying on capital limits flexibility to direct funds where they are most effective.
  - Programs that support work force development but not specific projects (e.g. trade ally networks) cannot be capitalized.

OTHER IMPLICATIONS: 3RD PARTY FINANCING

Impact of Alternatives on 3rd Party Financing

- Third Party financing is an important component of BPA's current access to capital strategy and is being pursued to save about $70 million per year in Treasury borrowing authority.

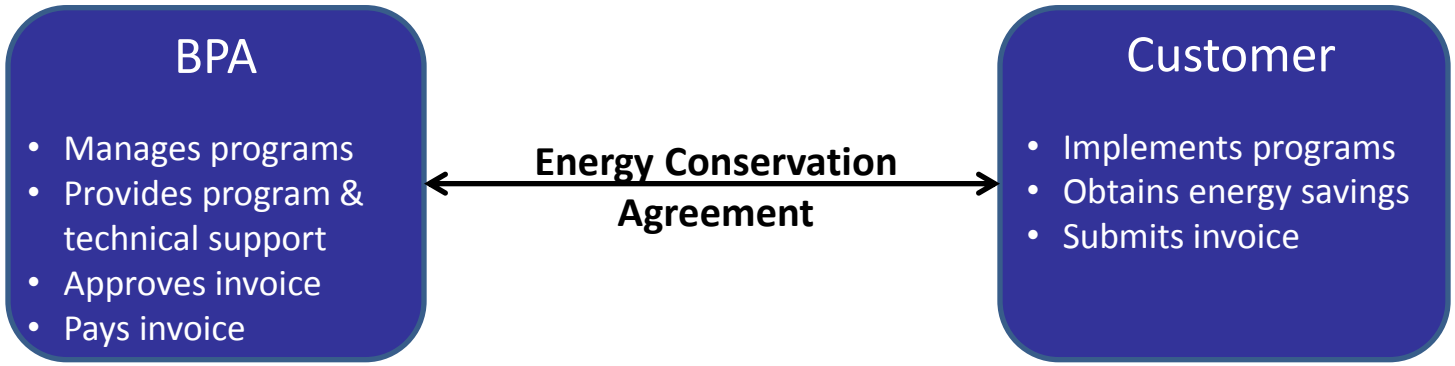
- If BPA were to implement a rapid capital to expense transition, BPA would not need to implement third-party financing because an expensed program would also take the program off of Treasury borrowing.

- BPA would most likely continue with third-party financing if a transition to expensing conservation took more than two rate periods.

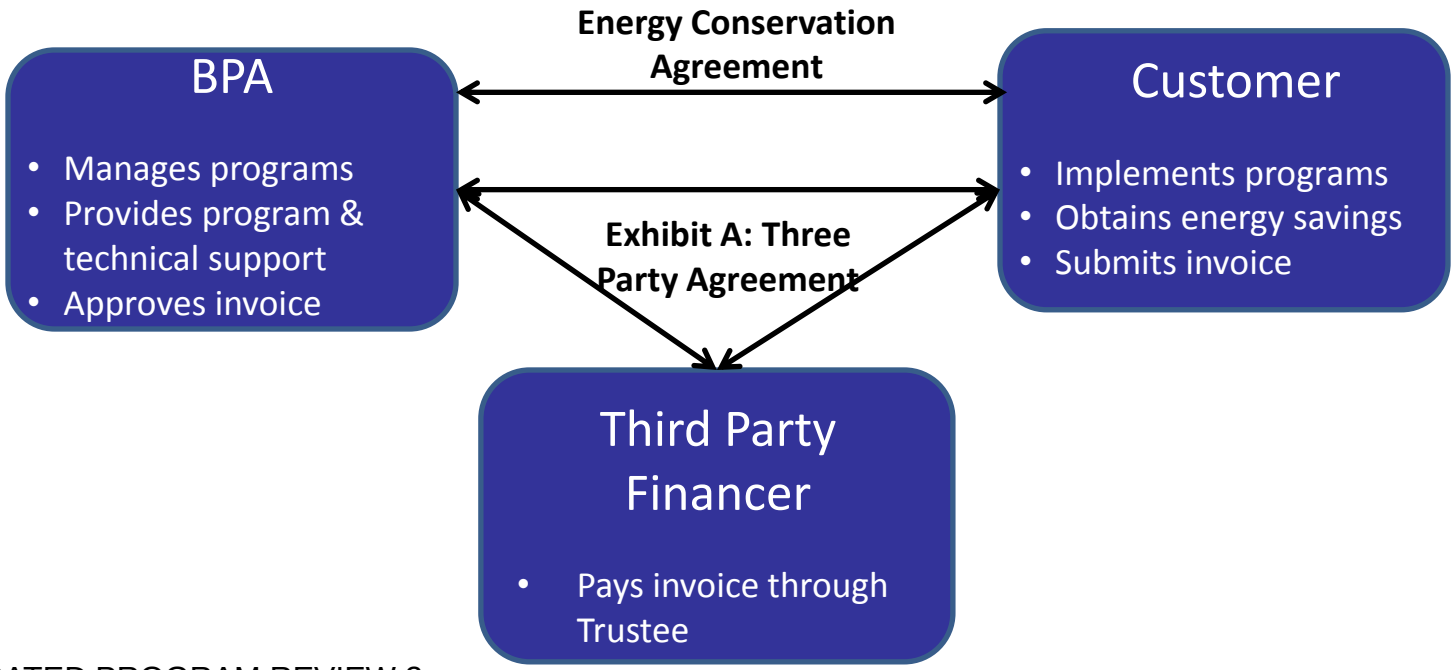
BPA's Conservation Program and Third Party Financing

- EE program operations and customer relationship would not change with third party financing.
  - Customers would still have an energy conservation agreement (ECA). A new ECA is coming this year under any funding strategy.
  - Customers would still conduct EE activities and report them to BPA.
  - BPA would still review and approve customer submittals.
  - The customer's balance sheet would not be affected.
- Payment to customers would come from a trustee bank using the proceeds of conservation bonds issued by a third party.
- New Contract Structure:
  - BPA would enter into contract(s) with a Third Party through which BPA agrees to acquire conservation from the 3rd party and manage program implementation
  - The ECA would have an Exhibit A that would be signed by BPA, the Third-Party, and the Customer which primarily defines the third-party financing payment agreement. The main body of the ECA would govern program management and enable BPA to implement the program through its customers.
  - A fact sheet published last fall provides more detail and key aspects of the program can be found at: http://www.bpa.gov/news/pubs/FactSheets/fs-201411-Third-party-financing-for-energy.pdf

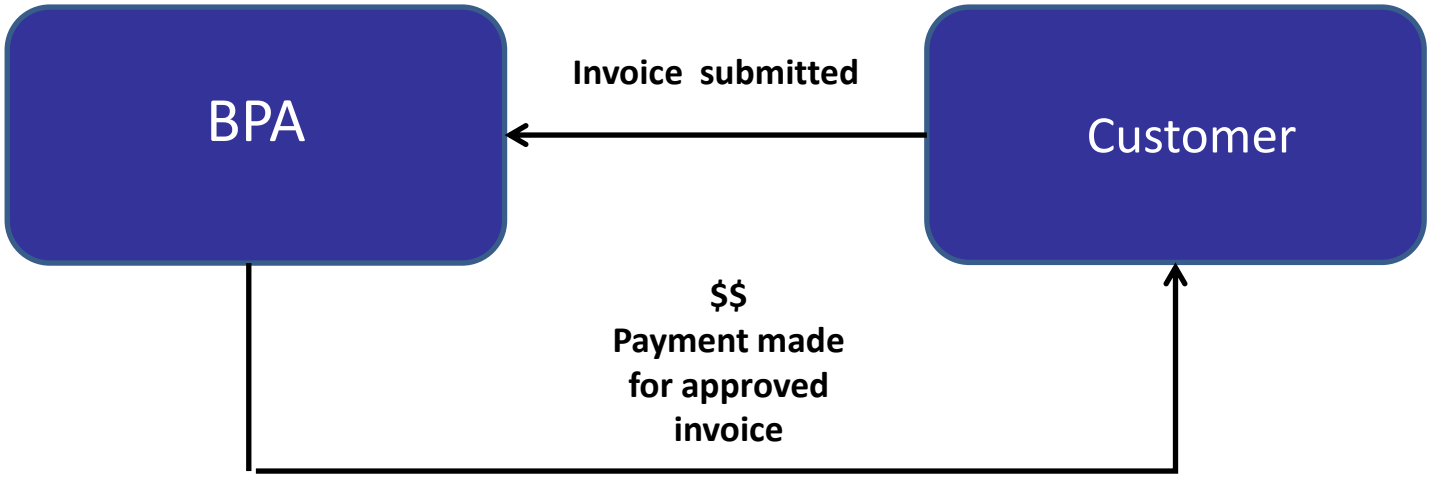
Current EE Program



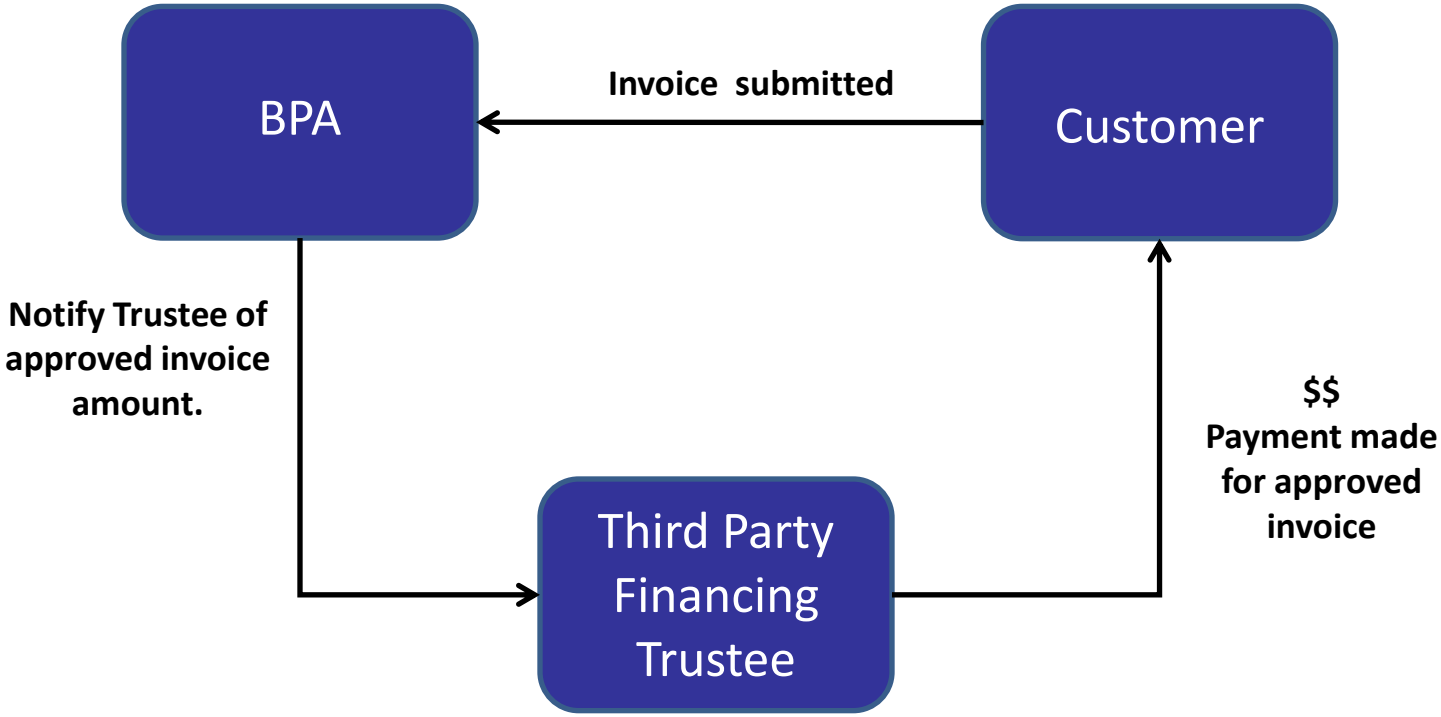
Third Party-Financed Program

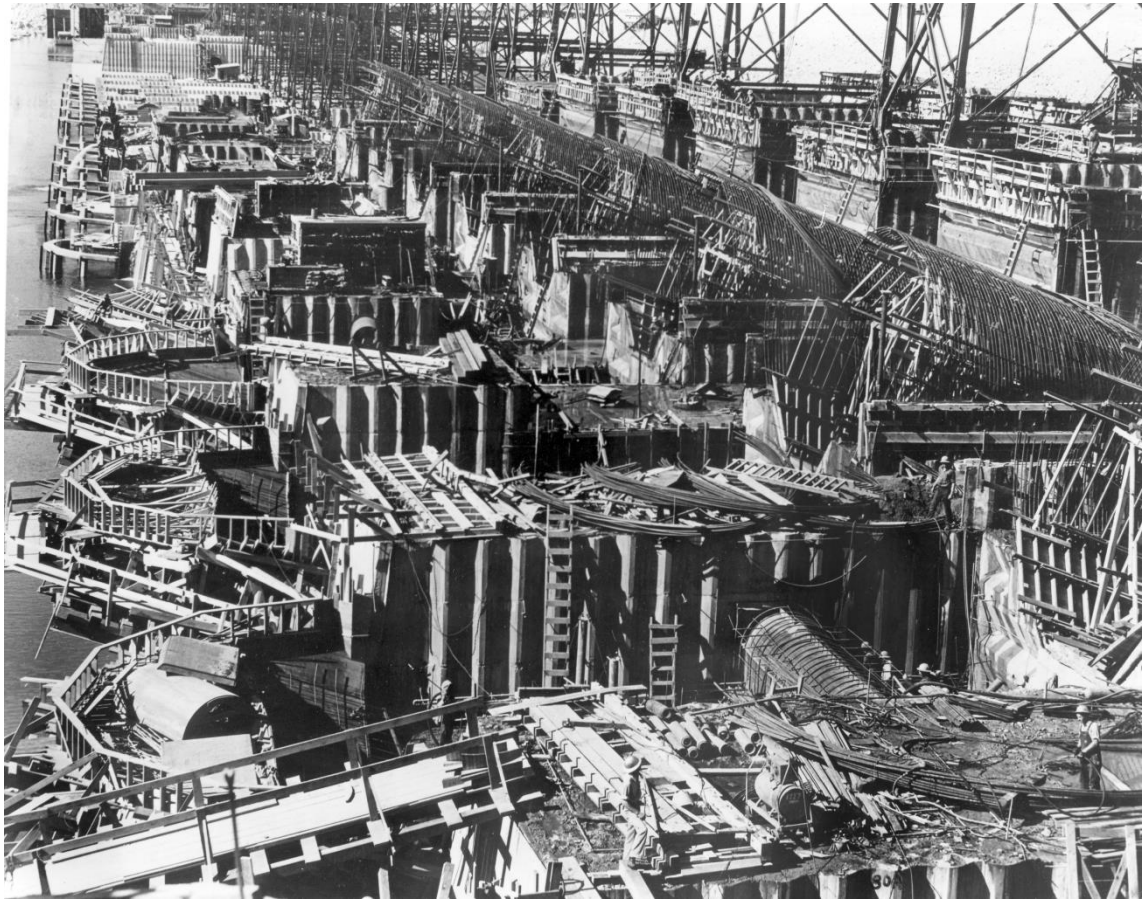


Payment Process: Today



Payment Process: Third Party Financing





NEXT STEPS

Next Steps

Comments can be sent to:

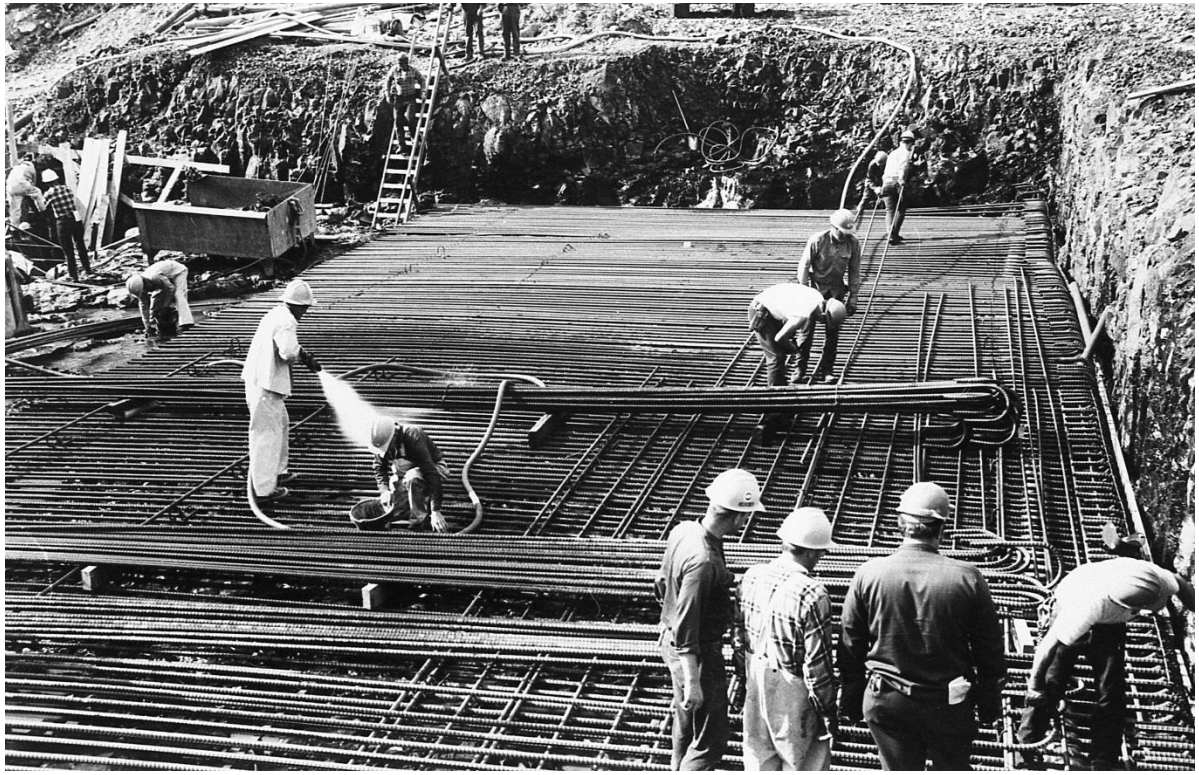
Participants are encouraged to submit written comments on today's discussion during a public comment period beginning February 24, 2015 and concluding March 13, 2015. Comments can be submitted online, www.bpa.gov/comment; by email; or by mail to: BPA, P.O. Box 14428, Portland, OR 97293-4428.

Thank you

CUSTOMER FEEDBACK

Scenario Summary

	Base Case	8 Year Transition	2 Year Transition	Immediate Transition with Debt Management
First year fully expensed	Never	2023	2018	2016
Would be paired with 3rd party financing	NA	Yes	No	No
Amount of new CGS debt assigned to Power	0	0	0	$256 M
Reduction in Power debt in 2025	0	$610 M	$956 M	$794 M
Cumulative interest savings 2016-2025	0	$132 M	$233 M	$186 M
BP-16: Incremental Rate Increase over BP-16 IP associated with each scenario	0.0%	0.9%	2.4%	1.3%
BP-16 to BP-18 rate increase associated with capital related costs with EE expense under each scenario	0.8%	1.7%	3.2%	1.2%
BP-18 to BP-20 rate increase associated with capital related costs with EE expense under each scenario	-1.4%	-0.7%	-1.7%	1.5%
Next Steps Required				• Supplemental Testimony • Approval by Energy Northwest



APPENDIX

2010-2014 Energy Efficiency Actual and Projected Savings (aMW)

Savings by Funding Source	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Projected	Total Savings
BPA Funded Programmatic Savings	51	111	47	45	41	295
Utility Self Funded Savings	28	3	12	26	14	84
Norpac - BPA Funded	0	1	6	0	4	10.4
Norpac - Cowlitz Funded	0	0	1	0	1	1.9
Market Transformation	10	10	10	10	9	48
Momentum Savings	14	22	37	26	27	126
Baseline Adjustments						9
Total Annual Savings	**103**	**148**	**112**	**107**	**95**	**608**
Total Reported 6th Plan Savings	**100**	**144**	**109**	**104**	**95**	**595**

High Level Analysis Adjustment of Self Funding Split

	BPA-funded programmatic target (aMW)	Assumed cost per aMW only incentives ($M/aMW)	Total EEI needed ($M)
75%			
FY 2016	46	1.7	78.2
FY 2017	47	1.7	79.4
70%			
FY 2016	43	1.7	73.1
FY 2017	44	1.7	74.4
		Total Potential Savings	**10.1**

Integrated Program Review 2

Financial Disclosure

This information has been made publicly available by BPA on February 13, 2015 and contains information not reported in BPA's financial statements.