Energy Efficiency Post-2011 Implementation Proposal

Final

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Introduction

BPA's past and current energy efficiency programs have been a success with BPA and its public utility customers achieving over 1,000 aMW of conservation since the passage of the 1980 Northwest Power Act. Moving forward, there remains a significant amount of cost-effective conservation still available through energy efficiency in the region. To achieve the development and acquisition of such conservation means that BPA and its customers will need to continue to collaborate and coordinate their efforts in a meaningful way.

In order to continue the successful development and acquisition of conservation in the Northwest at the lowest cost to the region, BPA has been conducting the Energy Efficiency Post-2011 public process, consisting of two phases. Phase 1 of this collaborative public process began in January 2009 and generated a robust dialogue about the needs and constraints of BPA energy efficiency framework. Through a variety of forums, BPA encouraged the participation of all stakeholders in the region to help shape this framework, which was released as the "Energy Efficiency Post-2011 Policy Framework" in August 2010. In short, the Policy Framework defines BPA's post-2011 role in meeting public power's share of the conservation target set out in the Northwest Power and Conservation Council's Sixth Power Plan.

Phase 1 Policy Framework

The Phase 1 Policy Framework design, which forms the foundation for Phase 2 of the post-2011 public process, is as follows:

1. Cost of acquiring conservation will be collected in Tier One rates. Conservation costs consist of two components:
   1) regional infrastructure and program design; and,
   2) acquisition incentives.
2. Programs and business rules should be developed to maximize flexibility and local control.
3. The amount collected across rate periods for infrastructure and acquisition can decrease or increase to accommodate over performance or under performance relative to reaching public power's share of the regional target.
4. To allow more local control, BPA will budget for acquiring 75% of public power's conservation target and plan on customers (on average) self-funding the remaining 25% of the target.
5. There is no specific mandate for any customer to provide self-funded savings.
6. BPA will not establish individual customer savings targets for conservation.
7. There will be only one contractual mechanism, the Energy Conservation Agreement (ECA), and one funding mechanism, the Energy Efficiency Incentive (EEI), i.e., each customer will have one conservation contract funded by its EEI budget.
   a. At the beginning of a rate period, BPA will update each customer's ECA in accordance with its EEI budget, i.e., the ECA is the contract and the EEI is the funding source provided to the customer in the form of an Implementation Budget under the ECA.

   b. **Differences between EEI and Conservation Rate Credit (CRC).** CRC dollars were a credit to customers on their power bills potentially in advance of conservation acquisitions. In contrast, EEI dollars will be distributed *only after* the customer develops and BPA has acquired the conservation in accordance with the ECA, following BPA's receipt of a customer invoice.

8. The EEI will be allocated to customers on a Tier One Cost Allocator (TOCA) basis.
9. Conservation from custom projects will be acquired via two implementation paths: 1) standard; and 2) non-standard.
10. A review of the Phase 1 Policy Framework will occur prior to the second rate period of post-2011 (2014-2015).
11. BPA will support the development of customer Conservation Potential Assessments (CPAs).
12. BPA's backstop role will be the same as it is today. If the programs in place at any given time are insufficient to achieve the necessary level of savings, then new programs or other avenues would be explored and evaluated, to meet the targets.

Phase 2 Implementation Proposal

Phase 2, which kicked off in July 2010, identifies the specifics of BPA's post-2011 energy efficiency programs. Because BPA intends to provide as much customer flexibility as possible, five workgroups were created to provide BPA with recommendations on program implementation details, including:

1. Energy Efficiency Incentive (EEI)
2. Small, Rural, Residential Focus
3. Conservation Potential Assessments
4. Implementation Mechanism
5. Regional Programs and Infrastructure.

On November 17, 2010, the workgroups provided to BPA their Post-2011 Phase 2 Workgroup Recommendations, available online: http://www.bpa.gov/Energy/N/post-2011/pdf/2010-11-17_Post-2011_Phase-2_Workgroup-Recommendations_FINAL.pdf.

BPA staff has since worked to complete the "Energy Efficiency Post-2011 Implementation Proposal," which is based in large part on the recommendations provided by the Phase 2 workgroups. BPA staff has made an effort to identify where there are significant differences between the proposals herein and the recommendations of the workgroups, as well as the reasons for the differences. Also, there are several instances for which BPA is presenting more than one option.

BPA is seeking public comment on the Implementation Proposal and will hold a series of public meetings throughout the region to discuss the Implementation Proposal and address stakeholders' questions and concerns. **BPA is accepting comments on the Proposal through February 14, 2011**. After the public comment period closes, BPA will finalize the Post-2011 implementation details and update the Implementation Manual accordingly on April 1, 2011 to allow six months notice before the program aspects of Phase 2 take effect on October 1, 2011. For ease of reading and understanding BPA's Implementation Proposal, it is recommended that the Post-2011 Phase 2 Workgroup Recommendations be reviewed.

I. Regional Programs and Infrastructure

As noted, BPA has considered the input received during the two-year long, collaborative post-2011 public discussions and workgroup recommendations. Throughout the post-2011 public process, customers and stakeholders have acknowledged that regional programs and infrastructure are valuable and effective uses of funds for region-wide conservation and energy efficiency activities. The functions of regional programs and infrastructure are characterized by economies of scale, activities that require regional market influence, as well as leveraging existing regional infrastructure, activities, and services that benefit customer utilities, including contributions to the Regional Technical Forum (RTF) and Northwest Energy Efficiency Alliance (NEEA) on behalf of public power.[1] Phase 2 has allowed for an extended discussion of BPA's role regarding regional programs. Below are the specific proposals concerning BPA's regional program role for which BPA is seeking public comment.

1. Running Regional Programs

Proposal: BPA's regional program design and decision-making process will be collaborative and transparent. Customers and stakeholders will be encouraged to provide upfront input (including how incentives will be distributed for those programs). A critical component of this upfront dialogue will be deciding how regional program incentives will be paid since regional program incentives will originate from customers' Energy Efficiency Incentive (EEI)[2] budgets.

- BPA plans to create an internet presence (e.g., via BPA's existing website or the forthcoming Conduit website) to facilitate two-way communication in a more centralized fashion. The website will allow BPA's customers and stakeholders to suggest regional program ideas. BPA plans to use the website as a tool to announce new program development and pilot project opportunities as well as a vehicle to request customer participation in regional program design.
- BPA will share broadly initial concepts for new program ideas with customers and stakeholders. During the initial outreach, BPA will ask which customers and stakeholders would like to continue to be informed and then narrow the subsequent information sharing to those that are actively interested in assisting as the concept is developed into a more detailed proposal.
- Program planning and design will take into consideration experience from other regional and national program offerings.
- As a part of BPA's efforts to work more collaboratively and transparently with customers, BPA will hold in coordination with customers more frequent sub-regional roundtables with appropriate geographic diversity. The schedule for roundtables will be determined as far in advance as possible to allow attendees sufficient planning time.

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[1] A list of infrastructure support examples is provided in the Phase 1 Policy Framework document: http://www.bpa.gov/Energy/N/post-2011/pdf/2010-08-18_EE%20Post2011_Policy_Framework_FINAL.pdf
[2] For details on the EEI, please see Section II: Incentive Funding Mechanism

- BPA will not set aside funds from Energy Efficiency's FY 2012/13 capital budget to be used for regional program incentives. For at least FY 2012/13, incentives for regional third party programs will flow from customers via their ECA Implementation Budgets.[3] (BPA, however, will set aside funds from EE's capital budget to pay for costs associated with regional program delivery.) Beyond FY 2013, the specific funding approach for each regional program will be based on discussions and collaboration between BPA and customers during each program's design phase. Different funding approaches are better suited to different program opportunities and designs.
- When regional program marketing documents are created, "templates" of those documents will be made available to customers where possible to allow modification by customers (such as the addition of their logos and contact information).

2. Negative Change Notice

The negative change notice in the Implementation Manual is intended to provide customer utilities with specific notice on changes to BPA reimbursement rates, savings for deemed measures, etc. The existing notice for making such changes is six-months.

Proposal: BPA will refine the scope of changes covered by the negative change notice to include savings decreases in addition to the previously established negative changes: reimbursement decreases, requirements increases and the deletion of existing measures.

- Going forward, BPA intends to leave the notice unchanged in order to provide a balance between notice needs and program implementation needs. Six-month notice should allow customers adequate time to make changes to their programs and allow BPA flexibility to adapt to marketplace trends and technology changes.
- Positive changes may become effective and available to customers in the Implementation Manual in which they are announced. BPA will strive to implement positive changes on an accelerated timeline.

Reasons why BPA Proposal differs from workgroup recommendation.

Experience gained by BPA EE staff and many utility customer staff indicates the present negative change notice is working as intended. The recommendation from Workgroup Five would lead to BPA issuing negative change notices four times a year, up from the present two times a year, which both coincide with Implementation Manual updates. Coupled with the concern expressed by some customers that three months does not allow enough time to make program changes, maintaining the status quo will mean more clarity in communication with customers.

[3] There are currently certain regional programs in operation that due to their unique characteristics will necessitate that a small share of FY12/13 capital monies continue to fund the retail "buy-down" of the energy saving measures (e.g., Green Motors Initiative).

3. Utilizing the Regional Technical Forum (RTF)

The RTF is an advisory committee established in 1999 to develop standards to verify and evaluate energy conservation. Committee members are experienced in conservation program planning, implementation and evaluation and are appointed by the Northwest Power and Conservation Council.

Proposal: BPA will continue to work to improve communications with customers on RTF matters through meeting with the Utility Sounding Board or other representative customer groups; more uniformly announcing impacts to BPA from RTF decisions; and, utilizing the Planning, Tracking and Reporting (PTR) system or its successor (e.g., EE Central) for better documentation of RTF decisions.

4. Energy Efficiency Incentive Funding for NEEA

BPA funds NEEA based on the amount of load in the region served with power marketed by BPA. BPA's public customers have also provided funding to NEEA. In the past, BPA customers have been able to rely on BPA-sourced funds to assist them in their funding efforts, i.e., through use of BPA's Conservation and Renewable Discount and Conservation Rate Credit.

Proposal: Going forward, EEI funds, made available to BPA's customers, may *not* be used as general contributions to NEEA, to fund NEEA for a customer's regular dues, or for market transformation programs that generate savings that cannot be attributed to customers on a customer-by-customer basis.

- BPA's capital policy prevents the use of capital dollars to be used for expenses not directly tied to specific conservation acquisition.
- Partial requirement customers are encouraged to provide base NEEA funding in proportion to the customer's non-BPA load, but cannot claim EEI reimbursements for these contributions to NEEA.
- For NEEA-sponsored programs that provide savings that can be specifically attributed to a service territory on a customer-by-customer basis, EEI funds will only be reimbursed to customers for delivered savings reported through the PTR system, or its successor.
- Customers could use NEEA as an implementer to run a program (if such a service were provided) and, under this circumstance, EEI funds would be disbursed when NEEA or customers report savings through the PTR. For example, EEI funds could be reimbursed to customers for a NEEA program if it resulted in delivered cost-effective (based on a Total Resource Cost test) energy savings attributable to customers that are distinct from market transformation programs funded by base operational funding. Specific program measures will be based on a reimbursement established by BPA.

5. EEI Funding for Low-Income Weatherization

Proposal: Customers may be reimbursed for low-income weatherization activities with EEI funds as long as those activities generate cost-effective energy savings. EEI funds provided to Community Action Partnerships (CAP) must be limited to low-income programs that generate cost-effective savings within customer service areas.

- BPA will continue with the current practices related to low-income weatherization measure reimbursement, as outlined in the current (October 1, 2010) Implementation Manual (IM), including the dollar-for-dollar reimbursement as described in the IM. The cost of any repairs associated with a measure must be separated out from the cost of the measure itself for reporting purposes.
- Customers may run their own low-income weatherization programs using EEI funds to provide incentives, but programs using EEI funds must result in incremental kWh savings reportable in the PTR or its successor system.

6. Conservation Potential Assessments (CPAs)

CPAs are a comprehensive assessment of achievable demand side management resources within the retail load served by a utility. CPAs may distinguish between two distinct, yet related, definitions of energy efficiency potential that are widely used in utility resource planning: technical and achievable potential. Technical potential assumes that all demand-side resource opportunities may be captured, regardless of their costs or market barriers. Achievable potential, on the other hand, represents that portion of technical that is likely to be available over the planning horizon, given prevailing market barriers that may limit the implementation of demand-side measures.

Currently, there are three approaches that customers are using to calculate their conservation potential. They are:

- Use of the utility target calculator (UTC) developed by the Northwest Power and Conservation Council[4] – the UTC calculates a customer target as the pro-rata share of the regional target based on a customer's load overall or by sector.
- Use of the utility potential calculator (UPC) developed by BPA[5] – the UPC allows for adjusting a customer's share of the regional target based on service area customer characteristics across all sectors.
- Utility-specific analysis – calculation of economic and achievable conservation potential based on technology availability, market conditions, customer characteristics and avoided costs specific to the utility service area.

Input from customers provided in Phase 1 indicated a robust role for BPA regarding CPAs. However, recommendations from Workgroup Three reflect a change in position that no longer fully reflects the earlier input received in Phase 1. During Phase 1, BPA received input indicating that BPA should play a more robust role regarding CPAs as uniformity of conservation potential at the individual customer level was considered critical. Because of this uncertainty, BPA has provided both options in the Proposal and we are seeking comment on which option should be pursued.

<u>Option 1</u>: Per Workgroup Three's recommendations, BPA will not develop prescriptive standards and methodologies for CPAs nor require customers to perform CPAs.

- BPA would assist its customers with the continued development and dissemination of the UPC.

[4] http://www.nwcouncil.org/energy/powerplan/6/supplycurves/I937/UtilityTargetCalc_v2.0_6thPlan.xls.
[5] This tool will be rolled out in early calendar year 2011.

- BPA would help identify data collection protocols and prioritize collection of those data elements that significantly influence overall potential assessment.
- BPA would act as a repository for examples of best practices for conducting CPAs, data collection instruments (e.g., survey instruments, site visit guides, etc.) and methodological guidelines to ensure that local data collection activities:
    - Align with regional data collection efforts;
    - Support down-stream analysis (UPC, CPAs);
    - Provide flexibility in level of detail or granularity depending on a customer's needs.
- BPA would continue to represent public power interests to ensure that regional data collection efforts meet the basic needs of BPA customers. As a part of this representation, BPA would:
    - Inform customers of regional research activities;
    - Broadly solicit input from customers as to data availability, data needs, potential data uses;
    - Coordinate public power feedback on research efforts;
    - Ensure broad dissemination of research results.
- BPA would develop a template for reporting conservation potential results and will periodically review and refine the template to ensure its usefulness for both local customer conservation implementation efforts and regional planning.
- Efforts by BPA to develop tools, identify best practices, support regional data collection efforts, etc., would be considered as an infrastructure expense.
- If Option 1 is not pursued by BPA, customers with loads greater than 25 aMW would still be required to provide a biennial conservation plan to BPA in accordance with the regional dialogue contracts.

<u>Option 2</u>: BPA will work with customers to develop prescriptive standards and methodologies for CPAs and require customers to perform CPAs.

- BPA, working with customers, would define standards for CPAs to ensure that customer-conducted CPAs are consistent across customers and consistent with state standards (e.g., Washington) and the Northwest Power and Conservation Council's methodology, including treatment of technology ramp rates, achievability rates, avoided costs and measure characteristics.
    - If necessary, it is expected that BPA would adjust the UPC model based on these standards to ease implementation.
- Customers would be required to conduct a CPA, either using the UPC or a utility-specific CPA consistent with the standards developed by BPA. If a customer were unable to conduct a CPA or acquire the data necessary to complete the UPC, BPA could provide assistance to the customer.

- Each customer would send the results of its CPA to BPA in a consistent template (created by BPA) and must self-certify that the approach meets the standards.
- To facilitate this work, BPA would undertake regional research to populate customer characteristics for sub-regional levels (i.e., 20-30 regions aligned with multiple customer territories). BPA would also reserve funds to support customers in populating the UPC for CPA development.
- Efforts by BPA to develop standards and support regional data collection efforts, etc., would be considered as an infrastructure expense.

7. Energy Efficiency at Federal Facilities

BPA has a strong history and successful track record of working with Federal agencies in the Pacific Northwest to help them achieve energy efficiency in their facilities. This includes facilities that are served by BPA, BPA customers, or those facilities that receive power directly from a Federal project/facility (i.e., reserve/station power - BPA substations, Corp/Reclamation facilities, Irrigation Districts). This work benefits all BPA customers as efficiency savings that take place at reserve/station power facilities count toward the regional savings target and allows more power to be put on the grid. Because of the structure of post-2011 and the Regional Dialogue power sales contracts, the relationship will change in some aspects, but the Federal facilities work is expected to continue.

Proposal: **BPA will facilitate energy projects at Federal facilities on a regional level that are served directly by BPA or a customer**. BPA has inter-governmental relationships and experiences with other federal agencies within the region, no matter which customer service area they are located in. This will continue. In addition, BPA will take the lead on communicating with federal agencies that have multiple sites within the region in an effort to pass ready-made projects on to the agency and serving electric customers for implementation and financial incentives. BPA will also coordinate with Investor Owned Utilities (IOUs) and Energy Trust of Oregon (ETO) to solicit their funding for federal agencies that are served by IOUs.

BPA will provide enhanced communication and coordination with customers that serve federal facilities. Beginning FY2012, incentive payments will be made using each customer's EEI funds or be self-funded by the customer. This means that enhanced communication and close coordination between BPA and customers serving federal facilities will be required. BPA will work with customers to set more specific guidelines and protocols for communication and coordination to determine estimated incentive levels prior to project implementation. It is expected that the guidelines will include specifics such as identifying when agencies sign interagency agreements, study energy project feasibility, and provide oversight of completed work.

Federal project incentive approval process will be revised. Customers will have the final say on approving projects and setting incentive levels where they will be funding the incentive, not BPA. Rather than approve projects directly, BPA will take on a different role. BPA's role will be one of reviewing proposed projects and recommending to the customer utility when incentive payments are appropriate. The specific processes will need to be determined in further collaboration between BPA and customers.

BPA will set aside capital funds for reserve/station power facilities. This includes BPA facilities, Bureau of Reclamation/Corps of Engineers dams and Irrigation Districts which receive power directly from generation facilities. A set-aside for such facilities benefits all BPA customers as efficiency savings that take place at reserve/station power facilities are low cost (e.g., $1.47 million/aMW for FY10) and allow more power to be put on the grid, as mentioned above.

- BPA will strive to continue acquiring cost-effective savings from this federal segment while at the same time maximizing available EEI to customers. See Section II.1 for information on how much is being budgeted for this set-aside.

II. Incentive Funding Mechanism

BPA's Phase 1 Policy Framework established the Energy Efficiency Incentive (EEI) as the new funding mechanism for BPA-funded conservation acquisitions post-2011. Each customer will be assigned an EEI budget based on its Tier One Cost Allocator (TOCA). The mechanism for BPA to assign customers their EEI budgets is through Energy Conservation Agreements (ECA) that BPA has signed with many customers and will put in place with additional customers if they expect to access EEI funds.

BPA will update each customer's ECA in accordance with its EEI budget, i.e., the ECA is the contract and the EEI is the funding amount that will be included in the ECA as the Implementation Budget. EEI funds are expected to come out of BPA's capital budget; therefore, these funds must be tied to the acquisition of cost-effective energy savings, per BPA's capital policy.

<u>Differences between EEI and Conservation Rate Credit (CRC).</u> It is important to make clear one of the major differences between the new Energy Efficiency Incentive (EEI) funding structure and the old Conservation Rate Credit (CRC) structure. CRC dollars were a credit to customers on their power bills potentially in advance of conservation acquisitions. In contrast, EEI dollars will be paid *after* the customer develops and BPA has acquired the conservation in accordance with the ECA, following BPA's receipt of a customer invoice. In other words, EEI will work on the same invoice-and-reimburse system as the existing practice for ECA Implementation Budgets; the rate credit as a funding source is being removed.[6]

1. Assignment of the Energy Efficiency Incentive

BPA has determined there needs to be a reasonable process for assigning EEI funds to customers. The proposed process for assigning the TOCA based EEI budgets to customers is described below.

<u>Proposal:</u>

Step 1: The total amount of the available EEI (the EEI Fund) is determined by BPA, after completion of the Integrated Program Review (IPR) process and/or rate case. The amount of available EEI for allocation to customers (EEI Fund) will be the total capital

[6] CRC dollars were funded as an expense budget item (versus capital). The funding mechanism for EEI will be determined on a rate period basis, and could be capital or expense. BPA is currently proposing for FY 2012-13 that EEI funds be capitalized, subject to the results of the rate case.

budget less the amounts dedicated to the set-aside funds described below. BPA is planning on setting aside no more than 30% of the total EE capital budget for these purposes:

- **Regional Program Delivery Fund**. This fund will cover the expenses related to regional program delivery but *not* the associated end-use participant incentives (i.e., rebates).[7] This set-aside is expected to represent approximately 20-25% of the total 2012-2013 capital budget.
- **Federal Acquisition Fund.** This fund will be used only to provide incentives for energy saving projects at reserve/station power federal facilities as described above in Section I.7. This set-aside is expected to represent approximately 2% of the total 2012-2013 capital budget.
- **Utility Transitional Projects Fund.** BPA has defined eligible projects for transition funding to minimize the impact to each customer's EEI budget by providing funding where a particular project would have a large impact on a customer's EEI budget. Projects qualifying for transition funding are those which were approved (by BPA in the regional Planning Tracking and Reporting system or via a customer's defined approval process for customers with non-standard agreements) prior to October 1, 2010 and where the project's anticipated incentive would exceed 20 percent of the customer's projected FY2012/13 EEI budget. EE staff anticipates this set-aside will represent approximately less than 1% of the 2012-2013 capital budget.

  After the 2012-2013 rate period, it is expected that there will be no set-aside for transition projects. The Transitional Projects Fund is only being offered during the 2012-13 rate period to cover funding commitments BPA has already made to customers for projects that were expected to be completed in the FY2012/13 rate period. In the future, all customers will be responsible for paying incentives for those projects that carry over into subsequent rate periods either out of EEI funds or self-funding.

The Proposal offers two options on treatment for large projects and BPA is seeking comment on the options from stakeholders. Workgroup One recommended having <u>no</u> set-aside out of the EE capital budget for "large" projects. There is an alternative view among some stakeholders that not having a set-aside would jeopardize capturing cost-effective savings, primarily from the industrial sector. Having a set-aside would attempt to balance the competing interests of equity versus efficiently capturing cost-effective savings that might be lost absent available funding.

<u>**Option 1:**</u> **No set-aside for large projects.** Large projects would be funded out of any combination of a customer's EEI, self-funding, bilateral transfers or utility pooling (described in Sections II.2. and II.4, respectively), or allow the project not to happen.

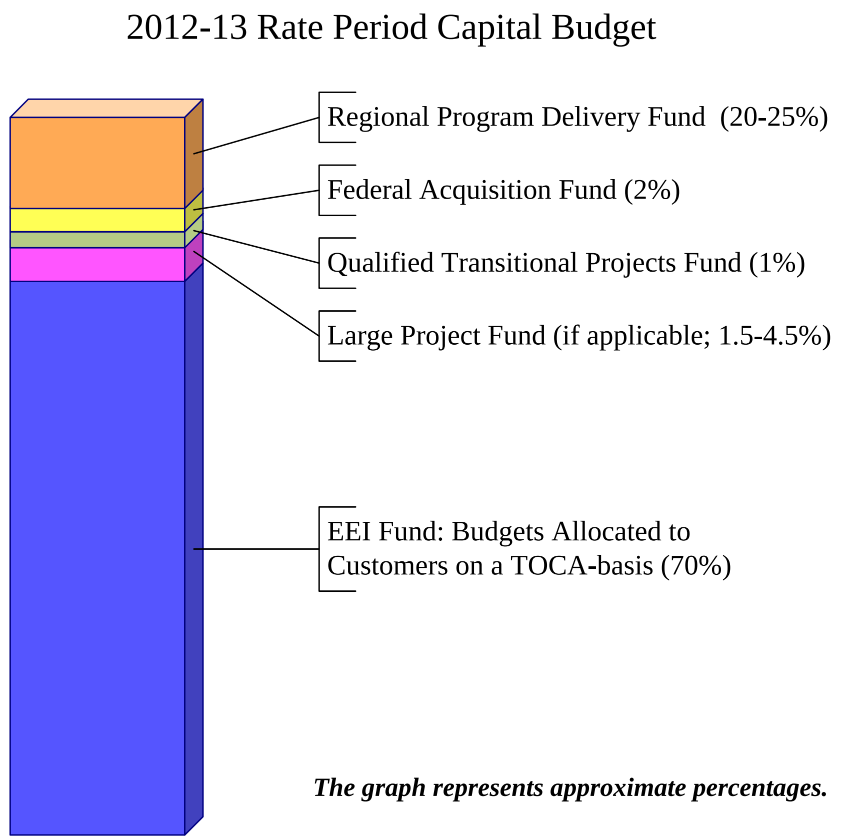
[7] There are currently certain regional programs in operation that due to their unique characteristics will necessitate that a small share of FY12/13 capital monies continue to fund the retail "buy-down" of the energy saving measures (e.g., Green Motors Initiative).

<u>Option 2:</u> Large Project Fund (LPF). Funds from EE's capital budget would be set aside to reimburse customers for "large" projects.[8]

- A "large" project would be defined as having a BPA reimbursement amount (the amount paid from BPA to the customer after applying an applicable project cost cap) totaling more than 50% of a customer's TOCA based EEI budget at the start of a rate period.
- Funds from the LPF would be allocated on a first-come, first-serve basis only to customers that provide a completed proposal per the terms in the Implementation Manual.
- Customers accessing the LPF must self-fund at least 50% of the project's incentives and documentation of self-funding must be submitted to BPA in order to receive LPF reimbursements.
- LPF projects must be completed in the rate period for which LPF funds are allocated.
- If a LPF project is not completed during the rate period or the LPF funds allocated to a customer are otherwise not utilized, the customer would need to reapply for LPF funds.
- The Post-2011 Phase 1 Policy Framework states that in the event funding is set aside for large projects that such funding would need to be paid back by the customer receiving the funds (p. 5). However, this requirement would not be pursued by BPA regarding funds from the LPF.
- This set-aside would represent between approximately 1.5% and 4.5% of the 2012-2013 capital budget.

Step 1 (cont.): Below is a graph illustrating the proposed allocation of BPA's Energy Efficiency capital budget for the 2012-13 rate period.

[8] This amount would lower the amount of EEI funds that are distributed to customers on a TOCA basis.



Step 2: Using customers' TOCAs and the amount available in the EEI Fund, BPA calculates each customer's EEI budget and notifies each customer of its EEI budget. Each July 1 prior to the start of a new rate period, BPA will provide each customer an EEI Budget Letter. Depending on whether the rate case has concluded, the EEI Budget Letter will contain either an indicative or definitive EEI budget. In addition to a customer's indicative or definitive EEI budget, the EEI Budget Letter will:

(A) Request the customer to return by September 15th the EEI Budget Letter with the filled-in amount of its EEI budget it plans (based on its internal planning and forecasts) to spend during the rate period. (To help BPA manage annual budgets, customers will also be encouraged to indicate how much they plan to spend each year of the rate period.)

(B) Notify the customer that BPA will zero out the customer's ECA Implementation Budget effective October 1st if the customer does not provide planned EEI budget expenditures and return the EEI Budget Letter to BPA by September 15th. For the 2012-13 rate period a grace period will be allowed until December 31st before the EEI funds are no longer available. This grace period is being offered to allow customers the opportunity to adjust to the new post-2011 framework.

Step 3: BPA unilaterally updates each customer's ECA. Effective October 1st of the first year of a rate period, BPA will take one of the following actions:

(A) Update the customer's ECA Implementation Budget to reflect the amount indicated by the customer in the returned EEI Budget Letter (not to exceed the initial TOCA-allocated amount);[9] or,

(B) Zero out (i.e., a budget of $0) the customer's ECA Implementation Budget if BPA does not receive a completed EEI Budget Letter by September 15th. With an Implementation Budget of zero dollars, a customer would not be able to receive reimbursements from BPA.

Step 4: Unassigned Account is funded. On December 31st of 2011 (for the 2012-13 rate period) or October 1st of the first year of a rate period (for rate periods after 2012-13), BPA will direct any non-committed EEI funds to the Unassigned Account with:

(A) Amounts indicated by customers in their EEI Budget Letters that they will *not* use during the rate period; and,

(B) Amounts available due to a customer's failure to return its EEI Budget Letter to BPA by December 31st for the 2012-13 rate period or October 1st of subsequent rate periods. (For more information on the Unassigned Account, see Section II.5.)

2. Utilizing and Transferring EEI Funds

Below is how BPA proposes customers will conduct business with BPA and the ways in which customers will be able to utilize and transfer their EEI funds.

Proposal:

Customers will invoice BPA to receive reimbursement. Over the course of the rate period, customers will acquire conservation savings, submit invoices and receive reimbursements and performance payments up to the amount of the Implementation Budget stated in their ECAs. BPA will continue to comply with BPA's Prompt Payment policy, which requires invoices to be paid in a timely fashion, but documentation must be complete.[10]

BPA and customers will engage in ongoing conversations and monitor spending and acquisitions. Throughout the rate period, BPA Energy Efficiency Representatives (EERs) and customers will engage in proactive conversations about spending expectations. EERs will monitor customers' spending of their Implementation Budgets. EERs will provide information to customers on applicable programs, measures and pooling options, particularly if a customer is not spending on a basis commensurate with the amount of time that has passed or if a customer does not have plans to spend its Implementation Budget.

Customers may elect to utilize flexibility mechanisms to facilitate the movement of EEI funds to where conservation can be most efficiently and cost-effectively acquired.

- **Customers join Utility Energy Efficiency Pools (UEEPs).** For more information on UEEPs, see Section II.4 below.

[9] EEI funds allocated to customers that elect not to sign an ECA with BPA would be proportionally allocated to those customers with ECAs at the start of the rate period.

[10] This is in line with how BPA currently pays for bilateral payment invoices.

- **Customers enter into Customer Bilateral Transfers of EEI funds.** Bilateral transfers between customers of EEI funds will be allowed. For example, if Customer A does not plan to spend all of its EEI funds within the rate period, it can enter into a Customer Bilateral Transfer with another customer, Customer B. Customer A and Customer B would agree to the amount of EEI funds that would be transferred from A to B and would submit that request in writing to BPA, using a standardized form provided by BPA. BPA would then make the appropriate transfer of EEI from Customer A's ECA Implementation Budget to Customer B's ECA Implementation Budget.
  - **BPA will not be a party to Customer Bilateral Transfers**.
  - **All Customer Bilateral Transfers require sign off by both customers**.
- **Customers utilize the Unassigned Account.** The Unassigned Account will be the repository for EEI funds not allocated to specific customers. EEI funds in the Unassigned Account will periodically be allocated to requesting customers pursuant to Section II.5 below.
  - A customer may release part of or its entire ECA Implementation Budget to the Unassigned Account at any time during the rate period. Funds initially allocated for regional program delivery may also be released to the Unassigned Account.
  - A customer may request funds (if available) from the Unassigned Account. The allocation of EEI funds in the Unassigned Account is explained in Section II.5 below.

ECA Implementation Budgets *will not involuntarily* be reduced within a rate period, except if a customer fails to submit its EEI Budget Letter to BPA per Section II.1. As BPA and its customers transition to the new post-2011 implementation framework, BPA will not reduce a customer's ECA Implementation Budget during the FY 2012-2013 rate period. However, following the FY 2012-2013 rate period, BPA will periodically review a customer's activities and consult with it prior to reducing its ECA Implementation Budget consistent with Exhibit A of customer ECAs.

3. Performance Payments

Under existing practice, a customer's performance payment (for administration cost reimbursement) is a percentage of its qualifying claims and invoiced measures, up to 20% (or up to 30% for customers with 7.5 aMW or less of net requirements load) and is intended to help cover program implementation costs.

Proposal: Beginning October 1, 2011 (FY 2012), customers will be able to claim a percentage of their ECA Implementation Budgets as performance payments to help cover program implementation costs. Performance payments will come out of a customer's ECA Implementation Budget and will be based on customer specific kWh busbar savings reported into the PTR system or its successor. Performance payments and will be paid out *in addition to* the reimbursement rate. For example, for a reimbursement rate of \$0.20/kWh, a performance payment rate (\$0.xx/kWh) could be claimed by the customer in addition to the incentive reimbursement.

A cap on performance payments will be applied to all customers and a customer's cap is dependent upon its TOCA. To ensure BPA and public power achieve our savings target within proposed budgets, the agency has planned to have no more than 20% of the EEI Fund paid out as performance payments. The proposed caps and TOCA cutoffs outlined below (along with other rules pertaining to performance payments) are intended to prevent surpassing this upper budget threshold while at the same time providing more financial assistance to small and medium customers to acquire conservation. Theoretically, given the caps and TOCA cutoffs, more than 20% of the EEI Fund could go toward performance payments, but this rests on two unlikely outcomes: 1) All customers claim their full performance payment amounts; 2) All performance payments go exclusively to pay for program implementation costs and are not passed through as incentives to end-users to acquire additional conservation. It is not expected that all customers will fully claim their performance payment allowances. The TOCA thresholds below result in 63 customers defined as "small," 37 defined as "medium," and 33 defined as "large."

- For "small" customers with 2012-2013 average TOCAs between 0.0000 and 0.0030, the performance payment cap will be 30% of their ECA Implementation Budgets. For example, a customer with an ECA Implementation Budget of $100,000 could claim no more than $30,000 in performance payment during the rate period.
- For "medium" customers with 2012-2013 average TOCAs between 0.00301 and 0.010, the performance payment cap will be 20% of their ECA Implementation Budgets. For example, a customer with an ECA Implementation Budget of $500,000 could claim no more than $100,000 in performance payment during the rate period.
- For "large" customers with 2012-2013 average TOCAs equal to 0.011 or greater, and all Federal agencies receiving an EEI allocation, the performance payment cap will be 15% of their ECA Implementation Budgets. For example, a customer with an ECA Implementation Budget of $1,000,000 could claim no more than $150,000.

The performance payment rate (cents/kWh) will vary based on which size category (small, medium, or large) a customer fits into. The rates will be determined in such a way as to make it possible for customers to reach their performance payment caps.

All customers must abide by the terms of their Regional Dialogue contracts which require the reporting of all cost-effective savings to BPA (BPA-funded and self-funded):

> *«Customer Name» shall verify and report all cost-effective (as defined by section 3(4) of the Northwest Power Act) non-BPA-funded conservation measures and projects savings achieved by «Customer Name» through the Regional Technical Forum's Planning, Tracking and Reporting System or its successor tool* (§18.1.2.2).

All performance payments are intended to help cover the customer expenses associated with conservation, e.g., paying for conservation staff, printing marketing/education materials, end-user rebates, performing audits, assessing conservation potential, etc.

For Joint Operating Entities (JOEs), such as PNGC, and Utility Energy Efficiency Pools (UEEP), the total amount of performance payment a JOE or UEEP could claim will be the aggregate of the maximum allowable for each individual member in a JOE or participant in a UEEP. For example, if Customer A could claim up to $100,000 as performance payment, Customer B up to $50,000 and Customer C up to $150,000, then the pool could claim no more than $300,000 in performance payment throughout the rate period.

Reasons why BPA proposal differs from Workgroup recommendation.

Workgroup Two recommended an “administrative payment” (defined differently than “performance payment”) decoupled from kWh savings for small customers (defined in the recommendation as those with a 2012 forecast load of 10aMW or less). However, paying customers for expenses not directly tied to energy savings would not maximize public power’s potential to acquire cost-effective savings. To ensure that EEI funds are used to maximize energy saving, while at the same time encouraging small customers to increase their achievement of energy efficiency savings, BPA supports using performance payments rather than administrative payments decoupled from energy savings.

Furthermore, because EEI funds come from BPA capital dollars, they cannot be utilized for expenses not directly related to the acquisition of kWh savings, per BPA’s Capital Policy. BPA Energy Efficiency staff regrets that this limitation was not discovered before the Workgroup presented its recommendations to BPA.

To address the explicit concern of the Workgroup that some customers, primarily those defined as small, need additional financial resources to acquire conservation, the proposal allows a significantly larger number of small customers to receive higher performance payments than today. Whereas under existing policy, only those customers with 7.5aMWof load or less are eligible for 30% performance payments, the proposal increases this threshold to approximately 20aMW (it varies because TOCA shares are not directly correlated with load size). Thus, BPA staff believes the above proposal to be in the spirit of the Workgroup’s recommendation.

The criteria proposed by the Workgroup to define “small, rural, residential” were based on data that is not as reliable or objectively referenced as basing the performance payment on TOCA shares, which result from BPA rate proceedings. For example, the category of “small” as proposed by the workgroup depended on load forecast and the category of “residential” depended on Energy Information Administration (EIA) data that is not updated on a regular basis.

BPA will continue to work diligently on supporting acquisition of cost-effective savings in small, rural, and residential service territories (see Section II.6. below).

4. Utility Energy Efficiency Pools (UEEPs)

A Utility Energy Efficiency Pool (UEEP) is defined as two or more customers that join together for the purpose of energy efficiency acquisition. The following outlines the basic structure of utility pooling and encompasses both pooling of individual customers' ECA Implementation Budgets *and* pooling implementation efforts. There is also an option where customers elect to participate only in pooling implementation efforts while maintaining their individual ECA Implementation Budgets.

Proposal:

All customers can join a UEEP and customers may join a UEEP at any time. However, to mitigate potential accounting complexities, BPA encourages customers to form and join pools prior to the start of a rate period, and encourages customers to participate in a UEEP for at least the remainder of that rate period.

Participation in a UEEP is voluntary. UEEP participants will enter into an agreement with each other to establish their membership or participation in a UEEP. The agreement would set up a governance structure and UEEP rules and procedures. BPA will not be a party to these agreements, but those customers wanting to participate in Formal and Informal Pools must provide BPA with all information requested by BPA that demonstrates the Formal and Informal Pools have the requisite authority to act in the capacity as UEEPs. A UEEP must notify BPA of its existence and participants.

Customers may form one of the following three types of UEEPs:

- "**Formal Pool**"**—** pool participants create a legally-organized separate entity, which has the legal authority to represent and take on legal liability for the pool participants. Under this arrangement, the Formal Pool entity executes an ECA with BPA. BPA will only offer and execute an ECA with an entity that is authorized to legally bind its members or participants and to be held legally liable for obligations and services to be performed.
- "**Informal Pool**" **—** pool participants select one of the pool's participants to be the Primary Participant, which must have the authority to represent and assume legal liability for the pool's participants. This arrangement is similar to the Formal Pool except the primary participant customer has the authority to assume legal obligations and liabilities on behalf of the other pool participants, i.e., through use of inter-agency agreements. Under the ECA it is important for BPA to identify the responsible contracting party to whom BPA can look to for ensuring the ECA is being fully implemented.
- "**Implementation-Only Pool**" **–** pool participants do not combine ECA Implementation Budgets, but do elect a representative to perform administrative and implementation duties and tasks on behalf of pool participants.

For Formal and Informal Pools, reimbursements and performance payments will be made from the pool's EEI account for Formal Pools and from the Primary Participant's EEI account for Informal Pools. Each measure or project, however, will still be reported and designated to the individual customer where the measure or project was installed. Formal and Informal Pools must designate a representative (pool manager), e.g., a third party contractor, a participant of the pool, etc., with authority to conduct business with BPA on the pool's behalf. However, the legal entity created on behalf of a Formal Pool or the Primary Participant on behalf of an Informal Pool is the party ultimately liable and responsible for the actions of the UEEP.

BPA may support the formation of UEEPs by customers by making available a list of customers interested in forming a UEEP. This list may be populated as a result of communications between customers and EERs or via an electronic bulletin board.

5. Assignment of Funds from the Unassigned Account

The Unassigned Account will be the repository for EEI funds that are not assigned to customers. There are several reasons why EEI funds would not be assigned to specific customers and, therefore, temporarily reside in the Unassigned Account, e.g. a customer fails to return its EEI Budget Letter, elects to transfer EEI funds from its account to the Unassigned Account, etc. Note: for purposes of the Implementation Proposal, the word "Customer" refers to both individual customers and UEEPs.

Proposal:

Timing of Allocation. Funds from the Unassigned Account will be allocated at month-6, month-12, and month-18 of the rate period. At month-5, month-11, and month-17, BPA will notify customers of how much is in the Unassigned Account. Customers will have 10 business days from the date of the notification to submit a "Request for Funding" form. To ensure consistency across customers, BPA will provide a "Request for Funding" template for customers to fill out and submit (potentially through the PTR or its successor).

Any remaining funds in the Unassigned Account after month-18 will be allocated on a monthly basis to customer(s) that submit a "Request for Funding." If funds are available, customers will submit requests by the 15th of each month and the funds will be allocated at the end of each month.

Access to the Unassigned Account. To access funds in the Unassigned Account a customer must submit a "Request for Funding" to BPA. If needed, prior to allocating funds in the Unassigned Account, BPA (potentially via the PTR or its successor) will adjust each customer's request *down to the total amount of available funds in the Unassigned Account* to help alleviate potential implications of inflated requests. (There is no minimum amount that a customer may request.)

For illustrative purposes, if there were $100,000 in the Unassigned Account with three customers requesting the following amounts: $50,000; $200,000; $500,000. The later two customers' requests would both be reduced to $100,000 and awards would be allocated on a pro rata basis, as illustrated in the table below.

Amount available: $100,000			
Request Amount	Request Amount Adjusted (if applicable)	Percentage of Total Requests (Adjusted, if applicable)	Amount Awarded
$50,000	$50,000	20%	$20,000
$200,000	$100,000	40%	$40,000
$500,000	$100,000	40%	$40,000

A customer that is allocated funds from the Unassigned Account at one point during a rate period is *not* precluded from requesting another allocation from the Unassigned Account at another point during the same rate period. There is not a maximum amount of EEI funds a customer could be allocated from the Unassigned Account during a rate period. Finally, in accessing the Unassigned Account customers are *not* required to demonstrate self-funding or that they have spent a certain percentage of their ECA Implementation Budgets.

Funds in the Unassigned Account will be reallocated on a "first in-first out" priority basis and then proportionally, as described below.

- ***First Priority: Early Release of EEI Funds to Unassigned Account –*** Customers that release EEI funds to the Unassigned Accounts within the first 12 months of a rate period will receive *first priority* to access Unassigned Account funds based on the date the EEI funds were released. This includes customers that release EEI funds via the EEI Budget Letter. This priority access is intended to encourage customers that do not plan to use some portion or all of their ECA Implementation Budgets to release such funds into the Unassigned Account as early as possible.

  First priority access will be available for the remainder of the rate period in which the EEI Funds are released and the rate period immediately following. First priority access will be capped at the amount of EEI funds the customer released to the Unassigned Account. However, there is no guarantee that a customer will receive the amount of funds it released to the Unassigned Account.

  Once a first priority access customer receives funds from the Unassigned Account equal to the amount it released to the Unassigned Account, such customer no longer has first priority access until the next time the customer releases funds into the Unassigned Account.

  If the amount of funds available in the Unassigned Account exceeds the amount first priority access customers released to the Unassigned Account, the Unassigned Account will *first* be reallocated to the first priority access customers pro rata based on the customers' dollar amounts requested. Any funds remaining in the Unassigned Account will then be available to non-priority customers.

- ***Proportional Allocation –*** If there are remaining funds in the Unassigned Account after funds have first been assigned to first priority access customers (if priority requests were made), the Unassigned Account will be reallocated pro rata based on the customers' dollar amounts requested (per the requirements above). First priority access customers may request an amount of funds above the amount they released to the Unassigned Account, but will only have priority access up to the amount they released.

6. Additional Support for Small, Rural, and Residential Customers

Workgroup Two (Small, Rural, Residential Focus) identified that a barrier for small, rural, residential customers is often program design and delivery. Below is a list of some options that BPA could pursue to help these customers acquire more conservation.

<u>Proposal:</u>

Measures. BPA will continue to pursue additional cost-effective residential measures with an emphasis on deemed and easily implementable measures. Examples include: ductless heat pumps for additional applications, duct insulation, T12 to T8 lighting retrofits.

To help prioritize BPA's work, customers should provide input into which measures or measure-sets will have the greatest energy efficiency value in their service territories and across the region. This input may include prioritization based on the measure's value to the region, a customer's conservation potential or measures with the highest level of interest for collaboration on a sub-regional or regional level. BPA will use existing communication channels, such as utility roundtables, as well as the website to keep BPA customers more informed on new measures, programs or changes.

Program support (assistance). BPA will continue to look for opportunities to: streamline measure protocols and requirements for inspection and verification to reduce travel time and costs; offer turn-key program offerings, such as Simple Steps, Smart Savings, which place little to no administrative burden on the local customer; and include small, rural, and residential customers for eligibility in pilots and demonstration projects.

III. Implementation Mechanism

Customers will have a fundamental choice between two implementation paths for custom projects -- standard and non-standard. These two paths will provide customers with the flexibility to decide which mechanism best fits their needs. Note that these options apply only to custom projects, and not to those available through a prescriptive path (deemed, provisionally deemed, customer program, or BPA-qualified measures). Prescriptive path measures will be treated the same for all customers.

1. Custom Projects: Standard vs. Non-standard Paths

Proposal:

Standard path. The standard path will remain consistent with current BPA standard agreement policy. BPA will work with customers to improve the existing custom project process. Each customer will automatically be placed on the standard path. A customer using the standard path will submit individual customer project proposals to BPA for review and acceptance prior to when the project starts. For accepted projects, BPA will provide reimbursement when they are complete (reimbursement not to exceed the customer's ECA Implementation Budget).

Non-standard path. The non-standard path will be incorporated as a chapter in the Implementation Manual. Customers choosing the non-standard path must inform their COTR of their intent to enroll. As part of this enrollment process, a customer will provide its measure delivery approach.

Customers that pursue the non-standard path will *not* be required to submit to BPA individual custom projects for approval prior to when the project starts. Once on the non-standard path, the customer will remain non-standard for the rate period. At the beginning of a new rate period customers may evaluate their choice and. have the option to switch back to the standard path. Customers may not switch back and forth between paths on a project by project basis and projects started on one path must be completed on that path.

Customers electing the non-standard path will have limited access to BPA engineering support and Technical Service Provider (TSP) assistance. Accessible technical assistance will be available for Implementation Manual clarifications and consultations on M&V but would not include project-specific technical assistance such as audits or project preparation. This would not apply to technical assistance from regional programs and infrastructure, such as third party contractors (e.g., the Northwest Trade Ally Network, Cascade Engineering, Portland Energy Conservation Inc., etc.).

Commonalities between Standard and Non-standard paths. Custom project eligibility requirements, as described in the current Implementation Manual and PTR system or its successor, will apply equally to customers on both paths. The Measurement & Verification (M&V) protocols and technical oversight will be the same regardless of which custom project path a customer has chosen. The Northwest Power and Conservation Council's total resource cost (TRC) cost-effectiveness test will apply to both standard and non-standard customers.

Any given custom project must have a minimum cost-effectiveness ratio of 0.5. For standard customers, BPA will manage the custom project portfolio to ensure the entire custom project portfolio remains at a ratio of 1.0 or greater. For non-standard customers, the sum of all custom projects (involving only non-deemed measures) submitted to BPA in each invoice/report must have a ratio of 1.0 or greater. BPA's willingness to pay (reimbursement rate) will vary across sectors (e.g., residential, commercial, etc.) and within sectors (e.g., retrofit and lost opportunity), but will be the same for both standard and non-standard customers.

Reasons why BPA proposal differs from Workgroup recommendation.

After much consideration, Workgroup Four recommended that BPA offer one reimbursement rate for all customer projects (both standard and non-standard) regardless of sector. BPA will not offer the same reimbursement rate across sectors for the following reasons:

- Having the same reimbursement rate across and within sectors (retrofit and lost opportunity) would reduce BPA's existing flexibility to set reimbursement rates based on the value of the savings and adapt to regional and programmatic needs through changes to individual sector reimbursement rates.
- Moving to one reimbursement rate across and within sectors would mean, in order to keep costs in line with savings, a lower reimbursement rate for several sectors that have recently seen increases in reimbursement rates.

BPA recognizes that the reimbursement should be based at some level on the value of savings, which varies by measure life and load shape.

BPA's reimbursements for both standard and non-standard custom projects will be capped at 70% of project cost. The reimbursement rate for custom projects may vary by measure life.The performance payment rates for custom projects will be the same rates as those pursuant to Section II.3. However, the total amount of performance payment paid out for *any submitted invoice* will be capped at the performance payment percentages identified in Section II.3 corresponding to the size of the customer. For example, a large customer with a performance payment cap percentage of 15% would only be able to claim 15% of a custom project invoice as performance payment. This cap is to prevent a scenario whereby a customer could receive far more in performance payment (based on kWhs saved) than in reimbursement (based on project cost and often capped at 70%). Such a scenario would conflict with BPA's policy to avoid paying more than a project's incremental cost.

Whenever a measure is available through a prescriptive path (deemed, provisionally deemed, or BPA-qualified), it cannot be run as a custom project under either the standard or non-standard path. Calculated non-residential lighting projects (e.g. C&I Lighting Calculator) will be considered as deemed in this context. Both standard and non-standard customers must maintain proper documentation for project review and oversight by BPA.