Progress Report Workgroup #1: Model for Achieving Programmatic Savings

Background

When the announcement was launched for Post 2011 workgroup participants, Workgroup One received abundant responses from around the region. Utility representatives from Oregon, Washington, Idaho and Montana accepted the challenge, in addition to public interest groups and stakeholders. Workgroup One was given the title of **Model for Achieving Programmatic Savings**, and under that umbrella we were tasked with eight issues to address. We will briefly highlight them as originally defined in the Scoping Document.

Issue #1 – EEI Allocation Methodology using TOCAs. The current allocation method does not align with customer conservation potential and may inefficiently and/or ineffectively allocate available funding.
Options: Five options under consideration, including an allocation based on TOCA without consideration to potential (current day), allocations based on conservation potential, a TOCA-other split combination, and a utility request allocation (similar to the previous BPA bilateral funding model). A final option would explore utilities to "opt-out" of the EEI paradigm based on certain conditions.

Issue #2 – Two-Year EEI Budgets. Current budgets are allocated per rate period, and any remaining funds go 'unspent' as we are unable to move funds across rate periods. We have a "use it or loose it" process with the two year time frame.
Options: Four options were presented through the process, including status quo, further exploration of moving funds across rate periods, limiting the roll-over amount to project specific incentives, or offering a five-year budget to customers to help with long term planning.

Issue #3 – BPA Redirect of EEI Funds. At the launch of the Post 2011 framework, stakeholders did not want ECA budget to involuntarily be reduced. Moving forward, we must determine whether BPA will continue with this approach or exercise an action prior to the end of the rate period and redirect unspent EEI funds to other customer or projects.
Options: Two options resulted from the public process – leave the process as it or enable BPA to exercise the right to redirect those funds prior to the end of the rate period.

Issue #4 – BPA's Backstop Role. The Post 2011 Policy Framework states "If the programs in place at any given time are insufficient to achieve the necessary level of savings, then new programs, as well as looking at other avenues, would be explored and evaluated to meet the targets." The BPA role is not explicitly clear and customers/stakeholders would like more clarity.
Options: Pretty basic considerations that include leaving BPA's role a bit vague, offer a more explicit definition, eliminate BPA's backstop role or give BPA a backstop role under certain conditions or for a certain segment of customers.

Issue #5 – Utility Self-Funding. We are currently operating under an existing model of 75% BPA-funded and 25% utility self-funding to achieve programmatic savings. Some customers would like to fully manage their savings delivery mechanism and "opt-out" of paying in rates EEI funding. We also heard

some customers would like BPA to consider using a Cost of Service Analysis to determine the allocation of BPA's expense and capital costs.
Options: In addition the status quo, options included an adjustment in the 75/25 percentage split, EEI opt-out, and an allocation of BPA costs using a Cost of Service Analysis.

Issue #6 – Limitations of the Post-2011 Framework. The Post-2011 framework may be constraining Public Power's pursuit of all cost-effective conservation. Also, the framework is based on BPA paying for energy savings on a "widget by widget" basis, which may limit the opportunity for public power to capture savings via new, innovative programmatic approaches.
The option stated was a request for BPA, customers and stakeholders to explore any inherent constraints of the Post-2011 framework to acquiring "all" cost-effective conservation and capturing savings via new programmatic approaches.

Issue #7 – Performance Payments for Regional Programs. Currently, customers can claim performance payment for savings resulting from regional programs (e.g., ESG), even though most costs are borne by the program implementer, including the program administrative costs. This increases the overall cost of the regional program and reduces the amount of funding available for the acquisition of savings. Additionally, as a performance payment claim, utilities may not actually be incurring any additional expense.
Options: One option is the status quo, where utilities can continue to claim performance payment for regional programs. The other considers some restriction to limit a utility's ability to claim performance payment for regional programs that cover labor costs (possibly requiring documentation that they actually incurred costs associated with program delivery).

Issue #8 – Regional Program Administration. Regional program administration can be more difficult without the direct acquisition program model and when funding commitments are variable, at best. To optimize regional program performance and lower administrative costs associated with those programs, the region would benefit from considering conditions under which a direct acquisition program would be appropriate OR by securing firm funding commitments ahead of budget-years to appropriately size and focus the third party implementer's efforts.
Options: One option included the status quo, where BPA has neither control of funding for direct acquisition or a method of securing funding. A second option suggests BPA is able to control a portion of incentive funding to directly acquire savings via regional program implementation. The final option suggests securing firm utility funding commitments prior to finalizing third party contracts.

These are the monumental tasks this workgroup has been tasked to address.

We chose to have an early start in our meetings, due to the nature and size of our scope of work. To date we have held three meetings, January 16, January 29 and February 18. Our meetings are held from 9:00 am until 3:00 pm. PNGC has graciously agreed to be the host site for all our meetings. Materials, meeting notes and slides and have all been posted on the Post-2011 website.

We have four remaining workgroup meetings scheduled.

Summary of Progress to Date / Status of the Issues

The first order of business for the workgroup was to identify the desired outcomes for this group. Approximately 14 items made the final listing, including items such as

- ensuring our recommendations are implementable
- defined to meet BPA requirements
- keep items that are working
- appreciate the role of the utility
- work judiciously through the issues to stay on schedule
- work with BPA to identify 'show-stoppers'
- members can freely express opinions

Next we prioritized the issues for discussion purposes. We also discussed some overlap of the issues and how many of them may intersect within our workgroup or with other workgroups. At the conclusion of those exercises, we started to dive into the issues and the suggested options under consideration.

The first prioritized issue identified by the workgroup was EEI Allocation Methodology using TOCAs. The workgroup has reached consensus on continuing to use the TOCA as the EEI allocator, regardless if BPA is providing Energy Efficiency Incentives amounts as capitalized or expensed. It was also agreed that we would keep a second option on the table if the conversations reverted back the equitable allocation method; that being allocation are based partly on TOCAs and the additional funds are made available based on some other criterion.

There was also recognition that for all sizes of utilities, there can be energy efficiency projects that can use all or most of a utility's EEI funds. Even with the current options, such as Large Project Fund, the repayment of funds can impose a hardship on some utilities, nearly maximizing or fully utilizing EEI funds with the repayment mechanism. An approach to collecting the kWh savings from these projects is needed when the projects are available and cost-effective, hopefully without eliminating the ability to continue other program actions for said utility.

The workgroup agreed this topic would be more appropriately placed with the discussion on the large project fund. As a result, we have asked Workgroup 4 to expand the scope of their discussion to include this topic. There are several members of this workgroup also participating in workgroup 4, allowing for open discussions between the two. We also anticipate a collaborative meeting between the two workgroups in the near future.

In the course of our conversations, it became apparent that some terms were being used interchangeably, with different meanings depending on the conversation taking place at the time. The workgroup has taken liberty to amend the discussions on "opt-out" to more appropriately reflect the subject of "self-management of incentives." This is different from self-funding.

We have spent quite a bit of time on the topic of self-management of incentives. This issue received a high prioritization; however, the relative number of utilities that might undertake self-management of incentives is relatively small. Our deliberations included approaches BPA would consider (such as proposals that are consistent with BPA financial regulations), approaches that would not receive consideration (such as proposals that exclude funding for BPA administered grants), and four-to-five options to consider in exploring such a mechanism. We will discuss these in more detail below.

The workgroup did an informal poll to gage interest in pursuing the topic of self-management of utility incentives. Thus far, we have a limited set of the workgroup participants that expressed an interest in pursuing this option. We have a larger subset of the group that is somewhat intrigued, but the status quo is working for them. By far, the majority of our group like the status quo and are not interested in the pursuit of self-management of incentives. The workgroup will continue our discussions and analysis to ascertain how this approach might work under the BPA guidelines and parameters.

The workgroup continues to make progress on the remaining issues that were identified in the Scoping Document.

Request for Feedback: Stakeholder Discussion Topic

In our prioritization of issues, exploring an option to allow utilities to self-management utility incentives rose to the top of the list. To assist in placing some 'book ends' around our discussion, BPA provided the following guidance for the workgroup to consider in exploring various alternatives:

Those include options BPA would consider….

- Alternative approaches to implement the EEI incentive structure
- Proposals that work within the existing Regional Dialogue construct and other agency drivers
- Proposals that are consistent with BPA financial regulations and consistent with sound business practices

And options BPA would not consider…

- Proposals that adversely impact other customers
- Proposals that request funding for specific programmatic costs & services (e.g., third party contract/programs)
- Proposals that exclude funding for BPA administered grants (e.g., NEEA)

A few options were presented to the workgroup to spark discussion, and we continue to explore alternative options. In least order of preference, the workgroup has discussed the following options that we share with you today:

Alternative A: Revise the 75/25 Split – where customers (on average, not utility specific), take on more responsibility for delivering savings without BPA funding. Downwards adjustment of BPA percentage would result in reduced BPA EEI budgets for all customers.

- Partly addresses customer issues of Capital and EEI issues
- Most likely require some degree of utility-specific savings targets to ensure the regional target is met (puts BPA in an enforcement role). NOTE: BPA/Council targets would most likely NOT align with WA I-937 state customer targets.
- Could adjust split based on customer performance
- May impact BPA's ability to third party finance conservation

Alternative B: Capital Rate Credit – a rate credit would be used for those customers that "elect" to 100% self-finance their savings acquisition. This would split acquisition resources: ONE bucket of self-financing customers and ONE budget of 100% BPA-funded customers. This approach would eliminate the "on average" self-funding expectation that exists today.

- Addresses Capital and EEI Issues

- Would require those electing customers to take on specific savings targets, with the remaining target implicitly shared by all non-electing customers. Again, NOTE: BPA/Council targets would most likely NOT align with WA I-937 state customer targets.
- May reduce the opportunity for non-electing customers to find a counterparty for bilateral transfers
- May impact BPA's ability to third party finance conservation

Alternative C: Expense Rate Credit – revert back to using a rate credit with some changes to the previous version.

- Addresses Capital and EEI issues
- Will be a rate impact: ~1% increase per $20M moved to expense (to be confirmed)

Alternative D: Conservation Prepay - customers bring capital to BPA in exchange for a bill credit that repays the cash with interest.

- Addresses Capital and EEI issues
- May impact BPA's ability to third party finance conservation

As stated, the workgroup has identified three 'types' of interest levels as we further explore the self-management of utility incentives option.

1. Those with a high level of interest to pursue this option
2. Those with an interest in the how it might work, but are OK with the current program implementation
3. Those with no interest – happy with the status quo

Are there different views that we didn't identify that should be identified as an interest group? Are there other alternatives that we may have missed?

The next meeting of Workgroup 1 is March 5 from 9-3 at PNGC.

Please contact co-chairs listed below for follow-up or feel free to contact your Energy Efficiency Representative

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