

# Recommendation Report Workgroup 4: Flexibility Mechanisms--ADDENDUM

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## Introduction

*Problem Statement: The LPF is administratively burdensome for BPA (i.e., difficulties with the internal budgeting and tracking LPF repayments) and there has been limited demand to date for the funding mechanism given a utility's requirement to pay back any funds received. On the other hand, some customers would like to modify criteria for the fund (i.e., a project's reimbursement must be at least 50% of the utility's rate period EEI budget) to make it easier to access funds and, therefore, increase demand for the fund.*

Although the workgroup did not have a follow-up meeting in May, there was support developed for an overarching recommendation, as described below:

## **RECOMMENDATION: Large Project Fund/Funding Large Projects**

There was agreement in the workgroup that the current Large Project Fund, an un-funded loan program for large efficiency projects, has not been an effective mechanism for capturing large projects for various reasons, including but not limited to the payback requirement, 50% of EEI budget requirements are too high, payback time of two rate periods is too short. The workgroup believes that there is a need for BPA and stakeholders to explore other mechanisms to capture regional large project opportunities.

To that end, the Workgroup encourages BPA to continue working with stakeholders to define and develop alternative methods to capture regional large projects, taking into consideration the obstacles and options suggested by the Workgroup (see below). Defining methods that support regional large projects while addressing these hurdles offers opportunities that will prove beneficial to the utility and their customer; serve as a regional system benefit and accomplishing the overall target savings objective.

## **DISCUSSION (AS PRESENTED AT THE MAY 8 BIG TENT MEETING)**

The current LPF with its payback over two rate periods and 50% of EEI qualifier is unattractive. The workgroup asks that BPA continue to work with all interested stakeholders to find methods to determine the demand for and how best to address unfunded LPF opportunities. Some in the workgroup are concerned about equity issues around BPA funding large projects in one or few utility service territories based on undefined "projects of regional significance" and spreading the costs to all in light of the Tiered Rates paradigm.

Multiple options were discussed to address the issues outlined in the above problem statement. As noted, the workgroup has been unable to reach consensus on any one of the options below, however it was agreed that with more details that some combination of these options may attain consensus. The workgroup realizes that there is no one size fits all for LPF so one individual option will not adequately address the diversity amongst public power regarding this issue. Therefore, the workgroup recommends that a menu of options be developed (as an example: options 1 and 3 could be offered).

1. Customer could ask BPA to borrow additional funds for a specific project through the 3<sup>rd</sup> party financing mechanism – No change to rates, but done as a contractual arrangement.
2. A non-TOCA based allocation that assumes cost sharing commitment of project between utility (EEI or Self-fund), end-use customer and BPA. BPA allocated funds would not be paid back. A Technology Innovations Council type structure would be used to determine allocation of funds.
3. Pay for performance across measure life with bilateral agreement between BPA and utility through a contract – Does not use any dollars other than the utility's own EEI.
4. Expanded communication and use of bi-lateral transfers between utilities with BPA being a conduit of LPF opportunities.
5. Keep the current construct but reduce the 50% EEI budget requirement to something smaller and extend the payback timeframe to a great number of rate periods.
6. A mixture of the approaches above.

For context, the group was unable to achieve consensus on which of the options above to recommend to BPA. The group had varying perspectives on the following issues:

- *Is there such thing as a Regional project?* The TOCA model has created some holes in funding for large projects that cannot be fixed without assigning some sort of regional value to projects. Yet some utilities currently self-fund large projects and do not see their local utility governance board supporting their EEI funds going outside their service territories. The workgroup was unable to come up with any definitions that would make a large project truly “regional” in nature. Some workgroup members were not comfortable with creating additional criteria and/or assigning additional value above and beyond an individual utility's benefit from a project. Others felt a large project could “break the bank” for their utility, not allowing them to fund anything other than that project, if they could even fund the large project itself.
- *To pay back or not to pay back?* Some utilities are unable and/or unwilling to commit to borrowing EEI dollars that need to be repaid. At the same time, it was stated by some workgroup participants that any receipt of funds without payback would violate equity. This leaves “nonstarters” on both sides of the issue.
- *So where does the money come from?* The LPF is currently unfunded but a discussion of setting aside any portion of the overall EEI budget to be used for such a fund was described as cross-subsidizing and again, a violation of the TOCA methodology. This leaves no dedicated budget to pull from for LPF projects.
- *What do we agree on?* The group did agree that if any sort of funding mechanism required payback, the period of payback needed to extend beyond two rate periods and some reduction made to the 50% eligibility criteria. Challenges arise from these changes, including the administrative burden of continuing to track such funding for a longer timeframe and the fact that at some point the payback period would extend beyond the term of the regional dialogue contract.

Please contact co-chairs directly or your Energy Efficiency Representative to provide feedback on the options discussed above.

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