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December 3, 2008

## MEMORANDUM

**TO:** Council Members

**FROM:** Terry Morlan

**SUBJECT:** PPC Panel on Bonneville Role in Conservation

The Public Power Council has put together a panel to discuss Bonneville's role in conservation acquisition following 2011, when the regional dialogue contracts take effect. The regional dialogue contracts create an enhanced incentive for utilities to pursue conservation in order to minimize their exposure to higher tier-2 power costs. For some public utilities, this has resulted in a desire for Bonneville taking a smaller role in utilities' conservation efforts.

Bonneville plans to carry out a discussion with its public utility customers during January to March 2009 about conservation strategies. The PPC panel will give an early indication of the interests of some public utility customers.

The panel will be moderated by Scott Corwin, Executive Director of PPC, and will include four panelists: Bill Drummond (Manager, Western Montana G&T), Rick Crinklaw (General Manager, Lane Electric Cooperative), Steve Klein (General Manager, Snohomish County PUD), and Bob Pierce (Manager of Member Services and Key Accounts, Clearwater Power Company).

In the 5th Power Plan, during the Regional Dialogue process, and in other policy discussions about conservation, the Council has expressed a consistent set of principles regarding Bonneville's role in conservation acquisition. These principles include:

- (1) Conservation targets. Bonneville should continue to commit that its public utility customers will meet their share the Council's conservation targets. Bonneville should ensure that public utilities have the incentives and the support to pursue sustained conservation acquisitions. Active utility commitment to conservation should be a condition for access to Bonneville Tier-1 power.
- (2) Utility reporting. Bonneville should include in its power sales contracts requirements for utility reporting and verification of conservation savings so that Bonneville and the Council can track whether conservation targets are being achieved.
- (3) Implementation mechanism. Bonneville should offer flexible and workable programs to assist utilities in meeting the conservation goals, including a backstop plan, should Bonneville and utility programs be found insufficient.

(4) Regional conservation programs. Bonneville should continue to be active in funding and implementing conservation programs and activities that are inherently regional in scope, such as NEEA.

We have every reason to believe the upcoming discussions between Bonneville and the customers will be consistent with these principles. We do recommend the Council reaffirm a statement of these basic principles, to make clear what is important to the Council regarding Bonneville's role in conservation acquisition as these discussions take place. Meanwhile, these principles may provide a basis for discussion with the PPC panel.



## Public Power Council

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May 15, 2008

Mr. Stephen J. Wright  
Administrator  
Bonneville Power Administration  
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Portland, OR 97208-3621

Dear Steve:

In light of the important role energy conservation has played in our region and will continue to play in future, the Public Power Council spent several months carefully considering various aspects of regional conservation policy. On May 1, the PPC Executive Committee agreed to forward the attached positions regarding the Bonneville Power Administration's conservation programs. There are two separate papers. One identifies areas where the current program may be enhanced to address customer needs. Another paper outlines a direction for BPA's role in conservation moving forward.

These positions were crafted after months of collecting information in the form of conservation surveys and conversations with members, extensive cooperation and work by utility and PPC staff, meetings with agency staff, and discussions among Executive Committee members.

For the current conservation program, the paper points to areas where customers and BPA can work together, along with the Northwest Power and Conservation Council, to create enhanced opportunities for conservation by taking actions such as streamlining reporting requirements and creating greater flexibility in program design. We look forward to working with you to expeditiously make these needed changes.

For the post-2011 program, the position paper reflects that an aspect of the Regional Dialogue is to limit the role of BPA in resource development after 2011 and to transfer responsibility for meeting load growth to individual utilities. This assumes a significant shift in the relationship between BPA and its customers in many areas. The paper also acknowledges the significant policy implications of state mandates that set an obligation upon utilities to achieve conservation targets regardless of the nature of the BPA involvement.

We appreciated the beginning of a discussion on these issues that occurred at BPA on March 4 of this year. However, we are concerned that the agency's stated schedule is to take up post-2011 conservation program design next year, after power sales contracts are signed for the post-2011 period.

As you will see in the attached paper, we are committed to the shared goal of achieving conservation during what will be a challenging time for our industry in this region. We look forward to discussing these issues further with you at your earliest convenience.

Sincerely,

A handwritten signature in black ink that reads "Scott Corwin". The signature is written in a cursive style with a large initial 'S'.

Scott Corwin

cc: Bill Booth, Chair, Northwest Power and Conservation Council  
Mike Weedall, Vice President for Energy Efficiency

**PPC Position for the current Conservation Program  
May 2008**

*Potential changes to the current BPA conservation program* – From information gathered by conservation surveys and meetings with the Conservation Technical Group most utilities support the idea that the region can benefit from some changes to the current BPA conservation program.

*Surveys, members' forums and other meetings indicate that a current plurality among PPC members may include the following suggestions for changes that can be made to the conservation program to make it more effective and efficient for utilities:*

**A. The reporting requirements of the rate credit program could be streamlined for greater efficiency.**

PPC and interested member utilities would be willing to form a small working group to work with BPA and the Council to address specifics on how reporting requirements could be improved. Specifically, coordination between BPA and the Council could be improved to ensure utilities that there is no disconnect between BPA planning, tracking and reporting requirements and the Regional Technical Forum as it tracks regional progress towards the Council's conservation goals. This is an attempt to best utilize time and resources that are lost when multiple entities track and account for conservation.

**B. There could be greater flexibility built into the program design for deemed measures in the CRC because while these measures work very well for some utilities, the measures do not work as effectively for those in smaller, rural areas.**

Utilities would prefer an expanded bundle of accepted deemed measures. A greater number of opportunities to achieve conservation would likely ease difficulties of capturing savings. Additionally, there should be recognition that there is diversity across the region and relaxed measurement and verification protocol for measures would allow utilities to determine what local market conditions exist and employ the measures that work best in their service territories.

**C. BPA should offer improved and more frequent training for the planning, tracking and reporting requirements and solicit customer input on how the BPA conservation site could be improved to facilitate utility reporting.**

Utilities want to maximize the efficiency of BPA's reporting system. Currently, many utilities find that reporting requirements are burdensome and create additional work for staff. With better training on the reporting system and improvements made to the system from customer suggestions, e.g., a BPA survey, the reporting system's efficiency could be improved.

**D. CRC incentive levels are low. This has made it difficult for small utilities that pass the rate credit on to customers since the BPA credit alone is often not enough to encourage the customer to purchase a conservation appliance/measure.**

The incentives for conservation have been reduced and therefore utilities have found that there must be a greater willingness to pay for conservation. Utilities have begun undertaking conservation measures that do not fit the BPA program mold. If BPA only wants to pay for part of the conservation capturing kilowatt hours, it should still credit the entirety of the kilowatt hours being captured.

As not all market conditions are the same across the region, BPA should offer greater flexibility in its willingness to allow the rate-credit to pay up to a measure's cost-effective limit. This is to say a utility should be reimbursed for a measure when it is cost-effective as measured by whether it is less than the avoided cost. There has been some precedent set in this regard and BPA should look at more frequently allowing it.

**E. BPA and the Council need to provide more program flexibility for utilities that primarily serve residential load.**

Providing this assistance would be beneficial to push the conservation effort forward. Utilities are vested in promoting conservation and capturing savings through conservation but they will need help in finding opportunities not only in commercial and industrial areas, but also residential service territories. The cost to deliver and implement a program is locality dependent and a one-size-fits-all program does not work in a region with the Northwest's diversity.

**F. Heat pump values and requirements need to be reevaluated.**

Many utilities have had trouble employing heat pumps as a measure recently. The savings difference between heat pumps and other heat sources should be reevaluated since many areas in the region have a local baseline variance that is different than the one used by the RTF to value cost-effectiveness. Also, in rural areas there are a limited number of contractors who are qualified or available to perform the services required to get credit for certain projects, making it difficult for customers to get credit.

**PPC Position for Conservation Post-2011**  
**May 2008**

*Scope of BPA role in conservation post-2011* – From information gathered by conservation surveys and meetings with the Conservation Technical Group, most utilities continue to agree that the region can benefit from some degree of BPA involvement in conservation that is funded by Tier 1 rates, but that significant improvement can be made.

*Surveys, members' forums and other meetings indicate that a current plurality among PPC members may include the following suggestions for the extent of BPA's role:*

As utilities, it is our responsibility to attempt to achieve all cost-effective conservation. This responsibility becomes even greater as tiered rates are implemented and we serve our customers with the least cost alternative to Tier 2 rates. The Tier 2 pricing incentives that will be in place post-2011 will encourage utilities to select cost-effective conservation as the resource that will best keep customers' costs low and support environmental goals. As we move to the future, price signals from tiered rates as well as state laws provide the necessary incentives for utilities to continue to seek cost-effective conservation. We introduce this position paper to suggest that conservation would most efficiently and effectively be achieved in the region if utilities have greater local control over allocating dollars and other resources to capture conservation.

**A. We propose a role for BPA that includes managing elements of conservation which have clear cost-efficiencies and benefits when coordinated at the regional level such as R&D, market transformation, NEEA and RTF funding, and overseeing that utilities collectively achieve conservation goals. These regional activities would be funded through Tier 1 rates.**

PPC proposes to include these regional elements as a shared cost for BPA customers in order to provide a basic conservation infrastructure for regional utilities, but does not propose to have BPA invest in monitoring day-to-day operations of conservation programs which is best done by utilities on a local level. At the same time, activities and roles which would appropriately place BPA in the backstop role for conservation in the region are discussed in Section C.

**B. With tiered rates and a number of utilities who are mandated or choose to do all cost-effective conservation, the Conservation Rate Credit, Conservation Acquisition Agreement and the Conservation Incentive in the Irrigation Rate Mitigation Program should be removed from Tier 1 costs.**

Local utilities are best suited to determine which programs are most effective in their service territories. They should therefore have a greater degree of local control over their conservation measures. By removing the rate credit from customer rates, it enables each

utility to determine what is most cost-effective locally instead of a regional entity making this one-size-fits-all determination for a climatically and geographically diverse region. Many utilities are already spending considerable sums in addition to the rate credit to capture conservation opportunities. Post-2011, these utilities should be allowed to use their funds as they determine most effective in capturing conservation instead of being limited to only conservation projects that have been vetted by a regional body. With tiered rates, it is expected that utilities will see conservation as the lowest cost alternative.

**C. To ensure utilities have full capability to achieve their conservation goals, any utility may opt-in to a BPA equivalent of the CRC that will be paid for by the opting-in utility rather than in a melded Tier 1 cost.**

To meet conservation obligations, utilities may: a) contract with a 3<sup>rd</sup> party, b) contract with BPA, c) pool with other utilities with utilities having greater conservation potential in their service territories, d) work through a collective body, e.g., CARES or OMECA, which pools resources and seeks the most cost-effective and greatest conservation opportunity. If a utility chooses to contract with BPA to meet its conservation needs, an advance plan could potentially be submitted in order for BPA to adequately prepare to meet those needs.