Northwest Power and Conservation Council

January 7, 2014

MEMORANDUM

TO: Council Members

FROM: Tom Eckman

SUBJECT: Bonneville Briefing on Energy Efficiency Post-2011 Review

Josh Warner, Manager of Planning and Evaluation in Bonneville's Energy Efficiency group, will brief the Power Committee on the agency's public process to review and consider improvements to its energy efficiency policy framework and implementation programs that were first put in place on October 1, 2011.

Background

Bonneville's Regional Dialogue Policy defined its potential resource acquisition obligations for power sales after 2011, whether at Tier 1 or Tier 2 rates. Under this policy Bonneville committed to continue to treat energy efficiency as a resource and define its goals in terms of average megawatts of energy efficiency acquired. Following the adoption of its Regional Dialogue Policy, Bonneville's Energy Efficiency (EE) organization conducted the Energy Efficiency Post-2011 Public Process (Post-2011) from January 2009 to March 2011 to align EE's program with Bonneville's Long-Term Regional Dialogue Policy and tiered rates methodology and to engage customers and other regional stakeholders about the role the agency should play in developing, incentivizing and monitoring energy efficiency programs after 2011. Prior to the beginning of fiscal year 2011, BPA adopted a Post-2011 energy efficiency program strategy and policy for the agency through a public process.

In recognition of the magnitude of the transition to the Post-2011 EE program, the public process specifically called for a review to consider improvements to the BPA energy efficiency policy framework after sufficient experience (one rate period) had been gained. Bonneville is now

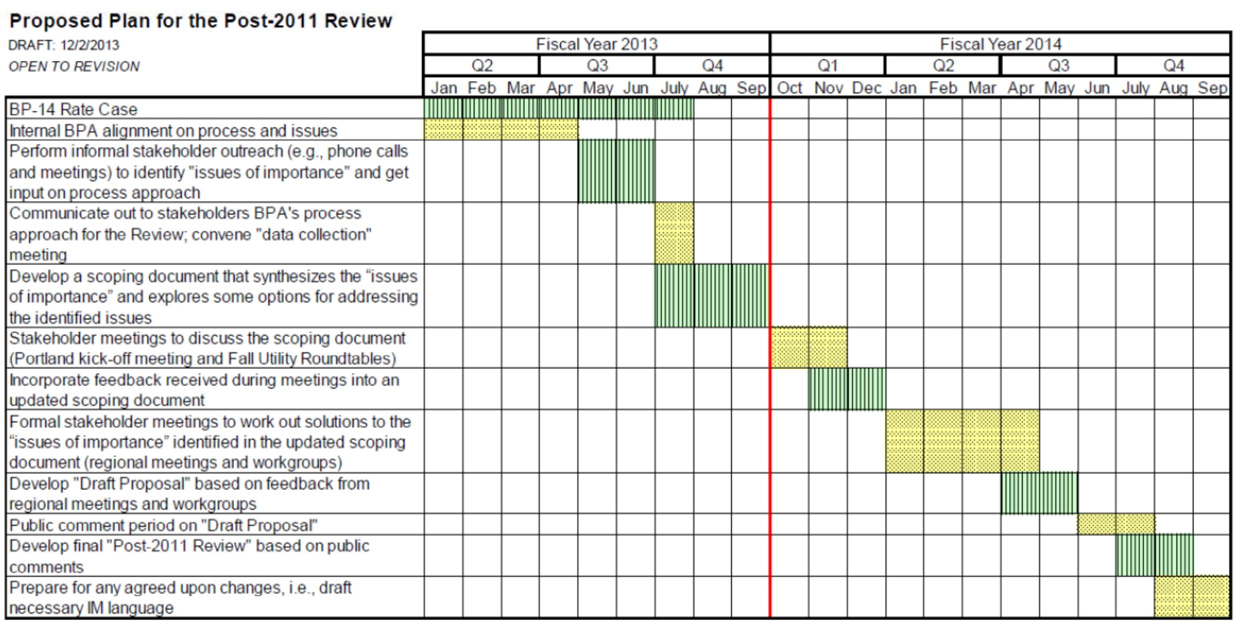
851 S.W. Sixth Avenue, Suite 1100
Portland, Oregon 97204-1348
www.nwcouncil.org

Steve Crow
Executive Director

503-222-5161
800-452-5161
Fax: 503-820-2370

engaged in this public review process to determine if there are changes to its current policies and programs that will lead to more effective delivery of energy efficiency in the region.

From May to June 2013, Bonneville performed informal outreach with customers and stakeholders to solicit input on the Review. During this outreach, Bonneville received input on issues of importance as well as on the preferred approach to carrying out the public process. Bonneville had previously committed to commencing the Review before the fiscal year 2014-2015 (FY14-15) rate period. Customer and stakeholder input, however, showed a strong preference for waiting until Bonneville had data on FY12-13 achievements (e.g., aMW savings, cost per aMW, utility self-funding) before beginning a formal public process to address outstanding issues of importance. This data will be available after the FY14-15 rate period begins. Bonneville's proposed timeline is shown in the figure below.



Potential Issues of Importance to the Council

Bonneville with input from its public process has identified 15 major issues that are to be addressed during the Post-2011 Review Process. While many of these issues are "administrative" in nature (e.g., frequency of changes to the agency's implementation manual), several could have significant impact on Bonneville's ability to meet its commitment to achieving the Council Plan's conservation goals. These include the following:

- Energy Efficiency Incentive (EEI) Allocation Methodology - The current methodology for allocating EEI funds on a Tier One Cost Allocator Basis (TOCA) basis is not aligned with customer conservation potential and may inefficiently/ineffectively allocate available funding.
- Two-Year EEI Budgets - Customer EEI budgets are allocated per rate period and any EEI funds remaining at the end of a rate period cannot be "rolled over" to the next rate period, i.e., the funds are "use or lose" within a two year time horizon. This constrains

utilities ability to provide multi-year commitments for large projects or projects than span rate periods.

- Bonneville's Backstop Role - Bonneville's existing backstop role is not explicitly defined and some customers and stakeholders would like more clarity. The EE Post-2011 Policy Framework provided the following on Bonneville's backstop role: "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 Council has consistently requested that Bonneville be more explicit regarding what it will do to ensure accomplishment public power's share of the Council's conservation targets.
- Large Project Fund (LPF) - The LPF is administratively burdensome for BPA (i.e., difficulties with 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 modify the qualifying 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. Without reasonably access to this fund it may be difficult or impossible for individual utilities to fund large commercial or industrial energy efficiency improvements.
- Utility Self-Funding - The existing 75% Bonneville-funded and 25% utility self-funded split for delivering programmatic energy savings was created in the Post-2011 framework. Some utilities would like to take this further and "opt-out" of paying in rates for EEI funding only. Additionally, some utilities would like Bonneville to consider using a Cost of Service Analysis to determine the allocation of Bonneville's expense and capital costs. Whether this issue is significant depends on the how Bonneville addresses the "backstop" issue. The more explicitly the agency describes how it will ensure that public power's share of the Council's Plan's conservation targets are achieved the less critical the cost-allocation question becomes.
- Limitations of the Post-2011 Framework - The design of the Post-2011 framework may be constraining public power's pursuit of all cost-effective conservation consistent with the Power Act, which was a core principle of the initial Post-2011 public process. Additionally, the framework is based on BPA paying for energy savings on a "widget-by-widget" basis, which may not afford the opportunity for public power to capture savings via new, innovative programmatic approaches.
- Regional Program Administration - Bonneville administration of regional programs (e.g., Energy Smart Grocer) is more difficult without the direct acquisition program model and when funding commitments are variable or not firm. In order to optimize regional program performance and lower administrative costs, the region would benefit from considering conditions under which a direct acquisition program would be appropriate or by securing firm incentive funding commitments ahead of budget-years to appropriately size and focus the third party implementer's efforts.

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