



April 4, 2016

Elliot Mainzer
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

RE: Energy Efficiency Focus 2028 – Responses to BPA Questions

Dear Administrator Mainzer:

The Public Power Council (PPC) appreciates the Bonneville Power Administration's (BPA's) effort to respond to calls for a thorough look at BPA energy efficiency initiatives and potential improvements to the program. We hope that evaluation of the current program as part of BPA's Focus 2028 process will produce meaningful and helpful change.

Public power understands the varied views that BPA receives from customers and other regional stakeholders related to the energy efficiency program. For that reason, PPC spent several months designing, and gaining customer support for, a package proposal to improve the program (see attached). We also developed a frequently asked questions (FAQ) document related to the proposal (attached) to address common questions that have come up during these discussions. In addition to the responses to BPA's questions provided here, those documents provide greater detail regarding the important policy questions at hand.

Now is the time for BPA to take action to improve its program by right-sizing its goals via data-driven analysis, offer its customers greater funding and program flexibility, and create greater efficiencies for program implementation. Taking these actions will contribute to BPA's long-term financial health and provide its customers with a more effective and efficient program.

PPC and its members are ready to help in the considerable amount of work ahead in order to implement these changes. We appreciate BPA's willingness to improve its program, and we stand ready to help expedite and implement the proposed changes.

PPC Responses to Questions Posed by BPA for Focus 2028 – Energy Efficiency:

1) Should BPA incentivize those utilities that currently don't see it in their interest to invest in energy efficiency and make it something that has value for them?

2) How can BPA improve on how it accounts for the benefits/revenues of energy efficiency (not just the costs)?

Although these two questions were discussed at the February 29th meeting, their specific meaning remains nebulous. While public power is supportive of energy efficiency acquisition, as a resource it should be acquired using the same considerations that BPA applies to its other resource acquisitions. Accordingly, if the implication is that BPA might increase costs to force utilities to acquire unneeded resources, that is not supportable nor is it consistent with sound business practices.

In general PPC believes that BPA is accounting for the benefits of energy efficiency via regular reporting and calculation of energy savings. Further, exploration of the full costs and benefits of energy efficiency is precisely what would be entailed by a new, analytical approach to determining BPA's target and backstop role.

If the subjects of these two questions are further clarified, we would look forward to exploring them with the region to better understand their nature.

3) Should BPA reconsider how it determines its EE target, e.g., by considering a needs-based methodology?

PPC has worked with its members to develop a three-part proposal (attached) that answers this and the next two questions in the affirmative. The manner in which BPA currently determines its target is problematic. Establishing the BPA target on the basis of its load-share of the NWPCC's regional conservation target does not take into account the specific resource needs, opportunities, risks, and avoided costs of BPA or its customers. BPA treats no other resources in its Resource Program in the same manner as energy efficiency.

Instead of taking a load-based share of the NWPCC's regional energy efficiency target, BPA should develop a data-driven process to set its energy efficiency goals. This process would result in a more realistic energy efficiency goal for BPA and would remain consistent with the Northwest Power Act.

4) Should BPA increase the self-funding percentage from 25% and, if so, should BPA revisit its backstop role?

As previously mentioned, PPC's proposal is a three-part package that includes this part. We believe that it is critical for BPA to properly size its goal in order to assess BPA's backstop role. Our proposal further outlines the reasons why a shift to increased self-

funding would offer greater flexibility and efficiency to utilities in acquiring energy efficiency.

Proper sizing of the BPA goal would presumably ease concerns regarding BPA's backstop role. However, further discussion of BPA's backstop role in the context of the overall goal and design of the incentive program is appropriate.

5) What is needed to make it easier for customers to work with BPA on energy efficiency?

- a. Are there opportunities for squeezing more value out of each dollar collected in BPA rates for energy efficiency?**
- b. What opportunities are there for BPA to realign its program given the market context?**

PPC provides some initial answers to these questions in the attached proposal, and we look forward to further constructive work with BPA in this area. In addition, BPA should carefully consider the answers provided by utility staff during the regional listening sessions. In general, BPA's program requirements are often overly rigid, transactional and difficult to implement. Removing some of the transactional barriers and allowing the use of back-end measurement and verification would enable utilities to more efficiently implement their programs.

In addition to streamlining program requirements, BPA should benchmark the costs of its program against the acquisition costs of other regional entities.

Customer needs are always evolving, as is the world of energy efficiency. We appreciate the work done so far to look at evolutions to this program, and believe that BPA will greatly benefit from continuing to work with its customers to be responsive to specific needs and to continually improve and update the program.

Thank you for your consideration of these comments and the associated documents that are attached.

Sincerely,



Executive Director

Focus 2028: BPA Energy Efficiency Program Evaluation

Public Power Proposal - January 2016

In view of our unified commitment to the important role of energy efficient in our region, the following is a package of proposed changes to BPA's energy efficiency program and the way in which it determines and achieves its conservation goal. Addressing all three elements is necessary to best enhance capabilities of utilities to meet collective conservation goals. The proposal has been developed over several months and, as a package, has very broad support of BPA preference customers.

- 1. BPA should determine its conservation goal in accordance with its resource needs and all of its statutory requirements.***

Current practice

For the effective life of the 6th Power Plan, BPA assumed an obligation for 42% of the NWPCC's regional target regardless of cost or need. If BPA were to continue this practice it would run afoul of the needs of its customers, its commitment to remain competitive, and its obligation to maintain the lowest possible rates consistent with sound business principles. Merely adopting a percentage of the regional target does not allow for thorough analysis or consideration of the value of conservation on the basis of the current economic and business conditions facing BPA and its customers.

Proposed change and support

BPA should use the Power Plan for its intended purpose: it is a guiding policy document and not a specifically prescriptive operational plan. In implementing the Power Plan, BPA should examine and apply the data regarding BPA's actual resource needs and costs before committing to a specific portion of the regional conservation target. BPA should conduct its own technical analysis to set an EE goal based on its specific resource needs, avoided costs, and risks. This analysis could be conducted as part of the BPA Resource Program process.

The current practice is problematic for a number of reasons:

- The NWPCC's Power Plan is prepared for the region, not for any individual utility. Simply taking a share of the regional target, instead of applying the policies specifically to BPA and its customers, produces a BPA goal that does not account for its customers' needs or avoided costs.
- For example, continuing the current practice would result in BPA targeting EE measures up to a cost of nearly \$100 per MWh based on the Draft 7th Plan.
- In the current environment of low load growth and depressed market prices, building or acquiring any long term resource is a significant cost risk.

- The current practice threatens the Administrator’s discretion to implement the Plan in manner that satisfies all of BPA’s obligations (a key principle firmly rooted in statute). And, it conflicts with BPA’s obligation to maintain the lowest possible rates consistent with sound business principles.
- Application of BPA analysis and planning would result in a more transparent and technically supportable conservation goal for BPA and its customers.
- BPA’s technical participation in the NWPCC Plan development has revealed many differences between BPA’s own analysis and the NWPCC’s regional analysis. This reinforces the need for BPA to use its own analysis when calculating its (and its customers’) conservation goal.

BPA should use the NWPCC power plans as broad policy guidance for its resource plans, but should move to a more technically sophisticated and legally defensible manner of determining its own specific goal. Therefore, BPA should not commit to a load-based share of the 7th Power Plan regional target. Rather, BPA should use the Focus 2028 process to examine alternative analytical approaches in determining an appropriate conservation acquisition goal.

2. ***BPA’s incentive structure should allow utilities greater flexibility in acquiring conservation savings.***

Current practice

In planning to meet its conservation goal, BPA estimates an amount of conservation to be acquired via programmatic savings that are funded via incentives. In its wholesale rate, BPA collects funding for 75% of these programmatic incentives, and assumes utilities will self-fund the incentives for the remaining 25%.

Proposed change and support

BPA should promote and assume a larger percentage of utility self-funding. Utility self-funding would: 1) offer greater implementation flexibility; 2) allow utilities to spend across rate periods; and, 3) fund measures that EEI cannot under its regulations and constraints. Assuming a greater portion of utility self-funding while commensurately reducing BPA collected funds would allow greater implementation flexibility in the manner and measures on which funds were allocated. It would allow utilities to spend greater amounts across rate periods because current practice mandates that at least 95% of a customer’s Energy Efficiency Incentive funding must be spent in a given rate period. Changing the incentive structure would also allow utilities to self-fund incentives related to business operations not allowed under federal regulations but allowed under state and local law.

Ultimately, public power supports transitioning to a program where 25% of the incentives are funded via the EEI and 75% are self-funded by customers. In order to moderate risks and provide customers sufficient time to adjust their programming and budgeting, we understand that this shift may need to be transitional. Additionally, discussion will need to take place around how to address shortcomings or overachievement of the goal.

3. ***BPA’s direct program budget should be scoured for efficiencies; its programs should be managed in a manner that streamlines the administrative process so utilities can more quickly and effectively achieve savings.***

Current practice

BPA’s program is currently overly transactional and can burden the achievement of savings. And, programmatic costs are not evaluated regularly enough.

Proposed changes and support

While many of the regional programs and support services are useful to utilities, this should not prevent BPA from evolving and reducing costs of unnecessary and underutilized programs or contract management. BPA should commit to making the “overhead” portion of the EE program an area of emphasis for the Focus 2028 and IPR workshops where customers can offer specific ideas they have regarding program management.

In addition to looking for cost reduction, BPA should reduce its administrative burdens as related to conservation program management. By eliminating upfront requirements, while also employing rigorous back-end evaluation of savings, BPA could reduce utility administrative burdens and place the importance of the program squarely on energy savings. BPA should further explore with customers the specific needs in this regard as part of the Focus 2028.

Conclusion

BPA and its power customers have achieved outstanding results as partners in energy efficiency over many decades. This three-part package provides a durable mechanism to enhance this capability, to allow BPA to meet its commitment to remain competitive, and to enable BPA to fulfill its obligation to maintain the lowest possible rates consistent with sound business principles. The proposal above is legally sustainable and politically durable because it follows the direction set forth in BPA’s organic statutes and meets the needs of those working hard every day to provide end-use customers with energy savings opportunities.

Public Power Energy Efficiency Proposal FAQ

In view of public power's unified commitment to the important role of energy efficiency, the following are frequently asked questions about a package of proposed changes to BPA's energy efficiency program and the way in which it determines and achieves its conservation goal.

Is the proposal an attempt to acquire less conservation?

No. The proposal is designed to make the BPA program more efficient, allow utilities greater flexibility when acquiring savings, and provide BPA with a long-term mechanism for determining its conservation goals that is consistent with its statutory obligations, including providing the lowest possible rates consistent with sound business principles.

Why is it necessary to change the program from the status quo?

The current approach needs reassessment in light of regional program developments in recent years, and acquisition could be updated to reflect BPA's resource needs and obligations. The proposal consists of three elements that would make the program more viable in the long-term and offer utilities more control of their savings acquisition. Current market and economic conditions, the new Northwest Power and Conservation Council (NWPCC) power plan, and BPA's focus on long-term cost competitiveness provide a compelling opportunity for re-evaluation of the BPA energy efficiency program.

In what way would each of the three elements improve the program?

The *first element* of the proposal sets forth a process for BPA to determine its appropriate conservation goal. Currently, BPA's goal is directly associated with a load-based share of the NWPCC's Power Plan target. BPA has not regularly updated this share, nor is this the manner in which any other utility in the region determines its conservation goal. The proposal offers a process that could regularly assess the goal, is data driven, and analyzes BPA's risks, needs, and applicable economic value of conservation. This approach is legally and technically sound.

The *second element* shifts more responsibility to utilities. This offers utilities greater flexibility in how and when they spend funds. Because fewer dollars would be cycled through BPA, utilities could spend more money across rate periods and also acquire savings from measures related to business operations that are not allowed by federal regulations but are supported by state and local law.

The *third element* is an ongoing process to improve BPA's direct program. BPA's current program has elements that are overly transactional. Utilities and BPA can focus on achieving savings more quickly and efficiently by reducing transactional and administrative hurdles while ensuring savings via back-end measurement and evaluation. It would also provide an opportunity to ensure BPA is providing the most useful program support to utilities.

Why isn't a load-based share appropriate?

As mentioned, BPA does not regularly update the load-based share values, nor does the load-based goal take into account specific BPA needs, risks, or economic value.

Doesn't the NWPCC Power Plan evaluate for conservation availability and cost-effectiveness?

Yes, but it does this at a regional level. The NWPCC's plans are regional planning documents and are not specific to any one utility. This proposal continues to use the NWPCC's analysis and recommendations as a guide, but applies BPA-specific considerations when determining the BPA goal. The Administrator needs to devise specific resource plans for BPA that are consistent with the NWPCC power plan but also comply with all of BPA's obligations, including providing the lowest possible rates consistent with sound business principles, and policies.

Would a different way of determining the target be onerous to BPA or its customers?

BPA already has significant analytical capability to analyze its resource needs and opportunities and can leverage the work that it has done already in addition to work done by the NWPCC at a regional level. We believe that serious discussion around a methodology can produce a way to right-size BPA's conservation goal while not being overly burdensome to BPA or its customers.

Does the proposal push a specific methodology or result for BPA's energy efficiency goal?

No. The public power proposal calls for a public process to examine approaches to determining BPA's energy efficiency goals and is not a predetermined result. This would be an open, intellectually rigorous examination that would consider fairly the merits and limitations of various approaches and allow BPA, customers, and stakeholders to come to an informed decision on how to proceed in light of all of BPA's obligations and policy goals.

Would setting a goal in a new way be consistent with the Northwest Power Act?

The Power Act does not mention a regional conservation target or a particular BPA target, and does not mandate any specific manner in which BPA applies the regional target to its conservation acquisition. The Power Act states that in acquiring resources, BPA must act consistent with the Northwest Power and Conservation Council's power plans. But in doing so, BPA is required to operate in accordance with all of its organic statutes including those that require it to deliver power to its customers at the lowest possible rates consistent with sound business principles. Any new methodology would need to continue to meet the requirements of the Power Act and other statutory requirements.

Though the proposal's intent is not to reduce conservation, would it reduce conservation acquisition if BPA's goal is lower?

Many public power utilities are sizing their own programs well beyond BPA incentive levels and will continue to do so because of state law or utility policy positions. While it is possible that a data-driven approach could result in a lower BPA goal at this particular time, if the assumptions in the NWPCC's plan materialize, the region would continue to meet the NWPCC's target. With a change in BPA policy, utilities across the region will continue to evaluate their own conservation potential and needs and acquire savings at a robust pace.

What happens if BPA customers are not on target to achieve the goal?

The current program does not clearly address this, nor does this proposal yet. Public power expects that a change in the program would necessitate discussion around the process in place to evaluate any shortcoming or overachievement of BPA's goal and any subsequent action.

Would the proposal reduce funding for BPA infrastructure or other regional support?

No. It supports funding BPA's regional infrastructure. It also asks that BPA scour its direct program for efficiencies and reduce any unnecessary spending. The emphasis for the basic program is that it provide assistance for BPA's customers to acquire savings quickly and effectively to meet utility needs.

When would the proposal's changes take effect?

Public power expects that these issues will be discussed now as part of Focus 2028. If more time is needed, discussion can continue until the IPR and BP-18 rate case proceedings are concluded. Changes should take effect in that rate period.