Public Power Council
825 NE Multnomah, Suite 1225
Portland, OR 97232
503.595.9770
Fax 503.239.5959

December 9, 2011

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

RE: BPA Conservation Budget Overcommitment for FY'11

Thank you for the opportunity to comment on the BPA conservation budget overcommitment. We appreciate BPA's efforts to work with customers to find a solution for the problems created by the agency with respect to the FY'11 conservation budget.

The transition that took place between FY'11 and FY'12 created a problematic situation for BPA and its customers. As the BPA conservation program moved from the guiding principles of the old program to the structure of the "Post-2011" program, the effects of the transition were not appropriately managed by BPA. As a result, in May of 2011 the BPA conservation budget jumped by $35 million, from its start-of-year figure of $80 million, to $115 million. BPA met this increase with further encouragement to utilities to continue acquisition of conservation savings. Without access to overall spending numbers and believing BPA to be properly managing the budget to the already increased $115 million, utilities submitted funding requests that BPA continued to approve. The approval of these requests ultimately ratcheted the FY'11 expenditures to $161.7 million. This amount is far beyond the amended mid-year budget and is double the start-of-year budget.

In trying to correct for this mismanagement, the agency has submitted a proposal on how the difference between the $115 million mid-year budget and the $161.7 million final tally is recouped in cuts to utility energy efficiency incentives in FY'13 and FY'14.

Over the course of the last month, PPC has worked with utility staff and BPA to fully understand the BPA proposal and determine whether or not a better solution can be found. Believing other options should be explored, PPC staff held a series of meetings with the PPC Conservation Tech Group and BPA staff to discuss other possibilities. Subsequently, a new proposal was created and discussed with PPC members.

Out of these meetings and discussion with PPC members, we have found consensus around an approach that we believe offers a better way of resolving this problem than those previously offered.

PPC Proposal

The proposal is very straightforward: the total capital budget in FY ‘13 should equal the budget for FY ’12, and each utility will receive an EEI budget equal to its FY ‘12 EEI budget. The capital budget for FY ‘14 and its distribution will be determined in the IPR and rate case process. Creating an opt-out or option or other changes to the Post-2011 framework will be taken up in the collaborative mid-point review process established in phase 1 of the Post-2011 Policy development.

Benefits of this proposal include:

- Moves the solution to a more reasonable timeframe within which there are at least two processes already in place (IPR, mid-point review) where the problem could be more comprehensively addressed.

- Allows more acquisition of less expensive savings in FY ’13.

- The longer planning perspective offers the ability to use data acquired in the next two years as well as greater opportunity to prepare for FY ’14 and beyond.

BPA has expressed concern that if this approach were adopted, nearly all of the risk of the cost of the overcommit has the potential to be borne in FY ’14, potentially causing a region-wide setback to conservation programs. We understand there is risk, but believe it can be managed by the processes in place, the planning horizon, additional progress made toward the 6th Power Plan targets, and better understanding of utility self-funding under the Post-2011 framework.

This proposal offers a better solution than the ones currently proposed by BPA and acceptance would also begin to renew trust between customers and BPA, healing the damaged relationship by creating certainty within the program’s next two years. This proposal offers a reasonable amount of certainty through FY ’13, time to plan for FY ’14 and beyond, and opportunity for customers to help fully resolve this issue within the formal and well-established processes available in the next two years.

Regardless of whether the agency uses the above approach, it should implement the following recommendations. These widely held recommendations include: 1) no utility’s EEI should be zeroed out and all utilities should have some amount of EEI to continue to maintain a minimum program in FY’13 and FY’14, 2) future budgets should be set on a rate-period basis instead of an annual basis, and 3) prior to 2014, BPA should adopt an opt-out choice after reevaluation of the program at the BPA process around the mid-point check-in on the 6th Power Plan.

Maintenance of programs

It is problematic to view this issue as a five-year budget in some instances, while proposing to recoup costs over a two-year period. Utilities participating in the BPA program need certainty to maintain the viability of their programs. In the draft BPA proposal, some utility programs are zeroed out in FY'13 and FY'14. This creates the "roller coaster" that utilities tried to prevent when working with BPA to design the Post-2011 program. PPC believes that BPA should not zero out any utility's energy efficiency incentive in FY'13 and FY'14. Instead, BPA should ensure that all utilities have a budget that meets at least a minimum operating threshold so that the momentum built on successes of the past are not eroded.

Under the BPA draft proposal, a minimum threshold for energy efficiency incentives would come from shifting dollars within a finite pool of efficiency incentive funding. This is in part because BPA has shown an unwillingness to look at reductions in the core BPA conservation budget to make up for the difference between the FY'11 budget and actuals. PPC believes that BPA should offset this difference and provide a minimum operating budget for all utilities by tightening the budget in the core internal program and on outside contractors in future years. Additionally, there seems to be opportunity to find other areas within the agency where underspent budgets could help offset this budget overrun.

Future considerations

Budget management

While it is certainly imperative that agency overcommitment of the budget does not take place again, utilities cannot have program flexibility further reduced. BPA has not yet committed to the time period over which it will manage future conservation budgets. Utilities overwhelmingly support at least a two-year rate period management of conservation budgets. To predicate utility management of programs on an annual budget would hamper utilities and ultimately reduce local and regional savings.

Utility option

The overcommitment issue has provided additional evidence that many utilities are at least as capable as BPA of managing conservation programs. Subsequently, we reiterate the idea that utilities choosing to independently manage their own programs be allowed to do so. As PPC said in its May 26, 2011 comments on the Post-2011 proposal;

> *One of the main purposes of tiered rates was to allow customers to choose how to serve their load growth with either non-federal resources or BPA Tier 2 products priced at market cost. It was under this principle, and with an eye on existing and potential future state mandates that customers proposed an option to fully self-fund and self-run their energy efficiency programs.*

Utilities worked with BPA staff to answer a number of questions around self-funding and provide assurances that self-funding utilities were capable of running programs on their own and would achieve the savings they committed to BPA in order to minimize risk of underperformance. Despite these efforts, the proposal funds the entirety of the program via the Tier 1 rate and does not include a meaningful recognition in BPA rates for specific self-funding undertaken by a utility.

This is a good time to re-open this discussion. This option would provide a number of benefits both to utilities and the BPA program. Utilities choosing to run their own programs would be allowed greater local control while achieving the same amount of savings without concern for management problems beyond their control.
Allowing utilities to run their own programs would create a more focused and precisely managed BPA program for the utilities still needing BPA assistance. The BPA program would no longer need to be all things to all utilities and could key on the greatest savings opportunities for these participating customers.

Further, as BPA faces concerns in its access to capital, a reduction in BPA conservation program size would help address this problem as that spending is instead made directly by utilities.

Moving toward this future option would take careful planning. As part of the coming review of the program after this first rate period under tiered rates and beginning now, utilities need a careful transition period. This would help assure that the utilities opting to run their own programs and those utilities remaining with the BPA program are not adversely affected. The recent transition highlights the need for better planning.

Thank you for your work on the mitigation of this problem. We are committed to continued work with you on this issue.