Recommendation Report Workgroup #1: Model for Achieving Programmatic Savings -- ADDENDUM

Issue #5 – Utility Self-Management of Incentives (Scoping Doc. #9)

Problem Statement – The existing 75% BPA-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 BPA to consider using a Cost of Service Analysis to determine the allocation of BPA's expense and capital costs.

NOTE: The original issue was titled Utility Self-Funding. The Workgroup agreed to change the title to more appropriately reflect the issue the Workgroup is resolving.

Introduction

Workgroup 1, Model for Achieving Programmatic Savings, was tasked with addressing eight issues under the Post 2011 Review Process. The most difficult of those issues was trying to find a method for utilities that wished to cease cycling the incentive dollars for conservation through BPA's wholesale rates. The Workgroup looked into methods for utilities to "Self-Manage the Incentives". Previously, similar discussions had taken place around the theme of giving utilities more choice in which of BPA's conservation activities they chose to participate. The Workgroup redefined the scope, renamed the discussion and significantly narrowed the issue to address the manner in which a utility finances its Energy Efficiency Incentives (EEI) portion of costs, either using BPA borrowing or handling incentives at the local level. The "Self-Management" recommendations do not address the other BPA capitalized program components or expense budgets.

Initially, to guide its work through all eight issues, Workgroup 1 worked together with BPA and established several principles:

- BPA must fulfill its statutory obligations.
- Any proposal must work within the existing Regional Dialogue policy and contracts.
- Decisions need to be made in the context of other dynamic agency drivers, e.g., CIR, IPR, Access to Capital and Debt Management processes.
- Funding levels will be decided in the CIR and IPR processes.
- Any proposal must be consistent with BPA's financial procedures and reviewed by BPA for consistency with sound business principles.
- Any proposal should not adversely impact customers that choose or choose not to pursue a particular alternative.
- Any approach should not consider a "menu of services" to funding BPA's energy efficiency costs/services.

As the discussions proceeded, BPA informed the Workgroup that it intended to continue capitalizing the EEI amounts but through a third party rather than continuing the use of U.S. Treasury borrowing. Without the benefit of knowing specific rules around third party financing, the Workgroup took this information from BPA as an additional assumption to create greater flexibility in its evaluation of alternative self management approaches.

The workgroup has considered a number of alternatives for the funding of EEI, including the following:

i. Retaining the status quo, where BPA continues to capitalize the EEI amounts and utilities pay the costs in their BPA power rates for all conservation costs on a TOCA basis and receive in return, a BPA EEI budget that is based on TOCA;

ii. Using a Billing Credit under 6(h) of the Power Act to enable a utility to fund conservation incentives independently (i.e., self-manage), and thereby lower BPA's need to borrow for conservation (discussed in more detail below);

iii. Using a rate adder, where utilities that elect to receive an EEI budget from BPA would pay an "adder" to their BPA power bill to recover the costs associated with said budget, and utilities that elect not to receive a BPA EEI budget would not incur such a charge on their BPA power bill;

iv. Expensing rather than capitalizing all of conservation, including EEI reimbursements; and

v. Allowing some utilities to prepay the EEI component of their BPA power bill in return for a credit on future power bills.

There were a wide range of perspectives and opinions within the workgroup regarding the funding of EEI. Those opinions range from support for status quo to complete self-management of EEI at the local utility level.

RECOMMENDATION #1: MOVE TO EXPENSE

Most members of the workgroup support the idea of moving funding of EEI back to an expense activity rather than any capitalization of EEI. The Workgroup recognizes that moving EEI back to a BPA expense may have near term wholesale rate impacts verses the long-term debt impacts of continued capitalizing EEI, and expects BPA to conduct a complete impact analysis on the timing for and the amounts of EEI that could be moved to expense through the IPR, CIR, Access to Capital and Debt Management processes.[1][2]

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[1] While the focus of the Workgroup discussion related to EEI, we encourage BPA to also consider moving all costs associated with energy efficiency to expense, EEI and BPA managed.

[2] The action of moving EEI back to expense should not increase pressure to keep energy efficiency budgets low.

Introduction to Billing Credit Recommendation

The most recently discussed EEI self-management alternative is to use a billing credit under 6(h) of the Power Act. Under a Billing Credit approach, utilities that undertake self-managed/self-funded incentives in-lieu of requiring BPA to borrow and reimburse for conservation measures under BPA's Energy Conservation Agreement, would receive billing credits on their BPA power bill. These credits offset the amount that will be collected in the BPA power rates charged to such customers for the amortization and interest associated with their TOCA based share of BPA's total EEI budget. This bill credit would continue for as long as those specific costs impact rates. Amounts collected in rates for the expense portion of the BPA energy efficiency budget and the BPA "regional" portion of the EEI budget will remain the same for all utilities; billing credits will not include these amounts.

RECOMMENDATION #2: BILLING CREDIT

Currently, there is a level of support in the Workgroup to continue exploring and developing the 6(h) billing credit alternative as a potential means to allow utilities to self-select the self-management of EEI approach for the remainder of the Regional Dialogue contracts.

Billing Credits can be viewed as a tool to address the various financial needs of BPA customers and be a bridge during the time BPA is transitioning from capitalizing EEI to expensing it.

At this time it appears the Billing Credit mechanism satisfies the following principles:

i. Not adversely impact any customers that choose or do not choose to continue to develop and implement conservation through BPA's Energy Conservation Agreement by neither increasing their BPA power rates (i.e., the alternative is rate neutral), nor diminishing the services currently available to them under BPA's conservation program;

ii. Relieve pressure on BPA's capital borrowing for conservation;

iii. Offer self-selecting customers the ability to avoid having BPA incur capital costs on their behalf, especially where there is a local policy to expense conservation;

iv. Seek to reduce the cost of conservation by removing some of the administrative burden associated with "round trip" funding of incentive dollars;

v. Insure all utilities financially support BPA's conservation infrastructure and services;

vi. Offer utilities flexibility and choice in how they finance conservation by allowing self-management of EEI, an in effect, results in a utility being able to expense (or locally finance), rather than capitalize through BPA;

vii. Avoid the complications and costs associated with the implementation of some of the other considered alternatives;

viii. Applicable if EEI amounts are capitalized or expensed, and

ix. Have underpinnings in BPA's functional statutes.

The members of the Workgroup that want to further develop the 6(h) billing credit alternative are interested in confirming whether the alternative meets the above principles and identifying a path forward for the implementation and administration of the alternative for the Administrator's and the Region's consideration, if it is determined that the alternative does meet the principles stated above.

CONCERNS WITHIN THE WORKGROUP

Some Workgroup members raised and asked that the following concerns be addressed as part of the recommendation:

- Are not supportive of further exploration of the 6(h) billing credit alternative and instead recommend that BPA maintain a unified approach that prescribes all utilities use the same funding mechanism for financing energy efficiency costs;

- Feel it is difficult to determine the effect of the billing credit option on BPA's obligation to acquire conservation. More information about how the policy will be implemented and what will be contained in the billing credit contracts is needed;

- Believe it is essential that there be an effective and enforceable accountability mechanism within these contracts if utility self-management of conservation incentives is pursued. The mechanism(s) must ensure that utilities are obligated to obtain the amount of energy efficiency that BPA will have otherwise acquired as determined under the agreement(s). The mechanism(s) also needs to address BPA's responsibility to meet its requirements under the Northwest Power and Conservation Council's power plans;

- Find BPA needs to provide reasonable assurance and specific plans for capturing energy efficiency savings, especially considering that it is relying on a utility(ies) to obtain a portion of those savings. Further, any accountability must be rigorous enough to be applicable to all BPA utilities, including those operating under the state's conservations laws and those that do not;

- Feel BPA's billing credits contract and requirements should not pose additional barriers or additional risks of state financial penalties for those utilities working under state conservation laws;

- Need to have more information about how a billing credits contract and savings reporting will be transparent and reviewable by the regional utilities and stakeholders for understanding progress on cost-effective energy efficiency.

- Think that any approach not adversely impact the rates of customers that choose to self-manage by insuring that they do not incur costs in the long run (post-2028) for BPA borrowing in which they did not participate.

- Believe clarification is needed on how billing credits work under current 75/25 funding arrangement identified in Post-2011 Policy Framework.

The Workgroup suggest any ongoing activities associated with these recommendations and concerns be carried out in consultation with public power and regional stakeholders after the BPA proposal is presented to the region.

Please contact co-chairs listed below for follow-up or feel free to contact your respective Energy Efficiency Representative.

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