

**Energy Efficiency Post-2011 Review
Workgroup 1 Meeting
Tuesday, February 18, 2014
9:00 am – 3:00 pm
PNGC Conference Room**

MEETING NOTES

Overview/Summary

- Previous Action Items are listed within the slide deck. We briefly reviewed those listed and checked the expected delivery date on outstanding items.
- Anita Mertsching and Kyna Alders, both from BPA Finance, were in attendance to provide an overview on 3rd Party Financing. Slides were incorporated into the general presentation. Anita briefly described that the option is a funding mechanism that is assumed in BPA's debt management strategy with a target date of FY 2016. The agency is hoping to finance 70% of projected EE budget (roughly the EEI portion). The process will be invisible for customers and similar to what you've experienced under the current Treasury borrowing mechanism. The big difference is the funding mechanism. BPA would still be responsible for the reporting and verification of savings; payment would come from a different source (contracts would engage 3 parties – utility, BPA, issuer)
- We continued discussion on the self-management of utility incentives. The question was raised – how much 'adverse' impact can BPA tolerate....? The group recognizes that there may be some impacts, but not substantial or all-inclusive. Lots of conversation around targets, direct borrowing for self-funding as an option to utilities, how roll-over fits into 3rd party financing, conservation pre-pay, possible BPA enforcement for rate credit models, etc. Recognition that more flexibility leads to increased complexity.
- Entertained the option of comprising a sub-group to further discuss self-management of utility incentives discussion. Surveyed participants in the room to gauge interest. A couple expressed high level of interest; a larger subset indicated some interest and desire to follow the conversation but were happy with the status quo; the majority were happy with the status quo.
- Discussion on Issue 4- BPA's Backstop Role
 - Carryover from initial Post-2011 process; not totally flushed out
 - Are we 'backstopping' for the larger Council target / BPA annual target / BPA rate period target
 - Need clarification from BPA, sideboards and definition, clarification on the Administrator's discretion to implement; what is the trigger for determining a back-stop solution and when?
 - Coordination with workgroup 5

Decision/Action Items

- We received a one-pager from Finance that describes how the CIR, IPR and Debt Management processes overlay with Post-2011. That document is posted on the Post-2011 website.
- Work with BPA to provide clarification on Issues 6, 7 and 8. Example – is there a policy call for direct acquisition programs and the workgroup is asked to address implementation, or how to maximize a DA approach?
- There was general agreement in the group on the importance of the roll-over issue. Need additional clarification from Finance on 3rd party financing and any flexibilities gained from that process. Would reporting of savings/projections give more confidence to BPA to consider the roll-over option?

- Discuss the linkage of budget roll-over to target acquisition/BPA backstop role. (Focus on savings as a means to support roll-over.) Coordination with Workgroup 5 – Reporting and Verification of Savings
- Select a date to meet/coordinate with Workgroup 4 – Flexibility Mechanisms, specifically discussing large projects.
- Prep Discussion for Big Tent Meeting
 - Brief summary and review of the 8 issues
 - Lay out the conversation on the self-management of utility incentives
 - Discuss coordination with workgroup 5 on capturing savings from large projects
 - Stakeholder ask – to provide feedback on the four alternatives and gauge the level of interest from the larger group
- For utility EE members, please be sure to have internal discussions at your utility to review the ‘self-manage’ discussion and options with your rates and power supply staff. Our decisions will have impact on BPA rates, both short and long term. It’s important that your utility’s response is reflective from both the EE and from the rate-impact perspective. This will expedite our ability to have effective input for not only EE, but for the rate discussions that are underway simultaneously.

Welcome, Roll Call & Review of the Agenda

Co-Chairs

Doug Brawley (PNGC)
Margaret Lewis (BPA)

Irion Sanger – P

Jed Morrell

Jess Kincaid

Jim Dolan - P

Jim Russell - P

John Walkowiak – P

Kathy Moore - P

Keith Lockhart – P

Kevin Smit – P

Larry Blaufus - P

Linda Esparza

Margaret Ryan

Mattias Jarvegren - P

Pam Sporborg

Sandi Edgemon

Tom Schumacher – P

Van Ashton - P

Virginia Harmon – P

Wade Carey - P

Wendy Gerlitz

BPA Participants:

Summer Goodwin

Matt Tidwell

Josh Warner (am only)

Mark Ralston

Darby Collins

Dave Moody

Anita Mertsching (am only)

Kyna Alders (am only)

Attendees (P=Phone):

Bo Downen

Brian Fawcett - P

Dan Morehouse - P

Doug Case - P

Duffel Gray - P

Eric Miller - P

Eugene Rosolie

- **Third Party Financing Overview (Anita and Kyna)**
 - Anita: it's a funding mechanism that is assumed in BPA's debt management strategy with a target date of BPA's FY2016. We are hoping to finance 70% of projected EE budget (about the EEI portion). Trying to make it invisible to what you've been experiencing under Treasury borrowing. Mainly it's just a different funding mechanism, mainly different to BPA.
 - Diagram on slide 10: BPA can't go directly to the bond markets because of statute so we have to go through a 3rd party who can.
 - We are leaning toward Energy Northwest as the bond issuer. It's not final but it's the strongest analysis.
 - Doug: this is the standard third party municipal bond model, right?
 - Anita: correct?
 - Person 1: how long is BPA expecting to 3rd party finance?
 - Anita: the plan is to do it permanently for conservation. We can't do the full 100% because of tax exempt status issues.
 - Kyna: it's clear that direction acquisition (the EEI portion of the budget) can be covered by this model, but it's murkier to do the BPA-managed portion as 3rd party finance. It might be possible, but we're starting with the 70%.
 - Anita: we'd like to get 100% off treasury borrowing.
 - Person 2: how far down the road is this decision? Is there still a question about expensing conservation?
 - Kyna: the assumption is that this part of the conservation program is financed. So to the extent it continues to be financed is a CIR and IPR issue. But assuming we continue, this is the model we could pursue. This group could recommend through the CIR to move back to expense and if that was agreed to in that forum, that would make this model go away.
 - Anita: putting this in place, implementing it, is a long time frame to get it in place because there are so many agreements and so many things that need to happen, to make it tax exempt, so we need a long lead time and we have to keep going even if we ultimately decide not to finance conservation. We've done the ramping up and ramping down two times before, but we have to ramp up in the event we ultimately pursue it.
 - Kyna: the take away point here is that there should be very little change in the relationship between BPA and its customer utilities. And 3rd party financing can support whatever model this group comes up.
 - Anita: there would be a 3-way contract between the issuer, the customers and BPA. There would be three signatures on the contract. It would include the ECA and then overlay on top what we need for the financing construct. It wouldn't change the basic ECA. BPA will still manage the program like it is today. It will approve the invoices. We expect the issuer to play a very limited role, so the relationship stays with BPA.

- Person 1: what type of information would be needed from the utility? Would it be savings amount or just a budget amount?
- Kyna: the agreement would basically be the same expect for a 3rd signature, and your check would come from the trustee (not BPA), everything is basically the same.
- Person 3: would the utility be taking on the debt?
- Anita: no, BPA would. We have federal debt (treasury) and non-federal debt. This would be another layer of non-federal debt.
- Person 1: is this similar to CARES?
- Anita: yes, except under that model, the issuer dealt with the disbursements. Under the new model, the issuer doesn't play that role, the bank would be in charge of the disbursements and would only do so according to the BPA's approval of invoices. We've learned our lesson and we are going to leave the management of the program to BPA (instead of the issuer). This is a key difference.
- Anita: there was a question about cost. We are hoping to get as much of the 70% as tax exempt and the cost of that is about the same as treasury borrowing (in terms of interest cost).
- Doug: but there are issuance costs.
- Anita: any 3rd party type of financing is a cost of issuance and they would be amortized over 12 years. The cost is pretty much the equivalent if it's tax exempt. If it's taxable, the cost would be a little bit higher. There's more work involved with going non-taxable.
- Person 3: will there be fees paid to Energy Northwest?
- Anita: we would cover all their costs. There may be a small fee to them, but it would be very small because they are going to play such a limited role.
- Person 3: what is the possibility of BPA getting into the municipal market and basically crowding out the utilities that have to go to the market?
- Anita: the municipal market is huge, so that shouldn't be an issue. Typically there's 3-4 billion a week bonded, so it's a robust market. Savvy investors like to see BPA behind the deal so it's a sought after credit.
- Doug: it might be better to do two or four years of financing at a time rather than every year.
- Anita: we haven't figured that out yet, but yes we might do two years worth. We always look at BPA's portfolio, so we might do different things based on what the portfolio looks like. It will be tweaked as we go forward. It has the flexibility. We aren't forced to bond every year.
- Kyna: there are three things that affect the cost and the way you manage 3rd party financing: 1) the makeup of the utilities affects ability to do non-taxable. If you take many of the publics out, it could be more expensive because you would have to do more taxable bonds; 2) if you change the size of the bond, the cost is the same for Energy Northwest so there is less efficiency with smaller

amounts of bonds; and 3) the more certainty BPA has in terms of when the money will be spent will help avoid bonding and having a bunch of money sitting there not being used by utilities.

- Anita: Coops are not tax exempt. There can be some in there (diminimus) but once you go past a certain amount, you lose the advantage of tax exempt.
- Person 3: the size of the utilities also makes a very big impact. So if the five biggest utilities leave the model that could make the bonding not tax exempt. Many of the large WA utilities do CPAs, so it sounds like you could do the timing of the financing based on those CPAs in terms of how much to borrow.
- Kyna: finance is ambivalent about the mechanism for trying to sync up expenditures and the timing of borrowing.
- Person 3: it's incumbent upon us to get more precise on forecasting what we're going to achieve.
- Doug: you have to establish how much to borrow and when. WA utilities probably have been identification of how much savings and when compared to other utilities. This may be a source of funding for large projects for utilities that need more funding in addition to the regular amount of EEI they get, so this mechanism could help in that regard.
- Kyan: a related topic is the flexibility of this mechanism. By bonding for conservation, it does leave a pot of money distinct from the rest of the BPA general fund, which provides more flexibility for the conservation program in terms of things like carry over?
- Person 3: would we have the ability to go above the two year budget for the utility?
- Anita: typically you have a three year drawdown period. You don't want to overbond because you don't really earn anything on the money but you are paying double on the interest. So you want to get as accurate as possible.
- Doug: the difference in the interest rates (the net interest costs) is what gets floated into BPA's revenue requirement.
- Anita: you really want to size the amount of bonding appropriately.
- Other questions asked of Finance
 - Kyna: Margaret asked us to address the interrelationship between all of BPA's processes. If you go down the road of wanting to expense conservation, or changing the amount of funding, these begin to impact other BPA processes. We have the CIR, IPR and debt management workshops all going on during the Post-2011 Review. What's going to come out from BPA in the Initial Proposal is going to look a lot like the previous one. If you want to see something different, you would need to ask for this in the public comment for those processes. So, for example, if utilities wanted to move back to expense and would be okay with the rate impact, the utilities would need to let BPA know. We can send a one-pager on all the kick-off meetings and public comment periods.

- Person 3: the RTF is looking at degrading measure savings. Would that have any impact? The measure life may stay the same but the savings would be degraded.
- Brent: from the financing side, the degradation component would be irrelevant since it's really about the average measure life.
- Doug: if utilities are interested in self-managing incentives, which would have financial impacts. Some utilities would have one rate construct and the other utilities would have another construct.
- Kyna: we would need to have somebody from rates help us think through the implications of various proposals. Complexity is the biggest challenge we see.
- Doug: some of these possibilities rise to the level of policy decisions. BPA has a certain model in place but there are also serious considerations about relieving pressure on treasury borrowing. So a major policy question is whether incentives have to go through BPA, do monies have to flow through BPA? Are there policy limitations? Or can we take little bites instead of having all utilities take all of this onto their books? We'll want to have general counsel input from BPA to help us explore these options.
- Person 3: in terms of due diligence it would be nice to have some numbers about the potential costs for paying Energy Northwest.
- Anita: it may be a year from now before we would have a number.
- Person 3: You could use the lease agreements BPA does to get an estimate of the cost for the conservation program with Energy Northwest to give us an idea of how much this is going to cost compared to today. I would also hope to see the impacts of expense versus capital. I'd like to see, if possible, how expense compares to the cost of capital over a 12 year period to be able to compare. I'd like to see a graph.
- Doug: for 14-15, I put together a model that estimates the cost of capitalizing versus expense, but it doesn't go out that far.
- Anita: on average, taxable is about a percentage higher per year.
- Person 2: I've heard from several GMs say they can borrow for cheaper than BPA, so it would be good to have some numbers to be able to address this issue. BPA-backed credit is double A rated and most of our utilities are double A, so BPA is likelier to be higher in most cases, we're not talking about a lot though.
- Doug: something in the ballpark would be appreciated. Once you start down the path of municipal bonds, but if the bond market does awry, we wouldn't be locked into this funding mechanism necessarily.
- Anita: that's correct. Generally, in terms of municipal financing, you're not locked out.
- Person 3: there may be socially-minded investors that might be particularly interested in these bonds.

- Anita: possibly, but it really comes down to typical drivers for investors. They care about the credit (double-A) and the strong ability to pay back the debt service.
 - Doug: another potential cost affect is on BPA's regulatory asset profile.
 - Anita: this still scores as a regulatory asset.
- Utility self-management of incentives
 - Person 5: on slide 15, do we have a scope on adverse.
- 75/25 split option
 - Doug: risk for BPA is not reaching the target. The risk for the utility is whether the amounts fix with their targets.
 - Person 3: a number of issues we come across are the council's target. The target is based on frozen efficiency, but the RTF is working with baselines that are more recent. So there is a disconnect between these two pieces. So there will be targets from the council based on a 2009 baseline but I-937 baselines have been updated.
 - Tom: it's not just the measures, but it also power cost that have changed. When we first did our CPA, the power costs aligned with the Council's, but our more recent one didn't really align, so this causes a disconnect.
 - Person 3: I understand there's a delay in changing the percentage, so you could use a rolling average. We could use a number that we target so that you could have underperformance in one year or rate period, but utilities could help compensate.
 - Person 3: a utility could borrow more via the 3rd party mechanism to help cover the utility portion. You would tell BPA upfront how much a utility would want above and beyond its EEI portion. That piece would be managed individually by the utility and not go through BPA.
- Pre-pay
 - Person 2: would the funding provided by the utility be tied specifically to the utility or would it go to cover all utilities?
 - Matt: the benefit to the utility is that the option allows the utility the ability to avoid having debt service costs be borne by the utility.
 - Person 2: for those utilities that would prefer to expense conservation, this is a good option since it doesn't involved debt service costs from BPA. The utility becomes neutral and allows the utility to expense.
- Expense Rate Credit
 - Person 3: for us to go forward with this issue, BPA would have to express the willingness to collect the money back from those utilities that underperform. Under the last go round, BPA didn't enforce this. Under a new model, BPA would have to enforce the pay back.
 - Person 6: under the EEI today, we may be paying 10 cents and getting a dollar, but later on, that turns around, you may be putting in a buck ten and getting a dollar. So there's a cash flow timing issue.
 - Person 3: does this make utility self-management easier than doing it through capital?

- Doug: utilities may thinking differently about how much they would “self-fund” if BPA expensed all incentives.
- Capital Rate credit
- Others?
 - Doug: there are a couple of threshold questions. How many utilities are really interested in 100% self-management of incentives? What are you really asking to take on? This gets to the magnitude. A more philosophical question is whether incentives should be capitalized; some utilities don’t want BPA to capitalize incentives on utilities’ behalf. So thinking through these alternatives, it’s important to get a philosophical touch point on what we’re trying to accomplish here. How do the utilities feel about this and how does BPA feel about this?
 - Person 6: from Tacoma’s perspective, it’s sort of a wash. We supported the decision to go to capital when we were facing a huge increase from BPA, but going forward if we aren’t facing a huge rate increase from BPA, we might be in favor. We aren’t really leaning one way or another.
 - Person 2: none of the NRU member utilities have expressed any interest in opting out. Some have expressed interest in prepay. They are interested in what minimums would be in place since they may not be big enough to do it. So that option would need to be available for all utilities.
 - Person 3: Cowlitz would prefer the capital rather than expense. Whether we would choose to self-managed depends on which options was picked. Whichever option is picked, there should be flexibility that choose self-management. We should provide utilities the opportunity to self-manage.
 - Wendy: My gut feeling is that anything that requires individual targets is going to get complicated very fast. The prepay option would allow the utility to address the BPA capital cost issue. The other concerns I hear from utilities are about reporting. Even if you go to self-management, I don’t see those problems going on. I don’t see getting out of reporting to BPA. So to solve the issue of borrowing costs, prepay gets you most of the way there.
 - Person 8: we share Tacoma’s view, we’re kind of indifferent. The big issue is going to be solving the Treasury issue, if we do that we aren’t interested in self-management.
 - Person 5: we are interested in exploring self-funding, but I don’t know what the costs would be for the utility.
 - Person 9: I’d like to see some utility have a pilot opportunity to see how it works. For us, we’re probably better off not 100% self-managing.
 - Person 10: we self-fund quite a bit, the biggest problem for us is getting large projects in our territory. We’re not in a place where we can fund it all.
 - Person 1: we thought we could go ahead and self-fund since we’d be doing it anyway because of state requirements. There’s no difference on the savings and reporting, it’s just about where the funding comes from. We originally thought it didn’t make since to pay in rates and then get the money back, but we’d have to look at the whole program

and see what the costs would be and if there would actually be a benefit if the utility 100% self-managed or if we pursued some of the other options.

- Person 6: how do you measure benefit to the utility?
- Person 1: we haven't really looked at the benefits of self-funding. I was looking at whether if we didn't have to pay in BPA rates for the EEI, we would have the money available for us to pay it out rather than through BPA. So I'm assuming there would be some rate decrease that would help pay for what we're doing anyway.
- Person 2: the things needed to allow prepay are basically already in place. The other alternatives would require potentially quite a bit of cost to implement since they are so new. And those costs may not be insignificant. So we have to consider the costs of implementing these options, but the prepay does help address the philosophical issue without.
- Person 6: if you had only two utilities, there may not be too many complications with the capital rate credit.
- Person 3: does the prepay preclude other options?
- Matt: no, the alternatives are not mutually exclusive.
- Person 3: if we have conservation prepay, does that preclude other options?
- Doug: we should try to do a set of pros and cons, explore which ones are mutually exclusive.

- **Tackling the Outstanding Issues**

- Regional Program Administration and Performance Payments Issues
 - Person 3: I don't think we can lay out a policy that says "we want it to be this way." It's going to depend on the program.
 - Person 7: the presentation for regional programs may be too broad
 - Brent: there are learnings from the programs and the new framework and we think it's a good time to do a report out. We owe it to the utilities to discuss how the carry over programs work within the Post-2011 framework.
 - Doug: the policy call is whether we want to allow the opportunity for BPA to run a direct acquisition program.
 - Brent: it's about struggling with the equity model in terms of direct acquisition. Could we more effectively get at-scale regional activities if we stepped back and modified the model of today with incentives coming from utilities or being based on utility contributions?
 - Doug: would like to understand where utility incentive programs are effective and where regional incentive programs are effective. And then there's the issue of utilities not knowing about third parties coming into territories. What are the criteria that make each of the programs work effectively?
 - Matt: how about BPA come back to the workgroup and be more specific about what BPA wants for the workgroup to consider, specifically.
 - Margaret: address what the problems are. E.g., if you think it's not cost effective to administer the performance payment for Grocer, then let us know that.

- Roll Over
 - Person 4: when we had EE expensed, there was still an issue with rolling over funds. So if we move from capital and to expense, utilities would likely still have the problem. But we heard that using 3rd party financing makes it a possibility.
 - Person 10: if there were an ability to roll over within a six month time frame that would put some bounds on it and wouldn't impact a big chunk of our budget. Roll over window rather than just rolling money over.
 - Doug: if we had a clearer line of sight on savings would that make roll over potentially more likely.
 - Brent: it is likely more compelling if we tie roll over to savings as opposed to leaving roll over more open. It is tied a little bit to the backstop role since the amount of funding needed to be roll over is the amount BPA would need to exercise the backstop.
- Backstop Role
 - Person 4: can BPA better define backstop?
 - Doug: backstop originally referred to the 75/25 split. But now utilities have shown that they can deliver.
 - Person 7: we have an issue with the backstop role not being fleshed out clearly. Just because utilities not delivering isn't an issue for the 6th Power plan, it may still be an issue for the 7th Power Plan and it would help to have the backstop role be clearer.
 - Person 3: I don't know what the role is in terms of spending dollars. We need to put some definition around this. If we are over performing, I don't want to be penalized if utility B sat around and did nothing. We have to have the backstop role be equitable as well (hurt one while benefiting the other).
 - Person 4: my concern is about too explicit of a definition takes away some flexibility in some other areas, so we may not want to be explicit about it.
 - Doug: one issue I've always had is BPA's determination of the 42%. This was never debated. I always disliked having this conversation in the context of the other 58% of the savings not having somebody backstop those savings. To make BPA responsible for something where the rest of the region just skates would be a problem.
 - Person 7: BPA has the responsibility because of the Power Act. When and if there's a problem, BPA could decide what to do. NWECC is looking for a bit more definition, but with the caveat that there are various ways to achieve the backstop. We are setting budgets blind right now because we don't have the 7th Plan. BPA is setting its budgets using one methodology and if it under budgets based on the new target, BPA would have to exercise its backstop.
 - Person 2: we don't have a specific problem that we're trying to solve for. So limiting the discretion of the backstop could limit the flexibility when a particular program does arise, if it does.

- Person 3: I wouldn't want the backstop role to add to our administrative burden, e.g., in terms of oversight or frequency of reporting/forecasting.
 - Brent: you could address the triggers for putting something into the category of needing to work a backstop role. What would we do, e.g., convene a stakeholder group if we miss the five year target instead of two years.
 - Limitations of the Framework
 - Doug: are we using the most effective delivery mechanism in terms of capturing the savings. Are utilities doing the best they can, is NEEA, is BPA? Are other mechanisms potentially more effective?
 - Person 2: is having a target effective? Because once you get there, you finish. But if you go over, then there's a problem with carryover. So maybe looking at whether the target is effective is worth considering. Another thing to consider are those measures that will be in codes and standards in a few years, the utility will spend a lot of money on those measures even though they will be free in the near future. Seems like a waste, but this is a problem with a fixed target.
 - Person 1: we're doing this now because the state requires us to even though the codes will be in place.
 - Person 7: is the existing EEI budgets framework and other components limiting us in what we can achieve? We can group our issues 6, 7 and 8 and wrap them together.
 - Approach to these outstanding issues
 - Margaret: we'll punt on the roll over issue till we hear back from Finance
 - Doug: we'll look at pros and cons for the self-management of incentives issue. We could then debate some specifics for roll over, if it were allowed.
 - Doug: what are the financial reasons for why roll over for specific projects isn't allowed?
 - Prep for the big tent meeting in Tacoma
 - Margaret: we'll have LiveMeeting for people who can't attend in person.
 - Person 2: it would be good to call out cross over issues.