Post-2011 Review
Eugene Big Tent Meeting

Workgroup 1 Presentation:
Initial Analysis of Funding Alternatives for Self-Management of Utility Incentives

March 20, 2014

What is the workgroup trying to solve?

- How do we achieve BPA’s savings goals while:
  A. relieving pressure on BPA’s capital borrowing;
  B. offering customers some flexibility (e.g., 100% or partial self-management of incentives);
  C. offering some customers the ability to avoid having BPA incur capital costs on their behalf; and
  D. avoiding complicated and costly implementation of alternatives?

Separating the Components

1. How should BPA finance the incentive costs for BPA's savings acquisition?
   - Expense
   - Capital
   - Relationship between near/long term costs

2. How should BPA structure its incentive funding relationship with customers?
   - Alternatives are considered in the following slides

Some Working Assumptions…

- All non-incentive EE costs (e.g., regional third party contract costs) are collected on a TOCA-basis, which is no change from the status quo, and the alternatives are focused only on incentives.
- These scenarios are the result of conversations within the workgroup and not representative of the views of BPA Finance Dept.
- Members of the workgroup that work on rates have performed an initial analysis on the impacts on rates. They estimate ~$20M shift from capital to expense equates to ~1% rate increase in the PF rate.
- Energy Efficiency is currently indifferent to how funds are allocated (capital or expensed), but recognize the CIR and IPR processes underway.
- As we work through the options, we recognize other pros/cons may surface as conversations continue. These alternatives may not be mutually exclusive. Please consider offering additional insights as each option is presented.

Status Quo

Brief description	Pros	Cons	Implications/Additional Considerations
75/25 programmatic split remains and incentives continue to be capitalized	• Keeps things simple • Model is understood	• Doesn't fully address some customers' concerns about BPA incurring capital costs on their behalf • Doesn't provide an option for 100% self-management of incentives • Doesn't relieve any EE pressure on BPA's capital borrowing • Higher overall costs in the long run due to borrowing costs	

Revise down the 75/25 programmatic split

Brief description	Pros	Cons	Implications/Additional Considerations
Customers, on average, take on more responsibility for delivering savings without BPA funding, which would result in proportionally reduced EEI budgets for all customers	• Partially addresses some customers' concerns about BPA incurring capital costs on their behalf when they expense conservation at the retail level • Relieves some EE pressure on BPA's capital borrowing	• Doesn't fully address some customers' concerns about BPA incurring capital costs on their behalf • Doesn't provide an option for 100% self-management of incentives • Higher overall costs in the long run due to borrowing costs (as it relates to the Expense Rate Credit option)	• As the percentages change and less funding flows through BPA, what accountability mechanism would be needed to ensure adequate savings are delivered to meet BPA's savings commitments? • If utility self funding percentage increases, this would proportionally reduce EEI budget allocations • May result in increased accountability for utilities

Conservation Prepay

Note: Workgroup One's consensus was to drop this option for active consideration due to lack of support

Brief description	Pros	Cons	Implications/Additional Considerations
Customers would bring capital to BPA in exchange for a rate credit that repays the prepaid capital with interest	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves some EE pressure on BPA's capital borrowing	• Doesn't provide an option for 100% self-management of incentives • Transaction costs considerations may limit the number of customers able to participate • Higher overall costs in the long run due to borrowing costs	• Is this option only about finding an alternative capital source or do participating customers want additional changes?

Expense Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations
The EE capital budget would be moved to expense and customers would receive their EEI budgets broken down into a monthly rate credit	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves *all* EE pressure on BPA's capital borrowing • Lower overall costs in the long run due to no borrowing costs	• Doesn't provide an option for 100% self-management of incentives • Near term rate impact for customers (there's flexibility on the timing of the transition to expense)	• How would the program be designed differently, if at all, from the last rate credit construct, i.e., would there be an opportunity to improve on the previous expense rate credit? • Possible transition option, such as 50/50 split… • Rate impacts • Previous CRC budgets were ~50% of current EEI budgets (less rate impact). Keep in mind EEI budgets are rising • Are there implications for reporting of savings to BPA

Capital Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations
A monthly rate credit–for debt service costs not incurred—would be given to those customers that elect to 100% self-finance their savings acquisition	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves some EE pressure on BPA's capital borrowing • Provides an option for 100% self-management of incentives • Would not change the cost structure for those remaining customers.	• Is very complicated from a BPA cost recovery/rate making perspective • Could significantly increase IT costs for rates/billing purposes. Should those costs be borne by those utilities choosing to self-manage? • Less higher overall costs in the long run due to borrowing costs • Could impact cash flow due to loss of EEI	• For those customers electing the capital rate credit, what accountability mechanism would be needed to ensure savings are delivered and would other customers be impacted either from a budget or savings delivery expectation perspective?

Flexible Budgets – Rate Adder

Brief description	Pros	Cons	Implications/Additional Considerations
Customers can elect more or less than their TOCA-based BPA incentive budgets; costs are collected in rates in the form of a rate adder (as opposed to a credit approach)	• Addresses some customers' concerns about BPA incurring capital costs on their behalf • Provides an option for 100% self-management of incentives • If capitalized, relieves some EE pressure on BPA's capital borrowing • Is simpler from a BPA cost recovery/rate making perspective than some other options • Provides all customers flexibility whether incentives are expensed or capitalized	• Makes for a more complicated BPA budgeting process due to customer flexibility • If incentives are capitalized, higher overall costs in the long run due to borrowing costs	• Would the approach work if EEI is expensed? • What would be BPA's backstop role in this approach? • What accountability mechanism would be needed to ensure adequate savings are delivered to meet BPA's savings commitments? • What are the implications for BPA budgeting if customers are able to elect their budget amounts? Advance budget commitments? Default to TOCA? • Could budget flexibility be used to address capturing large projects?