

Post-2011 Review

Workgroup 1: Initial Analysis of Funding Alternatives

March 17, 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?

Working assumption: 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

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

Status Quo

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
75/25 programmatic split remains and incentives continue to be capitalized	<ul style="list-style-type: none">• Keeps things simple• Model is understood	<ul style="list-style-type: none">• 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	Scoring
<p>Customers, on average, take on more responsibility for delivering savings without BPA funding, which would result in proportionally reduced EEI budgets for all customers</p>	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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? 	

Conservation Prepay

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
<p>Customers would bring capital to BPA in exchange for a rate credit that repays the prepaid capital with interest</p>	<ul style="list-style-type: none"> • Addresses some customers' concerns about BPA incurring capital costs on their behalf • Relieves some EE pressure on BPA's capital borrowing 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Is this option only about finding an alternative capital source or do participating customers want additional changes? 	

Capital Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
<p>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</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Is very complicated from a BPA cost recovery/rate making perspective • Higher overall costs in the long run due to borrowing costs 	<ul style="list-style-type: none"> • 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? 	

Expense Rate Credit

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
<p>The EE capital budget would be moved to expense and customers would receive their EEI budgets broken down into a monthly rate credit</p>	<ul style="list-style-type: none"> Addresses some customers' concerns about BPA incurring capital costs on their behalf Relieves <i>all</i> EE pressure on BPA's capital borrowing Lower overall costs in the long run due to no borrowing costs 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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? Are there implications for reporting of savings to BPA 	

Flexible Budgets – Rate Adder

Brief description	Pros	Cons	Implications/Additional Considerations	Scoring
<p>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)</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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? • Could budget flexibility be used to address capturing large projects? 	