



November 18, 2004

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Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1348

RE: Comments on the (Proposed) Benefit/Cost Ratio in the (Draft) 5th Northwest Power Plan

Dear Mr. Walker,

The Council is proposing a new method of appraising conservation, using a Benefit/Cost Ratio defined as (Present Value All Benefits)/(Present Value of all Costs). This definition incorporates benefits to the region and society: shape of saved kWh, life of savings, transmission & distribution deferrals, non-energy benefits, and CO₂ reduction. It does not include benefits to the customer other than energy savings. This definition does incorporate all costs: those associated with measure, program, customer and others – regardless of who pays them.

This “bottom heavy” definition is evaluated as “good when greater than 1.0, excellent when greater than 2.0”. We believe (and preliminary planning of future conservation programs is confirming) that use of this methodology will prevent utilities from offering incentives for measures that are desirable to the customer and beneficial to the region. This will reduce the ability of the utilities to participate in energy conservation programs, resulting in many lost opportunities and making it difficult for the region to reach the Council’s conservation goals.

The key ingredient missing in this analysis is that there are reasons other than energy efficiency benefits for customers to consider when contemplating projects that improve energy efficiency. For example, a customer may consider installing a ground source heat pump because they prefer radiant floor heating, and they see the ground source heat pump as a practical way of accomplishing this. While energy efficiency is a consideration for the customer, it is not the only consideration. In such cases, an incentive from the utility may be enough to tip the scales in favor of implementing a project that a customer would otherwise be unwilling to undertake. The end result is that the customer is happy, and the utility, BPA, and the NWPCCC have achieved conservation cost-effectively, based upon the cost to the utility group compared to the energy saved and the corresponding benefits to the region. Because of the difficulty in determining the non-energy benefits to the customer, the cost to the customer is largely irrelevant to the equation, and should not be included in the determination of regional cost-effectiveness.

Achieving conservation at the lowest possible cost to the customer and to the region is an admirable goal. The first impulse is to “balance” the definition of Benefit/Cost ratio to include benefits to the customer. To be a fair analysis, non-energy benefits to the customer would certainly need to be included. This approach would put a heavy analysis burden on the RTF. Indeed, a reasonable person could conclude that this task would be almost impossible to accomplish.

A more effective solution would be to limit the costs to the cost of the utility to encourage the energy conservation measure and the associated regional costs of administering the program. This allows utilities and/or BPA to vary the incentive until the measure is cost effective for the utilities and the region, and each customer is allowed to determine cost-effectiveness based upon whatever criteria they choose to use. In addition, the current structure of the C&RD allows utilities the flexibility to adjust incentives to a level adequate to motivate customers to implement conservation based upon local factors, which are much better understood by the local utility than by regional entities. This is a structure that has worked well for the past three years, and it is not in need of major changes at this point.

Thank you for the opportunity to comment on this plan. If you have any questions, please contact me at (360) 538-6508.

Sincerely,

Doug Smith
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cc: Kevin Howerton