DRAFT DRAFT DRAFT DRAFT DRAFT

Mr. Steve Wright

Administrator, BPA

The Northwest Power and Conservation Council commends the Bonneville Power Administration for its stated commitment to achieve its share of the cost-effective conservation targeted in the Council's fifth power plan. However, we believe Bonneville's March 28th proposal for conservation funding during the fiscal year 2007-2009 rate period is inconsistent with the plan. We believe that Bonneville has both understated its share of the region's conservation goal and proposed inadequate funding to achieve even that level.

The Northwest Power Act gave the Council and Bonneville the mission of serving as stewards of the Columbia River Power System. The Council's plan is to assure the region of an adequate, efficient, economical and reliable power system. A major conclusion of the fifth plan is that conservation should be implemented aggressively beginning in 2005 and sustained through 2009. By doing so, the region can be assured that the conservation is in place to defer the need for new generation and to protect against the risk of high power market prices. The incremental cost to the region's power system of accomplishing the plan's conservation goals is a one-time increase in annual utility revenue requirements of less than one percent.

The Power Act obligates Bonneville to act in a manner consistent with the Council's plan in acquiring conservation and other resources. However, the Council has concluded that Bonneville's March 28th proposal for acquiring conservation over the next rate period is not consistent with the power plan. The bases for this conclusion are described in the attachment. The Council will submit additional, more detailed comments later.

We request that you reformulate your proposal to target conservation development consistent with the plan. Now is the time for Bonneville to join with the Council to ensure that our responsibilities as stewards under the Power Act are met. Bonneville should use the full extent of its authority to secure the benefits of accelerated conservation development to ensure long-term stability in the cost of electricity services for the region. The council offers its assistance in formulating a conservation development program to meet the goals of the council's power plan.

Sincerely,

Melinda Eden

Chair

Attachment

ATTACHMENT

Bonneville's Conservation Target is Too Low

The recently adopted Fifth Plan's regional conservation target is 700 average megawatts of savings between 2005 and 2009. To be consistent with the plan, Bonneville should acquire 322 average megawatts over that period or an average of 64 average megawatts per year. This is based on the share of regional load that Bonneville is obligated to serve. The Northwest Power Act obligates Bonneville to provide investor-owned utilities in the region with the option of exchanging all or a portion of their residential and small farm customers' load. The Council believes that Bonneville's share of the regional goal includes not only the net requirements of its public utility customers and other non-DSI federal loads but also the investor-owned utility exchange settlement "load." The exchange load on which the current cash exchange settlement is based is 2,200 average megawatts. If this load is included, Bonneville's share is 46 percent of the 700 average megawatt regional total or 322 average megawatts.

However, based on information provided during the Power Function Review and in its March 28th proposal, it appears Bonneville is proposing to acquire only 256 average megawatts over this same time period or 51 average megawatts per year, which corresponds to 40 percent of regional load. To arrive at this figure, Bonneville omits the savings associated with the investor-owned utility exchange load. However, Bonneville has included in its budget the cost of securing conservation savings from the investor-owned utility exchange loads through its Conservation Rate Discount Program. This suggests that Bonneville recognizes its obligation to pursue conservation on this load. Reducing these exchange loads through conservation will lower Bonneville's long-term costs. This produces the same benefits to Bonneville as reducing Bonneville's public utility loads.

Shortfall During the Current Rate Period

Unfortunately, the timing of the Council's plan and Bonneville rate periods do not coincide. The Council recognizes that Bonneville has limited ability to increase its conservation funding during the current rate period. However, there is likely to be a shortfall during the current rate period, and, if so, it should be made up in the subsequent rate period. During the fiscal year 2002-2006 rate period, the Council estimates Bonneville will have acquired conservation at an average rate of 51 average megawatts per year, assuming it achieves its stated targets for fiscal years 2005 and 2006. This means that Bonneville will fall short of the plan's targets by 26 average megawatts for 2005 and

2006. Consequently, Bonneville's targets for fiscal years 2007 through 2009 should be increased to 73 average megawatts per year and its budget levels increased accordingly.

Funding Levels Inadequate

Bonneville's March 28th proposal not only under estimates its proper share of the target and fails to consider a 2005-2006 shortfall, but the proposal also appears to lack adequate resources to accomplish even its stated conservation goal. The Council strongly supports Bonneville's efforts to be more efficient in all of its operations, including the acquisition of conservation. However, based on our review of historical data we believe the agency's cost-efficiency goals for conservation are overly optimistic.

The Council has analyzed the cost of Bonneville, utility and Northwest Energy Efficiency Alliance conservation acquisitions since 1998. Bonneville's 1998 through 2002 average cost per megawatt of conservation (including Alliance programs) was $1.8 million in year 2008 dollars , including any "naturally occurring" savings it acquired through its programs during this timeframe.[1] Bonneville is proposing to budget $75 million per year for conservation acquisition during the next rate period, 2007-2009. To achieve Bonneville's 73 average megawatt share of the regional conservation target with this level of funding would mean acquiring the savings at an average cost of $1.03 million per megawatt in 2008 dollars. This would be a 43-percent cost-efficiency improvement over historical achievements of $1.8 per megawatt. Even assuming that Bonneville is able to document that 7 percent of these savings would be naturally occurring without assistance from utility and Alliance programs, Bonneville would have to acquire almost 68 average megawatts of savings with $75 million for an average cost of $1.1 million per megawatt of savings in 2008 dollars. This is still a 39-percent improvement over historical accomplishments.

While it may be possible to achieve such significant gains in conservation acquisition efficiency, the Council is unwilling to accept Bonneville's simple assertion that it can be done. We believe Bonneville must provide the region with a detailed strategy that demonstrates how it will accomplish the plan's regional goal within its proposed budgets as well as a "backup" strategy to acquire the conservation if this cannot be accomplished at the proposed budget levels.

The Council is also concerned that Bonneville's primary objective appears to be achieving the lowest first-year cost per average megawatt. The costs of conservation resources are largely incurred the first year during construction or installation. Therefore, measuring effectiveness of

conservation acquisition programs based only on their cost per first-year savings is, at the very least, misleading and at worst misguided. Lost-opportunity resources, like improved efficiency in new construction, comprise one-half of the plan's 20-year conservation resource acquisition goals. The Council is concerned therefore that Bonneville will not pursue conservation of long-lived and cost-effective conservation resources that may have a high first-year cost per average megawatt.

If Bonneville limits its "willingness to pay" as a method to achieve its cost-efficiency goals, it may forgo securing higher-cost, but very cost-effective conservation resources. Alternatively, to limit its costs, Bonneville and its utility customers might offer consumers incentives so small that the only consumers who participate would be those who would have purchased the measure without assistance. As a result, the program produces no "incremental savings" beyond those that would have occurred naturally in the market without utility system investments.

Implementation Strategy

The Council believes that Bonneville's strategy could rely more heavily on its rate discount program. Properly designed, this program provides incentives to utilities to achieve conservation cost-effectively and avoids the issue of cost transfers between customers that has been a source of friction in other Bonneville conservation programs. Increasing the size of this program will empower and reward those Bonneville customer utilities that share more equitably in the cost and responsibility for conservation acquisitions. As well, in the event any of Bonneville's customer utilities fails to achieve its share of the plan's conservation goals, the program provides Bonneville with a mechanism for securing the resources necessary to make up shortfalls without imposing those costs on other utilities.

[1] Assuming an annual inflation rate of 2.5 percent to inflate the costs from year 2000 dollars.