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Chair  
Washington

Frank L. Cassidy Jr.  
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Joan M. Dukes  
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Montana

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October 31, 2007

## MEMORANDUM

**TO:** Council Members

**FROM:** Tom Eckman and Charlie Grist

**SUBJECT:** Agreement with Bonneville on conservation accounting under Regional Dialogue policy

**PROPOSED ACTION:** Approve letter to Bonneville stating the Council's understanding and recommendations on conservation accounting under Regional Dialogue policy.

**SIGNIFICANCE:** The letter is needed to clarify how Bonneville and the Council will count conservation accomplishments in the future. Clarification now will avoid potential misunderstandings later and enable regional conservation planning, budgeting and tracking.

### BUDGETARY/ECONOMIC IMPACTS

The proposed accounting practices should modestly reduce the cost of conservation tracking and reporting after 2011.

### BACKGROUND

Bonneville seeks to clarify how energy savings from its conservation efforts will be counted both now, and after 2011 when tiered rates are in place. Staff agrees and recommends responding with a letter endorsing Bonneville's proposal. Both Bonneville's letter, and the proposed Council response are attached.

On October 11, 2007, Bonneville's Vice-President for Energy Efficiency, Mike Weedall, sent the attached letter to Council Chair Karier setting forth how the agency intends to establish its energy efficiency targets and count savings toward achieving those targets now and in the post-2011 period. Mr. Weedall's letter clarifies four key areas regarding conservation accounting. First, Bonneville commits to a more expansive view of its conservation responsibilities in the post-2011 period, consistent with its recently adopted Long-Term Regional Dialogue Policy. Second, it also proposes to continue to base its conservation targets on conservation recommendations in current and future Council power plans. Third, it proposes to continue to count, towards its conservation targets, all cost-effective conservation that it funded or helped to

fund, or that its customer utilities do with their own funding. And finally, Bonneville's approach addresses two time periods, before and after 2012, when the Regional Dialogue takes full effect. Staff agrees with the each of these accounting approaches.

## **ANALYSIS**

In the post-2011 period Bonneville is committing to pursuing all regionally cost-effective energy savings within the entire service territories of those public utilities served by the agency. That is, Bonneville's conservation target will be based the entire load of its public utility customers, not just the share of load supplied by Bonneville resources. Presently, this would be something in the range of 42-46 percent of regional loads. This will increase Bonneville's declared conservation target over today's practice. But the combined total target share of Bonneville and public utilities would be the same as it is today.

When determining whether it has accomplished this larger goal, Bonneville intends to continue to count savings from measures, projects or programs that the agency funds directly in whole or in part, as it does today. In addition, Bonneville also intends to count savings secured by its public utility customers resulting from agency policies that encourage or facilitate those customers acquisition of energy efficiency, such as tiered rates and providing credit for utility-funded conservation towards each utility's High Water Mark in the 2007-2011 period.

Bonneville and the Council staffs agree that it is increasingly difficult to determine attribution of savings. In practice, many conservation programs are funded by a combination of Bonneville and utility funding. Bonneville's policy to move to tiered rates after 2011 should also increase incentives for Bonneville customer utilities to do conservation on their own. Plus there are state and federal tax credits, Washington's I-937 and other efforts that will contribute to producing savings. So counting combined savings from Bonneville, utility sources eliminates an arbitrary determination of which efforts caused which savings. At the same time, if the larger pool of savings is counted, the conservation target share should be based on the larger pool of loads, the loads of Bonneville and its customer utilities combined. This approach is what Bonneville proposes for the post-2011 period. Staff concurs.

It is the staff's view the post-2011 approach will increase likelihood of hitting the targets and will simplify conservation tracking and reporting. Bonneville is committing to ensuring that public utilities meet their proportional share of the Council Plan's conservation goals, even if only part of their power is supplied by Bonneville. Therefore, it will no longer be necessary to separately attribute "utility-funded" conservation savings and "Bonneville-funded" savings. In the post-2011 period, the aggregate savings for the public utility customers of Bonneville should be proportional to their share of the total regional load. If there is a shortfall, then Bonneville appears to be committing to address the problem through programs, funding or other policy initiatives.

For the 2007-2011 period, the relationships between Bonneville and its utilities with respect to conservation is in transition. Bonneville's conservation accounting proposal reflects that. Bonneville has adopted a Long-Term Regional Dialogue policy to credit individual utility High Water Mark calculations that provides incentives for Bonneville customer utilities to do conservation before 2011 using their own money. But actual tiered rates will not be in place until later. So it is unclear how utilities will act with regard to conservation and how much to fund with Bonneville versus utility sources.

During this transition period, Bonneville proposes to base its share of the Council's regional conservation target at 40 percent, the share it has used for the last few years. But when assessing whether it has met its targets between now and the end of 2011, Bonneville proposes to take credit for the combined savings from cost-effective conservation funded by Bonneville and the public utilities it serves. So Bonneville's conservation target would be based on a share of regional loads that does not align exactly with the pool of savings it proposes to count for 2007-2011.

The 40-percent share was agreed to earlier by Bonneville and the Council. Bonneville has developed its conservation plans and budgets and rate cases around that commitment. At the time the share was agreed to, it was thought to cover somewhat more than forecast regional public utility loads supplied by Bonneville resources, but somewhat less than the total loads of the Bonneville customer utilities. Given the uncertainties about utility actions in the transition period before 2011, and the uncertainty around the share of loads that Bonneville customers represent, staff thinks Bonneville's proposal for the 2007-2011 is reasonable.

In the final analysis, the Council will look at whether its conservation targets are being met in the regional on the whole. If the region falls short, the Council will certainly try to determine why and help develop plans to achieve its Power Plan objectives. This may include looking at the performance of public utilities and Bonneville together, or even looking at individual utilities public and private. But, attribution of savings to individual entities will become more problematic and less important in the future. Furthermore, it tends to create perverse incentives for regional entities to work together to achieve all cost-effective savings. Bonneville's proposal to move toward more inclusive targets and accounting is a move in the right direction. And its commitment to reach those targets is a good thing.

## **ALTERNATIVES**

The major process alternative is for the staff to respond, rather than the Council. Staff believes a letter from the Council is the appropriate vehicle in this case because of the importance of tracking conservation accomplishments as part of the regional Power Plan.

With regard to the substance of the issue, the most significant alternative would be to persuade Bonneville to revise its 2007-2011 conservation target to align with the pool of savings it will count in that period. Staff rejected that alternative because of the uncertainties about utility actions in the transition period before 2011, and the uncertainty around the share of loads that Bonneville customers represent. Further, the letter to Bonneville states that the Council will look at whether its conservation targets are being met in the regional on the whole and it will likely consider the performance of public utilities and Bonneville together, regardless of whether Bonneville meets its declared targets.

## **ATTACHMENTS**

Letter to Tom Karier from Mike Weedall, October 11, 2007  
Proposed response letter from Tom Karier to Mike Weedall



## Department of Energy

Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

ENERGY EFFICIENCY

October 11, 2007

In reply refer to: KLH-1

Mr. Tom Karier, Chair  
Northwest Power and Conservation Council  
851 SW Sixth Ave., Suite 1100  
Portland, OR 97204

Dear Mr. Karier:

The intent of this letter is to clarify which energy efficiency savings BPA will count in the FY2007 – 2011 period, and how the agency will count saving in the post-2011 tiered rates period. Moving forward, BPA intends to take credit for all cost-effective energy efficiency achieved as a result of BPA-funded and customer-funded efforts toward meeting agency targets.

BPA currently sets its energy efficiency target at 40 percent of the Council's regional target, which is slightly higher than the percent of the public power load that BPA serves. BPA's current annual goal is 56 aMW – including naturally occurring energy efficiency. BPA takes credit for and counts energy efficiency savings from measures, projects and programs that the agency is directly involved in funding, per our agreement with the Council. In FY 2007 – 2011 the agency also intends to take credit for customer-funded efforts as well as all of the existing sources of energy efficiency such as NEEA programs. Rather than providing other financial incentives for these additional savings, BPA is providing credit toward each individual utilities' High Water Mark (HWM), which allows for the purchase of Tier 1 priced power in the post-2011 timeframe.

Post-2011, when the Long-Term Regional Dialogue contracts become active, BPA has committed to pursuing all cost-effective energy efficiency in the service territories of those public utilities served by BPA. The new goal will be to capture all of public power's share of the Council's current target – currently approximately 42 percent – not just the load served by BPA. This increased commitment from our current policy is intended to be met as described below.

BPA expects the post-2011 goals to be met to a significant extent through programs initiated and funded by its public utility customers. The agency will supplement and facilitate utility initiatives and promote regional infrastructure support. BPA expects to continue to use the Council's current Power Plan as the basis for its targets for cost-effective energy efficiency. As stated above, BPA will count all cost-effective energy efficiency achieved as a result of BPA-funded and customer-funded efforts toward meeting the target. These savings will all be counted toward the target because agency policies influence energy efficiency to take place, whether or not the actions are directly funded by BPA.

BPA will take two primary actions to meet its energy efficiency goals. First, by establishing tiered rates, BPA expects customers to have a greater economic incentive to achieve energy efficiency whenever they face Tier 2 rates. This incentive from tiered rates adds to any incentive created by state portfolio standards. Even if they initially face only Tier 1 rates, there is still a significant incentive to conserve since energy efficiency achieved would serve to lengthen the time before a customer's net requirement load exceeds its HWM, which is when the customer would face marginal cost power prices.

Second, BPA will provide a portfolio of programs – including a rate credit, bilateral contracts, third-party contracts and market transformation as well as regional infrastructure – to help ensure that energy efficiency targets are met at least cost.

The Long-Term Regional Dialogue Final Policy states BPA's intention to count all savings achieved by its customers – both utility self-funded and BPA-funded – towards its conservation goal, thereby reducing the need for BPA funding.

Please let me know what further action, if any, is necessary on our part to finalize this issue. If you would like to discuss this further please contact Karen Meadows at 503-230-3463.

Sincerely,



Mike Weedall  
Vice President, Energy Efficiency

cc:

Mr. T. Eckman, Conservation Resources Manger  
Mr. C. Grist, Senior Analyst

Tom Karier  
Chair  
Washington

Frank L. Cassidy Jr.  
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November 15, 2007

**DRAFT**

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**DRAFT**

Mike Weedall  
Vice President, Energy Efficiency  
Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

RE: Bonneville's plan for how to count energy efficiency savings

Dear Mr. Weedall:

Thank you for your letter of October 11, 2007, clarifying how Bonneville intends to count energy efficiency savings in the FY2007-11 and post-2011 periods. The Council endorses the approach Bonneville proposes, and we are particularly appreciative of certain elements in the post-2011 period noted below.

The Council's primary interests are in seeing the region meet the conservation targets that the Council established in the Fifth Power Plan and will establish in future power plans, and in seeing Bonneville implement an aggressive conservation program as part of that effort. The Council is pleased to see Bonneville's continuing commitment to base its conservation program on the conservation provisions and targets in the Council's current and future power plans. We understand Bonneville's plan for how to count conservation savings as an implementation detail generally consistent with these broader goals.

We are particularly pleased that in the post-2011 period, Bonneville is committing to pursue all cost-effective energy savings within the entire service territories of those public utilities served by the agency. That is, Bonneville's conservation target will be based on the entire load of its public utility customers, not just the share of that load supplied by Bonneville resources. Bonneville agrees that this will increase Bonneville's share of the Power Plan's regional conservation target from the approximately 40 percent share, representing the portion of that load Bonneville serves, to something representing total loads of the regional utilities that Bonneville serves.

When determining whether it has accomplished this larger goal, Bonneville intends to count savings from conservation actions that the agency funds directly, as it does today, as well as savings secured by its public utility customers that result from Bonneville policies that encourage

or facilitate those customers' acquisition of energy efficiency, even if Bonneville does not fund these activities. By focusing its accounting on the combined savings from Bonneville and utility-funded activities, it will no longer be necessary to carry out what is often an arbitrary determination of which efforts caused which savings. If it will no longer be necessary to separate "utility-funded" conservation savings and "Bonneville-funded" savings, this should simplify and reduce the cost of conservation tracking and reporting.

More important, Bonneville's post-2011 approach could also increase likelihood of meeting the conservation targets. The Council is pleased that Bonneville is committing to ensure that public utilities meet their proportional share of the Power Plan's conservation goals, even if only part of their power is supplied by Bonneville. If there is a shortfall, Bonneville is committing to address the problem through programs, incentives, funding or other policy initiatives.

The Council's Power Plan sets forth a regional conservation target, and the Council ultimately will look to whether its conservation targets are being met region wide. If the region falls short, the Council will work with Bonneville, its customer utilities and other interested parties to determine where and why the shortfalls have occurred. This may include a review of the performance of Bonneville and its utility customers individually or collectively. In the meantime, Bonneville's plan to move toward more inclusive targets and accounting is a positive contribution.

Sincerely,

Tom Karier  
Chair  
Northwest Power and Conservation Council