Northwest **Power** and **Conservation** Council

July 1, 2014

MEMORANDUM

TO: Council Members

FROM: Charlie Grist, Acting Manager Conservation Resources

SUBJECT: Council Comment on Proposed Revisions to Bonneville's Post-2011 Efficiency Implementation Program

In 2011, Bonneville revised the implementation of its energy efficiency programs to work with its adoption of tiered rates. Since these implementation rules were new, Bonneville agreed to review them after two years of operational experience. As a result of that review the agency is now proposing revisions to its implementation approach. The revisions do not address funding levels or program targets, but rather focus on the business relationships between Bonneville and its customer utilities used to develop, incent and monitor energy efficiency programs.

Bonneville is seeking comment on its proposal by July 19, 2014. Staff proposes the Council send comments to Bonneville. A draft is attached for Council review. Richard Genece, Bonneville Vice President of Energy Efficiency, will discuss the proposal at the July Council meeting. The Power Committee will consider the proposed comments in the morning and may forward a recommendation on the comments to the Council.

Background

Bonneville began the most recent phase of the Post-2011 Energy Efficiency Implementation Review in 2013. Bonneville issued a scoping document outlining fifteen issues generated from regional stakeholder input on various aspects of the Energy

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Efficiency Implementation Program that Bonneville chose to examine in the Post-2011 public process.

The issues were divided among five work groups, which conducted meetings throughout the first half of 2014. The work groups reached resolution on most of the issues, recommending either no change to the status quo or recommending a specific change that Bonneville has carried forward in its recommendations from the process. Several issues have been difficult to resolve and staff proposes that Council consider commenting on them. These issues revolve around the management of the Energy Efficiency Incentive (EEI). The EEI is the funding mechanism for Bonneville-funded conservation acquisitions. Each customer is allocated an EEI budget based on its Tier One Cost Allocator (TOCA). Bonneville uses Energy Conservation Agreements as the contractual mechanism to assign customers their EEI budgets and deliver savings. EEI funds come out of Bonneville's capital budget.

The issues which have been most difficult to resolve or that may warrant Council comment are:

- Utility Self-Management of Incentives through the use of Billing Credits
- Bonneville's Backstop Role
- Large Project Fund
- Inter-Rate Period Budget Flexibility
- Low-Income Energy Efficiency

Utility Self-Management of Incentives – Bonneville proposes to consider customer requests for Billing Credits in exchange for conservation acquired independently by customer utilities for the FY2016-17 rate period. The purpose for this new option is to allow utilities to finance their own energy efficiency programs without using Bonneville program funds, thereby avoiding the financing costs embedded in the EEI and the various invoicing costs. A utility would pay the full amount of its Tier One Cost Allocator (TOCA) share of its EEI in rates, but request a billing credit for the amount it would have otherwise had Bonneville borrow on its behalf. The utility would acquire and verify the savings under the same guidelines as other utilities but under a contractual basis tied to the Billing Credit. In the event that the utility did not acquire the contracted savings, Bonneville would suspend the Billing Credit. Billing Credits are a specific mechanism described in the Power Act. Implementing this proposal would require a change to Bonneville's Billing Credit Policy of 1993.

The billing credit proposal appears to provide a viable option for utilities wishing to minimize debt financing of conservation incentives, while remaining rate-neutral for non-participating utilities. Staff supports the billing credit approach provided it retains Bonneville's backstop authority, through Energy Conservation Agreements and the option to suspend the Billing Credit in the event of a shortfall of regional energy efficiency targets as described in the Council's power plans.

Bonneville's Backstop Role - The Council appreciates Bonneville's enduring commitment to ensuring public power meets its share of the regional energy efficiency targets. The Post-2011 review leaves unchanged Bonneville's backstop role which is to develop new programs and look at and explore other avenues should efforts be insufficient to achieve the necessary level of savings. To date, conservation acquisitions have met or exceeded Council targets and backstop remedies have not been needed.

- Given the increase in regional conservation targets identified in the Sixth Plan and relatively flat budgets outlined by Bonneville, the Council may wish to ask that Bonneville now assess its ability to meet targets going forward. If the assessment indicates a significant potential shortfall, the Council could ask Bonneville to evaluate the necessity for any backstop remedies along with the timing and structure of implementing any needed backstop mechanisms.

Large Project Fund and Inter-Rate Period Budget Flexibility - Utility program spending for conservation does not always fall uniformly year to year. Nor does it neatly align into rate-periods. For example, industrial conservation projects can overwhelm annual funding available through EEI because of large project size and multi-year timelines. Bonneville is proposing two mechanisms to help manage potential timing mismatches between program expenditure needs and rate-period funding availability so that acquisition of valuable conservation does not get delayed or go undeveloped. These issues were identified by the Council in 2009.

Large Project Program – Bonneville proposes to change the existing Large Project Fund to a Large Project Program (LPP). The fund will be distinct from EEI. It will provide incentives above rate period EEI budgets for "large" projects (to be defined by the customer utility) beginning October 1, 2015. The costs and interest of acquiring savings through the LPP will be allocated only to customers that received LPP funds, through a Large Project Targeted Adjustment Charge. In this way, the charge will not affect the rates of other customers. The LPP will be limited to $10 million per rate period.

Inter-Rate Period Budget Flexibility – Bonneville proposes allowing customers to roll over up to 5 percent of the start-of-rate-period EEI budget from one rate period to the next rate period beginning October 1, 2015. The amount remaining will be added to the utility's EEI budget for the following rate period. Staff supports the Inter-Rate Period Budget Flexibility proposal because it expands on the existing tools available to utilities for acquiring conservation that does not fall neatly into rate period timelines.

Staff is supportive of the proposed solutions to address both of these issues.

Low-Income Energy Efficiency – The Post 2011 Review Low Income Work Group had common ground on numerous issues; 1) have BPA adopt a Low Income Energy Efficiency (LIEE) guiding principle, 2) reconstitute a workgroup to meet quarterly to address low income energy efficiency, and 3) have BPA facilitate a method or process that would allow utilities do designate some of their EEI or other funds to LIEE.

Bonneville proposes to create an ongoing work group to collaboratively explore options to address challenges specific to acquiring low-income energy efficiency. However, it did not propose to adopt the work group recommendation to institute a process for utilities to set aside some portion of their energy efficiency incentive budgets to fund

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low-income energy efficiency investments. Staff recommends that Bonneville review whether low-income customers in some areas are not receiving the benefits of energy efficiency due to constraints at local utilities or assistance agencies. If a problem exists, Bonneville should revisit the Post-2011 Low-Income Work Group's recommendation.

A draft comment letter is attached for the Council's consideration.

Proposed Comments on Revisions to Bonneville's Post-2011 Efficiency Implementation Program

Date: Sometime before July 18, 2014

Dear Bonneville:

Thank you for the opportunity to comment on proposed revisions to Bonneville's Post-2011 Energy Efficiency Implementation Program.

Bonneville's regional energy efficiency success to date has been exemplary, exceeding energy efficiency targets at very low cost. These savings benefit participating end users directly and reduce electric system costs for all customers. The Council supports Bonneville's continued use of the full range of its authorities under the Northwest Power Act to assure acquisition of all cost-effective conservation among its customer utilities.

The Council congratulates Bonneville, its utility customers and stakeholders on successful resolution of most of the issues raised in the Post-2011 Efficiency Implementation Review. The Council is supportive of the revisions. The following comments underscore the Council's recommendations on the issues that have been most troublesome to resolve. Overall the Council supports the use of Bonneville's regional scope and responsibility to provide implementation flexibility for its utility customers, to reduce overall program costs and to assure conservation acquisition of regional energy efficiency targets as described in the Council's power plans.

The Council has comments on the following areas:

- Utility Self-Management of Incentives through the use of Billing Credits
- Bonneville's Backstop Role
- Large Project Fund
- Inter-Rate Period Budget Flexibility
- Low-Income Energy Efficiency

Utility Self-Management of Incentives – Bonneville proposes to consider customer requests for Billing Credits in exchange for conservation acquired independently by customer utilities for the FY2016-17 rate period. The Billing Credit proposal appears to provide a viable option for utilities wishing to minimize debt financing of conservation incentives, while remaining rate-neutral for non-participating utilities. The Council supports the Billing Credit approach provided it retains Bonneville's backstop authority, through Energy Conservation Agreements and the option to suspend the a Billing Credit

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in the event of a shortfall. We recommend timely evaluation of participating utilities' progress toward the savings contracted through Billing Credits.

Bonneville's Backstop Role - The Council appreciates Bonneville's enduring commitment to ensuring public power meets its share of the regional energy efficiency targets. The Post-2011 review leaves unchanged Bonneville's backstop role which is to develop new programs and look at and explore other avenues should efforts be insufficient to achieve the necessary level of savings. To date, conservation acquisitions have met or exceeded Council targets and backstop remedies have not been needed.

Given the increase in regional conservation targets identified in the Sixth Plan and relatively flat budgets outlined by Bonneville, the Council recommends that Bonneville now assess its ability to meet targets going forward. If the assessment indicates a significant potential shortfall, Bonneville should evaluate the necessity for any backstop remedies along with the timing and structure of implementing any needed backstop mechanisms.

Large Project Fund and Inter-Rate Period Budget Flexibility - The Council is very supportive of the Large Project Program. This mechanism will allow regional utilities greater opportunities to capture large but perhaps unanticipated savings that may not have been pursued, or might have been acquired later, in the absence of the LPP. The Council also supports the Inter-Rate Period Budget Flexibility proposal because it expands on the existing tools available to utilities for acquiring conservation that does not fall neatly into rate period timelines.

Low-Income Energy Efficiency – Bonneville proposed to create an ongoing work group to collaboratively explore options to address challenges specific to acquiring low-income energy efficiency. However the agency did not propose to adopt the work group recommendation to institute a process for utilities to set aside some portion of their energy efficiency incentive budgets to fund low-income energy efficiency investments. The Council recommends that Bonneville review whether low-income customers in some areas are not receiving the benefits of energy efficiency due to constraints at local utilities or assistance agencies. If a problem exists, Bonneville should revisit the Post-2011 Low-Income Work Group's recommendation.

Sincerely,

Bill Bradbury, Council Chair

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