NW Energy Coalition

for a clean and affordable energy future

February 14, 2011

Mike Weedall
Vice President, Energy Efficiency
Bonneville Power Administration
PO Box 3621
Portland, OR 97208-3621

RE: BPA's Energy Efficiency Post-2011 Implementation Proposal

Dear Mr. Weedall:

We appreciate the opportunity to comment on Bonneville's Energy Efficiency Post-2011 Proposal. Bonneville' s commitment to promote energy efficiency is to be commended, in particular the agency's commitment to acquiring public power's share of the NW Power and Conservation Council's 6th Plan targets and adopting a budget that matches that commitment. We also strongly support the agency's move to implementing tiered rates, thereby providing customers pricing that rewards energy efficiency and that more accurately reflects the value of avoiding load growth.

While, overall, the Proposal presents a sound approach to achieving regional energy efficiency targets, several concerns remain that we discuss below.

General comment

Historically, there is a tension in BPA's conservation spending between directing dollars to the most cost-effective conservation potential vs. spreading those dollars proportionately among utilities. We recognize that achieving the right balance is a challenge but urge BPA to err on the side of maximizing the amount of conservation per dollar spent. Ultimately, such practice provides the greatest benefit for the entire region. That said, we do support BPA's commitment to enhanced program support for rural utilities.

Running Regional Programs

BPA proposes that it will *not* set aside funds for regional program incentives. (Regional programs include programs focused on chains, franchises and large multi-site commercial and industrial entities with multiple locations.) Instead there will be a yet-to-be-defined collaborative process to develop a funding approach for each regional program. Regional programs will then be paid from each utility's funding allocation as projects are completed in its territory.

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First, unless the priorities of the Regional programs are established before a utility sets its program plans and budgets, it is difficult to expect utilities to re-program their budget if a large project develops in their service territory. Thus, changing local allocations could be difficult to accommodate and, rather than welcoming a regional program, a utility may resist it, regardless of its merits.

Regional programs also need certainty; given the large size of individual projects, incentives must be available when opportunities arise. Unfortunately, given the nature of business cycles and market interest and the fact that large conservation projects are by nature "lumpy", it isn't possible to accurately forecast two-years' worth of incentives. Regional program funding must therefore build in some flexibility – but that flexibility cannot come at the expense of individual utility programs.

*Section II,1. Large Project Funding (*page 12*)* presents options for funding large projects. Option 1 provides no set-aside for large projects, and recognizes that it is likely that not all projects would be funded. Option 2 creates a Large Project Fund (LPF) that would be funded from an "off-the-top" set-aside of utility EEI allocations. This option responds to the issues discussed above, but still relies on utilities having to self-fund at least 50% of the incentives so does not solve the need for certainty and local utility endorsement. Yet few utilities, other than the largest, will be able to fund 50% of a large project without seriously affecting their other conservation programs. The high cost share could give utilities veto power over regional programs in their service territories, making it more difficult for a third-party provider to administer.

Regional programs can achieve large savings at low cost, but they generally require longer planning times involving coordination with large corporations whose decision makers may not be local. Given the cost effective conservation potential, these regional programs deserve a slightly different set of rules to help them succeed.

<u>Recommendation:</u> It is critical that adequate and certain funding be made available for regional programs in a manner that doesn't undermine utility support for them. The most straightforward and equitable solution is to increase BPA's conservation budget. An initial increase of $10 million to fund the LPF will provide the needed funding certainty and have a nominal impact on rates. If necessary, the LPF could be complemented by requiring some utility self funding, perhaps applying a sliding-scale funding requirement of about 5% to 10% for small and medium utilities and no more than 20% for large utilities. If it turns out that money is unspent, it could be deposited into (or reimburse BPA for) the fund identified in our second Recommendation (below.)

Alternatively, Bonneville could create a line of credit for energy efficiency that utilities could access for short-term loans to take advantage of opportunities that arise outside of established plans and budgets. The Northwest Power and Conservation Council noted earlier that such a plan " . . . would be an operational strategy to provide access to capital separate from regional infrastructure and EEI funding. As a revolving fund, it would be revenue-neutral over time with utilities paying back what they borrow."

Second, in order to take full advantage of regional conservation opportunities, utilities and BPA need to be more nimble in budget setting. Yet, as the Energy Efficiency Incentive workgroup concluded, the restriction BPA places on carrying over unspent EE funds from one rate period to the next creates a real barrier for large projects. The problem is that projects – particularly large, complex projects – don't neatly fit into one rate period; they may take years to complete. The inability to carry forward funds creates a "use it or lose it" policy. Not only does it preclude spending on large projects, it may motivate utilities to spend down BPA funds early or gold-plate projects to make sure no money is left over – only to find no money left toward the end of a two-year rate period. Although some retrofit projects can wait until the next rate period, some cannot, especially lost-opportunity projects.

The restriction on making commitments across rate periods is inconsistent with BPA's statutory requirement to treat conservation resources similarly to other resources. It seems likely that BPA honors contracts for projects like generation or transmission that straddle rate periods. The same should be true for EE incentives for large projects.

We understand BPA's reluctance to pre-judge rate-case issues, but budgets are not set in the rate case. There should be a way that unspent funds—securely tied to committed projects—can be set aside for conservation projects across rate periods.

Recommendation: The final policy should allow utilities to commit to large projects whether or not the project will be completed in the current rate period. We propose that incentive amounts *specifically tied to committed projects* be guaranteed by BPA rather than simply allowing the money budgeted for the incentive return to BPA at the end of the rate period if the project comes in late. This amount would be allocated in the next rate period to the utility and not decrement that utility's next TOCA EEI allocation. This "guarantee" would be in the form of a commitment by BPA to add the amount to its initial rate case proposal in the subsequent period.

Alternatively, BPA could establish an account for utilities to deposit incentive amounts tied to specific committed projects in one rate period that could then be withdrawn in a subsequent rate period without affecting that utility's EEI allocation. This account should also be provided seed money by BPA so that funds could be borrowed by a utility to deal with large lumpy projects or if the self-funding requirement of the LPF proposal remains at 50%.

Conservation Potential Assessments (CPAs)
BPA proposes two options for assessing the conservation potential in each utility's territory. The first approach is a voluntary approach relying on providing technical assistance, guidelines, etc. to utilities. The second approach would require conservation potential assessments to be done using consistent protocols and standards developed by BPA in collaboration with its customers. Since the region will benefit with more consistent planning assumptions and data collection methodologies we favor the latter approach.

Recommendation: BPA should implement Option 2 which requires customers to perform CPA's and establishes consistent standards, methodologies and reporting protocols for them.

Conclusion

We support local utility control but not at the expense of acquiring energy efficiency efficiently at the lowest cost or at the expense of regional programs that have significant savings and market transformation benefits. We strongly urge Bonneville to adopt our recommendations for more regional consistency in CPAs and strategies that ensure that large projects and regional programs succeed.

Thank you for considering our comments.

Sincerely,

Nancy Hirsh

Nancy Hirsh
Policy Director