



Energy Efficiency Budget Problem Overview

Capital Investment Review of the Bonneville Power Administration

Updated: March 10, 2014

The Bonneville Power Administration (BPA) has released draft FY2016/2017 budget numbers insufficient for achieving the 6th Power Plan energy efficiency targets. Despite repeated assurances during budget kickoff meetings that BPA will base its FY2016/2017 capital and expense budgets on the 6th Plan energy efficiency targets, the Capital Investment Review (CIR) initial materials released this month do not do so.

The drastically low budget numbers currently proposed will significantly hamper the region's ability to capture available cost-effective energy efficiency. Passing up the least-cost resource will raise costs for BPA, its member utilities and end-use consumers throughout the region. BPA used the same flawed methodology to set its FY2015 energy efficiency budgets, and the NW Energy Coalition's analysis shows that by the end of FY2017 BPA's current proposed budgets would leave the agency more than 109 average megawatts (aMW) short of the current Council plan targets (Figure 1). A budget shortfall of approximately \$200 million over the three-year period makes hitting the Council targets challenging at best (Figure 2).

BPA's own CIR materials acknowledge that the budget numbers do not match the upward trajectory of the 6th Power Plan targets. The materials also acknowledge that the targets in the 7th Plan are likely to be even higher. However, the agency provides no justification for failing to budget to the 6th Power Plan targets.

In previous budget cycles, BPA based its conservation spending on the public power share of the mid-level target in the power plan and BPA's expected cost of savings (cost per aMW). For FY2015 and in the proposed FY2016/2017 capital budget materials, BPA took an average of the previous five-year energy efficiency budget to set FY 2015 budgets and adjusted it for inflation for each year thereafter. This budget method bears no relationship to the targets set forth in the 6th Power Plan for years 2015-2017.

The capital budget is the most significant source of BPA energy efficiency funding. BPA's expense budget funds programs that capture just a fraction of the savings and that budget has not been released for FY2016/2017. This analysis assumes that the BPA expense budget level is similar to previous ones.

BPA CIR budget materials also fail to articulate the full value of energy efficiency to the agency. Because BPA's budget materials consistently represent only half of the budget impact of energy efficiency programs, energy efficiency appears to be an expenditure of funds, ignoring the revenue savings/earnings of the saved kilowatt-hours. This misrepresentation helps BPA maintain pressure to keep energy efficiency budgets low in

an environment of increasing costs for other elements of the BPA budget (transmission, infrastructure, etc.).

Bottom line: BPA’s failure to use the 6th Power Plan conservation targets is resulting in budget levels far too low to capture available cost-effective energy efficiency or to avoid significant risk that BPA will fail to meet the power plan targets for the 2015-2019 period.

The graphs below illustrate just how far off the proposed budget numbers are from the 6th Power Plan’s energy efficiency targets.

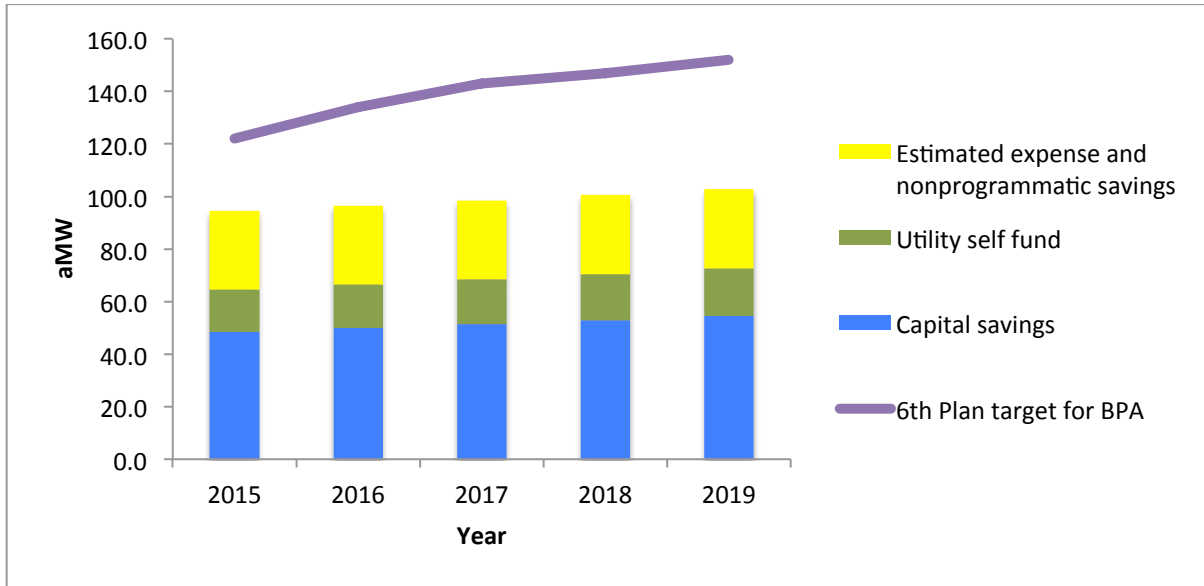


Figure 1. BPA estimated savings and BPA portion of 6th Plan targets

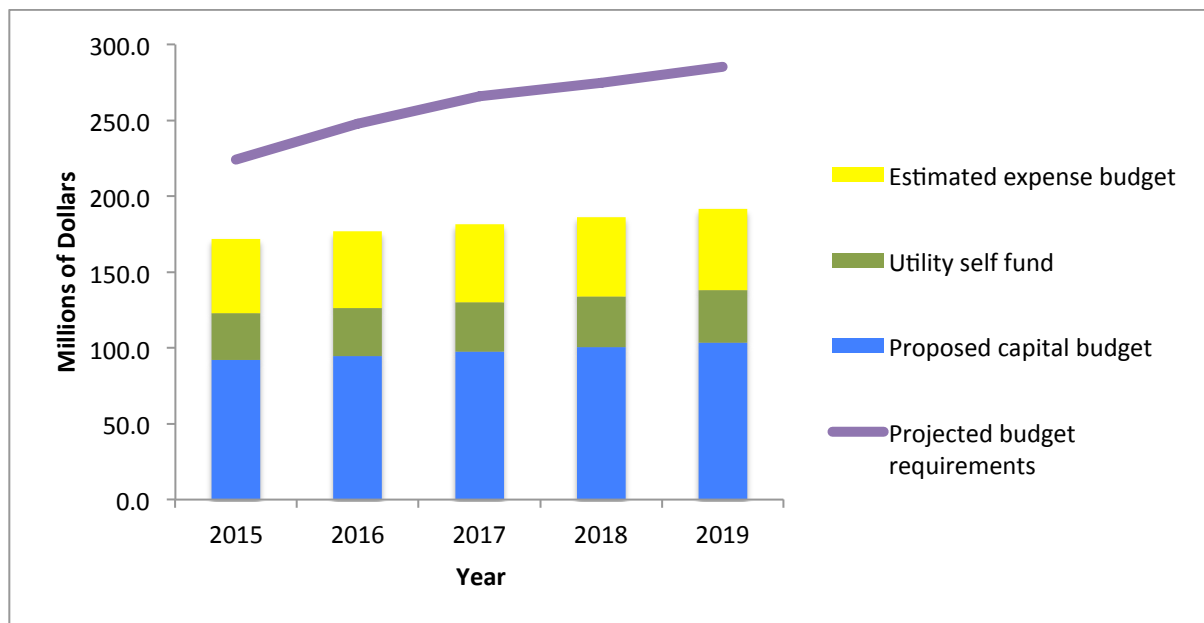


Figure 2. BPA proposed budget and projected budgetary requirements

Explanation of calculations

The estimate of BPA's share of the 6th Plan target is based on 42% of the mid-level regional energy efficiency target contained in the Plan. The projected budgetary requirements are based on a cost of \$1.9 million per average megawatt, as utilized in BPA's recent calculations for its updated energy efficiency action plan.

Because BPA has not provided information about its expense budget, expected cost of savings, or nonprogrammatic savings expectations for FY2016/2017, the calculations assume that savings attributed to BPA's expense budget and nonprogrammatic savings remain consistent with numbers over the last few years. BPA energy efficiency staff have reviewed the calculation methodology and confirmed its accuracy.

BPA budgets for conservation savings in its expense and capital budgets. The capital portion of the budget funds the majority of the savings, with 70% coming from the EEI budget that funds utility conservation incentives for approved measures and customer projects and 30% coming from BPA-managed programs such as regional programs (e.g., Energy Smart Grocer) and direct-serve programs.

The expense budget funds market transformation and a few other small programs. Over the past five years, annual savings from this budget category have typically been in the 10-15 aMW range. These calculations assume a continued yearly savings of 15 aMW.

BPA also factors nonprogrammatic savings achieved through codes and standards into the total savings calculation, typically attributing 13-15 aMW per year to this category. No budget is associated with these savings because BPA does not pay incentives for these savings. These calculations assume a continued yearly savings of 15 aMW.

Finally, utilities are expected to self-fund 25% of the total programmatic savings.

Estimating the total savings based on the current capital budgets requires us to make assumptions for the expense budget and nonprogrammatic savings. This paper assumes that the expense budget and nonprogrammatic savings remain consistent with historical levels. We calculate utility self-funding using the capital budget number, consistent with BPA historical methodology.

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| <p>Total estimated savings = capital budget savings + 25% utility self-funded savings + expense budget savings (estimated)+ nonprogrammatic savings (estimated)</p> |
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RELEVANT BACKGROUND INFORMATION

BPA legal requirements

Northwest Power and Conservation Act: BPA is required to obtain all cost-effective conservation in its territory.

Regional Dialogue contracts: BPA's responsibility under the Northwest Power and Conservation Act is interpreted as a commitment to achieve public power's (within BPA service territory) share of the conservation targets contained within the most recent power plan. Historically this share has amounted to 42% of the overall plan targets.

BPA budget-setting process

BPA's budget setting is separated into two processes. The Capital Investment Review (CIR) sets budgets for the capital (borrowed) portion. The Integrated Program Review (IPR) sets budgets for the expense portion. The Energy Efficiency Program is funded through a combination of capital and expense budgets. The capital budget is the portion of the budget that funds the utility Energy Efficiency Incentive (EEI) budgets – energy efficiency expenditures that refund utilities for incentives they pay to end users.

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