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Advocates for the West
AirWorks, Inc.
Alaska Housing Finance Corporation
Alliance to Save Energy
Alternative Energy Resources Organization
American Rivers
A World Institute for a Sustainable Humanity
BlueGreen Alliance
Bonneville Environmental Foundation
Centerstone
Citizens' Utility Board of Oregon
City of Ashland
City of Seattle Office of Sustainability & Environment
Clackamas County Weatherization
Clean Energy Works Oregon
Climate Solutions
Community Action Partnership Assoc. of Idaho
Community Action Partnership of Oregon
Conservation Services Group
David Suzuki Foundation
Earth and Spirit Council
Earth Ministry
Ecova
eFormative Options
Emerald People's Utility District
Energy Trust of Oregon
Environment Oregon
Environment Washington
Friends of the Earth
Home Performance Guild of Oregon
Home Performance Washington
Housing and Comm. Services Agency of Lane Co.
Human Resources Council, District XI
Iberdrola Renewables
Idaho Clean Energy Association
Idaho Conservation League
Idaho Rivers United
Idaho Rural Council
Interfaith Network for Earth Concerns
Laborers International Union of North America, NW Region
League of Women Voters – ID, OR & WA
Metrocenter YMCA
Montana Audubon
Montana Environmental Information Center
Montana Renewable Energy Association
Montana River Action
Montana Trout Unlimited
National Center for Appropriate Technology
Natural Resources Defense Council
New Buildings Institute
Northern Plains Resource Council
Northwest Energy Efficiency Council
Northwest Renewable Energy Institute
Northwest Solar Center
NW Natural
NW SEED
Olympic Community Action Programs
One PacificCoast Bank
Opower
Opportunities Industrialization Center of WA
Opportunity Council
Oregon Energy Coordinators Association
Oregon Environmental Council
Oregon HEAT
Oregonians for Renewable Energy Policy
Pacific Energy Innovation Association
Pacific NW Regional Council of Carpenters
Pacific Rivers Council
Portland Energy Conservation Inc.
Portland General Electric
Puget Sound Advocates for Retired Action
Puget Sound Cooperative Credit Union
Puget Sound Energy
Renewable Northwest Project
River Network
Salmon for All
Save Our wild Salmon
Sea Breeze Power Corp.
Seattle Audubon Society
Seattle City Light
Sierra Club
Sierra Club, Idaho Chapter
Sierra Club, Montana Chapter
Sierra Club, Washington Chapter
Silicon Energy
Smart Grid Oregon
Snake River Alliance
Solar Oregon
Solar Washington
South Central Community Action Partnership
Southeast Idaho Community Action Partners
Southern Alliance for Clean Energy
Spokane Neighborhood Action Partners
Student Advocates for Valuing the Environment
Sunergy Systems
Sustainable Bainbridge
Sustainable Connections
SustainableWorks
The Climate Trust
The Energy Project
The Policy Institute
Trout Unlimited
US Green Building Council, Idaho Chapter
Union Of Concerned Scientists
United Steelworkers of America, District 12
Washington Environmental Council



April 11, 2014

Elliot Mainzer, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: Bonneville Power Administration 2014 Capital Investment Review
Initial Publication

Dear Administrator Mainzer:

The NW Energy Coalition appreciates the opportunity to comment on the Bonneville Power Administration's 2014 Capital Investment Review (CIR) Initial Publication. We strongly agree that it is important to continue refining and increasing efforts to control costs, and we support Bonneville's continued efforts to create a more comprehensive and consistent capital review across program areas. The CIR process has served to build understanding and promote useful dialogue on many key issues. These comments focus on the energy efficiency asset strategy and the affordability cap proposal outlined in the CIR initial publication.

Energy Efficiency

The energy efficiency asset management category is not included in BPA's prioritization process for the CIR because it is viewed as a regional obligation. However, prioritization is implicit in BPA's budget level for energy efficiency asset management. Based on obligations under the NW Power Act, and on energy efficiency's tremendous value to the Bonneville system, the Coalition recommends placing a higher priority on the energy efficiency asset strategy and increasing the draft capital budget for energy efficiency to reflect this prioritization. Specifically, the draft asset strategy should be revised to ensure the acquisition of cost effective energy efficiency consistent with the NW Power and Conservation Council's power plan.

811 1st Ave. #305, Seattle, WA 98104 • (206) 621-0094 • (206) 621-0097 fax
www.nwenergy.org • nwec@nwenergy.org

The NW Power Act requires BPA to achieve energy efficiency resources consistent with the NW Power and Conservation Council's power plan. BPA's capital budget is central to its ability to acquire energy efficiency savings – it funds all BPA programmatic savings, representing 70% of the total savings acquired by the agency.

BPA's draft FY2016/2017 capital budget numbers are insufficient to achieve the energy efficiency resource targets of the current power plan, placing the agency at risk of failing to meet its obligations under the NW Power Act and the Long Term Regional Dialogue Policy¹. 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 higher². The NW Power and Conservation Council expressed these same concerns in a letter to BPA dated February 26th, 2014.

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 average megawatt - aMW). In contrast, the FY2016/2017 capital budget materials calculate the proposed energy efficiency capital spending level by taking an average of the previous five-year energy efficiency budget and adjusting it for inflation for each year after FY2015. This budget method bears no relationship to the escalating targets set forth in the 6th Power Plan for years 2015-2017.

BPA used the same flawed methodology to set its FY2015 energy efficiency budgets. During the FY2014/2015 capital investment review process, the NW Energy Coalition raised concerns that the capital budget proposed by BPA was inadequate. 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 aMW short of the current plan's mid-level targets, a budget shortfall of over \$200 million over the three-year period³.

BPA's failure to use the 6th Power Plan conservation targets to set its capital spending levels will put the agency at significant risk of failing to meet the power plan targets for the 2015-2019 period. 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.

In past CIR processes, the Coalition expressed concerns about the use of the power plan's mid-level targets to set BPA's budgets, because it could limit BPA's ability to acquire all available cost-effective conservation. In our comments for the 2014/2015 CIR, we recommended that BPA set energy efficiency capital budgets to a level suitable to reach the high case for energy efficiency in the power plan. We continue to recommend that BPA set its budgets consistent with the high case for conservation. This will ensure that the region captures all of the available low-cost resources for its customers.

¹ The Long Term Regional Dialogue Policy commits BPA to "pursue conservation equivalent to all cost effective conservation in the service territories of those public utilities served by BPA."

² BPA Capital Investment Review Initial Publication, February 18, 2014, pp. 86.

³ See attached Table 1 for details.

Ensuring sufficient capital budget is critical because BPA lacks a fully defined backstop for capturing additional savings should it fall off pace for meeting its energy efficiency commitments. The lack of a backstop, combined with insufficient budgets, puts BPA at an unacceptably high risk of failing to meet its regional obligations under the NW Power Act. The Coalition continues to encourage BPA to create a meaningful and defined backstop in other BPA processes, including the ongoing Post-2011 Review process.

We echo the recommendation from the NW Power and Conservation Council that BPA revise its planned capital spending for energy efficiency based on the level necessary to achieve energy efficiency savings commensurate with the resource levels for FY2016 and FY2017 in the 6th Power Plan⁴. We further recommend that BPA use the high case contained within the 6th Power Plan for budgeting purposes.

Continuing BPA's exemplary commitments to energy efficiency will enhance benefits to the overall system by reducing other system costs for transmission and distribution, stretching the availability of clean hydro resources, and keeping costs down for consumers. First priority to energy efficiency is consistent with the NW Power Act and is the logical decision for BPA.

Affordability Cap

The NW Energy Coalition is concerned about the "Affordability Cap" being proposed by Bonneville, as outlined in the CIR workshop on March 10, 2014. The Affordability Cap would provide a new management tool to constrain aggregate capital expenditures both over the medium term (10 years) and within each two-year planning period. But the concept as it now stands is not fully defined and raises troubling issues of scope, flexibility and direction. This concept is not ready to be adopted as part of this CIR process or this rate case.

Affordability is a significant concern in the region, but how do we define "affordable?" Certainly Bonneville's customer utilities and the region's electric consumers are very concerned that their electricity bills do not become unaffordable, but the question missing from Bonneville's presentation is to whom "affordability" applies and what metric is used.

Additionally, a capital investment constraint must accommodate not merely the concept of affordability. Indeed, the opening section of the NW Power Act describes its purposes as: developing conservation and renewable energy; assuring the Pacific Northwest an adequate, efficient, economical and reliable power supply; environmental quality; recovery of all appropriate costs; and protection, mitigation and enhancement of fish and wildlife. Bonneville's capital expenditures represent a significant part of the overall effort to accomplish the Act's purposes.

Further, the Affordability Cap as currently proposed appears to accommodate only the cost side of the balance sheet of Bonneville's multiple obligations. While the programs, measures and resources that would be submitted for review under the cap will have been screened for value based on costs, benefits and other important aspects, the overall cap is proposed to be

⁴ February 2014 Letter to Bonneville on Energy Efficiency Funding, February 26, 2014. NW Power and Conservation Council.

set as a single, mostly inflexible hard limit that does not arise from underlying need and opportunity, but rather is predicated on recent trends in capital access and reflecting conditions all agree no longer exist.

Any aggregate capital expenditure management tool must include consideration of Bonneville's regional obligations and a prudent medium and long-term financial management strategy. This includes guarding against incremental underinvestment in key program areas, which has proven again and again to be an unwise choice (for example, with transmission system automation and overall information technology modernization). Any capital cap must be constructed to avoid lost opportunities as well as deferred investments that become more costly or less valuable in order to achieve short-term cap standards.

The proposed affordability cap is based only on a backward look at recent conditions that are already changing, both for capital access and investment need. In particular: (1) much of the regional system is close to, at or past expected operational life; (2) loss of momentum in energy efficiency investment remains a serious risk just when its value is growing rapidly; and (3) significant new opportunities exist for new technology investment, particularly in clean energy and smart-grid deployment.

Bonneville's proposal does not clearly specify the foundational elements for a tool such as the Affordability Cap. What is the appropriate basis for aggregate investment and reinvestment in a power and transmission system similar in size and purpose to the Federal Base System and Federal Columbia River Transmission System, given expected and possible conditions over the next decade? Instead, the proposed 10-year aggregate cap is defined purely in relation to the recent trend and not toward expected value. On what basis did Bonneville determine that a total 10-year capital program of about \$9 billion and no more is warranted? What consideration was given to the prospect that conditions will change significantly, and further investment could become prudent that would pierce the 10-year cap? There appear to be no guidelines for adjusting the cap in those circumstances.

Dividing the 10-year cap into equal planning period segments (though with some flexibility) creates additional issues. For example, multiple high-value projects could be ready to move forward in a given period, yet may be impeded by a too-inflexible cap. This could result in schedule slippage for important projects, which could raise costs and decrease value, including system reliability. Bonneville states that the Affordability Cap is a "necessary companion" to the capital investment prioritization process. However, it is never explained why this is the best or only choice. An Affordability Cap could be a direct constraint or it could be a benchmark, and other approaches also could be devised.

Numerous implementation details in the BPA proposal raise concerns. First, there is no assessment of net value under the Affordability Cap, only direct capital cost. Thus investment in energy efficiency could well be undervalued because, as the BPA value of energy efficiency review explained, acquiring energy efficiency increases the value of non-firm hydro and its revenue stream. Furthermore, if the cap reduces Bonneville's acquisition of energy efficiency below the levels called for in the Northwest Power and Conservation Council's regional plan, the cap will directly undermine a core purpose of the NW Power Act. Similar examples could be considered for any of Bonneville's program areas.

Second, Bonneville's presentation indicates the ratio of Sustain to total capital uptake under the cap is going to increase sharply through the rest of the decade. This implies both that non-Sustain capital expenditures will be squeezed harder regardless of overall value. And large projects (particularly transmission) will have substantially more difficulty in moving forward, as their inclusion could crowd out many smaller projects and each other. Indeed, the presentation shows that the proposed cap could delay the I-5 Corridor Reinforcement Project by years and push the Montana-to-Washington project completely out of play. Delay of a project could be a good thing if done because alternative strategies are deployed but delay simply because the Affordability Cap limits investment is inappropriate.

Third, the Affordability Cap is defined in nominal dollars, so it will decline substantially in real terms. Assuming core inflation of 2%, it will provide 20% less effective capital per biennial rate period a decade from now. Yet the Bonneville presentation states this as a beneficial feature: "In real dollar terms, the Cap would require that BPA and its FCRPS partners find productivity and other savings to offset the effects of future inflation." But this turns budget discipline on its head. Capital planning should assess not only anticipated inflation – a core feature of the modern economy in any event – but also many other factors pushing up spending and expectations, and an artificial constraint like a real-dollar deflator changes the basis on which those judgments should be made.

Fourth, the proposed cap comes with an additional set of assumptions that has not received complete scrutiny, including lease financing of transmission capital, power prepays, non-capital conservation financing, etc. What changes will be made if these conditions for new financing turn out not to be achievable at the levels indicated?

Fifth, what rapidly arising obligations and opportunities could affect the viability of any hard Affordability Cap? Potential areas involved could be Sustain (cybersecurity and physical security and other reliability-related standards), as well as non-Sustain areas such as improved renewable energy integration, smart grid deployment, etc.

In conclusion, the question not really addressed by Bonneville's initial presentations is, how does an affordability cap support and not potentially undercut the focus on protecting and increasing the value of the Northwest hydro-based power system in consonance with all of Bonneville's obligations? The risks as well as the benefits of any capital management tool, especially one with a substantial across-the-board impact, must be thoroughly defined and assessed, and sufficient allowance must be made for changing or even removing the Affordability Cap if events require. BPA's proposal is not ready for adoption and needs significantly more discussion and refinement.

Sincerely,



Sara Patton
Executive Director

Table 1: Current proposed CIR budget vs. 6th Power Plan mid-level targets

Fiscal year	BPA proposed capital budget ⁵	Est. savings from capital budget (aMW)	Total est. savings (aMW) ⁶	BPA share of 6 th Plan target ⁷	Shortfall (aMW)	Shortfall (millions) ⁸
2015	\$92	48.4	94.6	122	27.4	\$52.1
2016	\$94.8	49.9	96.5	134	37.5	\$71.2
2017	\$97.6	51.4	98.5	143	44.5	\$84.6
2018	\$100.5	52.9	100.5	147	46.5	\$88.3
2019	\$103.6	54.5	102.7	152	49.3	\$93.7

⁵ Budget for 2015 is already established under previous budgeting processes. All other years are proposed in the initial CIR materials.

⁶ Estimated Savings total includes assumptions about the expense budget savings and nonprogrammatic savings, which are not yet proposed or published by BPA. It assumes that the expense budget and associated savings, as well as nonprogrammatic savings remain similar to numbers previously published in BPA materials for FY2012-FY2015. This calculation for 2016-2019 assumes 30 aMW savings per year from expense budget and nonprogrammatic savings. The total also includes the 25% expected self-fund savings from utilities.

⁷ Based on 42% of the mid-level regional energy efficiency target contained in the 6th Power Plan.

⁸ These calculations 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.