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REBUTTAL TESTIMONY OF

TERENCE G. ESVELT, ALLAN E. INGRAM, AND JOHN B. PYRCH

Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Conservation and Renewables Discount

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4
5 **SUBJECT: REBUTTAL TESTIMONY FOR CONSERVATION AND RENEWABLES**
6 **DISCOUNT**

7 **Section 1. Introduction and Purpose of Testimony**

8 *Q. Please state your names and qualifications.*

9 A. My name is Terence G. Esvelt. My qualifications are contained in WP-02-Q-BPA-20.

10 A. My name is Allan E. Ingram. My qualifications are contained in WP-02-Q-BPA-31.

11 A. My name is John B. Pyrch. My qualifications are contained in WP-02-Q-BPA-61.

12 *Q. Please state the purpose of your testimony.*

13 A. The purpose of our testimony is to respond to direct testimony filed by parties
14 commenting on the Bonneville Power Administration's (BPA) proposed Conservation
15 and Renewables (C&R) Discount.

16 *Q. How is your testimony organized?*

17 A. This testimony is in four sections including this introductory section. The second section
18 responds to the direct testimony of the Public Power Council (PPC). The third section
19 responds to the direct testimony of the Northwest Energy Coalition (NVEC). The fourth
20 section responds to the direct testimony of Northwest Requirements Utilities (NRU).

21 **Section 2. Response to Testimony of the Public Power Council**

22 *Q. PPC argues that the description of C&R Discount in BPA's Initial Rate Proposal is not*
23 *comprehensive. At the same time, PPC acknowledges that there will be further public*
24 *meetings on implementation details of the C&R Discount and recommends that BPA*
25 *should continue to take input from the implementing utility when negotiating the contract*
26 *terms and conditions. Fey and Hansen, WP-02-E-PP-05, at 3-4. Please respond.*

1 A. We agree that there are details regarding the implementation of the C&R Discount that
2 are yet to be decided. We clarified this point and stated so in our testimony, *see* Esvelt,
3 *et al.*, WP-02-E-BPA-33, at 10-12. PPC and all other parties are invited to participate in
4 any of the public meetings to be held regarding the C&R Discount.

5 BPA is working to provide customers with opportunities to publicly comment and
6 provide input on how to structure the C&R Discount. Prior to the rate case, BPA
7 developed the C&R Discount through a series of public meetings and workgroups. We
8 believe continuation of this process will produce a superior program. On the other hand,
9 individual negotiations regarding the C&R Discount will result in the addition of
10 unnecessary complexities to individual customer Subscription contracts.

11 Participation in the C&R Discount will require a minimum of contract language
12 based on BPA's efforts to implement administratively simple activities. Eligibility and
13 valuation issues will be engaged by the Regional Technical Forum (RTF) as they develop
14 recommendations for BPA's consideration.

15 *Q. PPC opposes BPA's proposed incremental spending requirement for the following two*
16 *reasons. First, it is at odds with one of the principles of the C&R Discount to allow*
17 *utilities to make investments in conservation which cater to their own service territories*
18 *and are consistent with the needs of their own end-use customers, i.e., local control.*
19 *Second, the decision to impose an incremental spending requirement was made without*
20 *benefit of consultation with either the customers or other parties that have an interest in*
21 *the C&R Discount. Fey and Hansen, WP-02-E-PP-05, at 4-5. Please respond.*

22 A. As proposed by BPA, incremental spending is intended to be a tool to measure the
23 amount of the C&R Discount being spent on qualifying expenditures. As far as local
24 control is concerned, the utility will make its own decisions regarding the amount of its
25 spending absent the C&R Discount and will determine its priorities for spending on
26 individual measures or projects.

1 BPA's decision to include incremental spending in the C&R Discount was
2 publicly known prior to its proposal in this rate case. For example, the idea of making
3 incremental spending a part of the C&R Discount in this Initial Rate Proposal was
4 discussed in the Record of Decision (ROD) that accompanied BPA's Power Subscription
5 Strategy. *See* Subscription ROD, at 138. BPA stated that it had a strong desire that the
6 C&R Discount amount be supplemental to the amount power customers were planning to
7 spend on these types of activities, *e.g.*, incremental conservation and renewable resource
8 investments.

9 *Q. PPC argues that absent the incremental spending requirement, the C&R Discount would*
10 *provide an adequate incentive to invest in conservation during the 2002-2006 rate*
11 *period. An incremental spending requirement is inconsistent with BPA's goal to*
12 *decentralize decisionmaking down to the local level. However, if BPA does implement*
13 *the incremental spending requirement, some refinements should be made to make it*
14 *workable. First, utilities should document for themselves that the investment would not*
15 *have occurred absent the C&R Discount. This is consistent with decentralized decision*
16 *making and an appropriate monitoring mechanism. Second, utilities that spend 3 percent*
17 *or more of their retail revenues on conservation should be exempt from the incremental*
18 *spending requirement. Fey and Hansen, WP-02-E-PP-05, at 5-6. Please respond.*

19 *A. As proposed, customers are expected to self-certify the incremental status of expenditures*
20 *under the C&R Discount by submitting interim Reports and a Final Reconciliation*
21 *Report. See WP-02-E-BPA-07, page 81 section II. (4) c. This should help alleviate some*
22 *of the concerns raised by the PPC regarding implementation of the C&R Discount. In*
23 *regard to the PPC's second point, we agree that a utility which spends at least 3 percent*
24 *of its retail revenues on qualifying measures should be exempt from the requirement that*
25 *it certify that its expenditures are incremental. BPA's final proposal will reflect a*
26

1 specific exemption from incremental spending certification for utilities that invest more
2 than 3 percent of retail revenues in qualifying measures.

3 *Q. PPC does not agree with BPA's proposal regarding state legislation pertaining to*
4 *conservation and/or renewable resources. PPC argues that a utility that spends*
5 *0.5 mill/kWh of its total BPA purchases on public purposes expenditures ought to be*
6 *eligible for the C&R Discount regardless of whether state legislation requiring such*
7 *expenditures exists, and regardless of whether such expenditures would have occurred*
8 *absent the existence of the C&R Discount. Fey and Hansen, WP-02-E-PP-05, at 7. NRU*
9 *recommends that BPA modify the C&R Discount so that a utility may receive the full*
10 *C&R Discount if it makes C&R expenditures that together with its state-mandated public*
11 *purposes expenditures are equal to or greater than 3 percent of the utility's gross*
12 *revenues. Please respond.*

13 *A. As we have stated above, BPA intends that the C&R Discount be used as an incentive for*
14 *incremental investments above the level which the utility would have undertaken absent*
15 *the discount. Utility investments in qualifying measures would count as incremental if*
16 *mandated by new state legislation.*

17 **Section 3. Response to Testimony of the Northwest Requirements Utilities**

18 *Q. The NRU suggests that BPA clarify that all otherwise qualified conservation and*
19 *renewables expenditures will receive the C&R discount without the requirement that such*
20 *expenditures be shown to be incremental. NRU argues that determining and "certifying"*
21 *that a particular expenditure would not have been made "absent the discount" is*
22 *inherently speculative. Saven, WP-02-E-NI-04, at 20. Please respond.*

23 *A. As we stated previously, the C&R Discount will include customer self-certification. BPA*
24 *expects local utility management to self-certify C&R Discount expenditures in the same*
25 *way they approve regular budgets and forecasts. The customer is in a position to approve*
26 *a certification statement based on its knowledge of past expenditures and approved*

1 annual budgets. Their decision is not speculative since it is based on recorded utility
2 actions.

3 However, we agree that customer expenditures of at least 3 percent of its retail
4 revenues should exempt the customer from the requirement to self-certify.

5 *Q. NRU request that BPA clarify the following three areas regarding the C&R Discount*
6 *(1) explicitly authorize utilities to trade their conservation and renewables rate discount*
7 *benefits to other regional utilities; (2) allow utilities to pool their C&R Discount benefits;*
8 *and (3) allow expenditures for measures implemented outside the service territory of the*
9 *utility to qualify and receive the discount. Saven, WP-02-E-NI-04, at 22-23. Please*
10 *respond.*

11 *A.* First, BPA has no policy or procedure for the trading of eligibility benefits based on the
12 C&R Discount. From our point of view, we are concerned that trading credits could
13 significantly increase the administrative complexity and implementation of the C&R
14 Discount. Trading of credits on a bilateral basis by utilities, however, and without the
15 need for BPA's involvement, may be possible within the scope of the Subscription ROD.
16 Second, BPA has agreed to allow utilities to pool their C&R Discount benefits across
17 service territory boundaries. *See* Subscription ROD, at 142.

18 **Section 4. Response to Testimony of the Northwest Energy Coalition**

19 *Q. NWECA argues that the proposed size of the C&R Discount is not satisfactory and*
20 *recommends the 1.5 mill discount recommended by the Comprehensive Review.*
21 *Weiss, WP-02-E-NA-01, at 20-21. Such a level would capture the below-market cost*
22 *conservation available to BPA's customers and have little effect on BPA's competitive*
23 *position. Do you agree?*

24 *A.* No, we do not. A 1.5 mill increase in BPA's wholesale rate would amount to roughly a
25 6 percent increase. While this amount may or may not be significantly less than the
26 wholesale power markets on average over the rate period, there is likely to be a great deal

1 of volatility in the market. If one of these periods of expected volatility resulted in a
2 market price of power below BPA's PF rate levels concurrent with the Subscription
3 process, BPA's loads and revenues would be adversely affected, even at a C&R Discount
4 level of only 0.5 mill. While BPA is willing to accept the market risk at the 0.5 mill
5 level, a rate increase of any higher magnitude would not be acceptable to customers and
6 would be inconsistent with BPA's goal to continue rate stability.

7 Furthermore, the C&R Discount is not the only mechanism with which BPA is
8 pursuing conservation and renewables investments in the rate period. BPA plans to make
9 direct investments in new renewable resources, to continue its support of the Northwest
10 Energy Efficiency Alliance, and to invest in conservation resources as part of BPA's
11 augmentation program to expand its resource availability to meet customer demands.
12 Therefore, the C&R Discount should not be viewed as the sole mechanism for achieving
13 the 1998 Northwest Conservation and Electric Power Plan target.

14 *Q. NVEC is skeptical of BPA's incremental spending requirement, stating that it provides*
15 *"little assurance" that the discount funds will go for much more than replacing existing*
16 *spending. NVEC therefore recommends a "three-way path" for customers to certify that*
17 *C&R Discount dollars are incremental. Customers would be required to show one of the*
18 *following: (1) any funding higher than an average of the past three years; (2) any*
19 *funding higher than 1 percent of its total retail revenues; or (3) if it has spent 3 percent*
20 *or more of its total revenues. Weiss, WP-02-E-NA-01, at 22. Do you agree?*

21 *A. We agree only with the third "path." Although the first two paths suggested for*
22 *determining whether a utility's investments in conservation and renewables are*
23 *incremental may have the advantage of being measurable, they may also have unintended*
24 *consequences.*

25 For example, the first path could lead utilities to actually decrease their spending
26 levels during the 2000-2001 time period in order to demonstrate an increase in spending

1 during the rate period. Using an earlier period like 1997-1999 would not work because
2 BPA's traditional conservation programs were operating during that time.

3 The second path proposes an arbitrary level of 1 percent as a base for determining
4 incremental investments. This level may have the unintended consequence of
5 discouraging many utilities from increasing their C&R investments and participating in
6 the C&R Discount at all.

7 For example, utilities currently investing very little in conservation or renewables
8 would have to raise their rates by approximately 1.0 mill in order to qualify for the
9 C&R Discount of 0.5 mill. This may be too high a threshold of retail rate impact for
10 some customers. They may choose to make no investments in conservation and
11 renewables of any kind, and simply pay BPA the full Priority Firm Power rate without
12 the C&R Discount.

13 In either case, these proposed thresholds would be contrary to BPA's stated desire
14 to provide local control and administration of future conservation and renewable
15 development activities.

16 *Q. NVEC is concerned about how unclaimed discount money will be treated. NVEC*
17 *proposes that BPA distribute unclaimed funds in the same manner as BPA's suggested*
18 *two-for-one matching program for the first \$15 million of any dividend distribution.*
19 *Weiss, WP-02-E-NA-01, at 22. Please respond.*

20 *A. We do not believe that there is a need to distribute unclaimed funds in the manner*
21 *suggested by NVEC. Under the C&R Discount, utilities are encouraged to roll over*
22 *unused funds from year-to-year to accommodate multi-year activities that will not result*
23 *in energy savings until the end of the rate period. The amount of unclaimed funds, if any,*
24 *will be determined when utilities file their final reconciliation report at the end of the rate*
25 *period. See WP-02-E-BPA-07, page 81, section II. (4)b.*

26

1 Q. Although wary of the impact the C&R Discount may have on existing low-income
2 weatherization programs, NWECC supports BPA's commitment to "back up" efforts to
3 continue low-income weatherization. Therefore, NWECC proposes two improvements:
4 (1) BPA's backup should be done on a utility-by-utility basis so that there is some
5 adequate funding in every territory; and (2) instead of waiting for end-of-year data, BPA
6 should act based on the utilities' budgets which are available sooner. Weiss, et al.,
7 WP-02-E-NA-01, at 23-25. Please respond.

8 A. BPA will not create administrative procedures requiring utility-by-utility funding and
9 reporting for low-income weatherization. Utility specific administrative requirements are
10 incompatible with BPA's goals for local control and management of the C&R Discount.
11 NWECC's suggestions would require inappropriate levels of staff time to manage and
12 allocate the backup efforts.

13 BPA does not agree that backup funding allocated on a utility-by-utility basis is
14 necessarily an equitable distribution. In the event backup funding is necessary, BPA
15 reserves the right to review low-income weatherization funding on a regional and state
16 basis. BPA will strive to equitably distribute the backup funds in ways that take into
17 account specific utility investment patterns.

18 Since BPA's utility customers do not have budget years that are consistent, BPA
19 does not agree that utility budget data for low-income weatherization is the appropriate
20 indicator to make a good funds determination. BPA does not want to automatically
21 trigger the "make good" fund distribution before utilities have the opportunity to
22 determine how they will deal with low income weatherization funding in their service
23 territories.

24 Q. Does this conclude your testimony?

25 A. Yes.

26