

REGIONAL DIALOGUE TECHNICAL WORKSHOP NOTES

Energy Efficiency Issues

Tuesday Morning, January 14, 2003

BPA Rates Hearing Room, Portland, OR

1. Purpose of Today's Meeting.

Ken Keating of BPA noted that last week's meeting raised two major questions for carryover to this week: first, if C&RD is turned into a resource acquisition program, what changes need to occur? Second, what should be done about the "backstop" issue, given the fact that virtually everyone at last week's meeting expressed discomfort with what that implied? We asked everyone to come to today's meeting with their suggestions about how the backstop issue might be addressed, Keating said.

Geoff Carr said the customers will be putting together a letter, to be delivered next week, addressing how they think the C&RD program should be optimized; he offered to provide the gist of that letter at today's meeting. Essentially, said Carr, we're willing to discuss the points raised at the January 7 meeting regarding what needs to be done to turn the C&RD program into a resource acquisition program, including the incorporation of a cost-effectiveness requirement and some additional oversight. However, we can go to far -- don't want to throw out 60-70% of the measures in the RTF book. Instead, we advocate a balanced approach, recognizing your needs as well. Perhaps we could talk about capping the credits for some of the least cost-effective measures, so that we achieve the region's goals, said Carr. We want to ensure that individual utilities retain their autonomy to decide what they want to do, he said.

Alan Zelenka of Emerald PUD noted that the original intent of C&RD was to implement a universal program that was easily done, and that everyone can participate in. You've been wildly successful in meeting those goals, Zelenka said; we don't want to sacrifice the universality of the program. We need to be mindful of the tradeoff between the universality of the program and the goal of acquiring only the most cost-effective conservation resources, said Zelenka.

We should clarify two points, Keating replied, the first regarding the regional cost-effectiveness test. This includes all of the costs that go into acquiring the measure, he explained; it defines what measures we should be trying to purchase if the region as a whole is going to be better off than if we were to acquire a generating resource. There is also the utility cost test, said Keating, which determines how you set your incentives to acquire that cost-effective resource. Over the past two years, he said, we've been trying to bring the cost to the ratepayer down, Keating said – in other words, we want to make buying those resources more cost-efficient, but the C&RD program wasn't designed to do either thing – it was designed to provide a credit, based upon the value of the energy, even if the measure doesn't pass the regional cost-effectiveness test.

One important point to emphasize is the flexibility, said Eugene Rosalie – if you take 60-70% of the measures off the RTF list because they don't meet the definition of what is cost-effective to the region, you reduce the ability of individual utilities to determine their own programs. While there are permutations to the basic measures, those things have value to Bonneville's customers, and that's why we're saying we agree with the broad concept you're putting forward, but let's be wise and not lock people out of the process, Rosalie said.

As the keeper of the measures list, said Eckman, there are a couple of issues related to the truncation of that list. We all know there is a distribution of costs and savings within the application of each measure. With some trepidation, he said, I would suggest that we do not make the cutoff point a cost-benefit ratio of 1, because in the real world, there are applications with ratios below 1 which, in certain instances, would be acceptable, because the costs are lower or the savings are greater than anticipated, or because the life of the measure is longer than anticipated. There are other measures whose societal benefits are great enough to outweigh a power system benefit that is well below 1, said Eckman; some of those measures are on the list today. In other words, when it comes to pruning the deemed measures list, sometimes it's simple, but most of the time it isn't, Eckman said. One of the aspects of deemed savings is that they should be applicable over a wide range, Keating observed.

Sarah Patton observed that window weatherization, for example, has never been particularly cost-effective

as a measure by itself, if all that is counted is energy savings. You could solve the problem by only giving people a very small credit on windows, because that's a desirable part of most utilities' weatherization package – can the RTF handle that by looking specifically at the amount the power system is paying for a resource that is not cost-effective? she asked. Eckman replied that it is up to the utilities and Bonneville to decide what they pay for any given measure.

I would think that, as a first cut, we shouldn't put things on the list that don't provide a total societal benefit, with the possible exception of low-income measures, said Steve Weiss -- maybe we need a process through which a utility can come to the RTF and make their case. There is an appeals process set up through the RTF, Eckman replied, although no one has availed him or herself of it to date.

One thing the Council's comments said was that Bonneville should look at the entire list to see which measures may become cost-effective in the future, said Charlie Grist – Bonneville has some latitude to tweak what it pays for some measures to steer the region toward activities that make sense for the overall regional portfolio.

The Council supposedly is going to give us the targets for cost-effective conservation, said Keating -- we probably don't need to spend a lot of time on this, but we should probably bring up the clear distinction between the C&RD program, which pays for anything that saves any kilowatt-hours, and an acquisition under the Act. Weiss replied that he is sensitive to the issue that a given piece in a package of conservation measures may be important, but not cost-effective. I don't want to see Bonneville give a large credit for those kinds of measures, he said, but I would prefer to see some credit for less cost-effective measures, rather than seeing whole programs destroyed because one particular measure fails the cost-effectiveness test.

The question is where we put the available funding, said Grist. Rosalie observed that there is a certain amount of flexibility built into the current program; that flexibility is beneficial to everyone in the region. So you wouldn't say, then, that the overall pieces of the program need to be cost-effective? said Weiss. Not necessarily, Rosalie replied -- I don't think there's any disagreement on that point.

Pyrch summarize the outcome of this discussion, as he heard it: essentially, that there is a desire for continued flexibility in the C&RD program. Patton observed that if the Council and Bonneville want to advocate a regional energy portfolio that is cost-effective up to the cost of constructing or purchasing new energy resources, it won't be possible to get there if every measure or group of measures must meet that cost-effectiveness test. That's because you'll end up with a portfolio of measures that would be significantly less expensive than the avoided cost, because you're always going to have measures that are much cheaper, she said. At some point, you need to think about how to bring in measures that are actually more expensive in order to balance that portfolio, particularly in cases where you want to push market transformation or encourage R&D, Patton said. Pyrch replied that there is a portfolio of conservation approaches available to the region, including a utility-designed program similar to the rate discount.

Carr moved on through the remaining key points of the utilities' letter of response to the Council document. On the subject of oversight and evaluation, Carr said that in the utilities' view, it would be easy to go too far with administration and oversight, and we need to find a balance between added expense and logistical problems and regional comfort level. The next point has to do with incrementality, he said -- how much value is there to determining whether or not a measure is truly incremental?

Weiss noted that the meaning of "incremental," in the context of the C&RD program, is quite specific -- it means a measure or measures that would be in addition to what you were doing before. Another meaning, which is similar but not identical, has to do with the "free rider" issue, he said -- that is, not paying for things that would happen anyway. Zelenka said he used to be concerned about the free rider issue; however, to say that things should be done because they're really cheap, isn't necessarily a valid concern – we're seeing two-cent resources going undone in California, while the retail rate is 14 cents. I'm just not sure free riders are really a big deal, Zelenka said. Weiss replied that, while he is sympathetic to the argument that there are huge barriers and instances of resistance to doing conservation, the region shouldn't be giving people credit for buying a new refrigerator just because it is more efficient, if that efficiency is required under federal law. Keating said that, in his view, what is needed is simply a common-sense program that maximizes incrementality, with both sides accepting some risk. Another participant agreed, noting that it should be possible to scale the rebate or credit to minimize the risk of non-cost-effectiveness.

Zelenka said that, from a utility standpoint, the incrementality issue, and particularly the letter utilities were required to write was a waste of time. Bonneville, from a contract standpoint, saw some customers flipping their entire budgets to C&RD to say that they were now incremental, and basically truncated their entire budget, and got rid of their other sources of C&R funding, so that Bonneville was paying the bills, said Tim Johnson -- that's exactly what Bonneville doesn't want to see. Bonneville's role is to provide a regional incentive to acquire conservation, Zelenka replied -- I would suggest that Bonneville stay out of the utility budget process.

Perhaps, but Bonneville pays to reduce the obligation or demand for federal power, Johnson replied -- that's why the Administrator considers it a resource. We're paying for this, he said, and we need to get something in return.

This is particularly significant, said Rosalie, because it is much larger than the C&RD program. While one sees the rationality of incrementality in terms of the current C&RD program, it may not be there for the next program, because it would be so much larger.

How exactly does the Council define "incrementality?" Keating asked. Weiss read the appropriate section from the Council's letter: "Bonneville should establish criteria to ensure credit is claimed for incremental investment in cost-effective conservation;" in other words, he said, they didn't really define it. I was thinking "free rider"-type issues, he said, but maybe I was wrong. Grist noted that there was considerable discussion prior to Bonneville's adoption of the C&RD program; some of that discussion had to do with cost-effectiveness. There were several issues on the table, many having to do with effectiveness vs. cost-effectiveness. It might make sense to take another look at some of those issues as we come to grips with how best to move forward with the C&RD program, Grist said.

Carr then continued on through the main points of the customers' letter. We agree with you about the need to be able to change the C&RD structure more in real-time, in response to changes in technology; we also agree that continuity is important, so again, we need balance. We also agree that the RTF should continue to play an important role; we recognize that that group's funding situation and membership may need to change, said Carr. Finally, you need to be sure that small utilities aren't left out due to higher administrative costs, Carr said. Keating replied that Bonneville is very concerned about smaller utilities and their ability to add staff to support an expanded C&RD program; that's an area we need to look harder at, he said. Again, we'll submit the letter soon, Carr said.

2. Proposed Remedies for Reducing Non-Performance Risk.

One thing we want to be sure of is that we're exercising effective quality control in the revised C&RD program, and that we're getting real megawatts for our investment, without having to go back after the fact and do extensive auditing, Keating said -- we think that's pretty much a non-starter, from a customer relations standpoint. With that in mind, he said, we've put down two ideas relating to non-performance risk.

We want to minimize that risk by designing the contracts up front to limit the amount that we paid for that wouldn't be done, Keating continued. We have two ideas, the first relating to oversight responsibility. Overall, he said, the intent is to promote improved quality control; our first suggestion is that we spend more time on quality control. Are you talking about people who don't pay their power bills, or people who don't do the correct measures and don't pay their power bills? Brattebo asked. We're talking about the idea that, if you're putting out, say, a four-mil rate discount program for year after year, people might take that money but not do anything with it, Keating replied -- the question is, how do we get that money back? At our last meeting, we talked about the idea that there must be a better way to minimize risk, he said; that's the intent of this discussion. But which problem are you trying to solve? Brattebo said. How do we get the megawatts, Keating replied.

So the first idea we came up with is that we only pay for performance, Keating said -- you show us the megawatts, and then we pay you. That wasn't real popular, he said; it doesn't meet everybody's needs. The best customer feedback we got from our survey was how much they value the engineering help we gave them in areas where they didn't have a huge amount of expertise, Keating said. The other idea we put down on the sheet had to do with reporting on the RTF website, he said -- not everyone used that format to report, but it is an option that could pay dividends, in terms of hands-off oversight. If people start to enter measures in real-time, as they're doing them, that would make it very simple to check on what people are doing, or not doing.

The group devoted a few minutes of discussion to current customer reporting practices, as well as how the current oversight system does and does not work. Ultimately, Keating observed that, while Bonneville sees non-compliance as a fairly low-risk situation issue, it would not be practical to set up contracts as if there is no risk at all.

You've got a couple of good ideas here, said Grist – do more quality-control up front, talk to the utilities about their plans and gather more real-time information. We used to require utilities to do a plan, said Pynch, but many utilities didn't do them, and Bonneville ended up having to do them for them.

Can you give us some examples of the kinds of things you'd like us to do under this idea? Carr asked. Pynch replied that conservation plans are one option; we also have requirements on protocols for certain large industrial or commercial customers, he said -- essentially, before you do something large, unique or different, show it to our engineers to be sure it makes sense. In other words, he said, it could be situational, depending on the type and value of the measures you're talking about.

With respect to next steps, said Weedall, we would like to invite any further feedback you might have, because we need everyone's input before we put together a C&RD proposal for the administrator's consideration.

If we're to that point, I have a letter from the Oregon and Washington delegations to Larry Cassidy and Steve Wright on that very issue, said Patton; it says, in part, that "We also believe that any changes in BPA's relationship to its traditional customers must not jeopardize its ability to fulfill its long-standing stewardship obligations. These include investments in energy efficiency, renewable energy development, low-income energy services and fish and wildlife protection and restoration.

"BPA must continue in its role as an engine for innovation and economic development... Regionwide commitment to energy efficiency and renewable energy development will ultimately improve their reliability, lower the cost to the consumer, provide cleaner air to the public and enhance our environmental quality while simultaneously positioning the Northwest for economic growth." I have copies, for anyone who is interested, she said, as well as copies of the Tellus study for those who need them, and of the pamphlet the Energy Coalition has summarizing this issue, she said.

I also wanted to talk about low-income weatherization, said Weiss, and put in a plug for level funding closer to what was agreed to in the Comprehensive Review. Right now, the region is doing about half of what was agreed to, he said. I don't want to give a speech, said Weiss, but I was wondering if Bonneville has considered that question. To be blunt, we haven't talked about going to level funding for that measure, Weedall replied – it's a good point, and if you want to submit comments on that point, please do so.

Two additional process questions, said another participant – first, what's the timeline for completing this process? We had set a deadline of January 31 for coming out with a proposal for regional review, but we're not going to make that deadline, Johnson replied. Once it comes out, however, you will have plentiful opportunity to comment on that draft proposal before it's finalized. So will this group have an opportunity to review your recommendations to the administrator before they're finalized? one participant asked. "No," Weedall replied. However, there will be a public dialogue on the draft decision, so that this group will have a chance to meet again.

One State of Oregon representative [introduced only as Alan] noted that energy assistance is at an all-time high in Oregon. We used to transfer about 25% of the available HHS (federal) funding for energy assistance into low-income weatherization, he said, but that's not happening right now, due primarily to the economy. Local community action agencies are now choosing to use those funds for energy assistance, rather than weatherization. The President's current budget also calls for a reduction in energy assistance, he said; rather than \$1.7 billion available nationwide, federal funds for energy assistance would go down to \$1.3 billion. Oregon's 1149 (required by state law 1149) program offers some funding for low-income weatherization, he added, but only in certain parts of the state.

With that, the workshop was adjourned. Meeting summary was prepared by Jeff Kuechle, BPA contractor.