

Recommendation Report Workgroup 4: Flexibility Mechanisms

Introduction

The initial scoping document focused on two main areas for this workgroup: Unassigned Account Allocation Methodology and Large Project Fund (LPF)

- Unassigned Account: Attempt to address concerns regarding the current pro-rata methodology of allocating EEI funds returned by customers or from BPA. Possible options included continuing the status quo, TOCA allocation, defined “least cost” or “need” considerations, or a combination of some of the above options (also called “Two Buckets”).
- LPF*: Attempt to address concerns regarding the administrative burden of the LPF and limited use during the FY12-13 rate period. Possible options include continuing the status quo, terminating the LPF, or adjusting the criteria/requirements. *This topic was expanded to include a broader discussion of “Funding Large Projects”

Through four meetings, the workgroup came to consensus on Unassigned Account Allocation Methodology and developed a few ideas for further discussion on funding large projects but could not reach consensus during the allotted time. The workgroup has requested a follow-up meeting in May to attempt to reach a final recommendation based on the ideas presented once feedback from BPA has been received.

Meetings held to date: February 13 (Kickoff), March 10 (Unassigned Account), April 10 and April 24 (Funding Large Projects) , Tentative meeting scheduled for May 27 or 29

Recommendation: Unassigned Account (UA) Allocation Methodology

If future UA allocations are made available, utilities would request an allocation and receive it based on a weighted TOCA calculation. A utility can indicate they would like a specific dollar amount, less than or equal to this weighted TOCA. “Weighted TOCA” means a TOCA allocation weighted by the total number of requests received. The workgroup recommended that this strategy be implemented immediately, in case of any possible UA allocations that may arise.

This allocation methodology still allows for an equitable distribution of any funds that become available, without giving any one utility the ability to request the entire amount to receive a larger pro-rata share of the available funds. Other reasons cited include:

- Simplicity: TOCA allocation avoids definitions or complex criteria
- Timing: UA allocations generally come near the end of the second year of the rate period, allowing only limited use
- Uncertainty: UA allocations come only from BPA-managed capital releases and/or utility funds returned, so the available amount is unpredictable

To implement this strategy, BPA will need to adjust the formula used for the current UA allocation process and update the form associated with the request. Utilities will still be able to use the current process of requesting funds by providing a request that is less than or equal to their TOCA share of any funds offered. BPA will need to redistribute any remaining funds amongst requesting utilities upon receipt of each utility's acceptance of the dollars offered through this methodology.

Other Remarks/ Unresolved Issues

A request was made to keep the UA as an option for funding large projects. It was discussed that due to the uncertainty in amount and timing, it was best to keep the Unassigned Account Allocation process recommended above. Utilities are free to use any allocation received as support for a large project in their service territory.

PROGRESS REPORT: Large Project Fund/Funding Large Projects

(NO RECOMMENDATION FINALIZED TO DATE) Late breaking progress on this topic was made at the meeting held April 24th, requiring additional time and clarification from BPA on some possible ideas that could become consensus recommendations. As such, the workgroup has proposed dates for an additional meeting on either May 27 or 29 to finalize and submit a final recommendation to BPA for this topic. The discussion below will serve as a progress report regarding this ongoing discussion. All are invited to attend the follow-up meeting later in May and/or provide feedback to the workgroup co-chairs or your EER.

Problem Statement: The LPF is administratively burdensome for BPA (i.e., difficulties with the internal budgeting and tracking LPF repayments) and there has been limited demand to date for the funding mechanism given a utility's requirement to pay back any funds received. On the other hand, some customers would like to modify criteria for the fund (i.e., a project's reimbursement must be at least 50% of the utility's rate period EEI budget) to make it easier to access funds and, therefore, increase demand for the fund.

The current LPF with its payback over two rate periods and 50% of EEI qualifier is unattractive. The workgroup asks that BPA continue to work with all interested stakeholders to find methods to determine the demand for and how best to address unfunded LPF opportunities. Some in the workgroup are concerned about equity issues around BPA funding large projects in one or few utility service territories based on undefined "projects of regional significance" and spreading the costs to all in light of the Tiered Rates paradigm.

Multiple options were discussed to address the issues outlined in the above problem statement. As noted, the workgroup has been unable to reach consensus on any one of the options below, however it was agreed that with more details that some combination of these options may attain consensus. The workgroup realizes that there is no one size fits all for LPF so one individual option will not adequately address the diversity amongst public power regarding this issue. Therefore, the workgroup recommends that a menu of options be developed (as an example: options 1 and 3 could be offered).

1. Customer could ask BPA to borrow additional funds for a specific project through the 3rd party financing mechanism – No change to rates, but done as a contractual arrangement.
2. A non-TOCA based allocation that assumes cost sharing commitment of project between utility (EEI or Self-fund), end-use customer and BPA. BPA allocated funds would not be paid back. A Technology Innovations Council type structure would be used to determine allocation of funds.
3. Pay for performance across measure life with bilateral agreement between BPA and utility through a contract – Does not use any dollars other than the utility's own EEI.
4. Expanded communication and use of bi-lateral transfers between utilities with BPA being a conduit of LPF opportunities.
5. Keep the current construct but reduce the 50% EEI budget requirement to something smaller and extend the payback timeframe to a great number of rate periods.
6. A mixture of the approaches above.

The workgroup would like to request a go/no go analysis review by BPA regarding finance, legal, administrative feasibility of these options. This will allow the workgroup to take these options, further discuss them during a meeting near the end of May and make a final recommendation prior to the June 20th Big Tent meeting.

For context, the group was unable to come to consensus on ideas described above due to some of the items discussed during our four meetings, including:

- *Is there such thing as a Regional project?* The TOCA model has created some holes in funding for large projects that cannot be fixed without assigning some sort of regional value to projects. Yet some utilities currently self-fund large projects and do not see their local utility governance board supporting their EEI funds going outside their service territories. The workgroup was unable to come up with any definitions that would make a large project truly “regional” in nature. Some workgroup members were not comfortable with creating additional criteria and/or assigning additional value above and beyond an individual utility's benefit from a project. Others felt a large project could “break the bank” for their utility, not allowing them to fund anything other than that project, if they could even fund the large project itself.
- *To pay back or not to pay back?* Some utilities are unable and/or unwilling to commit to borrowing EEI dollars that need to be repaid. At the same time, it was stated by some workgroup participants that any receipt of funds without payback would violate equity. This leaves “nonstarters” on both sides of the issue.
- *So where's the money come from?* The LPF is currently unfunded but a discussion of setting aside any portion of the overall EEI budget to be used for such a fund was described as cross-subsidizing and again, a violation of the TOCA methodology. This leaves no dedicated budget to pull from for LPF projects.
- *What do we agree on?* The group did agree that if any sort of funding mechanism required payback, the period of payback needed to extend beyond two rate periods and some reduction made to the 50% eligibility criteria. Challenges arise from these changes, including the

administrative burden of continuing to track such funding for a longer timeframe and the fact that at some point the payback period would extend beyond the term of the regional dialogue contract.

Following review by BPA regarding the above proposed options, the workgroup will meet in late May to finalize a consensus recommendation. Please contact co-chairs directly or your Energy Efficiency Representative to provide feedback on the options discussed above.

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