

December 8, 2011

Mark Gendron
Vice President for Requirements Marketing
Bonneville Power Administration
905 NE 11th Avenue
Portland, Oregon

Submitted electronically at: www.bpa.gov

NRU is providing the following comments on BPA's NOVEMBER 1ST ENERGY EFFICIENCY CAPITAL FUNDING DRAFT DECISION. While this has been a rather tumultuous issue for the region to address, we appreciate the Agency working with public power and providing supplemental technical information regarding various options to resolve the overspending in FY 2011 for the remaining funding available in FY 2012 – FY 2014. These comments are submitted at a high policy level by NRU on behalf of its membership. We do not discuss impacts on individual utilities. In that context, individual members of NRU are encouraged to submit their own comments to BPA.

NRU Supports the BPA Hybrid Approach Applied to FY 2011

As a trade association of 50 Load Following utilities with differing size, characteristics, and approaches to securing energy efficiency funding during FY 2011, it is difficult to offer recommendations to the Agency where there is not some degree of both “winners” and “losers” financially within the NRU membership. This applies both to the basic framework proposed by BPA (“Hybrid” using FY 2011) and any refinements to the proposal. While that is the case, both for our members in aggregate, as well as to achieve rough equity within the public power community as a whole, NRU supports the “hybrid” model applied to FY 2011. This hybrid methodology factors in both the reduced aggregate funding available for 2013-2014 and the extent to which the utility spending levels in FY 2011 that were higher than what their TOCA share would have been had we been operating under the post-2011 EEI construct at that time. We have reviewed the impact of the “Level” and “Equity” options presented for discussion by BPA, and the consequence for the individual NRU members of those options compared to the Hybrid are illustrated in an attachment. Given our knowledge of what happened in FY 2011, the BPA Hybrid proposal applied to FY 2011 is the preferred way to proceed because it mitigates some of the drastic swings in outcomes associated with the Level and Equity options.

We believe that some minor adjustments are required, as described below, in the basic framework BPA recommends in the November 1st Draft to accommodate smaller utilities that would have their FY 2013 EEI funding eliminated or nearly eliminated with the Hybrid approach. We believe these are necessary for the Agency, in conjunction with the Customers, to achieve both the goals and the intent of the conservation targets established by the Northwest Power and Conservation Council, on a relatively uniform basis, including smaller utilities as well as large. NRU agrees with Public Power Council's high

level comments and would especially like to re-iterate their point that a situation where utilities are facing zero or very low funding levels in FY 2013 and 2014 is untenable.

NRU Rejects the Hybrid Approach Expanded to Include FY 2010

During recent weeks some of BPA's largest customers, with the largest conservation programs in the region, have raised the question of whether the Hybrid model should be applied to FY 2010 and FY 2011 rather than only to FY 2011 capital expenses. NRU categorically rejects this assertion. Including 2010 destroys the rationale for the Hybrid and will subject the region to continuing acrimony regarding the issue of how larger utilities have prospered with the use of conservation dollars compared to smaller ones. To demonstrate this point, we have included an attachment that illustrates the consequence of including FY 2010. In summary the result would be a transfer of over \$1.5 million to BPA's 6 largest customers, over \$1.0 million of which would come from a reduction to NRU members. Equally important, the related reductions for many of the larger NRU members would be crippling to their energy efficiency programs.

We have met with the BPA staff to try to gain an understanding as to whether there is any compelling reason from the larger utilities to include FY 2010. We do not believe there is a sustainable rationale that makes sense for the public power community as a whole. Further, an 8% increase for the big utilities, where a significant number of the NRU members would be saddled with an average 33% reduction for the Hybrid (which is already reduced from the "Base") is simply unfair. Equally important, within the NRU membership, a number of utilities have unique sets of circumstances regarding the history of EEI spending, which they believe would require special attention if BPA opens the door to fundamental changes in the Hybrid recommendation. We would strongly recommend that the Agency limit the Hybrid approach to FY 2011. Otherwise we will want to re-engage both on the basic design of the option, as well as the premise that BPA should stay within the stated FY 2010 – FY 2014 capital budget of \$459 million (the amount previously set in the Integrated Program Review process). We would also want the Agency to reconsider whether there are any significant blocks of residual EEI funds available for FY 2012 – FY 2014 for special set aside contracts that have not been included in the allocation formulas BPA has displayed to date.

BPA Should Maintain at Least a Minimal Level of Energy Efficiency Funding in FY 13 FY 2014 for All Utilities

Absent some fine tuning, the unintended result of the hybrid approach would mean drastically reducing or even eliminating EEI available to certain customers in FY 2013-2014. These customers tend to be smaller utilities that already face challenges running energy efficiency programs due to their size. In fact, BPA has recognized the challenges facing smaller utilities by providing additional support to Small/Rural/Residential customers under the post-2011 energy efficiency program. The significant reduction or elimination of EEI funding to these customers could result in a severe reduction, possibly to the point of stopping their energy efficiency programs at the local level. This would contradict the intent of the BPA energy efficiency program, which is to acquire all cost-effective conservation in public power's service territory. Furthermore, this would harm the very utilities BPA has recognized as needing additional support – smaller utilities. Continuity in programming is extremely important to the success of local conservation programs, and both BPA and its customers have worked diligently on building

programs over the past number of years. It is imperative that this hard work is not lost on a going forward basis by severely decreasing EEI funding to these utilities.

In order to preserve some continuity of funding for those utilities hardest hit by the reductions that will occur in FY 2013-2014, a slight (about 0.25%) reduction in the overall distribution of the total \$72 million capital budget is recommended with a consequent redistribution of these funds to those utilities. To that end we propose that those utilities that had reduction in funding under the “hybrid” approach to less than 35% of their 2013 base case level (as described in BPA’s November 1 Draft Decision Document as subsequently revised due to new data) should receive a capital distribution such that they will have access to 35% of their base case EEI 2013 funds. Since the larger utilities in this situation have a likely sustainable funding level for at least a basic EEI services, utilities receiving more than \$100,000 per year in EEI funds under the hybrid approach would not receive this adjustment.

We recognize the \$100,000 ceiling would exclude certain larger NRU members, such as McMinnville and Inland from participating in the 35% or lower threshold to secure additional EEI funding. However, our focus here is on the small utilities that are at risk of not being able to sustain a program in FY 2013 without additional financial support. We are open to considering any other proposals for a basic level of EEI services for BPA customers, as long as the financial consequence does not result in a cost shift significantly larger than the one proposed here.

The NRU recommendation would mean that 8 smaller utilities would be able to maintain a base level of program continuity in FY 2013 and 2014. This would positively impact 4 NRU members (Bonner’s Ferry, Milton Freewater, Missoula and Monmouth) as well as 4 other small utilities. The amount of redistribution of funds from the other utilities and BPA managed programs would be less than \$200,000, which is a quarter of a percent of the total capital budget of \$72 million. A summary table of the impact is attached.

We recognize that this nominal adjustment of less than \$200,000 does represent a small cost shift within the public power community. However, the amount of reduction for the utilities that have sustainable programs and mechanisms in place seems relatively insignificant, when the result of the shift is that small utilities that would otherwise have no viable funding support from BPA in FY 2013 would now be able to continue with at least a basic level of energy efficiency services.

BPA Should Allow EEI Funds to be Available on a Rate Period Basis

On the third page of the DRAFT BPA Decision Document, BPA leaves open the question of whether EEI funds, after the 2012-2013 rate period, should be made available on an annual-basis only, as opposed to on a rate period (two year) basis as had been designed in the Post-2011 Energy Efficiency Program. NRU strongly recommends that BPA allow EEI funds to be available over a rate period basis, as opposed to a yearly basis, after 2012-2013. Much discussion occurred during the post-2011 energy efficiency development process on how customers can manage their EEI budgets. Customers preferred the ability to “rollover” unused EEI funds from one rate period to the next, recognizing that energy efficiency acquisitions do not fit neatly within a rate period. However, BPA stated it was unable to do this due its restrictions on how capital dollars are spent. BPA agreed to have the EEI funds available on a rate period (two year) basis, which would provide at least some flexibility for customers to be able to better manage

to the inherently "lumpy" nature of energy efficiency acquisitions. Removing this flexibility altogether by moving to an annual-only distribution of EEI funds would even more severely harm customers' ability to effectively acquire energy efficiency under the post-2011 construct. Therefore, we strongly urge BPA to maintain its decision to provide EEI funding on a rate period basis.

Additional Proposals that Merit Serious Consideration by BPA

On December 5th the PPC Technical Group discussed an alternative proposal for capital funding that has the potential for garnering wide spread support within the public power community. In short the FY 2012 capital budget for each utility would be rolled forward, without adjustment, and would remain in place throughout FY 2013. We would then be able to address this issue in a more comprehensive fashion in processes that are already planned to occur, such as the Post 2011 EE Check In and the next Integrated Program Review process, beginning this Spring, BPA and the customers could help to forge the particulars of the capital budget for energy efficiency for FY 2014, in the context of an overall capital spending plan for the Agency. This will enable the region's energy efficiency plans to move forward without pending major reduction. And for BPA and its customers, we can avoid the divisiveness associated with applying a hybrid allocation model to FY 2011 versus FY 2010 and FY 2011. Utilities and BPA will have more time to digest the final numbers associated with FY 2011 (as well as 2010) and to construct a more orderly approach for the years ahead. Given time constraints, NRU staff has not discussed this approach with BPA, but it does appear to be a viable alternative that could keep us on a more even keel.

Concluding Comments

BPA's Hybrid recommendation applied to FY 2011, with a minor adjustment for smaller utilities as needed, is a path forward that NRU as a trade association will support. However, we are also open to supporting the recommendations of the PPC Technical Group as described immediately above. Either proposal allows the region to move forward, even though individual utilities may not all agree that the outcome was particularly beneficial to them.

We appreciate the opportunity to comment, and the fact that BPA has worked closely with customers to help develop options for proceeding once the FY 2011 overspending issue developed. But it is now time to bring this to a final conclusion, as represented by the Hybrid option applied to FY 2011 only, and a minimum funding threshold for small utilities. Thanks to you and others for all of the hard work to move this forward. If you have any questions regarding these comments, please let us know.

Respectfully,



John D. Saven, CEO

CC: Members of NRU
Scott Corwin, Executive Director, Public Power Council

NRU Comparison of approaches to allocating EEI dollars (\$s in thousands)

	Hybrid using 2011 Expenditures	Level using 2011	Equity using 2011
Ashland	176	148	203
Benton Rural Electric Assn.	397	490	304
Big Bend Electric	437	448	391
Bonniers Ferry	0	39	0
Burley (IDEA member)			
Cascade Locks	16	16	15
Central Lincoln	1326	1115	1528
Centralia	212	178	227
Cheney	138	116	158
Columbia Basin Electric	105	87	121
Columbia Power	28	23	32
Columbia River	358	414	291
Columbia Rural Electric Assn.	190	276	121
East End Mutual (IDEA Member)			
Ferry County	48	85	21
Flathead Electric	1004	1177	810
Forest Grove	161	178	136
Harney Electric	195	164	224
Hermiston	108	91	125
Heyburn (IDEA Member)			
Hood River Electric	108	94	106
Idaho Co. Light and Power	54	45	61
Inland Power & Light	214	770	0
Kootenai	406	367	391
Lower Valley Energy	748	629	790
McMinnville	274	645	32
Midstate Electric	403	338	463
Milton Freewater	3	69	0
Mission Valley	287	264	257
Missoula	30	194	0
Modern Electric	227	191	262
Monmouth	0	61	0
Nespelem Valley	51	43	59
Northern Wasco	530	445	607
Orcas Power and Light	215	181	248
Oregon Trail Electric	625	544	616
Peninsula	348	523	213
Ravalli County Electric	158	133	182
Richland	863	740	858
Rupert (IDEA Member)			
Salem Electric	236	288	183
South side	57	48	66
Surprise Valley EC	136	115	157
Tanner Electric	96	81	111
Tillamook County	404	399	369
United Electric	261	219	300
Vera Water & Power	231	194	266
Vigilante Electric	160	134	184
Wasco Electric	117	98	134
Wells Rural Electric	833	701	960
Total	\$ 12,974	\$ 13,598	\$ 12,582

For each option which provides the least and most funding for each utility?

light gray is the most
 dark grey is the least
 white is in the middle

**Impact of BPA Hybrid Approach for ECA Funding
Applied to FY 2010 and FY 2011 Compared to FY 2011**

BPA Hybrid Option	FY 11 Only (X1,000)	% ECA Expend	% "base"	FY 10-11 (x1,000)	% ECA Expend	% "base"	\$ Change 10+11-FY 11	% Change 10+11/FY11	"base" diff.
BPA's Largest Customers									
Snohomish County PUD	\$ 6,948	13.83%	82%	\$ 6,884	13.70%	81%	\$ (64)	-0.92%	-1%
Cowlitz County PUD	\$ 4,129	8.22%	75%	\$ 4,427	8.81%	81%	\$ 298	7.22%	6%
Seattle City Light	\$ 4,086	8.13%	73%	\$ 4,515	8.99%	81%	\$ 429	10.50%	8%
Tacoma Power	\$ 1,970	3.92%	47%	\$ 2,494	4.96%	59%	\$ 524	26.60%	12%
Clark Public Utilities	\$ 1,376	2.74%	42%	\$ 1,418	2.82%	44%	\$ 42	3.05%	2%
Eugene Water and Electric Board	\$ 959	1.91%	36%	\$ 1,337	2.66%	50%	\$ 378	39.42%	14%
Subtotal	\$ 19,468	38.74%		\$ 21,075	41.94%		\$ 1,607	8.25%	
NRU Members	\$ 12,973	25.82%		\$ 11,955	23.79%		\$ (1,018)	-7.85%	
NRU's Members with \$50,00 or more Reductions by Using FY 2010 and FY 2011									
McMinnville	\$274	0.55%	29%	\$0	0.00%	0%	\$ (274)	-100.00%	-29%
Inland	\$214	0.43%	19%	\$61	0.12%	5%	\$ (153)	-71.50%	-14%
Peninsula	\$347	0.69%	46%	\$151	0.30%	26%	\$ (196)	-56.48%	-20%
Ravalli	\$158	0.31%	82%	\$87	0.17%	45%	\$ (71)	-44.94%	-37%
Columbia REA	\$190	0.38%	47%	\$131	0.26%	33%	\$ (59)	-31.05%	-14%
Big Bend	\$437	0.87%	67%	\$328	0.65%	50%	\$ (109)	-24.94%	-17%
Tillamook	\$404	0.80%	70%	\$348	0.69%	60%	\$ (56)	-13.86%	-10%
Flathead	\$1,004	2.00%	59%	\$907	1.81%	53%	\$ (97)	-9.66%	-6%
Subtotal	\$3,028	6.03%		\$2,013	4.01%		\$ (1,015)	-33.52%	
NRU Members with \$50,000 or more Increases by Going to FY 2010 and FY 2011									
Benton REA	\$379	0.75%	56%	\$476	0.95%	67%	\$ 97	25.59%	11%
All Utilities ECA Expenditures	\$ 50,247			\$ 50,247					

Comparison of the largest 20 BPA 2013 Base Case EEI Recipients under the Hybrid Approach using FY 2011 and FY 2010 and 11

	2013	hybrid impact based on 2010 and 2011	hybrid impact based on 2011	hybrid impact based on 2010	hybrid impact based on 2011	Funding under the 2010/2011 approach compared to the base case	Funding under the 2011 approach compared to base case	Funding Increase from going to 2010/2011 approach compared to FY 2011
Snohomish	\$ 8,497	\$ 6,884	\$ 6,948	\$ 6,884	\$ 6,948	81%	82%	-1%
Seattle	\$ 5,573	\$ 4,515	\$ 4,086	\$ 4,515	\$ 4,086	81%	73%	8%
Cowlitz	\$ 5,478	\$ 4,427	\$ 4,126	\$ 4,427	\$ 4,126	81%	75%	5%
Tacoma	\$ 4,205	\$ 2,494	\$ 1,970	\$ 2,494	\$ 1,970	59%	47%	12%
Clark	\$ 3,239	\$ 1,418	\$ 1,376	\$ 1,418	\$ 1,376	44%	42%	1%
Eugene	\$ 2,671	\$ 1,338	\$ 959	\$ 1,338	\$ 959	50%	36%	14%
Benton PUD	\$ 2,080	\$ 1,686	\$ 1,701	\$ 1,686	\$ 1,701	81%	82%	-1%
Flathead	\$ 1,712	\$ 907	\$ 1,004	\$ 907	\$ 1,004	53%	59%	-6%
Central Lincoln	\$ 1,622	\$ 1,314	\$ 1,326	\$ 1,314	\$ 1,326	81%	82%	-1%
Grays	\$ 1,396	\$ 1,131	\$ 1,141	\$ 1,131	\$ 1,141	81%	82%	-1%
Franklin	\$ 1,239	\$ 242	\$ 174	\$ 242	\$ 174	20%	14%	5%
Lewis	\$ 1,171	\$ 949	\$ 957	\$ 949	\$ 957	81%	82%	-1%
Inland	\$ 1,120	\$ 61	\$ 214	\$ 61	\$ 214	5%	19%	-14%
Richland	\$ 1,075	\$ 871	\$ 863	\$ 871	\$ 863	81%	80%	1%
Springfield	\$ 1,039	\$ 670	\$ 799	\$ 670	\$ 799	64%	77%	-12%
Wells	\$ 1,018	\$ 825	\$ 833	\$ 825	\$ 833	81%	82%	-1%
Clatskanie	\$ 948	\$ 768	\$ 775	\$ 768	\$ 775	81%	82%	-1%
McMinnville	\$ 938	\$ -	\$ 274	\$ -	\$ 274	0%	29%	-29%
Lower Valley	\$ 915	\$ 741	\$ 748	\$ 741	\$ 748	81%	82%	-1%
Port Angeles	\$ 874	\$ 709	\$ 715	\$ 709	\$ 715	81%	82%	-1%
total for big 20	\$ 46,810	\$ 31,950	\$ 30,989	\$ 31,950	\$ 30,989			
total ECA funds available	\$ 73,060	\$ 50,248	\$ 50,248	\$ 50,248	\$ 50,248			
how much of the ECA do the big ten get?	64%	64%	62%	64%	62%			

Those utilities that are reduced 35% of the 2013 Base Case or more under the Hybrid Approach with a resulting program under \$100 k under the Hybrid approach based on FY 2011 Expenditures Only (\$'s in Thousands)

	2013 base case EEI	Hybrid Impact	% of Hybrid	% Decrease	35% of 2013 base case	increase needed to bring to 35%
Bonner's Ferry	\$ 57	\$ -	0%	-100%	\$ 20	\$ 20
Chewelah	\$ 30	\$ -	0%	-100%	\$ 11	\$ 11
Consolidated Irrigation	\$ 2	\$ -	0%	-100%	\$ 1	\$ 1
Grant County	\$ 55	\$ -	0%	-100%	\$ 19	\$ 19
Milton Freewater	\$ 101	\$ 3	3%	-97%	\$ 35	\$ 32
Missoula	\$ 283	\$ 30	11%	-89%	\$ 99	\$ 69
Monmouth	\$ 89	\$ -	0%	-100%	\$ 31	\$ 31
Sumas	\$ 39	\$ -	0%	-100%	\$ 14	\$ 14
						\$ 196