



April 28, 2005

Mike Weedall, VP Energy Efficiency
Bonneville Power Administration
PO Box 3621
Portland OR 97232

Dear Mr. Weedall:

Following are the comments of PNGC Power on behalf of its 15 electric cooperative members on Bonneville Power Administration's (BPA) **Post-2006 Conservation Program Proposal**, Revised Final: 3-28-05.

In November, 2004 the PNGC Power Board adopted a set of 10 principles by which it would evaluate BPA's Post-2006 Conservation Proposal. During the Work Group process I had mentioned on several occasions that PNGC Power would use those principles to base its decision on the whole program and not just any one piece. Having reviewed your proposal and our Principles side by side we still have a long way to go. While we support the basic program structure, rate credit, bi-lateral, and third party, it's the details that have us concerned.

As you know PNGC Power is a unique entity amongst BPA's customers, a Joint Operating Entity and a Slice/Block participant. This combination presents both opportunities and challenges which we are willing to take. However the reality is that without BPA as a partner we must let some of those opportunities and challenges go by which we believe hurts us, BPA, and the region. It is with this in mind that we offer the following comments in hopes that we can build that partnership that allows both organizations to benefit as well as the region.

The proposed program structure does not adequately account for BPA's different types of customers, i.e. full requirements, partial requirements, and slice/block participants. We raised this issue over the treatment of slice/block customers in the workgroup process; however, it was merely put on a list of unresolved issues. BPA needs to recognize that it has different customer types and be open and flexible in trying to address their varying needs. We propose once again that BPA meet with its slice/block customers regarding conservation Post-2006 and discuss how we can best work together to meet the Council targets.

We are concerned about the agency's proposal to base the credit in the rate credit program on some predetermined cost. Using this method ignores the regional cost differences amongst utilities. For instance; a CFL in the Seattle market costs a lot less than a CFL in Chalis, Idaho's market yet saves the same energy; the same is true of a number of other conservation measures. In order to rectify this inequity we propose BPA should pay based on the value of the kWhs saved. Paying for measures based on their kWh value would remove any geographical cost differences and allow for a trading system between utilities by creating an arbitrage value.

The decrement as currently proposed serves as a disincentive to pursue conservation. Given the task ahead in terms of the aggressive targets this direction is wrong. We are disappointed because we were told that this issue would be discussed further in a forum outside the work group process; to our knowledge this never occurred. Decrement as part of any rate credit program, be it the FY '07 to '09 or the next rate period beyond that, is not in the best interest of the conservation and we strongly oppose such a policy. On the other hand while we understand some of the agency's reasoning for decrementing under a bi-lateral program we do not support the idea for that program either. Of particular concern is the agency's premise that without a decrement in a bi-lateral program slice/block customers will abuse the program to make money by selling the saved kWhs on the market. Several creative methods for dealing with the decrement were proposed during the work group process however BPA staff never directly addressed them. We recognize that the agency is concerned about losing revenue but the agency also needs to recognize that some of its customers lose revenue with a decrement and should be willing to work with us to find common ground.

Retaining the 20% administrative allowance for the rate credit program is critically important. The proposed reduction in the administrative allowance from 20% to 10% is misguided and contrary to the consensus of the workgroup. The agency is proposing to require utilities to conduct more reporting, oversight, and evaluation not less. If utilities are to maintain their existing programs and at the same time be required to perform **more** administrative tasks it only makes sense to keep the same administration allowance. For the agency to base a decision on what some utilities have said ignores the diversity in the utility community. Utilities who say they don't need the 20% can easily spend the money on conservation measures however those who do need the 20% and only get 10% are put at a disadvantage. We propose keeping the administrative allowance for the rate credit program at 20%.

Flexibility is needed on the cost effectiveness standard. The agency's adherence to a cost effectiveness standard used in modeling when applied in real world situations has serious unintended consequences. For instance, solar hot water heating will no longer qualify as a "cost-effective" measure. This means that BPA's Brightway Solar program purchased from the Eugene Water and Electric Board will diminish in value. Once again we have a situation where the agency is applying a "one size fits all" regional standard to a diverse group of customers. The customers have offered a number of alternative cost effectiveness approaches that have been rejected out of hand. We propose that BPA consider the impact on various programs and remain open to minimizing any negative impacts. One way to minimize the impacts to some programs would be the development of a bridge program; another would be paying up to the cost effectiveness level.

Consistent treatment of measures is needed in the program. The agency's decision over the inclusion or exclusion of program measures appears to be nothing more than arbitrary and seems to have been based on a preconceived notion (even though we were assured by BPA that there were none), of what BPA deems best for the region and its customers. For instance, the agency decided to cut the Council's aMW target for hot water heat pumps with no discussion or rationale. On the other hand, BPA has refused to include the value of heat pumps without PTCS simply because that measure wasn't included in the Council's plan. It would only seem appropriate that if the agency can arbitrarily remove certain measures from the Council's plan, it should also be

able to arbitrarily add measures to the Council plan. This is especially true with respect to heat pumps w/o PTCS since the Council staff has admitted that they simply decided not to include heat pumps w/o PTCS in the plan even though they maybe cost effective. We propose that BPA develop a transparent process in consultation with customers regarding this issue.

Ever changing credit amounts harm utility programs. The current proposal of changing the credit amount for measures every six months is a huge burden on utility programs, program operators, and has other negative unintended impacts on local infrastructures. It is difficult to plan and implement a consistent and effective program if you don't know what the credit for a measure will be six months, a year, or more out. When the agency is changing the credit levels it causes program managers to get the credit as fast as they can for fear that in six months it will be reduced. We saw this in the current program and it should not be repeated. We propose that regardless of an increase or decrease the credit changes in the program should not occur more than once a year. As well, these changes should be no greater than plus or minus 10%.

BPA's intention to use third party contractors to perform conservation in utility service areas is a disastrous policy and not acceptable. Given the experience utilities have had with third party practices, we have serious concerns and oppose such activities. Several cases have come to light where the local utility has not been informed prior to the program being offered to its customers. This disjointed behavior puts the local utility at odds with its customers. It is particularly disconcerting to think that BPA could send a third party contract into a utility service area to conduct a massive energy reduction program without any evaluation of the financial impact on that utility. We are also concerned that BPA intends to use other utilities or an agency to run conservation programs, such a practice is inappropriate without the utility's consent. We propose that all third party programs must be reviewed and approved by the local utility before it is offered to the local utility's customers.

PNGC Power concurs with semi-annual reporting using the RTF database. Utility costs for program implementation is business sensitive information that is not needed to determine achievement of conservation goals and does not need to be included as part of reporting. We also believe that records shall be maintained in a form determined solely by the utility, so long as the records are established and maintained in accordance with Generally Accepted Accounting Principles (GAAP), consistently applied. In keeping with existing protocols, reporting to BPA should be done at the customer level and not broken down into the member level of pooling customers.

PNGC has always agreed that a reasonable amount of oversight, verification & evaluation is acceptable. Given the proposed program has a short, three year life span annual inspections are not practical. A more practical approach would be to audit the utility once and if the utility is in substantial compliance with the program requirements then no additional oversight visits are performed. The proposed program language for oversight, verification & evaluation has too much potential for intrusions into utility and customer business. The proposed language gives BPA (or their agents) "carte blanche" to interrupt utilities and their customers business and be a disincentive to achieving conservation goals. BPA has stated that they would not use the proposed language to its fullest extent and if that is true then the overly ambitious language is not needed at all.

BPA has also stated that it intends to use third party contractors for oversight and evaluation. The agency at the same time stated that utilities **will** cooperate with evaluations. The agency has also clearly stated that it may use other utilities or agencies to perform these tasks. We have serious concerns with a competing utility or agency having access to utility customers and data, passing judgments on whether or not a utility has met program requirements, and conducting inspections at our members' residences and/or business. We propose the development of specific processes, procedures and/or guidelines to protect a local utility and its customers.

Regardless of who conducts the oversight or evaluations we suggest the following recommendations. First in the area of oversight/monitoring we propose BPA may, upon reasonable notice, conduct reviews of a utility's implementation of the program. The number of such reviews shall occur no more often than annually and may be conducted by BPA or its designee. BPA, at its expense, may:

- a) examine or inspect Program records and accounts maintained by the Utility or its agents, including Consumers receiving funding in accordance with the Program Records guidelines;
- b) obtain copies of Program records and accounts for such purposes;
- c) conduct inspections of installations made under this Program, provided that all such inspections shall be arranged in advance through the utility; and
- d) review utility procedures employed in accomplishing the provisions of this Program.

At the same time we make the following suggestion in terms of evaluations:

- a) Activities performed as part of the Program may be evaluated by BPA. The utility shall supply BPA with reasonable amount information to evaluate the Program;
- b) Any reasonable costs incurred by the utility in assisting in such evaluation, to the extent not specifically required, shall be reimbursed by BPA;
- c) BPA shall, upon completing the evaluation, make available the results of such evaluation to the utility; and
- d) BPA reserves the right to perform site visits of program participants, to be agreed upon with the utility.

In terms of financial audits we propose BPA will rely on work performed by the program participant that is verified by a certified public (CPA) accounting firm or state auditors. Also, such documentation and records are to be maintained in accordance with the participant's policies and procedures and shall be in compliance with the audit standards established by the Comptroller General of the United States.

Thank you for this opportunity to comment on your proposal.

Sincerely,

A handwritten signature in blue ink that reads "Eugene Rosolie". The signature is fluid and cursive, with the first name "Eugene" being more prominent than the last name "Rosolie".

Eugene Rosolie
Senior Economist