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Bonneville Power Administration
PROCESS DOCUMENT
for the
CONSERVATION COMPETITIVE BIDDING
PILOT PROGRAM

Prepared by
The Division of Resource Management
Generation Programs Branch

September 1990

MASTER

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I. KEY CHANGES BASED UPON PUBLIC COMMENT

Bonneville released the Draft Conservation Competitive Bidding Process Document in April 1990 for public comments. The comment period closed June 20, 1990. The following highlights the key changes made to the Final Process Document based upon the public comments received:

- ° The requirement to have all energy conservation measures (ECM) installed and providing savings within 3 years has been removed.
- ° With the exception of Institutional Buildings, non-utility Sponsors will be required to obtain a "Letter of Endorsement" from the Serving Utility prior to submitting a Resource Proposal to Bonneville.
- ° The maximum contract period of 20 years has been removed.
- ° Bonneville is considering a requirement that non-utility Sponsors must receive and provide to Bonneville at the time of Resource Proposal submittal, a "Letter of Credit" from the Serving Utility. This requirement does not apply to Institutional Buildings.

II. INTRODUCTION

Bonneville Power Administration (Bonneville) is proposing to test competitive bidding for Conservation Resources to expand its existing resource acquisition capabilities. Competitive bidding may target specific types of electric end-uses or end-use sectors. It is a new acquisition approach through which Bonneville seeks to acquire resources that are not acquired through other existing or planned conservation programs.

This proposal describes the conservation component of the all-source competitive acquisition approach that will be developed. It is expected that the combined resource acquisition effort will target about 100 average megawatts (aMW) as proposed in the 1990 Resource Program, although the exact amount has not yet been determined. Increasing the acquisition target will, to some extent, depend on whether the proposed pilot program is large enough to establish confidence in the approach.

Bonneville desires to continue testing a variety of mechanisms for acquiring cost-effective conservation in the Pacific Northwest. The proposed competitive acquisition process will be developed as an all-source bidding approach that will include separate acquisition processes for conservation and generating resources.

Although Bonneville plans to solicit for demand-side and supply-side resources simultaneously, the evaluation of each resource category will be conducted separately. This is because conservation resources perform differently than generating resources, requiring different information and evaluation. All conservation and generation proposals will be combined into a single ranking for selecting proposals for negotiation. During that ranking process, conservation proposals will be given a 10 percent cost credit over generation proposals.

Some of our customer utilities expressed concern about how Bonneville would fund development of new acquisition mechanisms through the mid-1990s. Funding for the initial development of the competitive bidding process will be provided in addition to the budget specified for centrally-designed programs identified in the Resource Program. Resources to be acquired through competitive bidding are not expected to be on-line until 1993, at which time Bonneville may increase the Resource Program budget if necessary.

All proposals that meet the requirements of the Bonneville Conservation Competitive Bidding solicitation, which is now being developed, will be considered. The solicitation is expected to be offered in the Fall of 1990. Proposals that offer the greatest value will be selected for Contract negotiation, based on both price and non-price factors.

Bonneville expects that Sponsors will present reasonable bids that represent the necessary costs of providing conservation savings. Should Bonneville receive bids that are too expensive relative to actual costs of acquiring the conservation savings, or that include clearly non-cost-effective conservation, Bonneville reserves that right to not sign contracts. Furthermore, if Bonneville concludes that this pilot solicitation resulted in a predominance of bids or contracts which display these characteristics, we will change future solicitations substantially.

The types of resources desired by Bonneville will be stated clearly in the program solicitation. Instructions will be included to guide Sponsors in preparing proposals, and the evaluation process criteria will be included in the solicitation.

We expect that both Bonneville and Sponsors will share some financial risks to acquire the proposed Conservation Resources. Sponsors must be willing to accept performance risks in order to participate in the competitive bidding process. Bonneville will seek to allocate risks in a manner that places liability with those who are most directly engaged in controlling the performance of a specific Project or Program.

III. HOW DOES COMPETITIVE BIDDING FIT IN THE RESOURCE PROGRAM?

The Resource Program indicates the quantity and cost of each resource type Bonneville should acquire to meet the Administrator's load obligations at least cost. We will attempt to acquire some of these resources through competitive bidding. Other resources will be acquired through different approaches, such as Bonneville centrally-designed conservation programs, competitive acquisition of generating resources, and billing credits. The Resource Program also identifies other new resources which Bonneville is uniquely positioned to acquire to meet future loads, such as hydro and transmission system efficiency improvements, system coordination with Canadian utilities, capacity/energy exchanges, and some imports from outside of the region.

The Resource Program establishes annual acquisition targets for this round of competitive bidding. The targets will be met by purchasing various quantities of the types of resources we prefer to acquire at a reasonable cost. Bonneville reserves the right to acquire more or fewer resources than the acquisition target depending on the quality and cost of the proposals.

IV. PROGRAM OBJECTIVES

To assess the effectiveness of competitive bidding as a dependable resource acquisition mechanism, we propose that the pilot program achieve at least the following objectives:

1. Determine if cost-effective resources can be acquired through a competitive process;
2. Compare various price and non-price attributes of Conservation Resources with Generating Resources;
3. Expand Bonneville's capability to acquire a broader base of resources;
4. Purchase energy savings on a performance basis;
5. Develop greater control over the rate at which resources can be acquired;
6. Develop capability to provide flexibility in the event that other programs identified in Bonneville's 1990 Resource Program fall short of the 1997 acquisition target.

V. PROGRAM FEATURES

A. Project Eligibility

General: In order for a Project or Program to be considered for Contract negotiation, it must target energy savings that are cost-effective and are not already being obtained by Bonneville through the Serving Utility. Sponsors may submit Projects or Programs in sectors or locations where programs offered by Bonneville are not operating, or where an existing Bonneville-funded program is unable to effectively capture a unique resource. Energy Savings must occur in a Building or Facility as defined in Appendix A, "DEFINITIONS."

Energy Conservation Measures (ECMs) may be installed and producing energy savings in Buildings or Facilities owned or occupied by residential, commercial, industrial or agricultural Consumers.

Sponsors may submit proposals to replace Bonneville conservation programs which they already operate. In such cases, the Sponsor must install ECMs that achieve at least the quantity of energy savings estimated for the existing program. In addition, Bonneville's system cost of the Replacement Program must be equal to or lower than that of the existing program.

A Replacement Program must substantially meet the objectives of an operating Bonneville program, and must produce equal or greater energy savings from ECMs to be installed. Only energy savings from ECMs installed after the effective date of the Contract will be eligible for Bonneville payment under a

Replacement Program. Bonneville expects that a Utility Customer proposing a replacement program will not make any new commitments under their existing program contract beyond the effective date of their Replacement Program Contract.

Who can be a Developer?

The term "Sponsor" is defined in Appendix A, "DEFINITIONS." However, there are certain conditions which Sponsors must meet before Bonneville will consider their proposals. For example, Sponsors who are not owners of the property where ECMs are to be installed must explain how they will secure agreements with Consumers for the installation, operation, maintenance, and inspection of ECMs. In addition, Sponsors must secure their Projects or Programs against failure to deliver energy savings or against energy savings shortfalls. (See Section VI., E. "Contractor Liability")

Sponsors may qualify simply by responding to the conditions stated in the Request for Resources (RFR) (i.e., the solicitation). If Bonneville determines that a proposed Project or Program contains the desired resource attributes, at a competitive price, it will be considered for Contract negotiation.

B. Eligibility Restriction

ECMs installed through this program, for which Bonneville provides payment based on energy performance, will not be eligible for payment in any other conservation program funded by Bonneville.

C. Endorsement from the Serving Utility

With few exceptions, Bonneville has relied on its customer utilities to develop and implement centrally-designed conservation programs. This competitive bidding approach proposes to acquire resources from a wide range of Sponsors. Sponsors may compete with each other to deliver new conservation resources to Bonneville.

Bonneville has an interest in developing a long term partnership in resource development with our customers. In addition, Utilities need to know what effects competitive bidding Contracts may have on their annual budget and revenue forecasts, and their long-term resource planning activities.

Therefore, in the initial solicitation Bonneville is considering a requirement that non-utility Sponsors must receive and provide to Bonneville at the time of Resource Proposal submittal, a "Letter of Endorsement" from the Serving Utility. This requirement does not apply to Institutional Buildings. Institutional Buildings is defined in Appendix A, "DEFINITIONS."

D. What is the Minimum Annual Energy Savings Required?

A proposal must describe in detail how the Project or Program will achieve a minimum annual electric energy savings of 2 million kWh (about 0.25 aMW).

VI. CONTRACT PROVISIONS

A. Term of the Contract

There will be no Project or Program Contracts for less than 10 years. Energy savings must continue for the life of the Contract.

B. Contract Negotiation

Bonneville intends to enter into Contract negotiations with Sponsors immediately after determining through its evaluation process which proposals offer the greatest value. Although the sequence of negotiations will follow the selection ranking, Bonneville may negotiate several Contracts simultaneously.

In the event that Bonneville identifies proposals that are more desirable than its non-competitive alternatives, Bonneville may elect to acquire more than the amount of energy originally established in the solicitation. In that case, Bonneville will continue negotiating Contracts until the most desirable Projects or Programs are obtained.

Finally, Bonneville reserves the right to negotiate any aspect of a proposal with a Sponsor. For example, if Bonneville and a Sponsor agree to modify a proposal, Bonneville may negotiate an adjusted bid price to reflect the cost to the Sponsor for an added increment of resource value.

C. Advanced Capital Funding

Bonneville will not normally provide capital for Projects or Programs. Constraints on use of its borrowing authority, particularly for conservation, combined with the exposure to financial losses which such funding would entail, support this position.

Bonneville does not categorically exclude the possibility of advancing capital, but Sponsors should be aware that funds are unlikely to be available, and that public pressure to adhere to prudent business practices will be an important consideration.

D. Performance Based Payment

Payments will be based on Project or Program performance. Reported energy savings will be reviewed and certified, no more frequently than quarterly, by a Bonneville official prior to payment approval.

Reporting requirements for payment will be negotiated individually with Sponsors. Emphasis will focus on the energy savings Verification Procedures contained in the Contract (see Appendix A, "DEFINITIONS"). All payments to Contractors will be subject to annual reconciliation based on verification of reported energy savings. Payments will be reconciled if a Bonneville review determines that the reported energy savings cannot be verified by the Verification Procedures contained in the Contract.

Bonneville will seek to negotiate reasonable risk sharing with Sponsors by establishing the minimum acceptable energy savings to be achieved by a Project or Program. Projects or Programs that do not achieve at least the agreed upon minimum energy savings, will be subject to Bonneville cost recovery provisions for energy savings shortfalls described below.

E. Contractor Liability

Liquidated Damages: Sponsors must be prepared to provide acceptable replacement energy or negotiable security to protect Bonneville's ratepayers from unreasonable financial risks associated with energy savings shortfalls.

Security Requirement: Security may be in the form of bonds, irrevocable letter of credit, certified check, escrow deposit or any other security that Bonneville finds reasonable, payable to Bonneville on demand. If Bonneville draws on any security for an energy savings shortfall in a performance period the Contractor must provide replacement security equal to the amount drawn, or as deemed acceptable by Bonneville.

Contractor liability for an energy savings shortfall due to a 'Force Majeure' (uncontrollable force) will be determined in accordance with a negotiated security provision to be included in the Contract.

F. Bonneville Inspections

Bonneville reserves the right to inspect all ECMs installed by a Contractor. Continuing performance inspections also may be required as Bonneville deems necessary and as agreed to during contract negotiations. These inspections may include inspections of the site and/or records and inspections for environmental compliance. Contractors must make the arrangements for all agreed upon inspections.

G. Early Termination Penalty

If the Contractor desires to terminate the Contract any time prior to delivery of the expected energy savings, the balance of the total estimated energy savings not delivered will be used to calculate a one-time damage amount to be paid to Bonneville by the Contractor in accordance with the Contract. A provision will be contained in the Contract for termination due to a 'Force Majeure' (i.e., uncontrollable force such as unavoidable Building or Facility demolition, etc.).

VII. COST SHARING

A. Policy Adopted

Bonneville adopted Cost Sharing Principles in April 1985 to allocate the benefits of conservation programs among its customer utilities. The policy established a formula for determining the portion of a program incentive amount Bonneville pays for Conservation Resources in various utility service areas.

Cost sharing requires that Bonneville pay program cost less Bonneville's cost share adjustment (mills/kWh) for energy savings acquired in the service area of a Full-Requirements Customer. The portion of the total amount Bonneville will pay in the service areas of Partial-Requirements Customers varies in accordance with the amount of total firm load they purchase from Bonneville to serve their respective loads.

B. Bonneville Cost Share Amounts

The Bonneville cost share offered through its acquisition programs shall be determined according to the load categories list in Table 1 below.

TABLE 1

Determination of Bonneville's Cost Share Amount

<u>Utility Service Area</u> <u>Non-BPA Load (%)</u>	<u>BPA Cost Share (%)</u>
100	Irreliable
61-99	75%
41-60	85%
21-40	90%
11-20	95%
C-10	100%

VIII. HOW WILL BONNEVILLE WEIGH RESOURCE NEED AGAINST BID PRICE?

A. Determination of Resource Need

Bonneville will rely on its Resource Program and internal analyses to determine the need to solicit resources, taking into account projected growth in the Administrator's load obligations and estimates of future resource availability and costs. Bonneville's ability to market surplus resources to utilities both inside and outside of the region will be considered in determining Bonneville's avoided cost.

Load growth information represents estimates of the Administrator's load obligations for the next 20 years, over a range of load growth paths. Resource availability estimates are contained in Bonneville's resource supply curves. The supply curves represent estimates of quantities of various resources (e.g., geothermal, residential conservation, commercial conservation, thermal nuclear) available over time at different costs. When load and resource supply information are combined with a set of decision factors, megawatt (MW) needs and Bonneville's avoided costs are projected over time.

B. Resource Cost-Effectiveness

Section 3(4) of the Northwest Power Act identifies two conditions for a determination of resource cost-effectiveness:

"(1) reliable and available within the time it is needed, and

(2) it meets or reduces the electric power demand, as determined by the Council or the Administrator, as appropriate, of the consumers of the customers at an estimated incremental system cost no greater than that of the least-cost similarly reliable and available alternative measure or resource, or any combination thereof."

Determining cost-effectiveness is a two-stage process. First, the system cost of each bid resource must be determined. Second, a set of resources sufficient to meet projected need is identified and their cost established. The evaluation process used to rank bid resources must ensure that resources acquired through the competitive bidding process are cost-effective in accordance with the definition in the Northwest Power Act.

C. System Cost vs. Bid Price

A key objective in resource planning is to minimize the cost of meeting or reducing the Administrator's load obligations. Moreover, the Northwest Power Act is explicit in its stipulation that resource acquisitions be cost-effective. Such assessments are to be based on the system cost of a resource. System cost must reflect the cost of (1) developing and operating the resource, accounting for resource reliability and availability, (2) quantifiable environmental impacts, and (3) the Consumer's share of the costs of conservation.

Performing an economic analysis of proposals requires that Bonneville analyze a Sponsor's bid price, information on resource development timetables and resource operating characteristics, and quantifiable environmental costs to calculate an estimate of system cost. System costs then will be used to develop a resource ranking based on the economic criteria.

The resource bid price will represent the payment required by a Sponsor to make the resource available to Bonneville under the Contract terms. Annual inflation adjustments to the bid price will be allowed.

IX. PROPOSAL PREPARATION GUIDELINES

A. Information Critical for the Economic Analysis of Proposals

An overriding consideration in determining the success of a proposed Project or Program will be an assessment of the Sponsor's ability to deliver the proposed resource. The following are examples of the types of information that will be requested in the solicitation:

- Resource Type (new construction, residential weatherization, commercial or industrial process, etc.)
- Estimated Annual Savings;
- Geographic Location of Resource
- Availability of Resource
- Project/Program Description (Abstract/Detailed)
- Project/Program Schedule
- Past History of Building or Facility having received treatment under a Bonneville-funded program.
- Project/Program Duration
- On-Line Date
- Lead-Time
- Consumer Costs
- Completed Environmental Checklist
- Bid Price

The solicitation will provide a complete description of all necessary information.

B. Comprehensive ECM Packages Preferred

Some ECMs that are not considered cost-effective on an individual basis may be cost-effective when combined with other ECMs having relatively short payback periods. Bonneville desires consideration of all ECMs that can be combined into an overall cost-effective package. ECMs that are omitted from an ECM package increase administrative and installation costs later if it becomes necessary to acquire the remaining available resource from the same Building or Facility.

Bonneville wants assurance from Sponsors that all cost-effective ECM packages considered for installation in a Building or Facility include long-life ECMs. Less than comprehensive ECM packages may create lost opportunities. In such cases, subsequent ECM installations may not be cost-effective because they were not included in the first ECM package installed.

Sponsors proposing Projects or Programs in the residential sector must install comprehensive packages of ECMs that are structurally feasible and cost-effective. Packages must include ceiling, wall, and floor insulation and duct wrap, where applicable. Storm windows would be preferred, where applicable.

Sponsors must offer to install comprehensive packages of ECMs that are cost-effective in commercial Buildings, provided the installation of the ECMs does not create unreasonable hardship on the normal business practices of Building owners or occupants.

Guidance for determining cost-effective ECMs in industrial Buildings and Facilities is more difficult because of the interactive effects of certain ECMs on the overall operation of production oriented systems.

C. Eligible ECMs

Sec. 3. (3) of the Northwest Power Act defines conservation as "any reduction in electric power consumption as a result of increases in the efficiency of energy use, production, or distribution." ECMs that meet this definition will be eligible for this pilot program.

Listed below are examples of some ECMs that can produce reliable long-term energy savings when correctly installed, operated and maintained.

- Insulation for ceilings, walls and floors
- High-efficiency windows
- High-efficiency water heating systems
- High-efficiency space heating and cooling systems
- High-efficiency lighting systems
- High-efficiency motors
- High-efficiency appliances

Other ECMs that produce verifiable energy savings through efficiency improvements also are eligible.

Buildings or Facilities in which ECMs were previously installed through a Bonneville-funded project or program are eligible to participate in this initial pilot program. ECMs installed through competitive can not duplicate measures previously installed through other Bonneville-funded programs.

D. Ineligible ECMs

Curtailment: Projects or Programs that reduce energy consumption by decreasing or discontinuing energy use through curtailment are ineligible.

Fuel Substitution: ECMs that substitute alternative fuels for electricity are ineligible (Example: Switching the power source for a dual-fuel boiler system from electricity to a fossil fuel).

Experimental ECMs: Only fully-documented technologies that are commercially available will be considered for acquisition through this pilot program. Projects or Programs that propose experimental ECMs will not be considered. This exclusion does not include accepted commercially available state-of-the-art technologies.

E. Environmental Requirements

Bonneville has assessed the environmental effects associated with many ECMs that have been funded through its centrally-designed conservation programs since the early 1980s. Based on experiences gained from previous Projects and Programs, requirements have been established for ECMs installed in residential and commercial Buildings. Proposals which are ultimately accepted by Bonneville must comply with these requirements. Commercial environmental requirements include ventilation standards, lighting restrictions, asbestos guidelines, and PCB ballasts disposal. Residential requirements include radon monitoring and mitigation, ventilation standards, and insulation restrictions.

Sponsors will initially be required to respond to an environmental checklist provided by Bonneville in the solicitation package. The checklist will contain questions regarding the potential environmental effects of proposed Projects or Programs.

F. Proposal Modifications or Withdrawal

A Sponsor may modify and resubmit its proposal at any time prior to the closing date of the Conservation Competitive Bidding solicitation. A Sponsor may withdraw its proposal anytime prior to contract award.

X. INFORMATION REQUIRED FROM DEVELOPERS

A. General

A Sponsor must describe previous related experience of management and technical staff who will be assigned to implement a Project or Program. Experience includes but not limited to planning, design work, cost estimating,

project management, installing ECMs, monitoring energy performance, etc. In addition, a detailed written description of the proposed Project or Program must be provided so that Bonneville may determine if:

1. the proposed electric energy savings will be produced in accordance with the schedule specified for the term of the Contract by the Developer;
2. the Sponsor is capable of securing the necessary Contractual arrangements to enable installation and operation of the ECMs over the term of the Contract; and
3. the Sponsor can secure the required financing.

B. Project or Program Notice of Intent

Sponsors are encouraged to submit a Project or Program Notice of Intent within 60 days from the official offering date of the RFR. Sponsors will receive confirmation of receipt within 15 days by Bonneville.

C. Detailed Project or Program Description

Requirements for a detailed Project or Program description will be described in the solicitation. Listed below are some examples of the types of information that may be requested from the Sponsor.

- Payment Plans/Schedule of Payments
- How does Sponsor plan to apply cost sharing to their specific Project or Program (include a Cost Sharing Plan and Schedule of Payments)
- Summary of the Project or Program
- The Geographic Location(s) Proposed for the Project or Program;
- Description and Statement of Qualifications of the Sponsor and Members of the Project Management Team
- Identification and Qualifications of any Sub-Contractors to be Used
- Documentation of any Secured Agreements with Consumers to Install ECMs in Buildings or Facilities
- Bid Price
- Itemized Costs and Annual Cash Flow Analysis
- Description of How the Project or Program will be Financed

- Description of the Security to be Provided, if Applicable
- Estimated Energy and Capacity Savings to be Produced
- Documentation for Energy Savings Estimate
- Description of Proposed ECMs
- Technical Specifications for the ECMs
- Explanation of any Adverse or Favorable Environmental Effects
- Description of Required Permits and Licenses
- Description of any Expected Seasonal or Annual Variations in Electric Energy Savings
- Explanation of Who will Commission, Operate and Maintain ECMs
- Description of the Process for Verifying Energy Savings
- ECMs Installation Schedule
- Schedule of When Savings will Occur (itemized in 12-month periods)

D. Technical Specifications

Sponsors may be asked to provide a standard list of the types of ECMs they propose to install in Buildings or Facilities. The solicitation may require Sponsors to specify the types of materials and installations practices normally required to install the ECMs listed.

Installations must meet all applicable State and local building codes. Proposed ECMs must meet or exceed applicable efficiency levels established by the Northwest Power Planning Council in the Model Conservation Standards for residential and commercial Buildings.

E. ECM Commissioning, Operations, and Maintenance

Sponsors may be asked to specify recommended commissioning, operations and maintenance procedures to ensure achievement of the energy savings for the useful-life of each ECM to be installed. They also may be asked to explain how the specified procedures will be implemented and continued over the useful life of the EMCs.

F. Estimating Energy Savings

A detailed explanation of how the energy savings were estimated, including a list of all assumptions and calculations, must be provided in the a proposal. For example, if lighting system ECMs are proposed for an electrically heated

Building, the estimate shall consider the interactive effects of the ECMs on both heating and cooling requirements. Other interactions that may impact the accuracy of the expected electric energy savings also must be considered.

G. Energy Savings Measurement

A proposal must describe how the net annual energy and demand savings will be measured over the life of the ECMs to be installed.

H. Energy Savings Verification

A proposal must include a procedure for monitoring and verifying the electric energy savings for the term of the Project or Program. Verification procedures shall be negotiated as a provision of the Contract. Bonneville will monitor performance of the Project or Program to ensure compliance with the Verification Procedures.

XI. NOTICES AND COMMUNICATIONS

A. Intent to Solicit Conservation Resources

Bonneville will publish a notice of intent to acquire Conservation Resources in advance of the availability of the Request for Resources (RFR). The official offering date will be stated in the RFR.

B. Request for Resources (RFR)

The Request for Resources (RFR) will contain all information needed by Sponsors to respond with Project or Program proposals. Sponsors will be allowed sufficient time to prepare and submit completed proposals to Bonneville. Sponsors will receive a "Notification of Receipt" from Bonneville upon receipt of the Sponsor's proposal.

C. Presentation to Serving Utilities

Non-utility Sponsors will be required to present a Coordination Plan of their Project or Program to the Serving Utilities prior to contract negotiation. Non-utility Sponsors must describe the work to be accomplished, the schedule on which the Project or Program will be implemented, the working arrangements with the utility, the manner in which they will deal with Consumers, and an overall management plan. The Serving Utility also must be provided with the name of the Sponsor's contact person who will manage and coordinate work in the utility's service area. Prior to or during negotiations, Bonneville may choose to discuss the Coordination Plan with the Sponsor and Serving Utility. Bonneville may choose to conduct these discussions either jointly (Sponsor and Serving Utility together) or separately.

XII. MAJOR RESOURCE REQUIREMENTS

Bonneville is required by Section 6(c) of the Northwest Power Act to make a determination of consistency when it plans to acquire major resources. Bonneville determined that Section 6(c) applies when it proposes to acquire more than 50 megawatts (MWs) at a single site or through an individual program offering.

A final decision to award Contracts to acquire a major resource will not be made until the Bonneville Administrator has determined that the proposed resources meets the Northwest Power Act's requirements for acquisition.

XIII. CONFIDENTIALITY

Bonneville agrees to take reasonable precautions to maintain the confidentiality of any documents designated by a Sponsor to be proprietary.

APPENDIX A

DEFINITIONS

Building: A single contiguous structure served by an electric utility or non-aluminum Direct Service Industry that purchases firm power from Bonneville.

Conservation Resources: Any reduction in electric power consumption as a result of increases in the efficiency of energy use, production, or distribution.

Consumer: A retail end-user who purchases electricity from a Bonneville firm power customer utility.

Contract: A written agreement between Bonneville and a Developer for the express purpose of purchasing Conservation Resources (as defined in this Section) resulting from implementation of a Project or Program (as defined in this Section).

Contractor: A Developer that holds a Contract with Bonneville as defined in this Section.

Direct Service Industry (DSI): A large industrial energy Consumer who purchases firm and non-firm energy directly from Bonneville, and who holds a signed Power Sales Agreement with Bonneville.

Energy Conservation Measure (ECM): Materials, practices, or equipment that reduce electricity consumption in a Building or Facility, including production processes, through efficiencies improvements.

Facility: A single site that includes more than one Building, all or part of which are served by an electric utility or non-aluminum DSI that purchases firm power from Bonneville. Facilities may or may not contain production or manufacturing processes.

Force Majeure: An unexpected and disruptive event that may operate to excuse a party from a Contract.

Full-Requirements Customer: A utility that purchases (from Bonneville) 100 percent of the power it sells to its retail energy Consumers.

Institutional Building: A public building such as government buildings, hospitals, schools, universities, etc.

Partial-Requirements Customer: A utility that purchases (from Bonneville) only a portion of the power it sells to its retail energy Consumers. It may generate the remainder of its power or purchase it from another source.

Program: A clearly defined plan describing how a Developer intends to offer installation of ECMs to Consumers in more than one Building or Facility. (Generally, Buildings and Facilities are not pre-identified in a Program.)

Project: The installation of ECMs at a single-site Building or Facility. (Projects often involve pre-identification of single-site Buildings or Facilities.)

Replacement Program: A Program offered by a utility Developer through the competitive process to replace a Bonneville-funded conservation program for which it has contracted to operate.

Request for Resources (RFR): A solicitation package produced and published by Bonneville for the purpose of acquiring Conservation and Generation Resources jointly.

Serving Utility: Any utility that sells electricity directly to Consumers who participate in a Project or Program funded through this pilot program.

Sponsor: A utility, large Consumer, chain store operator, energy service company, State or local government energy office, or any other entity whose proposal meets the condition stated in the Bonneville Request for Resources.

Verification Procedures: Energy savings verification procedures contained in the Contract that are to be executed by the Contractor in verifying energy savings resulting from installation of ECMs in a Building or Facility.

APPENDIX B

HOW DOES BONNEVILLE DETERMINE SYSTEM COST OF RESOURCES?

General

Economic and non-economic factors will be considered in the resource ranking and selection process. The solicitation will identify the specific information needed to perform these evaluations.

System Cost Calculation

System cost determinations for different resources and proposals provides a common unit of comparison. System cost represents Bonneville's system cost of a resource. The value factors below illustrates the criteria used in determining the system cost of a Conservation Resource.

Bid Price (The price at which the Sponsor is willing to provide Firm Energy Savings to Bonneville)

Environmental Costs (Adjustment for quantifiable environmental costs from resource)

Contract Life (Adjustment for difference in the duration of the proposed resource and the duration of the Bonneville established base case resource)

Location Factor (Adjustment reflecting the value of where on the power system the resource will be delivered)

On-Line Date (Adjustment to bid price to reflect value of different on-line dates)

Scheduling Flexibility (Adjustment to bid price to reflect adaptability to power system operational needs)

Seasonal Value (Adjustment to bid price for seasonal distribution of output)

Calculating Levelized Bid Price

Based on the proposed bid price, Bonneville will calculate an annual average bid price, expressed in mills per kWh saved. This average price will be referred to as the levelized bid price.

Calculating Resource Lifetime and On-Line Values

Bonneville expects to receive proposals offering resources of varying contract lengths and different on-line dates. Specific values will be established for different combinations of on-line dates and contract lifetimes. The

values will be used to adjust for varying combinations of these two time-related characteristics. Bonneville will make appropriate adjustments in the estimated system cost of a resource based on a number of individually determined values.

Calculating Location Value

Conservation Resources will have different values associated with where they are located. Individual location values will be determined using the evaluation screening and selection criteria that will be contained in the Request for Resources (RFR). Location values will be based on how acquisition of the resource would effect system reinforcement adjustments, loss adjustment factors, and displaced transmission additions. These factors may increase or decrease the resource location value.

In addition, a resource could improve or aggravate potential system voltage problems. Bonneville will evaluate each proposal to determine if enough information is available to treat location values as price or non-price factors.

Calculating the Seasonal Value of Energy Savings

The cost of meeting firm energy load in the region varies by season. This will effect the value of conservation savings needed to meet or reduce Bonneville's firm load commitments on a seasonal basis. Therefore, seasonal differences in the cost to meet or reduce loads will be reflected in the system cost of a resource.

(VS5-RMG-1068g)

APPENDIX C
PUBLIC COMMENT LETTERS

Public Utility District No. 1 of Benton County

524 South Auburn Street • P.O. Box 6270 • Kennewick, Washington 99336 • (509) 582-2175

June 14, 1990

Public Involvement Manager
BPA Headquarters Building
P.O. Box 12999
Portland, OR 97212

Re: Conservation Competitive Bidding Process

The District appreciates this opportunity to provide BPA with comments on the draft proposal for a conservation bidding process. The District generally endorses the comments provided by PPC but wishes to make the following statements.

The District believes that BPA should require that the local utility be notified whenever demand side resources are being offered from that utility's service area by a company that is not the serving utility. If a generating resource were being offered, the developer would have to work with the local utility to assure a means of delivering the energy before submitting a bid to BPA. A company submitting a bid on a demand side resource should have the same requirement.

Saving verification is an important and complicated step in the conservation bidding process. Much thought and effort needs to be put into this area. The District encourages BPA to work closely with PPC in development of the verification process.

The principle of cost sharing should be applied to resources acquired through the bidding process. Conservation from investor owned utilities should not be eligible for participation in this process. Since the IOU's are not placing load on BPA, no benefit would accrue to BPA for such conservation activities.

Very truly yours,

James W. Sanders
Director - Technical Services

JWS/cag

DANIEL W. MEEK
ATTORNEY & CONSULTANT
1035 N.E. CLATSOP STREET
PORTLAND, OREGON 97232

FAX

(503) 281-2201
281-2282
281-1712

June 8, 1990

Public Involvement
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAP-1-6	
RECEIVED	JUN 12 1990
AREA:	DISTRICT

Dear BPA:

RE: COMMENTS ON BPA COMPETITIVE BIDDING DRAFT PROPOSAL (APRIL 1990)

Enclosed are comments on behalf of SESCO, Inc., a residential energy conservation service company. I request that you send me a compilation of all comments BPA receives on this subject.

Thank you.

Sincerely,

DANIEL MEEK

**SESCO COMMENTS
ON
BPA COMPETITIVE BIDDING DRAFT PROPOSAL
(APRIL 1990)**

1. BPA SHOULD CONDUCT A CONSOLIDATED ALL-SOURCE ACQUISITION PROCESS.

BPA should allow direct competition between conservation and generation resources in a consolidated, all-source process. There should be no quotas for any particular type of resource, such as geothermal power or combustion turbines or industrial conservation.

2. BPA SHOULD NOT ESTABLISH A CEILING ON AMOUNT OF RESOURCES ACQUIRED, IF OFFERED AT BELOW BPA'S ALTERNATIVE COST.

If the bidding process provides BPA with more than the prescribed quantity of resources, BPA should undertake to acquire those which are cost effective. Certainly conservation should not be limited to 50 MW. For a utility the size of BPA, the bid should encompass perhaps 300-500 MW, with no arbitrary limit on the proportion that conservation can satisfy.

3. BPA SHOULD NOT RESERVE RESIDENTIAL CONSERVATION TO BPA CUSTOMER UTILITIES.

The BDP (p. 8) appears to reserve perhaps the entire residential sector for an indefinite period of time to BPA customer utilities, precluding any competition.

BPA should not erect an artificial barrier to competition for efficient provision of conservation in the residential sector. If a developer offers to achieve measurable, verifiable conservation in that sector, the existence of a utility operating a BPA central conservation program should not preempt the developer's proposal. BPA cannot learn efficient approaches to residential conservation without permitting competition in this sector, including competition with its own centrally-designed program.

In particular, BPA should not reserve the residential sector to its own customers which are not progressing to treat their entire population of residences. If a customer has weatherized 20% of its units and is proceeding to weatherize an additional 2% per year, for instance, large savings will be lost, unless developers are allowed to capture the savings in the units not reached by the utility program.

BPA should keep in mind that the penetration of its centrally-designed residential conservation program is limited by the need for homeowners and landlords to put up some portion of the funds for weatherization. Under the SESCO approach, homeowners and landlords are not asked to pay for any part of the treatment, thus significantly increasing penetration.

4. BPA SHOULD NOT REQUIRE THAT THE CONSERVATION MEASURES BE FULLY INSTALLED WITHIN 3 YEARS FROM THE EFFECTIVE DATE OF THE CONTRACT.

Large residential treatment programs may take more than 3 years to complete. While many thousands of units can be completed with 3 years, it may take longer to complete projects to treat all residences in large service areas.

Instead, BPA should require that the conservation measures be installed on a reasonable schedule, which start with the effective date of the contract and extend beyond 3 years.

5. BPA SHOULD PUBLISH THE SYSTEM COST OF ITS EXISTING CONSERVATION PROGRAMS.

The BDP (p. 10) states that "Bonneville's system cost of the Replacement Program must be equal to or lower than that of the existing program." This appears to establish a separate, additional cost-effectiveness test for projects which replace existing BPA conservation programs. BPA should now issue for review and then publish the system cost of each of its existing conservation programs, so developers can know their target.

BPA should consider that its own conservation programs impose substantial hidden costs upon consumers. Those in households where all adults work outside the house must arrange for time off from work at least 4-5 times in order to obtain residential treatment through most BPA-sponsored programs. This is a substantial cost that BPA should include in evaluating its own centrally-designed programs.

6. CONTRACTS SHOULD NOT BE LIMITED TO 20 YEARS.

There is no reason to limit contracts to 20 years. Residential conservation projects, for example, can continue to achieve savings beyond 20 years. Some of the initial measures will yield conservation beyond the first 20-year period (insulation, etc.). The SESCO approach includes periodic maintenance and return visits to houses not achieving expected savings. This constant maintenance means that the conservation will certainly extend beyond the end of any "contract period." The developer should receive credit for all conservation achieved (as long as it is measurable and verifiable), even if it extends beyond 20 years.

7. BPA SHOULD NOT LIMIT ADVANCED CAPITAL FUNDING TO 50%.

If advanced capital funding by BPA can reduce the cost of a conservation project, BPA should not be forbidden from achieving that cost savings by any arbitrary limit on advanced capital funding.

8. BPA SHOULD CONSIDER CREAM SKIMMING IN COMMERCIAL AND INDUSTRIAL SECTORS.

The BDP (p. 15) addresses the avoidance of cream-skimming in the residential sector. BPA should be equally concerned with cream-skimming in other sectors and should enforce the relevant rules without regard to sector.

9. BPA SHOULD NOT REJECT EXPERIMENTAL CONSERVATION MEASURES.

There is no reason for BPA to reject what it might consider "experimental" conservation measures, merely because BPA may not be familiar with certain new technology or techniques. As long as the savings are measurable and verifiable, the "newness" of the approach should not be a basis for rejecting it. If anything, innovative approaches should be preferred.

10. BPA SHOULD EXPLICITLY CONSIDER AND QUANTIFY ENVIRONMENTAL EXTERNALITIES.

Less environmental impact is one advantage of conservation over new supply. In evaluating the cost of resources, particularly supply sources, BPA should quantify the environmental externalities. Other utilities have achieved this in their RFP evaluations; BPA staff are already familiar with the various techniques employed.

11. BPA SHOULD MAKE ALL BIDS OPEN TO THE PUBLIC.

Once bids are submitted to BPA, they become public records and should be made freely available to the public. Access to bids is also important to allow competing bidders to point out defects or questionable aspects of competitors' bids.

DOUGLAS

ELECTRIC COOPERATIVE

1981 N.E. Stephens
Roseburg, Oregon 97470

P.O. Box 1327
(503) 673-6616

May 31, 1990

Public Involvement Manager
Bonneville Power Administration
PO Box 12999
Portland OR 97212

RECEIVED BY BPA	
PUBLIC INVOLVEMENT	
LOG	
REL	
JUN 06 1990	
AREA:	DISTRICT
L	

Subject: Draft Conservation Competitive Bidding Pilot Program

Douglas Electric Cooperative, Inc. appreciates this opportunity to comment on the Draft Conservation Competitive Bidding Pilot Program. We would like to make one additional point.

On page 8, section V.A. Proposal and Developer Eligibility, you specify that "Energy savings must occur in a building or facility..." This is very narrow and possibly an oversight on BPA's part. Savings can occur from outside the structure as well. For example, transmission voltage upgrade (i.e. from 34.5 kV to 69 kV) can save considerable KWH line loss savings.

Thank you for considering our comments. If there are any questions please let me know.

Sincerely,

DOUGLAS ELECTRIC COOPERATIVE, INC.

Dave Sabala
General Manager

/tdr

EMERALD PEOPLE'S UTILITY DISTRICT

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(503) 746-1583

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General Manager
LON TOPAZ

June 20, 1990

Public Involvement Office
Tom Von Muller
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAP-1-16	
RECEIPT DATE: JUN 20 1990	
AREA:	DISTRICT

Dear Tom:

The following are the comments of Emerald PUD on the Conservation Competitive Bidding Pilot Program. We greatly appreciate the opportunity to comment on this draft proposal.

General

Emerald feels that the region needs a menu of resource acquisition approaches to effectively meet the need for new resources, and demand-side bidding is an important item on that menu.

We suggest that BPA change the name of the program to the "Demand-Side Competitive Bidding Program", and not treat this program as a pilot but a full fledged solicitation.

We support the funding of demand-side bidding in addition, and not in lieu of, budgets specified for centrally-designed conservation programs.

We also support the combined ranking and selection process of all demand and supply-side resources. We would recommend that prior to final ranking allocating the 10 percent bonus given conservation by the Power Act by adding 10 percent to all other resource bid prices prior to the calculation of their system cost.

Finally, we recommend that a resource bid in good faith with sufficient detail should be considered by BPA as a "best effort" on the part of the submitting utility to meet its load obligations.

1. What Projects or Programs Qualify?

We have a concern that with the trend toward comprehensive "one-stop-shopping" type of conservation programs in all sectors that little if any activities or energy conservation measures (ecm's) will be eligible for bidding if BPA prohibits competition with BPA funded conservation programs? We suggest that BPA dispense with this prohibition and allow the competitive bidding mechanism to work unhindered.

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DOUGLAS M. STILL

General Manager
LON TOPAZ

While we think the idea of "replacement" programs is great we wonder how hybrid or enhanced programs will effect existing budget allocations? We also wonder if replacement program proposals might not be better handled outside the bidding process since they really do not promote competition and thus lower program costs. BPA should consider having this option as part of centrally designed programs as in the Post-1990 Residential Weatherization Agreement. We agree with the PPC comment that replacement programs should not face more stringent requirements.

The requirement that all ecm's be installed and producing savings within 3 years is too restrictive. It may be appropriate for specific projects but it should be significantly lengthened for programs. BPA and utility experience clearly indicates that programs take several years to ramp-up and several more to achieve their maximum penetration.

2. Non-Utility Developers

We believe that it is appropriate to allow utilities to have the first chance to do the conservation in their service territory, but if they are unwilling or unable to take advantage of conservation opportunities they should not be protected from competition from third-parties. We therefore recommend that a fourth type of proposal be deemed equal to the 3 listed on page 9 of the Draft Proposal: A third-party proposal with a utility refusal to endorse, if the refusal is made for an unacceptable reason. The point is not to allow utility veto power of third-party proposals because the utility does not want to compete.

Third-parties should be required to notify the host utility by submitting it's abstract, as required by BPA, within a time certain after submitting the abstract to BPA. At that point the host utility can respond and suggest a partnership with the third-party or suggest modifications that are reasonable and in the interest of the region. This would be more acceptable than notification right before contract negotiations between BPA and the third-party developer.

In the same light utilities should be respond in a timely manner to reasonable requests for information by third-parties. Care should be taken to respect the confidentiality of individual utility customers.

BPA may want to consider arbitration as a method of conflict resolution, to be completed in a time certain, for disagreements between BPA, utilities, and third-parties, before and after contract negotiations.

Finally, we agree with the PPC position that "conservation in Northwest investor-owned utility service territories be declared ineligible for participation in Bonneville's conservation bidding process, since none of the region's IOU's currently has declared a firm planning load on

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BPA for the time during which the conservation measures would be in effect."

3. Term of the Contract

Contracts for 10-20 years are appropriate for a total program or project contracts if this means the savings are to be available over the 10-20 year period. This should not mean that each scm should have an expected life of 10-20 years. Shorter lives than 10 years should be acceptable, especially in long-term on-going programs. Moreover, the amount of the savings from the program should not be required to be constant over the entire 10-20 years. It should be acceptable to have a savings curve that ramps-up and then down over the contract term. The key for BPA should be planning certainty, not flat savings curves.

4. Contract Negotiation

Adjustments of the bid price to reflect added increments of resource value are appropriate provided it is done within a specified range and clearly calculated. BPA may want to consider a cap on the adjustment, i.e., the highest accepted bid or the lowest non-accepted bid.

5. Advanced Capital Funding

We feel that it is appropriate for BPA to discourage significant amounts of advanced capital funding and encourage developer financed proposals. However, this policy should not be so stringent as to completely discourage or make impossible non-utility proposals without unfettered access to capital.

6. Contractor Liability

The decentralized nature of most conservation programs makes them inherently less risky than nearly all other types of resources. The chances of absolute failure are minimal and the chances of an energy savings shortfall with familiar programs is also quite small. Given this we recommend that for small programs or projects (under 5 aMW) without advanced capital funding that are fairly certain and familiar there not be the burden of liquidated damages/replacement resource requirement or an early termination penalty. The additional cost added to small resources needed to protect the developer may have an unjustly adverse affect on the viability of smaller sized resource proposals. **Smaller sized resource proposals should be handled with output contracts.** Since the overall exposure to BPA from a financial and planning perspective would probably not be "unreasonable", this way of handling small resource proposals seems appropriate.

Security requirements should only be required on bids that request advanced capital funding, not all bids.

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Finally, examples of how termination penalties and cost recovery provisions will be calculated should be made clear in the final RFR. Will it be the net present value of the estimated savings for the remainder of the contract? The annual cost of replacement power? Or the value over time of the energy of the next highest bid?

7. Bonneville Inspections

Emerald believes that for small resources and resources that maintain the verified level of savings (especially meter verified) should require only one inspection and should not be subject to an annual inspection from BPA. This amount of inspection is overly burdensome. Additionally, the relationship with industrial and commercial customers is highly valued by utilities, and BPA should be aware that overly burdensome inspection requirements can hinder that relationship and hamper future conservation efforts. It is acceptable to monitor and inspect on-going long-term programs during the implementation phase of a program, but not the entire term of the contract.

8. Cost Sharing

While we understand this is not the appropriate forum to examine the Cost Sharing Policy we are nevertheless concerned about the adverse affect this policy is likely to have on some utility proposals and especially third-party proposals in cost sharing service areas. Considering those areas experiencing high growth rates and in some instances transmission/voltage problems, which is where we want to promote conservation activities, are the same areas that must cost share this policy appears to be misapplied in this instance. We do not see a significant difference between a kWh saved in a non-cost sharing service area and a kWh saved in a cost sharing service area.

9. Lost Opportunities

We agree that BPA should be sensitive to creating lost opportunities and require the installation of all cost-effective ecm's.

We are concerned with the requirement that in the residential sector all programs must include the listed ecm's. While this may be appropriate for a weatherization program it should not be required in other residential sector programs such as lighting or energy efficient water heaters and appliances programs.

In the industrial sector we think that BPA should encourage the inclusion of all cost-effective ecm's if the opportunity is available to do so.

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General Manager
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10. Eligible ECM's

Distribution efficiency improvements should be eligible.

Experimental ecm's should be eligible on a limited basis through output contracts.

11. Detailed Program or Project Description

- a. As well as a description of how the project or program will be financed we support PPC's comment that the developer should show evidence of financial support.
- b. As well as a description of required permits and licenses a developer should indicate the status of such permits and licenses.
- c. It would be useful to know the maximum and minimum ramp-up and down rates in case we need to adjust quickly to load/resource changes. Flexible resources would be more valuable.
- d. In keeping with our previous comment of having non-utility developers notifying host utilities with an abstract, there should be an indication of having notified the host utility.
- e. Finally, it would be helpful in the evaluation process to know if similar projects or programs to the one proposed have been done elsewhere? If so, where? When? By whom? and How much was saved?

We appreciate this opportunity to comment on this draft proposal and we hope that BPA will carefully consider and include Emerald PUD's recommendations in the final Request For Resources.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lon Topaz".
Lon Topaz
General Manager

NORTHWEST POWER PLANNING COUNCIL

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Ted Hallock
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Ms. Sue Hickey
Assistant Administrator, Office of Resource
Bonneville Power Administration
P.O. Box 3621, M.S. R
Portland, Oregon 97208

Dear Sue:

JUN 25 1990	
RECEIVED BY BPA	
PUBLIC INVOLVEMENT	
LOG # DSAP-1-18	
RECEIVED	
JUN 25 1990	
AREA:	DISTRICT
L	

RECEIVED
JUN 25 1990
GENERATION PROGRAMS
BRANCH RMG

CC: Larry Larson - AR

The Council staff has reviewed Bonneville's draft proposals for a Conservation Competitive Bidding Pilot Program and Generating Resource Acquisition Process. It is our understanding that these two documents form the basis for an all-resources Pilot Bidding Program instead of two separate programs. In light of this arrangement, we thought that it was important to offer comments on both documents at the same time.

In previous comments on Bonneville's Resource Acquisition Approaches, the Council expressed strong support for testing a wide variety of acquisition approaches. We are pleased to see that Bonneville is actively pursuing a number of ideas and that bidding is one of several innovative programs being contemplated. We encourage Bonneville to continue this trend and to explore additional new acquisition approaches without leaning too heavily on any one approach.

The revised proposals contain a number of important improvements over earlier versions reviewed by the staff. We would like to offer some additional comments on an all-resources bidding program represented by these new draft proposals. Comments specific to the individual proposals are provided in Attachments I and II.

Maintain current successful program operations while testing bidding. While Bonneville begins testing different acquisition approaches, it should also maintain an adequate transition from the current program offerings. The Council believes that any new approaches such as bidding should not divert financial or personnel resources away from the current successfully operating program efforts. This is an important principle given that many of these new approaches, including bidding, may not be successful. The region will need to significantly increase its acquisition efforts in the near future and it is important not to lose the existing infrastructure in the event that bidding or any other of the new approaches fails to deliver.

Ensure a full test of conservation acquisition through bidding. It is important to test conservation bidding in a way that will genuinely demonstrate its viability as an acquisition approach. A joint "all-resources" competition runs the risk of not providing a true test of conservation bidding. Because of budget constraints, it is possible that all of the available funds could be allocated to a few generating

resources. While this might adequately meet the need for resources, it would still leave unanswered questions surrounding the actual implementation of a conservation bidding program. We believe these questions can only be answered by full execution of a program from the request for bid phase all way through the negotiation, award, and payment phases. One way to ensure that conservation bidding is adequately tested is to reserve a certain number of the budgeted megawatts for demand side resources.

Where possible, treat conservation and generation resources consistent. While there are distinct differences between the two types of resources, it is important where possible to maintain consistency in the bidding and evaluation requirements. For example, in the current proposals there appear to be two different levels of risk management requirements for the two types of resources. While there are definite risks with demand side resources, it is not clear at this point whether they are greater or less than those associated with generation side resources. Until better information can be derived about the difference in risk, it makes sense to maintain a consistent risk management strategy across all types of resources. This should be true of other bid requirements as well as evaluation criteria where appropriate.

Provide further detail on the evaluation criteria, especially the determination of system cost. While the draft proposals raise a great number of issues to be considered in the evaluation of proposals, a number lack sufficient detail for a proposer to determine how projects will be evaluated. As an important example, the current proposal does not provide enough information for a developer to compute the system cost of a given resource. Bonneville has taken a good first step in the direction of simplifying this process and understandably some of the components of this methodology are not yet established. Nevertheless, we believe that it will be important for the success of the program to have the system cost calculation methodology established before the solicitation process begins.

The Council staff took a first cut at developing a simplified approach to calculating the system value of resources in an issue paper published last year. While this methodology is not the ultimate solution, it may provide some guidance to a workable approach. A copy of this paper is included as Attachment III. Based on the results of that paper, we believe that factors for lead time and unit size can be added to the system cost equation.

We also believe that if conservation and generation resources are to compete directly, the evaluation criteria should take into consideration the indirect benefits of the conservation resource. The methodology should reflect the value of reduced transmission and distribution losses due to the conservation measures. In addition, conservation should receive the 10% credit given in the Act when compared to non-conservation resources.

Clarify requirements based on Section 6(c) of the Act. Neither proposal was clear about the timing and application of the process used to determine whether a resource is consistent with the Council's Power Plan. We encourage Bonneville to outline how and when section 6(c) will apply for these proposals. The policies adopted by Bonneville and the Council for section 6(c) emphasized regular consultations regarding the acquisition of "major" resources. It may be appropriate for such consultations to occur before the final bidding proposals are developed.

ATTACHMENT I

COMMENTS ON BONNEVILLE'S DRAFT PROPOSAL FOR CONSERVATION COMPETITIVE BIDDING PROCESS

1. **Program/Project Qualification.** The proposal requires that all energy conservation measures (ECMs) be installed and operating within three years from the effective date of the contract. This restriction seems artificial and unnecessarily limiting. It is not difficult to envision a scenario where a large industrial customer wishes to upgrade its entire stock of motors, but it wants to do so over its normal maintenance schedule which would hit all of the motors over a five year period. We recommend that this three year requirement be dropped and replaced with a requirement for the developer to provide a schedule for implementation so that Bonneville can plan when the resources will come on-line.

2. **Performance Based Payments.** While we agree that this is the most risk free method of payment for Bonneville, it may be difficult to apply this technique across all sectors and measures. Previous Bonneville evaluations have not been without their own controversy and have shown consistently that there is always a large standard deviation around any measurement of energy savings.

Therefore, the terms of the performance measurement system need to be clearly delineated in the contract. Allowances for weather, economic or other considerations out of the control of the developer should be accounted for in the measurement scheme. The basis for reconciliation by audit procedures should also be clearly spelled out in the contract. The experience of the pilot weatherization should not be repeated here. In the Pilot program the evaluation method was determined after the contracts had been operating for several years. The resulting audits concluded that many of the utilities owed Bonneville in excess of \$100,000 on the basis of an evaluation criteria that was not an explicit part of the contract.

3. **Bonneville Inspections.** The requirement for Bonneville inspections as it is currently written raises the spectre of a receipt and acceptance type inspection of the conservation measures. However, if Bonneville is paying on a performance basis, the level of inspections represented by the R&A approach would seem to be unnecessary. However, if Bonneville is providing up-front capital, more detailed inspection may be necessary. In either case, given Bonneville's previous history in this area, it is important to further define the extent of the inspections in both private and Bonneville financed projects.

4. **Early Termination Penalty.** The early termination penalty seems to be unrealistically harsh given that the payments are already performance based. These clauses are typically used with independent power producers where the energy producing facility requires active operations and maintenance. While there are some conservation measures that require ongoing O&M, a number are one-time installations and do not require any additional activity on the part of the developer. In these cases, Bonneville's only risk is that the developer may not get as many units or that level of expected savings is not as large as promised. In these cases, Bonneville would simply not have to pay for the energy not saved. If this clause is a major stumbling block to demand side bidders, it does not seem to

be worth keeping. This is especially true if an equivalent clause is not in place for generation resource proposals.

5. **Cost Sharing** The application of cost sharing to the bidding process is still not clear. It would be more straight-forward to simply rank the proposals by adjusting the bid price of the proposals by the cost sharing factors. This would ensure that proposals in Bonneville's full requirements territories automatically have an edge over cost-shared utilities. Utilities or proposers in cost shared service territory wishing to be more competitive would then have to cost-share using some of their own money knowing that Bonneville will automatically increase the price of their bid by the cost sharing factors. After ranking this way and awarding the proposals, Bonneville should just pay the proposer's bid price. This would greatly simplify the whole process.

6. **Comprehensive ECM Packages.** We are pleased to see a requirement designed to eliminate "cream-skimming" and the possible creation of lost opportunities. The discussion on comprehensive ECM packages is good - however, it focuses on "long lifetime" measures; what is really needed is a package that includes all cost-effective measures regardless of lifetime. The scoring criteria should provide adequate incentives to encourage proposals that include all cost effective measures. These incentives will be important given that the whole idea of a "low-cost" bid discourages installation of high-cost, low yield measures that are at the tail end of the cost effectiveness spectrum. This scoring credit is all the more critical if conservation proposals are competed directly against generation proposals which do not have a similar requirement.

7. **ECMs Installed In Buildings Previously Treated Under Bonneville Programs.** The proposal appears to exclude buildings that have previously participated in a Bonneville program. However, Bonneville's programs have not always been comprehensive in their treatment of a given building. It seems unreasonable to limit the initial bid to buildings which have not been addressed by a previous Bonneville program if conservation opportunities remain in these buildings. For example, since Bonneville's Residential Weatherization program does not include any water conservation measures other than tank wraps and includes no lighting measures, a proposer may want to come in with a comprehensive water heating program that includes a solar water heater, low flow shower heads, and compact fluorescent lights and still achieve a significant reduction in overall use without duplicating any of the Bonneville program measures. Again, since BPA will pay based on performance, concerns about double counting should be reduced on buildings that have already been treated and have adequate billing histories to establish post-weatherization use.

CONFIDENTIAL MEMORANDUM

ATTACHMENT II

COMMENTS ON BPA'S PROPOSED ACQUISITION PROCESS FOR GENERATING RESOURCES

1. **The Resource Program and Competitive Acquisition.** The value of the Resource Program, in part, is to establish target levels for resource acquisition. As a solicitation process is executed, new information may arise pertaining to resources examined in the Resource Program. This new information may alter the relative cost-effectiveness of these resources. While the Council staff is not suggesting that the Resource Program be re-examined after every solicitation, we recommend that the targets established be used primarily as a guide in selecting the winning bids.
2. **Resource Focus.** To achieve the objective of a full test of an "all source" solicitation, it will probably be necessary to solicit proposals for an amount of energy greater than 50 megawatts. By restricting the solicitation to 50 megawatts, projects larger than that will automatically be omitted. At the same time, bidders of smaller resources may feel that their chances of success will be compromised by one or two large resource bids and therefore may not enter the solicitation at all.
3. **Economic Analysis Information Provided in Solicitation.** If Bonneville is planning to use the value of dispatchability, lead time and unit size in its evaluation of system cost, it should provide information relating to the value of these parameters at the time of the solicitation.
4. **Contract Management and Project Oversight.** Bonneville's oversight activities will depend on the type of resource contracted and the nature and magnitude of Bonneville's share of the project risk. Because of this, some projects may require more Bonneville oversight than others. It is not clear whether this additional cost is incorporated into the evaluation process. If it isn't, we believe that it can and should be added using a process similar to that developed by Council staff (attached).

END DOCUMENT MEMORANDUM

8 June 1990

RECEIVED BY BPA	
PUBLIC INVOLVEMENT	
LOG # DSAP-1-4	
RECEIVED DATE	
JUN 08 1990	
AREA:	DISTRICT
L	

TO: Bonneville Power Administration
Technical Review Panel Bidding Process - Competitive
Bidding Process, meeting of 6 June 1990 comments,
and,
Technical Review Panel, meeting of 7 June 1990

FROM: Carolyn Browne, Oregon Homeowners Association

On Wednesday afternoon, a question was voiced about air quality and perhaps using some environmental guidelines for standards. I believe that BPA and all parties involved with BPA should be aware of the current H.R. 3030--Clean Air Act Amendments of 1990 currently being or undergoing discussion in the U.S. House Committee on Energy & Commerce. H.R. 3030 was introduced by Mr. Dingell on July 27, 1989.

Of specific interest to the Pacific Northwest, I believe are the ramifications pertaining to Energy Conservation and Renewable Energy which allows incentives for electric utilities, including state and federal agencies that sell electricity, to institute new conservation measures and to build new renewable energy power plants, or buy electricity from such plants. The allowances are to be allocated in Phase II of a reserve from allowances in the Phase I SO 2 Program. These allowances start in January 1, 1992. I wonder what effect, if any, this has or might have on the resource package for BPA. Particularly in the division of those resources within the BPA service area. Renewable energy is one of our greatest NW assets.

H.R. 3030 also addresses Clean-Coal Technology Funding and emission levels that could pertain to the potential of CT resources.

Some of the measures in H.R. 3030 could drastically change the future as we know it today in a very rapid fashion. In other words, all types of fuel consumption may be affected by various air quality measures within the next two, four, six year time frames.

Toward the end of the decade, H.R. 3030 is expected to help encourage electric utility companies to pursue cost-effective energy conservation and renewable energy measures by instituting a cap on sulfur dioxide emissions.

Partners in Power Management

Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Subject: Draft Conservation Competitive Bidding Pilot Program

Dear Sir:

The Pacific Northwest Generating Cooperative (PNGC) represents 28 rural electric cooperatives which are full requirements customers of BPA. We appreciate this opportunity to comment on the Draft Conservation Competitive Bidding Pilot Program.

We have participated in the development of the Public Power Council (PPC) and Pacific Northwest Utility Conference Committee (PNUCC) comments on the Conservation Bidding Program and encourage your careful consideration of their recommendations.

We would like to make three additional points. First, we want to thank you for including the Cost Sharing provisions in section VII. These provide minimum equity protection to the rate-payers of full requirements customers. We believe that serious bidders will have no problem in dealing with the slight additional complexity.

Second, on page 8, section V.A. Proposal and Developer Eligibility, you specify that "Energy Savings must occur in a Building or Facility...". This is unnecessarily narrow. Savings could occur outside of a structure, such as with area lighting or distribution system efficiency improvements.

To remove these exclusions we propose adding at the end of the last sentence in the paragraph starting with "General": "or other locations that provide Energy Savings". In the next paragraph the phrase "Buildings or Facilities" should be changed to "Buildings, Facilities or other locations". And at the end of the same sentence the phrase "or BPA Customers" should be added.

Pacific Northwest Generating Cooperative

20014 E. Main Avenue
Suite 1450
Portland, Oregon 97224-2024
(503) 235-3500
Fax (503) 235-0364

May 24, 1990	
RECEIVED BY BPA	
PUBLIC INVOLVEMENT	
LOG #CCB-1-1	
RECEIVED	
MAY 24 1990	
AREA:	DISTRICT
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Public Involvement Manager

Page 2

May 24, 1990

And third, on page 9, section V.C. Notification to Serving Utilities, you identify the potential competition between utility and non-utility Developers. In doing so you seem to overlook the competition among all of the bidders. In fact the most aggressive competition might occur when a utility and non-utility make a joint proposal (versus other bidders-consortia).

To address this concern we suggest two changes. In the last sentence of the paragraph beginning "Context:" please change the phrase "with each other" to "among themselves". And, at the end of the same paragraph, add the sentence "This competition does not preclude joint utility/non-utility proposals; in fact, BPA encourages them."

Thank you for considering our comments. If there are any questions please call Phill Sher at PNGC.

Sincerely Yours,

Phillip A. Sher

Managing Economist

PAS/sw

JUN 12 1990

PNUCC

PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

June 8, 1990

cc: R
RM
RMG
RP
RPP

Ms. Sue Hickey, Assistant Admin.
Office of Power Resources
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

RECEIVED BY BPA	
PUBLIC INVOLVEMENT	
LOG # BPA-1-9	
JUN 15 1990	
AREA	DISTRICT

Dear Sue:

PNUCC has reviewed BPA's well-prepared, draft proposal on conservation bidding. PNUCC offers the following comments:

- PNUCC views BPA resource acquisitions as a partnership activity between the region's utilities and BPA. BPA should acquire conservation--including within a competitive bidding framework--in cooperation with its utility customers.
- PNUCC supports BPA's decision to make funding for conservation bidding separate from allocations already designated for centrally designed programs, within the 1990 Resource Program. Budget allocations for acquisition programs can be reevaluated when the draft 1992 resource program is prepared.
- PNUCC supports the emphasis that BPA has placed on the need to measure and verify program energy savings. But it will be necessary for BPA to develop a verification process and schedule in conjunction with utility resource managers.
- PNUCC supports BPA's preference for payment-stream financing, as opposed to capital financing, for acquisitions under competitive bidding. This feature will transfer some of the acquisition risk from BPA to the resource developer.
- PNUCC supports an option for utilities to submit bids to replace existing conservation programs within their service areas. In some cases, this option will provide utilities with greater flexibility to expand program delivery with limited resources.
- BPA should explicitly identify its "cost-effective limit" in the RFP (its avoided-cost level); it also should identify any measure options that would not qualify for funding (for example, would a "stand alone" lighting program for the existing commercial sector be eligible).

Bonneville Power Administration

June 8, 1990

Page 2

- What is the relationship between BPA's conservation bidding process and the alternative program review work under the Long-Term Commercial Acquisition Program (LTCAP)? For utilities, are these processes duplicative? Could the acquisition objectives of the bidding process be accomplished under LTCAP alternative program options?

If you have any questions regarding PNUCC's comments, then please feel free to contact me.

Sincerely

Al Wright
Executive Director

cc: PNUCC System Planning Committee
PNUCC Conservation Task Force
BPA Public Involvement

June 22, 1990

Sue Hickey
Assistant Administrator for Energy Resources
Bonneville Power Administration - E
Post Office Box 3621
Portland, Oregon 97232

Dear Sue,

Attached are PPC's comments on Bonneville's "Draft Proposal for a Conservation Competitive Bidding Pilot Program." We are pleased that the draft reflects BPA's positive response to the comments that PPC provided on the "Acquisition Approaches" document. Many of our concerns have been addressed in the draft proposal.

However, I would like to bring to your attention the strong feelings of the Executive Committee regarding the possibility of direct Bonneville-third party conservation arrangements that the draft proposal would allow to occur without the approval of the utility. The Act contemplated that Bonneville would acquire conservation through its wholesale customers, not directly from utilities' retail customers. Utilities should be given the first opportunity to deliver conservation in their service territory, and Bonneville has not provided this first opportunity for the commercial and industrial sectors. BPA's choosing to employ third parties without the utility's approval of specific conservation projects should be an action of last resort. Utility endorsement of non-utility proposals should be given substantial weight in Bonneville's methodology for evaluating conservation bidding proposals.

Thank you again for the opportunity to comment.

Sincerely yours,

for William K. Drummond
Manager

cc: Executive Committee; Conservation and Energy Services Committee; Resource Planning Task Force
Joann Scott, BPA-ALP; Tom von Muller, BPA-RMG

**Public Power Council Comments on:
Bonneville Power Administration's
"Draft Proposal for a Conservation Competitive Bidding Pilot Program"**
June 22, 1990

The Public Power Council (PPC) appreciates the opportunity to comment on the Bonneville Power Administration's "Draft Proposal for a Conservation Competitive Bidding Pilot Program." PPC is pleased that the draft reflects BPA's positive response to the comments that PPC provided on the "Acquisition Approaches" document. Many, but not all, of our concerns have been addressed in the draft proposal.

Our comments are divided into two sections. The first section briefly reiterates positions PPC communicated to Bonneville in our comments on the "Acquisition Approaches" document. The second and larger section provides our specific comments on Bonneville's conservation bidding proposal.

PPC Places a Secondary Priority on Conservation Bidding:

Before providing specific comments on the document, we would like to reiterate several positions relevant to conservation bidding that we communicated to Bonneville in our recent comments on the "Acquisition Approaches" document. We still hold these positions.

First, we place a secondary priority on bidding for conservation, while placing a high priority on:

- providing a flexible menu of options for Bonneville program offerings,
- allowing utilities to use their budget allocation for a given program to operate an equally cost-effective program to achieve the same target,
- working to implement the current billing credits policy in a workable fashion, and
- cooperating with utilities proposing to use "off budget" financing.

Second, since conservation bidding is a secondary priority, we recommend that it should not detract from the primary goal of getting programs up and operating, nor should it drain resources from resolving conservation billing credits issues.

Specific Comments on Bonneville' Conservation Bidding Proposal:

In addition to viewing conservation bidding as a secondary priority, PPC offers the following comments on Bonneville's proposal.

- A. PPC supports Bonneville's decision that this pilot test of conservation bidding should not compete with ongoing BPA-funded programs, both in terms of service territory eligibility and in terms of overall BPA program budgets.
 - 1. PPC strongly supports Bonneville's decision to accept proposals only for sectors and locations where BPA-funded program are not operating.
 - 2. PPC strongly supports Bonneville's decision that bidding budgets will be in addition to, not in lieu of, proposed program budgets, for the period addressed by the 1990 Resource Program.
- B. PPC strongly recommends that Bonneville give substantial weight to utility endorsement of non-utility proposals when evaluating a non-utility bid. Utilities should be given the first opportunity to deliver conservation in their service territory. Alternative deliverers should be used only if utility-led approaches have proven ineffective, or when there is a clear cost-effectiveness advantage. Direct BPA-third party delivery is best limited to those service territories choosing this as an option. In most instances, it is appropriate for the utility to employ the services of a third party if it so chooses. BPA's choosing to employ third parties without the utility's approval of specific conservation projects should be an action of last resort.
 - 1. PPC strongly disagrees with Bonneville's proposal that utility endorsement merely act as a "tiebreaker."
 - 2. PPC strongly disagrees with Bonneville's proposal that a utility merely be notified if a non-utility wins a bid for conservation in the utility's service territory.
- C. PPC enthusiastically endorses the "replacement program" concept.
 - 1. PPC strongly supports Bonneville allowing utilities to use their budget allocation for a given program to operate an equally cost-effective program to achieve the same target.
 - 2. PPC believes that a replacement program should not face more stringent requirements than the BPA-funded program it replaces. As proposed as a part of the conservation bidding process, replacement programs would face substantially more stringent requirements. Replacement programs may fit best outside of the conservation bidding process.

- D. Valid procedures for verifying that the project or program is meeting its goals are necessary to demonstrate that the conservation resource has been secured. PPC's Conservation and Energy Services Committee has initiated an effort to investigate the verification of savings issue. We would like to work closely with Bonneville to help define adequate verification of savings.

However, Bonneville's draft proposal fails to give sufficient emphasis to maintaining the conservation measures, once installed. Installing measures typically has proven easier than maintaining their savings over the long term. Proposals that include only minimal expenditures for maintaining measures for the long run should be scrutinized carefully.

- E. PPC is concerned that the requirement that all measures be installed within three years will restrict participation to "projects," not "programs." While this may be Bonneville's goal for the pilot, if BPA wants to test this concept for programs, we recommend lengthening the installation deadline.
- F. PPC supports a combined ranking of conservation and generation bids according to bid price.
1. PPC supports the combined ranking process for conservation and supply-side bids. The ten percent credit given conservation by the Northwest Power Act should be applied to conservation bids.
 2. PPC supports ranking of conservation proposals by bid price, so long as the proposed conservation passes a cost-effectiveness screen based on the total cost of conservation to society. Conservation proposals should not include measures that are not cost-effective to the region.
- G. PPC has several recommendations regarding the measures to be included in proposals.
1. PPC strongly recommends that distribution system efficiency improvements be eligible for the conservation bidding process.
 2. PPC agrees with Bonneville that the conservation bid solicitation should be sensitive to the possibility of creating "lost opportunities" and encouraging "cream skimming."
 3. PPC recommends that the measures that Bonneville requires of residential programs in its solicitation be made consistent with those of the Post-1990 Residential Weatherization Program.

4. PPC believes that experimental measures should be eligible to participate in Bonneville's conservation bidding effort, so long as they are purchased under output contracts.
 5. PPC disagrees with the draft conservation bidding proposal's "encouragement" of bundling of non-cost effective measures (those measures costing more than the regional avoided cost) with cost-effective ones, since bundling is contrary to well-founded BPA and Council policy.
 6. PPC believes that installing comprehensive packages of measures should not be required in the commercial and industrial sectors. Staging of installation has merit. Starting with the simplest measures first, then proceeding to more complex measures, allows the developer the time to thoroughly analyze feasibility of installing the complex measures and to gain more familiarity with the facility.
 7. PPC recommends that Bonneville not require individual cost-effectiveness analyses of measures commonly installed together and generally thought to be cost-effective.
- H. PPC strongly recommends that conservation in Northwest investor-owned utility service territories be declared ineligible for participation in Bonneville's conservation bidding process, since none of the region's IOUs currently has declared a firm planning load on BPA for the time during which the conservation measures would be in effect.

**PUGET
POWER**

June 25, 1990

Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAP-1-19	
RECEIVED JUN 25 1990	
AREA: T	DISTRICT

Re: Draft Proposal for a Conservation Competitive Bidding Process

Dear Public Involvement Manager:

These comments on behalf of Puget Sound Power & Light Company are in response to Bonneville's draft proposal for a conservation competitive bidding pilot program issued for comment on May 15, 1990.

As Puget has previously indicated in comments submitted on related issues, Bonneville should focus on working with the region's utilities in its efforts to acquire conservation. Mechanisms to ensure that this cooperation is achieved must be developed before Bonneville proceeds with actual acquisition efforts, whether by way of "pilot programs" or otherwise.

Bonneville's undertaking of its own bidding process in the manner set forth in the draft proposal is not consistent with the obligations imposed upon Bonneville by the Regional Power Act, or with the principles which underlie those obligations. Section 6(e)(2) of the Regional Act imposes a restriction on Bonneville's direct dealings with consumers:

To the extent conservation measures or acquisition of resources require direct arrangements with consumers, the Administrator shall make maximum practicable use of customers and local entities capable of administering and carrying out such arrangements.

(The Regional Act at section 3(5) defines a "consumer" as any end-user of electric power.)

The legislative history with respect to this section of the Regional Act states as follows:

This section requires the Administrator to make maximum practicable use of his customers and local entities in carrying out programs that require arrangements with consumers. The Committee does not

The Energy Starts Here™

Public Involvement Manager
June 25, 1990
Page 2

anticipate that it will be necessary for the Administrator to deal directly with consumers in implementing conservation measures or acquiring resources

(Emphasis added.) Pacific Northwest Conservation Power Planning and Conservation Act, S. Report No. 96-272, 96th Cong., 1st Sess. (1979), p. 29. Thus, Bonneville is subject to a clear statutory restriction in making acquisitions from end-users of electric power.

The proposed Conservation Competitive Bidding Process is directly at odds with this statutory restriction. The draft proposal contemplates that Bonneville would acquire conservation directly from consumers irrespective of any involvement by the serving utility. The draft proposal does not address or even acknowledge the clear congressional requirement that Bonneville make maximum practicable use of its customers in resource acquisitions. The draft proposal merely includes statements that Bonneville will be "sensitive" to the concerns of serving utilities. Along these lines, the draft proposal contemplates that a "serving utility" will be notified if a project within its service territory has been selected. (Draft proposal, p. 9.) Moreover, the draft proposal seems to contemplate a slight preference if the "serving utility" is involved with or endorses the conservation project or program. (Id., p. 9.) Such insignificant involvement by the serving utility simply does not fulfill Bonneville's obligation to "make maximum practicable use" of serving utilities before dealing directly with end users. Bonneville is obliged to focus its efforts on working cooperatively with the region's utilities in connection with resource acquisition, rather than creating duplicative programs which interfere with existing activities of the region's utilities.

Puget appreciates the opportunity to submit comments on the draft proposal, and would be happy to discuss any of these topics in further detail with Bonneville.

Very truly yours,

PUGET SOUND POWER & LIGHT COMPANY

By
Gary Swofford, Vice President
Rates and Customer Program

1352V
cc: Tom Von Muller

**PUGET ENERGY
SERVICES, INC.**

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG: DSAP-1-14
RE:
JUN 20 1990
AREA: DISTRICT
T

June 20, 1990

Public Involvement Office
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

As Regional Manager for Puget Energy Services, Inc. (PESI), I am writing to provide our comments on the proposed Competitive Bid Program. The enclosed letter is being sent to you via facsimile; the original will be mailed simultaneously.

Sincerely,

Greg Page
Western Regional Manager

Encl
CLP/my

June 20, 1990

Public Involvement Office
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

Re: Draft Proposal for a Conservation Competitive Bidding Pilot Program

As Regional Manager for Puget Energy Services, Inc. (PESI), I am writing to provide our comments on the proposed program.

PESI's perspective is that of a third-party developer. Our mission is to deliver to utilities demand-side projects at a cost below and/or a quality greater than the supply alternatives in a manner that enhances the utility's relationship with its customer. We accomplish this by working with utility customers to improve the productivity of their energy use.

Currently, we have contracts awarded under competitive bidding to provide approximately 10 MW of conservation to utilities throughout the United States. Our projects include office buildings, institutional facilities, and large industrial customers, such as pulp/paper mills.

It is with this perspective that we offer the following recommendations to the April 1990 Draft Proposal for the Conservation Competitive Bidding Pilot Program.

- **BPA should continue its efforts to modify the program to gain the support of its customers—the utilities.**

PESI's clients are utilities. Competitive bidding has been previously accomplished by private utilities for their own service territories. It is ambitious for an agency of the Federal government to develop a competitive bid program, especially when their own customers are utilities. The current program appears not to have the support of the utilities and, hence, the bid process becomes inherently riskier for a developer since the bid may not be actually awarded due to utility opposition.

We encourage BPA to continue their efforts to modify the program to gain the support of its utility customers. When the bid is issued, we intend to work with utilities and would have no objections if this was made a requirement of the program. As additional specific suggestions, we would encourage BPA to examine methods to protect utilities from the lost revenue margins resulting from major conservation projects that would be implemented in their service territory. We also encourage BPA not to offer the competitive bid in service territories where the utility already has a DSM solicitation.

5. INCENTIVE STRUCTURE

In the PES Pilot, Bonneville is paying sponsors an incentive over seven years based on a negotiated rate of return (ROR). Sponsors were required to identify the ROR they were willing to accept for buildings in the program. The sponsor's ROR is applied to each building in order to calculate the incentive.

Sponsors had the option of receiving incentive payments based either on estimates of energy savings or on measured savings. Bonneville indicated it was acceptable for sponsors to propose a higher ROR for payments based on measured energy savings to compensate for the additional risk to the sponsor.

Each participating sponsor is required to retrofit at least five buildings and is eligible to receive a maximum of \$150,000 in annual incentive payments for seven years. Incentives for each building are based on the ROR calculation procedure presented in the program RFP. The basic principle behind the ROR calculation is to set the incentive at the level which equates the present value (PV) of all project benefits and costs. Thus, the Bonneville incentive payment for a sponsor with a 25% ROR is:

$$I_{PV} = C_{PV} - S_{PV} \quad (1)$$

where I_{PV} is the present value incentive, C_{PV} the present value of project costs, and S_{PV} the present value of energy savings.

The present value for costs is calculated from initial costs (C_I) and operations and maintenance costs (C_O) as follows:

$$C_{PV} = C_I + (C_O)_{PV} \quad (2)$$

$$= C_I + \sum_{i=1}^7 \left(\frac{C_O / (1+0.25)^i}{(1+0.25)^i} \right)$$

$$= C_I + C_O * 3.16^2$$

Likewise, energy savings are calculated as:

$$S_{PV} = \sum_{i=1}^7 \left(\frac{S_i}{(1+0.25)^i} \right) \quad (3)$$

Thus, the present value of the incentive on a project with \$100,000 initial cost, \$2000 annual maintenance costs, and \$20,000 of annual energy savings is:

$$\begin{aligned} & \$100,000 + (\$2,000 * 3.16) - (\$20,000 * 3.16) \quad (4) \\ & = \$43,120 \end{aligned}$$

The incentive is paid to the sponsor in equal amounts over seven years. To compensate for the sponsor's costs in financing the share of project costs that will ultimately be paid by Bonneville, interest on the deferred incentive is paid to the sponsor at a rate equal to the negotiated ROR -- 25% in this example. The annual incentive payment in this case, where the 25% capital recovery factor (CRF) over seven years is .3163, is as follows:

$$\$43,120 * .3163 = \$13,641 \text{ per year} \quad (5)$$

² The present worth factor for a seven year income stream discounted at 25% is 3.16.

- **The bid should be clear and specific on the quality and the results desired, and allow the developer the flexibility to obtain these results.**

It is critical that developers know the desired final results, so we can focus our efforts accordingly. This is especially true in defining the quality of the implementation to protect the interests of the utility customers at the host facilities.

Developers can offer utilities a variety of approaches ranging from the lowest price, which inherently encourages "cream skimming", to a more comprehensive and expensive program. We would encourage the comprehensive approach.

- **BPA should be clear on which projects and programs will qualify.**

The draft proposal states, developers may propose projects or programs in sectors or locations where programs offered by BPA are not operating, or where an existing BPA-funded program is unable to effectively capture a unique resource. With the variety of programs offered (e.g., CIPP, ESP, Energy Smart Design), it appears that many potential projects would be eliminated.

For this reason, it is important to define in the final proposal which sectors BPA feels are not now being adequately served. As a specific example, the current draft implies that facilities having any previous history with BPA funding are ineligible. If the intent is to obtain additional conservation, this approach appears unreasonable, since there may be additional conservation to be obtained.

- **BPA should publish system cost ceilings.**

We understand system costs will be published with the Billing Credit solicitation and assume these would be identical for the competitive bid program. Publishing the system cost ceiling will allow the developer to filter out unrealistic projects that do not meet the cost-effectiveness limitation and focus upon those that do meet it. While announcing these costs beforehand may run the risk of raising the bids above what might be otherwise be offered, we submit that rates in the Northwest are so low, the risk is greater that no bid will be under the system cost ceiling. In addition, competition among developers will encourage the lower bid prices.

- **The bid price mechanism should have the flexibility to accommodate prices based upon a negotiated rate of return.**

One approach to avoid "cream skimming" and yet obtain competitive prices would be to have bidders bid their proposed rates of return. This system was previously used by BPA in the Purchase of Energy Savings (PES) Pilot Program. Sponsors were required to identify the rate of return (ROR) they were willing to accept for projects in the program.

The basic principle behind the ROR calculation was to set the incentive at the level which equated the present value of all project costs and benefits. The

developer essentially bid the profit to be awarded each project. In principal, lighting, energy management systems, and variable speed drive projects would be treated equally by the developer since the profit margin was identical. (The attachment to this letter presents a greater explanation of the incentive system used.)

- BPA should include a sample contract that they would be willing to sign as presented.
- The savings verifications procedures should be consistent with those required under other acquisition programs such as Billing Credits.

We appreciate the opportunity to submit our comments and look forward to working with utilities and BPA as the Proposal for Conservation Competitive Bidding Program proceeds.

Sincerely yours,

Greg Page
Western Regional Manager

Encl
CLP/my

Seattle City Light

Randall W. Hardy, Superintendent
Norman B. Rice, Mayor

June 20, 1990

Sue F. Hickey
Assistant Administrator for Energy Resources
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Dear Sue:

Seattle City Light is pleased to comment on Bonneville's May 15, 1990, draft proposal for conservation competitive bidding. The draft reflects several changes we suggested in earlier Resource Program comments; we appreciate Bonneville's response to these concerns. The region must rely on a strong, lasting partnership between Bonneville and its utility customers to deliver conservation resources effectively, and we believe that the changes in the draft do much to protect that crucial relationship.

A conservation bidding process must still overcome several serious difficulties if bidding is to make a major contribution to regional conservation resource acquisition. Although we continue to believe that other conservation approaches are more promising and should have higher priority for Bonneville's scarce dollar and staff resources, this proposal is a plausible way to give conservation bidding a try.

A few specific comments:

1. Program definition. Section V.A. (p. 8) outlines the important restriction on the conservation bidding program to "locations where programs offered by Bonneville are not operating..." Seattle City Light is now operating Bonneville programs in all sectors, is working to extend the application of incentives to the areas where none are yet available, and is actively negotiating with Bonneville to extend these programs or to replace them with substitute programs. We have often requested more funding than Bonneville has been able to provide. We therefore interpret the Sec. V.A. to mean that the restriction against third-party bids competing with our programs applies fully in our service area, to all sectors. (In the course of our own program development, of course, we might well elect to acquire conservation through third-party suppliers.)

Sue F. Hickey
Page 2
June 20, 1990

2. Verification (p. 19). Bonneville states a preference for "actual metered end-use data" as the method to determine energy savings. It is not clear that measurement at the meter is the best method available. Verifying energy savings in the vital commercial sector by direct measurement has many inherent difficulties yet to be overcome, such as the potential for forces other than efficiency to affect electricity usage and the time lags before measurement can occur. Evaluators and policy-makers in the region are just beginning to discuss the pros and cons of various approaches and the technical limitations in such measurement. A preference for any particular approach is premature at this time.
3. Openness. For a conservation bidding test to be valuable in providing experience to regional resource planners, an open review must be possible. The test would lose its value if proprietary or confidentiality constraints interfered with this review.

Again, we appreciate the consideration given to our previous comments.

Sincerely,

for Steve Pool

Beverly F. Corwin, Acting Director
Energy Management Services Division

RF:fd
90-15

cc: Tom von Muller, Bonneville Power Administration
Puget Sound Area Office

PUBLIC UTILITY DISTRICT No. 1

2320 California St., Everett, Washington 98201

208-8211

Mailing Address: P. O. Box 1107, Everett, Washington 98206

June 19, 1990

Mr. Tom VonMuller - RMIC
Public Utilities Specialist
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAP-1-21	
RECEIVED JUL 02 1990	
AREA: T	DISTRICT

Dear Mr. VonMuller:

Thanks for the opportunity to comment on your draft proposal for a Conservation Competitive Bidding Pilot Program. As a major customer of BPA's, we encourage BPA to pursue pilot programs such as this which have the potential to hold down resource acquisition costs and, therefore, power rates. We do offer the following comments on the draft proposal:

- The District supports BPA's intent to fund demand side management (DSM) bidding separately from the budgets for centrally designed programs within the 1990 resource program.
- While the District generally supports the concept of focusing on verifiable energy savings, our limited experience in this area tells us that this may be difficult to achieve in some situations. (i.e., not all DSM projects can be separately metered or otherwise easily evaluated or verified.) Utilities, BPA, and other bidders will have to work carefully to avoid having this bind up potential projects.
- The District agrees that paying for delivered savings is appropriate. If a contractor fails to deliver the minimum acceptable energy savings, however, BPA will apparently also require the purchase of replacement resources. Is this consistent with provisions on contracts where BPA purchases generation output?
- Including the consumers' cost in the system cost can make DSM resources look unfairly expensive. In some situations, consumers will choose to install measures other than the cheapest available. For example, windows and lighting fixtures are often installed for both energy saving and aesthetic purposes. Requiring that the consumer's cost be included in the system cost, even when the consumer is clearly paying for other than energy savings, creates an unfair comparison with generating resources.
- BPA should identify which non-price factors it intends to use in evaluating proposals.

Mr. Tom VonHoltz, BPA

- In the section titled "Comprehensive ECM Packages Preferred", BPA says that "cost effective" measures must be installed in the residential sector and must be offered in the commercial sector. Who determines what are cost effective measures? What are these cost effective measures?

We look forward to working with BPA as this proposal advances.

Sincerely,

Allen J. Aldrich
Energy Conservation Manager

cc: Frank Brown, BPA

E. E. COATES, DIRECTOR
3628 South 35th Street
P.O. Box 11007
Tacoma, Washington 98411
(206) 383-2471

DIVISIONS
Light
Water
Belt Line

June 19, 1990

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAK-115	
RECEIPT DATE: JUN 20 1990	
AREA: T	DISTRICT

Mr. Tom vonMuller
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. vonMuller:

The City of Tacoma, Department of Public Utilities, appreciates the opportunity to comment on the Bonneville Power Administration's "Draft Proposal for a Conservation Competitive Bidding Pilot Program". We have reviewed the proposal in some detail, and this review has provided us with an opportunity to further refine our thoughts concerning the BPA's conservation resource acquisition efforts.

Tacoma strongly supports the comments prepared by the Public Power Council (PPC). We agree with the PPC that bidding for conservation is a secondary priority, with primary emphasis placed on providing a flexible menu of options for the BPA's program offerings. It is important that all utilities have available to them well-designed BPA program offerings that can either be implemented or be used as a standard by which to judge the need for alternative, utility-developed program designs.

We further agree with PPC that the requirement that all measures be installed within three years is unnecessarily restrictive and will restrict participation to projects rather than programs. We believe that using the bidding approach to acquire programmatic conservation may be appropriate, and that the proposed three year restriction will prevent a test of this approach.

Finally, Tacoma supports the BPA's decision that the budgets for the bidding test will be in addition to, rather than a part of, the budgets proposed in the Draft 1990 Resource Program. The rationale for establishing the budget levels in the Resource Program, to provide for a stable, increasing conservation acquisition effort, could be undermined if a significant portion of the budget for that effort were shifted to a large, unproved pilot effort.

Tacoma Public Utilities looks forward to working with the BPA as it refines and tests its resource acquisition approaches.

Yours very truly,

A handwritten signature in dark ink, appearing to read 'Mark Crisson', written over a horizontal line.

Mark Crisson
Superintendent
Light Division

STATE OF WASHINGTON

WASHINGTON STATE ENERGY OFFICE

809 Legion Way S.E., FA-11 Olympia, Washington 98504-1211

REINHOLD H. WATSON
Director

June 8, 1990

Ms. JoAnn Scott
Public Involvement Manager
Bainbridge Power Administration
P.O. Box 12999
Portland, OR 97212

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG #: DSAP-1-5	
RECEIPT DATE: JUN 08 1990	
AREA:	DISTRICT
T, U, W	

CC: C. Mortenson - ALG

Re: Comments-Draft Conservation Competitive Bidding Pilot Program Proposed Acquisition Process for Generating Resources

Dear Ms. Scott:

On the whole, both the demand and supply side competitive resource acquisition programs are rapidly progressing towards workability. However, several basic problems relating to program entry requirements and interactions with other BPA programs and policies remain. We feel that the quality and success of BPA's acquisition of needed electrical resources would be improved if these problem areas are addressed and resolved through modification or clarification of the proposed processes.

Our comments principally concern limitations to developer or facility participation, the provision of clear and consistent information, and inconsistency between BPA resource acquisition programs. These inconsistencies appear likely to result in conflicting price signals and ambiguity in the resource development marketplace. If the Region is to obtain the resources it needs, we cannot afford to encumber the marketplace with confusion. Program objectives must be clear and consistent, while program entry requirements must be minimized to ensure that all attractive resource choices are "on the table" and available to meet the Region's needs.

Demand Side

Inconsistency with Billing Credit Program

The competitive bidding approach provides for resource acquisition at costs up to and including BPA's "alternative cost". We interpret this to mean BPA's avoided cost. Presumably resources will be bid if their total cost (implementation, overhead and some profit if an ESCO is involved) falls below this avoided cost. In contrast, the billing credit policy appears only to allow for a credit equal to the avoided, or alternative cost minus the utility's wholesale power rate. The magnitude of the available credit is thus not related to the cost of the DSM measures. We do not understand how these two approaches could possibly be complementary. If they are run at the same time, billing credits will inevitably fail, or at best only acquire "cream skim" resources - those whose total cost falls within the magnitude of the credit.

This ambiguity sends inconsistent market signals just at a time when the development of a stable and vigorous marketplace for conservation resources is critical. We strongly encourage BPA to avoid these ambiguous price signals by providing for greater consistency between competitive acquisition and billing credit program design.

Inconsistency with Small Generating Resource Acquisition

BPA is elsewhere proposing to facilitate the acquisition of small (less than 5 MWa) generating resources through a standard offer type procedure. The magnitude of the offer will again depend on BPA's alternative, or avoided cost. Most conservation resources are likely to fall into blocks less than 5 MWa. Again, BPA's approach seems to be inconsistent. Developing conservation appears to require either competition, or reliance on a billing credit. Demand-side-management projects, or programs which supply less than 5 MWa should similarly be eligible for acquisition through a standard offer process. Once again, we urge BPA to seek consistency across programs and resource types so that BPA and the resource developers the Region must rely on will be able to make appropriate choices.

Bonneville Cost Share Amounts

Bonneville proposes to offer incentives (payments) for conservation acquisitions that are pro-rated based upon the percentage of utility load supplied by BPA. For instance, an Energy Service Company supplying energy from the service territory of a utility purchasing 35 percent of its output from BPA would receive only 75 percent of what Bonneville would be willing to pay for the same savings supplied by an identical measure in a full-requirements utility's area.

We do not understand the rationale behind this policy. It seems that any kWh saved would translate into a kWh of energy not purchased from BPA. This would directly offset the need to acquire new, perhaps more expensive resources to meet increased load. The competitive acquisition approach should facilitate conservation transfers, not discourage them. Energy freed up in any utility service territory which is available to meet new loads elsewhere is of equal value - regardless of the percentage of existing load met through utility supply or BPA purchase.

Retaining the proposed cost-sharing approach would:

- Provide incorrect price signals to conservation providers by uncoupling the value of conservation savings from the Region's avoided cost;
- Treat conservation savings in a different and discriminatory manner relative to supply-side resources;
- Create complexity and confusion for ESCOs marketing conservation programs within multiple utility service territories;
- Produce lost opportunities due to removal of the incentive to install all conservation measures which produce energy at less than avoided cost; and ultimately

- Threaten the success of this pilot project as a great deal of BPA's Commercial/Industrial load lies within utility areas where the full BPA cost-share would not be awarded.

We strongly recommend that the proposed cost-sharing policy be stricken. While cost-sharing may be appropriate during a period of surplus, it simply serves as a barrier to full participation during a time of need.

Inclusion of Conservation in New Construction

BPA's draft proposal requires that baseline energy use over a 24-month billing period be available such that pre-installation energy consumption can be compared against post-installation use to verify savings. While this is reasonable for retrofit applications, it obviously cannot be done for new construction. BPA should establish a computer modeling protocol such that energy savings from the installation of conservation measures that go beyond existing codes can be acquired. It is in the region's interest to facilitate the capture of potential lost opportunities.

Inclusion of Agricultural and Local Government Water Supply Systems

The draft proposal states that ECMs may be installed and produce energy savings in Buildings or Facilities owned or occupied by residential, commercial, industrial, or agricultural consumers. It should be clear that irrigation system improvements such as conversion to low-pressure spray nozzles and mainline friction loss reduction are eligible for program entry. Similarly, programs or measures to reduce water use and thus electrical consumption due to decreased pumping loads should be allowable (such as computerized irrigation scheduling based on evapotranspiration modeling, canal lining, and shower flow restrictors).

ECMs Installed Through Other Bonneville-Funded Programs

The draft states that "Buildings or Facilities in which ECMs were previously installed through a Bonneville-funded project or program are ineligible to participate in this initial pilot program". This statement is completely contrary with the objective of a competitive acquisitions approach ---i.e. to lay all of the choices on the table such that the most cost-effective and risk free mix of resources can be acquired.

Many state facilities such as universities, community colleges, or health care complexes, contain dozens of buildings. Due to funding limitations, a single building may have been dealt with through Bonneville's Institutional Buildings Program or Commercial Incentive Pilot Program. Other buildings are precluded due to this clause.

It is implied that savings at an institution could not be isolated or verified given that previous conservation work had been done. This is certainly not true. A new building or facility baseline will emerge, and opportunities to incorporate recently developed conservation technologies will appear. Savings could be identified through metering single buildings, electrical circuits or even pieces of equipment. Part of the reason for conducting a pilot project is to conduct a "real world" test and develop methods for resolving complex situations where savings interactions may occur or innovative verification techniques are required.

It is strongly recommended that this clause, which limits program entry, be eliminated.

Awarding of "Exclusive Utility Franchises"

BPA has stated that conservation programs in the residential area are ineligible if the local utility is offering a BPA sponsored program for the same measure. This approach limits both market entry, ESCO participation and rate of penetration. Utilities in the Northeast (Orange and Rockland) have created franchise areas within which several successful bidders (ESCOs) are allowed to operate. This is done to minimize customer confusion that could arise from too many ESCOs marketing their services.

Other utilities (Long Island Lighting) offer utility-sponsored conservation programs while allowing successful competitive bidders to receive payments for offering the same measures. There is no conflict. Their rationale is - if the private sector can achieve identical savings at a lower or equivalent cost - the utility benefits.

It is certainly contrary to the concept of "competitive" bidding to arbitrarily award exclusive franchises to a special or "privileged" class of participants. It is recommended that BPA structure their solicitation to allow the widest possible range of conservation measures and proposals to emerge.

Bidding of a Marketing Plan

BPA summarizes detailed project or program description requirements in Section VIII, Part H. Included are documents of secured agreements with building owners, description of proposed ECMs, technical specifications for the proposed ECMs, explanation of who will operate and maintain the ECMs, and an installation schedule.

Most ESCOs would bid a marketing plan for a particular measure, group of measures, or type of facility. Few could afford the financial risk or move quickly enough to negotiate agreements and complete technical studies before a bid submittal is accepted. BPA's level of specificity seems high - it should be clear that a sound marketing plan, coupled with an obligation to provide a specified number of kWh at an agreed upon price, represents an acceptable demand side competitive bidding proposal.

BPA's NEPA Requirements

In the Industrial sector, process change oriented projects are unknown and unknowable until after technical studies are completed. Could proposers of marketing plans see their most attractive measures declared ineligible because they are not on the Section IX, part C, list of measures for which environmental studies have been completed? Would lost opportunities be created, or would the proposer be forced to return to the same facility another time? BPA should work towards expediting their NEPA process such that cost-effective and environmentally acceptable measures are not unduly delayed or arbitrarily rejected.

Ms. JoAnn Scott
June 8, 1990
Page Five

Supply Side

"Wheeling Out" Requirements

Bonneville must take a firm stance on wheeling to minimize uncertainty and eliminate risks to generating project developers. First, BPA should assist developers to negotiate wheeling agreements. (On page 34, it is stated that the developer would be responsible for securing wheeling arrangements to the point of contact with the federal system.) Secondly, as a condition of entry, BPA should require that any utility offering a BPA-funded, utility sponsored conservation program or participating in either the supply or demand-side competitive bidding pilot projects must offer wheeling out services when it is technically feasible.

"Wheeling out" provisions have been used by various public utility commissions to ensure that utilities do not eliminate their competition by simply refusing to wheel. If a utility wishes to supply resources to BPA, they should be required to provide wheeling out or wheeling through capability to potential competitors.

Bonneville Oversight Practices

"Oversight: The High Risk Scenario", contained in Appendix B is a worst case risk management strategy applicable only to large scale thermal resources. It simply does not belong in this document. What developer could provide BPA with the unilateral right to terminate an agreed upon power purchase contract with sole discretion or unilaterally approve or disapprove the selection or continuation of the project manager? These conditions are so onerous that they cause one to question whether BPA is serious about designing a workable Generating Resources Competitive Bidding Acquisitions process.

It is recommended that Appendix B be replaced with a description of a verification and risk management/risk sharing approach for a typical small-scale generating project.

Determination of BPA System Cost

A complicated methodology for determining system costs is presented in Section III, Part A, Subpart 3. Resource developers are suspicious of things that they don't or cannot understand. Developers require hard evaluation and scoring information in order to maximize their projects value to the region. Similarly, guidance is necessary such that developers can determine whether that project is "in the ballpark" and decide whether to invest the time and money to prepare and submit a competitive bidding proposal.

It is recommended that BPA publish a list of target avoided costs. Similar to what is routinely presented to Public Service Commissions by Investor-Owned Utilities, annual avoided costs should be determined for capacity, plus winter and summer firm and non-firm energy over a 35-year planning horizon. This is an especially crucial piece of information because all of BPA's proposed resource acquisition approaches appear to rely at some point on the magnitude of this alternative, or avoided cost.

WESTERN MONTANA ELECTRIC GENERATING & TRANSMISSION COOPERATIVE, INC.

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Missoula, MT 59801-5601

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CCB-1-3

June 4, 1990

JUN 07 1990

Public Involvement Office
BONNEVILLE POWER ADMINISTRATION
P.O. Box 12999
Portland, OR 97212

RE: BPA DRAFT PROPOSAL FOR A CONSERVATION COMPETITIVE BIDDING PILOT PROGRAM

Dear Public Involvement Manager:

The purpose of this letter is to comment, on behalf of the Western Montana Electric Generating & Transmission Cooperative, Inc. (Western Montana G&T) on the abovementioned BPA proposal. We appreciate the opportunity afforded by BPA to do so.

We commend BPA for pursuing this new method of acquiring conservation resources; it has the potential of reducing the resource cost for BPA customers. Review by our Committee on Power Supply has identified areas of concern which are specifically described below.

1. Section V. A., Page 8. Regarding projects or programs which qualify, in the last sentence of the first paragraph, we are concerned that Energy Savings must occur in a Building or Facility. Competitive bidding for conservation should not ignore the potential for conservation in other electric energy uses such as oil field pumping, mining and processing (ore handling), system loss reductions on transmission and distribution facilities (particularly in the rural areas), sewage pumping, irrigation pumping loads, etc. If such electric uses not found in buildings or facilities are excluded from the competitive bidding process, how does BPA intend to acquire such savings which are cost effective?
2. Section V. C., last paragraph, Page 9. The serving utility should be notified at the time BPA receives a non-utility developer's proposal. Simply being notified upon selection of a non-utility proposal is not acceptable. In the first line, replace "select" with "receive."
3. Section V. E., Page 10. We commend BPA for providing an opportunity for replacing existing BPA programs if such programs can be operated at less cost. There may be substantial opportunity to do so.
4. Section VI. F., Page 12. It is certainly appropriate that BPA has the right to inspect any energy conservation measure which has been installed by a Contractor. We want our money's worth.
5. Section VII. A., B., and C., Pages 12 and 13. Members of the Western Montana G&T continue to be concerned about the cost sharing policy of BPA. In particular, we are concerned that a utility with its own generation may be increasing off-system sales of energy without a commensurate increase

Ms. JoAnn Scott
June 8, 1990
Page Six

Further, especially in this pilot project stage, BPA should consider the use of a "transparent" or self-scoring evaluation system. Jersey Central Power & Light has gone to the extent of preparing and distributing a computerized spreadsheet such that prospective bidders can quickly optimize and ascertain the relative competitiveness of their projects. Such a transparent scheme would help developers to understand what BPA's objectives are and how they can best develop bid resources that are responsive to those objectives. Again, this would be a very constructive contribution toward the growth of a stable and vigorous resource development (supply and demand side) marketplace.

We appreciate this opportunity to comment on your proposed competitive bidding resource acquisition programs. These are exciting concepts and certainly offer opportunities for utilities, ESCOs, private developers and state agencies alike.

Sincerely,

Richard H. Watson
Director

G-L7-25

in its actual generation. We are hopeful BPA is vigilant to this situation because in effect, such utilities would be selling the savings achieved through conservation programs which would be financed in part by BPA. This comment applies to both public and private utilities which may be in such circumstances.

6. Section VII. B., Page 14. Of concern is the use of the term "regional ratepayers" in Item (2) rather than "BPA ratepayers". It appears the Act has been incorrectly quoted. More correctly, the Act states in Section 3.(4)(A) the following:

"Cost effective, when applied to any measure or resource referred to in this Act, means that such measure or resource must be forecast --

- (1) to be reliable and available within the time it is needed, and*
- (2) to meet or reduce the electric power demand, as determined by the Council or the Administrator, as appropriate, of the consumers of the customers at an estimated incremental system cost no greater than that of the least-cost similarly reliable and available alternate measure or resource, or any combination thereof."*

7. Section VII. C., Page 14, first paragraph. We believe that quantifiable environmental impacts mentioned in (2) is redundant of (1) which is the cost of developing the resource. According to the definitions used in the Act, the term "system cost" means an estimate of all direct costs of the measure or resource over its effective life including, if applicable, the cost of distribution and transmission to the consumer and among other factors waste disposal costs, end of cycle costs, and fuel costs (including projected increases), and such quantifiable environmental costs and benefits as the Administrator determines on the basis of a methodology developed by the Council as part of the Plan, or in the absence of the Plan by the Administrator, are directly attributable to such measure or resource. We believe your description of system costs should more accurately reflect what is in the Act. We agree the "consumer costs of conservation" should be included because they are directly attributable to such measure or resource.
8. Section IX. C., Page 16, first paragraph. The definition of conservation from the Act is quoted and the statement is made that "ECMs that meet this definition will be eligible for this pilot program." Such statement is in conflict with the arbitrary limitation which BPA has placed on the pilot program by limiting conservation to that which occurs in Buildings or in Facilities. Here again, we believe such eligible ECMs should be broadened to include conservation measures which meet the definition in the Act.
9. Section IX. D., Page 17, first paragraph. We commend BPA for taking the position that measures which substitute alternate fuels for electricity are ineligible for the pilot program. Additionally, members of the Western Montana G&T believe BPA should not be encouraging fuel switching in any way.
10. Appendix B, Page 25, regarding calculation of location value. Several members of the Western Montana G&T receive their BPA power over facilities

owned by Montana Power Company. BPA pays Montana Power Company for use of its system based upon the peak load established. If an energy conservation measure reduces the peak demand, then a reduction in the wheeling costs would occur also. This cost reduction should be included in the determination of system cost.

Thank you for this opportunity to provide comments and suggestions. If you have questions about any of our concerns, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald H. Wilkerson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ronald H. Wilkerson
Manager

RHW:wsh

cc: WMG&T Trustees, Alternates & Member System Managers
Lincoln Electric Cooperative
Mission Valley Power
Fall River
George Eskridge, BPA
Bill Drummond, PPC
Dave Piper, PNGC
Al Wright, PNUCC
Bruce Lovelin, NIU
Larry Hittle, NGU

END

DATE FILMED

02 / 14 / 91