

PROJECT NO. 2008-TX100-0001

PROCEEDING TO CONSIDER AND DETERMINE	§	
WHETHER TO IMPLEMENT THE FEDERAL	§	
RATEMAKING STANDARDS FOR INTEGRATED	§	
RESOURCE PLANNING, RATE DESIGN	§	BLUEBONNET ELECTRIC COOPERATIVE, INC.
MODIFICATIONS TO PROMOTE ENERGY	§	BASTROP COUNTY, TEXAS
EFFICIENCY INVESTMENTS, CONSIDERATION OF	§	
SMART GRID INVESTMENTS, AND SMART GRID	§	
INFORMATION PURSUANT TO 16 U.S.C.	§	
§2621(d)(16), (17), (16) AND (17) AS AMENDED	§	
BY PUB. L. NO. 110-140, 121 STAT. 1492 (2007)	§	
	§	

**FINAL DETERMINATION TO IMPLEMENT
MODIFIED PURPA EISA RATEMAKING STANDARDS**

Bluebonnet Electric Cooperative, Inc. (Bluebonnet or Cooperative) adopts Cooperative Staff's recommendations to approve four new policies which address: 1) integrating energy efficiency resources into resource planning and making cost-effective energy efficiency a priority resource; 2) modifying rate designs to promote energy efficiency investments; 3) assessing investments in smart grid technologies before investing in non-advanced technologies; and 4) making smart grid information available to members. These policies implement modified versions of the four new ratemaking standards that federal law required the Cooperative to consider pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA), as amended by the Energy Independence and Security Act of 2007 (EISA), 16 U.S.C. § 2621(d)(16), (17), (18) and (19), Public Law No. 110-140, 121 Stat. 1492 (2007) (hereinafter, PURPA EISA).¹

On October 21, 2008, Bluebonnet's Board of Directors (Board) adopted a resolution initiating this rulemaking project to consider and determine whether to implement the PURPA EISA Standards. The resolution set forth the procedures and a timeline for the project. Cooperative Staff published notice of the rulemaking proceeding in newspapers of general circulation in the Cooperative's service

¹ Due to a drafting error, PURPA EISA 2007 contained two standards assigned the number 16 and two standards assigned number 17. In the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, § 408, Congress corrected those errors by re-designating PURPA EISA Standard 16, relating to consideration of smart grid investments, as Standard 18, and re-designating PURPA EISA Standard 17, relating to consideration of smart grid information, as Standard 19. The style of this proceeding will not be changed because notice has already been given, but the corrections have been made in the body of this determination.

territory between November 1, and December 1, 2008.² Notice was published in the December 2008 issue of Texas Co-op Power, a monthly magazine that is delivered to each member of the Cooperative by the first day of the month. Staff gave the Department of Energy timely notice of the proceeding by mail on November 1, 2008. Staff also posted the notice on its Internet web site on November 1, 2008. The notice asked members and interested persons to submit initial written comments on the standards being considered in the project by January 5, 2009. Bluebonnet received initial comments from one Cooperative member.

On June 16, 2009, Bluebonnet posted notice of Cooperative Staff's Draft Proposal for Implementation of the PURPA EISA Ratemaking Standards on the Cooperative's web site. The Board approved the draft on June 23, 2009, and requested that comments on the proposal be submitted to the Cooperative by July 8, 2009. Bluebonnet received supplemental comments from the Cooperative member who submitted initial comments.

Cooperative Staff convened a public hearing to take comments on this proposal on July 14, 2009, at 12:00 p.m. at the Cooperative's Headquarters located at 650 Hwy. 21 East in Bastrop, Texas. Notice of the date, time, and location of the hearing was posted on the Cooperative's web site on June 16, 2009. Present at the hearing were the Staff members of the Cooperative's Project Team and the Procedural Officer. No Bluebonnet members or other interested persons appeared at the hearing to comment on the proposal.³

The Public Utility Regulatory Policies Act, as amended, required Bluebonnet to consider the EISA Standards and determine whether to implement them at the Cooperative. In making its determination, Bluebonnet examined the effect that implementing the standards would have on the members, considered the comments filed in the project, and assessed whether implementing the standards would

² Notice of the proceeding was published on November 13, 2008 in the Lexington Leader, The Manor Messenger, Giddings Times-News, Luling Newsboy & Signal, Burleson County Tribune, Lockhart Post-Register, Bastrop Advertiser, and Smithville Times. Notice was also published in the Brenham Banner-Press on November 10, 2008; San Marcos Daily Record on November 11, 2008; Fayette County Record on November 11 and 25, 2008; New Ulm Enterprise on November 6, 2008; and the Elgin Courier on November 5, 2008.

³ Member-owner John Borsheim appeared shortly after the hearing was adjourned, but declined Staff's offer to go back on the record to make additional comments. Staff appreciates Mr. Borsheim's time and interest in this project as well as the written comments he filed.

fulfill one or more of PURPA's three purposes, which are to encourage: a) the conservation of energy supplied by the cooperative; b) the optimal efficiency of cooperative facilities and resources; and c) equitable rates for cooperative members (the PURPA purposes). Under PURPA, the Cooperative had the option of declining to implement one or more of the EISA standards if it determined that implementation would not be in the best interest of the Cooperative's members, even if implementation would fulfill one or more of the PURPA purposes. Bluebonnet has determined that implementing modified versions of the four ratemaking standards fulfills one or more of the PURPA purposes and is an appropriate course of action for the Cooperative.

COMMENTS ON PROPOSED POLICIES AND COOPERATIVE'S RESPONSES

Bluebonnet has examined and considered the comments filed in this project and responds as follows:

A. INTEGRATED RESOURCE PLANNING POLICY (PURPA EISA STANDARD 16)

Comment:

Member-owner John Borsheim commented that PURPA EISA's focus is on energy efficiency and he noted that Bluebonnet promotes energy efficiency by providing energy saving tips through the Cooperative's web site, *Texas Co-op Power* magazine, and its customer service representatives. He thinks the Cooperative cannot be expected to foot the bill for customer rebates because it does not build power generation facilities.

Mr. Borsheim supports the adoption of this standard so that the Cooperative and its members can work together to develop collaborative inputs to the Integrated Resource Plan. He thinks it could also be possible, with further collaboration with the LCRA, to formulate an *active energy efficiency program* with more far reaching results that can benefit everyone. In this regard, he is interested in seeing Bluebonnet solicit participation from its membership, in one form or another, to provide customer perspectives and inputs to the overall plan for energy efficiency goals. He urges Staff to consider incorporating some level of public participation from its membership for their energy efficiency planning.

Mr. Borsheim encourages Bluebonnet to look at one particular method of actively seeking public participation called *Deliberative Polling*, "as mentioned in the article: *Providing You the Power to be Informed*, by Mark Rose, Bluebonnet General Manager/CEO, Page 17, *Texas Co-op Power Magazine*, Bluebonnet Electric Cooperative Edition, January 2009." He commented that Professor James Fishkin, chairman of the Government Department at the University of Texas at Austin, developed *Deliberative Polling* to collect a random sample of all of the company's customers who then gather together to get more information and develop a truly informed, deliberated opinion. Mr. Borsheim suggested that this method or a similar method to solicit

public participation would be more effective than publishing a notice for a public hearing, which generally results in little or no public input.

Cooperative's Response:

Bluebonnet appreciates Mr. Borsheim's comments and agrees that member participation is an important component of formulating the Cooperative's goals. Bluebonnet welcomes member participation in all aspects of their Cooperative's operation. Members have a variety of opportunities to participate in Cooperative decision making, including selection of the board of directors, which represents the membership. The Cooperative board is comprised of Bluebonnet members, all of whom pay the same rates and receive the same service as other similarly situated members. In addition to representation through their elected directors, members may communicate with their Cooperative by phone, mail and email. Also, each year members are invited to the Cooperative's Annual Meeting where they have the opportunity to ask questions and speak individually or as a group to directors and managers.

Bluebonnet currently solicits participation from its members by conducting annual membership surveys to determine satisfaction with Cooperative service and to assist it in developing new programs. The Cooperative included survey questions about energy efficiency and conservation in the 2008 survey and will continue to do so.

In this project, the board is determining a set of policy objectives. It is the intention of the Cooperative to offer an evolving menu of programs designed over time to implement the board objectives established in this project. The Cooperative will continue to encourage the participation of members in that evolving menu of programs and in Bluebonnet's policy direction in general.

Regarding the effectiveness of notices of public hearing in rulemaking projects, Bluebonnet agrees that participation in response to legal hearing notices has tended to be low in the recent PURPA proceedings. It is important to note, however, that using another method of public participation cannot replace the legal requirement to provide a certain type of notice in a proceeding required by statute. Bluebonnet would need to ensure that it was not dispensing with important procedural requirements by opting for another participation method or unnecessarily duplicating efforts at the members' expense.

B. RATE DESIGN MODIFICATIONS POLICY TO PROMOTE ENERGY EFFICIENCY INVESTMENTS (PURPA EISA STANDARD 17)

Comment:

Mr. Borsheim commented that in Bluebonnet's PURPA Energy Policy Act proceeding, Docket No. 2007-TX100-0001, Bluebonnet adopted a modified smart metering standard under which the Cooperative would offer its member-classes time-based rate schedules when wholesale price signals become available and implementation costs could be justified. Mr. Borsheim

believes that the Board's decision on the smart metering standard in that docket is applicable to PURPA EISA Standard 17 as well. He suggests that Bluebonnet review surveys and case studies on current practices at other utilities published throughout the industry from time to time to determine whether time-based rates and advanced metering and communications result in long-term benefits that could be used by the Cooperative and its members.

Cooperative's Response:

Bluebonnet agrees that effective time-based rates at the retail level would require a stronger wholesale time-based pricing structure than is provided by current LCRA wholesale rates. Should LCRA adopt wholesale pricing structures that include effective time-based pricing, Bluebonnet will consider offering time-based rates at the time of its next cost of service procedure following such a wholesale rate structure change.

Bluebonnet agrees that advanced metering and communications can be an effective part of the Cooperative's long-range planning, and the Cooperative in fact intends to request funding as a part of the federal stimulus program to accelerate implementation of its smart metering technology for members.

C. CONSIDERATION OF SMART GRID INVESTMENTS POLICY (PURPA EISA STANDARD 18)

Comment:

Mr. Borsheim commented that this standard applies to state regulators only and is, therefore, not applicable to the Cooperative.

Cooperative's Response:

Bluebonnet agrees generally with Mr. Borsheim's comment, but notes that this provision and other provisions in PURPA conflict. Therefore, the Cooperative chose to consider this standard to ensure that Bluebonnet fulfilled all of the PURPA statutory requirements and considered all policies that could be potentially beneficial to its members. In addition, consideration of recovering the cost of implementing smart grid technology from the appropriate rate classes is something the Cooperative agrees with as a general principle of allocating costs to rate classes and recovering those costs through cost-based rates.

D. CONSIDERATION OF SMART GRID INFORMATION POLICY (PURPA EISA STANDARD 19)

Comment:

Mr. Borsheim commented that adopting a standard to provide smart grid information should be viewed as providing information to the customer, not through a smart grid delivery system, but through more conventional means. He thinks Bluebonnet should adopt a modified version of PURPA EISA Standard 19, which should state that the Cooperative will provide information to the consumer through any reasonable means other than a smart grid infrastructure, such as by

e-mail, web site, information printed on the bill, and bill inserts similar to those used by Austin Energy.

Mr. Borsheim also suggested that the data from members' AMR meters be linked to the Cooperative's web server to enable customers to retrieve their meter readings by logging on to Bluebonnet's web site or signing up for periodic e-mail notifications.

Mr. Borsheim further suggested that Bluebonnet's bills should reflect not just the total cost of energy per kwh, but also the additional 1720 pounds of CO₂, 1.2 lbs of NO_X, "x" pounds of particulate matter, and "y" pounds of ash sludge that are released into the atmosphere for every 1000 kwh consumed. He commented that the truly sad part to consuming 1000 kWh, from a coal-fired plant, for example, is that 2330 kWh or (7,950,000 BTUs) of waste heat was rejected to the surrounding environment near the plant, and the 1000 kWh delivered to the customer is ultimately rejected as 1000 kWh (or 3,412,000 BTUs) of waste heat surrounding the customer's location.

He further suggests that some of the topics General Manager Mark Rose addresses in his monthly Texas Co-op Power column be presented in some way to help members make informed decisions in their energy choices and consumption.

Cooperative's Response:

Bluebonnet agrees generally that using several conventional methods to communicate information to members is a more effective than using a single method. The Cooperative currently uses a variety of communication tools, including Texas Co-op Power magazine and its web site. However, the Cooperative is also interested in exploring the technological capabilities of a smart grid system and will carefully manage the cost of such a system should it become a viable method of delivering data to members.

Bluebonnet intends to include member AMR data on the Cooperative's web server in 2010. The Cooperative has indicated in this project that it will request information from LCRA concerning the output of its plants, including the type of information Mr. Borsheim has expressed an interest in, and provide it to members. Bluebonnet agrees that it should continue to educate members about the importance of improving energy efficiency and conservation for a variety of reasons, including the crucially important reason of reducing greenhouse gas and other emissions.

As has been mentioned, the purpose of this project is to establish board policy and direction on the issues under consideration. The Cooperative's procedures for implementing these policies will be updated over the long-term, and Bluebonnet will continue to welcome input from all members as the policies are implemented.

CONCLUSION

The Cooperative has exclusive jurisdiction and authority to adopt the policies below pursuant to Section 2621(d) of the Public Utility Regulatory Policies Act of 1978, and Sections 41.055 and 41.061 of the Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§41.055 and 41.061 (Vernon 1998 & Supp. 2005). The Cooperative's Board of Directors has considered the comments received in this project, and hereby approves the modified policies without any changes to the text for the reasons discussed above and in the Proposal for Implementation.

PURPA EISA MODIFIED STANDARDS APPROVED IN PROJECT NO. 2008-TX100-0001

Integrated Resource Planning Policy

Bluebonnet Electric Cooperative, Inc. will cooperate with its power supplier so that its power supplier can integrate energy efficiency resources into its resource plans, and will adopt policies establishing cost-effective energy efficiency as a priority resource.

Rate Design Modifications Policy to Promote Energy Efficiency Investments

Bluebonnet Electric Cooperative, Inc.'s retail rates will, in general, align utility incentives with the delivery of cost-effective energy efficiency and promote energy efficiency investments.

To accomplish that general approach, Bluebonnet will consider:

- (i) removing any throughput incentive and other regulatory and management disincentives to energy efficiency;
- (ii) providing incentives for the successful management of energy efficiency programs;
- (iii) including the impact on adoption of energy efficiency as one of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
- (iv) adopting rate designs that encourage energy efficiency for each customer class;
- (v) allowing timely recovery of energy efficiency related costs; and
- (vi) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing federal and state incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

Smart Grid Investments Policy

Prior to undertaking investments in non-advanced grid technologies, Bluebonnet Electric Cooperative, Inc. (Bluebonnet) will generally consider an investment in a qualified smart grid system based on appropriate factors, including: (i) total costs; (ii) cost-effectiveness; (iii) improved reliability; (iv) security; (v) system performance; and (vi) societal benefit.

Rate Recovery. Bluebonnet will consider the factors to recover from members any capital, operating expenditure, or other costs of Bluebonnet relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital expenditures of Bluebonnet for the deployment of the qualified smart grid system.

Obsolete Equipment. Bluebonnet will consider deploying a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.

Smart Grid Information Policy

Bluebonnet Electric Cooperative, Inc. will provide to its members direct access, in written or electronic machine-readable form as appropriate, to the following information to the extent practicable and applicable to the member:

Prices. Members and other interested persons will be provided, to the extent practicable and applicable, with information on time-based electricity prices in the wholesale electricity market, and time-based electricity retail prices or rates that are available to the purchasers.

Usage. Members will be provided, to the extent practicable and applicable to the member, with the number of electricity units, expressed in kWh, purchased by them.

Intervals and Projections. Updates of information on prices and usage will be offered, to the extent practicable and applicable to the member, on not less than a daily basis; will include hourly price and use information, where available; and will include a day-ahead projection of such price information to the extent available.

Sources. Members and other interested persons will be provided, to the extent practicable and applicable, annually with written information on the sources of the power provided by the utility, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost effective basis.

Access. Members will be able to access, to the extent practicable and applicable to the member, their own information at any time through the Internet and on other means of communication elected by that utility for Smart Grid applications. To the extent practicable, other interested persons will be able to access information not specific to any purchaser through the Internet. Information specific to any purchaser will be provided solely to that purchaser.

ISSUED IN BASTROP, TEXAS ON THE 18th DAY OF AUGUST, 2009
BY BLUEBONNET ELECTRIC COOPERATIVE, INC.
JAMES B. KERSHAW
SECRETARY-TREASURER