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June 3, 2014

MEMORANDUM

TO: Power Committee

FROM: Charlie Grist

SUBJECT: Proposed NEEA 2015-2019 Business Plan & Governance Changes

NEEA received extensive written and verbal comments from its public outreach. The NEEA staff summarized comments into themes for the board. Based on both written and verbal comments, there is overwhelming support for NEEA and its market transformation activities, but concerns about elements of the draft business plan. The perception by some is that NEEA is reducing its budget by 30 percent despite its past successes, and that the proposed option approach risks regional programs not getting done, or not getting done as cost-effectively. Additionally, there is strong support for public representation on the Board and more transparency in NEEA's decision-making process.

At the May 29 Special Board meeting, the NEEA Board discussed the public comment and provided NEEA staff some direction on changes to the draft business plan that it plans to take up for final decision at a meeting June 20. I attended the May 29 meeting. It was difficult to determine exactly the board direction on issues where there was still apparent disagreement among board members.

The attached staff report summarizes the key issues deliberated and, to the extent discernible, the direction of the board as of May 29. It also offers staff recommendations on key issues still in play. The Council is on record with two sets of comments made earlier to NEEA. Staff recommends any further comment to NEEA be made personally to individual NEEA board members. The attached staff report provides information that could assist in these conversations.

Staff will be available at the meeting to discuss the staff report and any follow-on issues.

Council Staff Report on Proposed NEEA 2015-2019 Business Plan

June 2, 2014

NEEA staff presented the board with six themes it summarized from public comment. Feedback themes are described in a NEEA staff memo which is attached. The complete set of comments is available here:

<https://conduitsnw.org/Pages/Group.aspx?rid=150&folder=167>.

Comment themes are listed here and discussed in the following sections of this memo.

Comment Themes

1. Concern about governance and the planning process
2. Concern about Regional Portfolio Advisory Committee (RPAC) “full consent” voting process
3. Desire for NEEA to include demand response programs
4. Desire for NEEA to do more for rural customers and industrial customers
5. Concern over budget cuts relative to current levels
6. Concern that optional programs and optional marketing activities will lead to missed cost-effective conservation

Concern about governance

The NEEA Board has made significant progress on governance issues over the past month. A Governance Committee has drafted revised bylaw language and decision-making guidelines to address governance recommendations made by the Council, the Oregon and Washington Commissions and others and need for increased transparency. Proposed changes to bylaws address the following:

- Expand the Board from 16 to 18 members by adding seats for all four states rather than rotation two seats among four states
- Extend the terms from two to three years for the four rotating public utility direct funders and the public interest representative to enhance continuity
- Revise decision-making guidelines to clarify that all Board meetings, with the exception of executive session, should be open to the public
- Added on “at large” seat to Executive Committee to increase transparency

The proposed revisions were discussed by board members. There seemed to be a preponderance of agreement on the changes among board members. But concerns were voiced over potential perspective shifts that may impact the 80 percent majority needed for passing changes to mission, vision and bylaws. One member expressed that rotating public utility members “gave up more than they got”. There were disagreements among board members about what topics were appropriate for closed executive sessions. The board also discussed when the new bylaws would become effective.

The board directed the governance committee to investigate best-practice guidelines and legal requirements for executive session. The committee was directed finalize

proposed bylaw and decision guideline changes and bring them back for board consideration at its June 20 meeting. Council staff recommends that the Council support the proposed changes recommended by the Governance Committee May 29.

Regional Portfolio Advisory Committee (RPAC) “full consent” voting process

NEEA needs a process that fully engages its funders and regional stakeholders in the process of moving market transformation initiatives forward. NEEA proposes to use its RPAC to do this engagement. The Board discussed whether a “full consent” or a “super majority” approach suggested by comment would be best. Most board members felt that a full consent process would be most appropriate. The board also identified the need to clarify the process checks and balances it would put in place to assure the full consent process would be functional, not misused and reviewed after 18-24 months. It was unclear in what documents the process clarifications would be described.

Council staff believes the RPAC is an appropriate place to handle the engagement of funders on moving new initiatives forward. The full consent processes will likely be an improvement if the checks and balances outlined are sufficiently prescribed and executed. The proposed review of the RPAC decision-making process should be part of the business plan.

Desire for NEEA to include demand response programs

There was a specific suggestion from Portland General Electric and the Oregon Public Utility Commission that NEEA develop and fund promising market transformation initiatives that incorporate demand response-enabling technology with energy efficiency technology. Most board members agreed that it should be open to opportunistic plays in demand response when they are concurrent with existing market transformation initiatives for energy efficiency. But a specific request to make demand-response items as an optional funding item was rejected.

Desire for NEEA to do more for rural markets

The board indicated that some focus is warranted in rural areas for homebuilding, retail markets, and irrigation. No specific initiatives or funding was identified for the Business Plan.

Concern over budget cuts relative to current levels

There was a long discussion of the Council and OPUC recommendations to increase the budget dedicated to scanning for new measures and for NEEA to facilitate regional research and planning for strategic markets. NEEA's proposed budget for scanning for new technology, market research to discover new points of leverage is one-third lower than the previous five-year period, \$2.9 million less over five years. This reduction is a key concern of the Council. The need to look for new technologies and points of influence is not decreasing. Sharing these research and facilitation activities among regional funders is an effective way to share risks and benefits and reduce regional costs.

In response to the comments, NEEA staff proposed adding funding back into the budget. NEEA staff suggested that some of the activities could be accomplished for less so it recommended “up to” \$450K annually be added back in subject to the normal checks and balances associated with operations planning and the annual budget process.

There was considerable confusion about the recommendations among board members. No clear consensus emerged on the staff-recommended additions. In the end, the board directed staff to better describe activities and the benefits of expected results which it would consider at its June 20 meeting.

Staff recommends the Council support the additions proposed by NEEA staff. Given the importance of this NEEA activity, Council staff will work with NEEA staff to develop that description for board consideration.

In addition, specific recommendations were made to add some industrial activities back into the NEEA portfolio. This recommendation came from industrial customers at the Boise hearing and others. The NEEA staff proposed adding \$300K annually to ensure that NEEA’s infrastructure activities for industrial markets, like strategic energy management, is more broadly disseminated and adopted. The board was not inclined to support the addition.

Council staff supports the addition of funding infrastructure activities for the industrial sector.

Concern that optional programs and optional marketing activities will lead to missed cost-effective conservation

A great deal of public comment raised concern over the viability of the optional infrastructure programs. Many board members expressed strong hesitance to offer any program options as it is a potential slippery slope to loss of regional influence, the value of regional cooperation and administratively cumbersome. Some suggested that all initiatives should be in the core funding. Other board members believed optional choice for some initiatives was essential to their being a part of NEEA. Still others suggested that the bundles of options were not structured appropriately. The NEEA staff supports the concept of moving the optional activities back into core funding, provided the current funders would all continue to fund NEEA .

At the meeting, NEEA staff tested board inclination toward each of the three specific options in hopes of estimating level of support. Response was mixed and gave no clear indication of which funders would opt in to which activity, nor why. It also raised concerns on how to structure partially-funded initiatives and determine whether there would be enough support for specific options to move forward with limited participants. Plus it served to highlight the need for contractual or other mechanisms with opt-in funders to effectively layout obligations of both NEEA and funders.

This has heightened Council staff concern about the viability of the opt-in element for programs. Earlier Council comment on the subject suggested trying it with some cautions and review along the way. The board still seems intent on trying it - mostly as an attempt to retain full participation of NEEA's current funders. But if logistics are too cumbersome to be worked out in the near term, optional programs may not really be a viable alternative and their savings and cost reduction advantages could be lost.

There was also a great deal of comment on optional marketing activities. Two themes emerged as concerns. The first concern is that utilities opting to do their own marketing of regional market transformation would not follow through. The second concern expressed that NEEA's inability to conduct "optional" market transformation activities in markets served by more than one utility may lead to missed opportunities, resulting in reduced market transformation.

NEEA staff proposed an explicit independent review of how the optional marketing activities were panning out at 18 or 24 months into the process. The board appeared to support that recommendation as part of the business plan. Council staff supports trying the optional marketing activities concept with a formal review.

End-use load research

At the end of the board discussion, Bonneville's Greg Delwiche mentioned that he had been considering making a recommendation that NEEA be the funding vehicle for regional end use load research. There was no discussion of the topic.



Memorandum

May 20, 2014

TO: NEEA Board of Directors

FROM: Susan Stratton

SUBJECT: Board Direction in Response to Business Plan Feedback Received to Date

Action Requested:

Provide staff with direction on what changes to make to the Business Plan in response to feedback received from the region.

Feedback Themes:

1. Concern about governance and the planning process (NWPCC, OPUC, Bellevue session)
2. Concern about RPAC “full consent” voting process (OPUC; Bellevue session)
3. Desire for NEEA to include demand response programs (OPUC; PGE; EWEB)
4. Desire for NEEA to do more for rural customers (Missoula session)
5. Concern over budget cuts relative to current levels (Sierra Club; Oregon Public Utilities Commission (OPUC); Portland General Electric (PGE); Washington Environmental Council (WEC); Northwest Energy Efficiency Council (NEEC); Climate Solutions; Portland session; Boise session; Bellevue session; individual written comments)
6. Concern that optional programs and optional marketing activities will lead to missed cost-effective conservation (OPUC; PGE; Hayden Tanner, LLC; Portland Session; Regional webinar; Bellevue Session; individuals)

Staff Response to Feedback and Suggested Board Consideration:

1. **Governance Process.** *There were a number of thoughtful comments about governance and Board processes (OPUC, NWPCC, Bellevue session). Staff views these as out of scope for the 2015-2019 Business Plan, but worthy of Board consideration (which is underway with the Governance Committee). **For Board discussion: do you agree?***
2. **RPAC Voting Process.** *There was general concern about the RPAC full consent process and a specific suggestion that full consent be replaced by a super majority (OPUC, Bellevue session). Staff appreciates this concern. Staff needs a process that fully engages its funders and regional stakeholders in the process of moving market transformation initiatives forward and supports either a full consent or super majority approach. With the required reassessment by the Board after a year of operations and the ability of the Executive Director to bring issues with the full consent process to the full Board, staff is comfortable with the full consent approach. **For Board discussion: should the RPAC vote be full consent or a super majority?***
3. **Demand Response.** *There was a specific suggestion that NEEA develop and fund promising MT initiatives that incorporate demand response-enabling technology with energy*

efficiency technology (OPUC, PGE). The Board heard similar concerns in response to the Strategic Plan development and supported the following statement:

“Demand Response will not be pursued independently as part of this strategic plan. NEEA will integrate demand response capability information in the emerging technology assessments of energy savings potential. In addition, since NEEA uses the Northwest Power and Conservation Council’s methodology and values related to peak value (today winter peak only) in its cost effectiveness calculations, NEEA will report peak value from a regional perspective in its energy savings results.”

Staff supports inclusion of a similar statement in the business plan. Staff also recognizes that although this is a five-year plan, the Board will be revisiting its appropriateness as events change. This is a topic that the Board can re-assess during the business cycle. ***For Board discussion: is this sufficient or would you like something different reflected in the Business Plan?***

4. **Rural Markets.** *There was a general theme that NEEA’s current portfolio doesn’t effectively address rural markets (Missoula session).* Staff recognizes the concern. NEEA’s current portfolio management criteria include rural/urban balance. NEEA will deliberately focus scanning efforts on identifying Market Transformation opportunities in rural markets, including a new look at irrigation opportunities, in order to ensure we maintain a balanced portfolio. NEEA also supports expanding consumer products pilot to include retailers and on-line channels used in rural markets. ***For Board discussion: is this sufficient or would you like something different reflected in the Business Plan?***

5. **Specific Budget Suggestions.**

- a. *Add \$340k per year for strategic market development, and add \$300k for emerging technology scanning and concept development (OPUC, NWPCC).* Staff believes that by focusing efforts on the critical aspects of the remaining strategic markets, the market strategy development can be accomplished with an additional annual average budget of \$150k. In total, we suggest adding \$450k to the annual average budget, with the understanding that we treat the funding level as an “up to” amount subject to the normal checks and balances associated with Operations Plan and annual budget process. ***For Board discussion: is there support for adding the incremental funding to the budget for strategic market development and scanning and concept development efforts?***
- b. *Add funding for an assessment of regional efforts relative to the 7th Plan (OPUC, NWPCC).* Staff views this suggestion as out of scope for NEEA. ***For Board discussion: do you agree with staff’s assessment or would you like to address this in a different way?***
- c. *Increase industrial funding (Boise session).* Staff agrees that the industrial funding level may be too low. Adding \$300k to the annual average budget would ensure that NEEA’s infrastructure work (i.e. SEM) is more broadly disseminated and adopted and is supported by staff. Specifically, with additional funding, staff plans to actively capture field experience as it is deployed by BPA (and others), make upgrades as field feedback and identified weaknesses are addressed, and make the current on-line SEM tool a more robust Learning Management System as part of NEEA’s Education and Training group. Once stabilized from activities above, staff intends to make the tool available to the market actors and end customers in order to support deeper learning within the addressable market. Additional funding would also allow staff to more actively support the SEM Collaborative.

For Board discussion: do you agree with staff's assessment or would you like to address this in a different way?

6. Comments Regarding Optional Programs and Optional MT Marketing Activities.

- a. *Add a comprehensive, independent assessment of costs and benefits of optional programs and optional MT marketing activities within 18 months (OPUC).* Staff supports adding \$30K of additional annual average budget (\$150k in the 2016 budget) to fund an independent evaluation (similar in cost to the management audit). ***For Board discussion: do you agree with staff's assessment or would you like to address this in a different way?***

b. Comments Regarding Optional Programs

- i. *Reconsider putting optional programs back into core: CRE/EBR (OPUC, JDM, Hayden Tanner), industrial technical training (OPUC), and TTTA (OPUC).* Staff supports this suggestion provided the current funders would all continue to fund NEEA. Having an option to choose whether or not to fund certain infrastructure programs is important to some funders and enables them to tailor their funding to programs that best meet the needs of their customers. The value of maintaining core funding for these programs comes from the fact that they deliver regional resources suitable for use by the entire region. If these programs can be maintained within core funding, staff believes the revised RPAC voting and stakeholder engagement processes will ensure that coordinated regional planning results in resources that add value and transform markets across the entire region.

1. *Commercial Real Estate (CRE)/Existing Building Renewal (EBR).* ***For Board discussion: is there support for putting CRE/EBR back in core funding?***

2. *Industrial Strategic Energy Management (SEM).* ***For Board discussion: is there support for putting industrial technical training back in core funding?***

3. *Top Tier Trade Ally Advanced Training (TTTA).* ***For Board discussion: is there support for putting TTTA back in core funding?***

- ii. *Establish a process for opt-in funding of additional MT initiatives if budget isn't enough (NWPCC).* Staff notes that a process exists for funding market transformation initiatives beyond the budget. This should be acknowledged in the Business Plan. ***For Board discussion: is this sufficient or would you like something different reflected in the Business Plan?***

- iii. *Aggressively court additional funders for optional programs (OPUC).* NEEA could seek appropriate additional funders if utility funding is insufficient to move forward. ***For Board discussion: would you like to include proactive language in the Business Plan in the event funding is insufficient or address the issue if it arises?***

c. **Comments Regarding Optional MT Marketing Activities**

- i. *Concern expressed that funders won't perform the optional MT marketing activities (PGE, Bellevue session). Staff appreciates the concern. We believe the risk is mitigated by the assessment proposed above and propose its inclusion in the final Business Plan. **For Board discussion: is this response sufficient or would you like something different reflected in the Business Plan?***
- ii. *Concern expressed that NEEA's inability to conduct "optional" market transformation activities in markets served by more than one utility may lead to missed opportunities, resulting in reduced market transformation (PGE, Bellevue session, Boise session, Portland session, webinar). Staff shares this concern. We recognize that many funding organizations have internal capability to do local marketing and value the opportunity to conduct this work themselves. We also recognize that limiting NEEA's role may reduce NEEA's influence with market actors, such as manufacturers and corporate retailers by being less able to commit to marketing and promotion plans on behalf of the entire region. In addition, staff is concerned about its ability to be accountable to its market transformation goals. However, if the ability to retain optional marketing activities is critical to maintain full funder support for NEEA, staff is committed to working through the resultant market execution challenges as they arise. **For Board discussion: is there support for maintaining the optional marketing activities? Is there different wording you would like reflected in the Business Plan to respond to these concerns?***