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October 2, 2018

MEMORANDUM

TO: Council Members

FROM: Charlie Grist

SUBJECT: Proposed Comments on NEEA Draft Business Plan

BACKGROUND:

Presenter: Charlie Grist

Summary: The Northwest Energy Efficiency Alliance (NEEA) operates on five-year plans and is now preparing for the next funding cycle which begins in 2020. Last week, NEEA's Board of Directors released a draft Business Plan for public comment. Comments are due October 19, 2018 requiring a short turnaround. This memo provides context on proposed Council comments on the draft plan.

Relevance: Establishing the appropriate scope and scale of NEEA activities over the 2020-2024 time frame is critical to accomplishing regional energy efficiency goals in both the short and long term. The Council's Seventh Power Plan calls on the region to provide continued support for NEEA and highlighted nine specific action items for the alliance (see REG-2). The Council's Plan calls on Bonneville, the utilities, and Energy Trust of Oregon to consider additional support for NEEA to provide regional leadership on new opportunities where NEEA's core competencies, economies of scale and risk mitigation provide maximum value to the region.

Workplan: A.1.1 Coordinate with regional entities (e.g. NEEA, BPA, utilities, regulators) to ensure the regional goal for cost-effective conservation is achieved.

Background and Context:

The Council had a formative role in establishing NEEA in 1997. NEEA accomplishments over the last twenty years have identified and developed emerging efficiency measures, designed and operated initiatives to accelerate adoption, locked in long-term savings by transforming markets towards efficient options, and locked in savings via codes and standards. Since its inception, NEEA initiatives have contributed about 15 percent total regional savings at relatively low cost. It has established a systematic approach to scanning for emerging technologies and developing promising ones into new regional initiatives with a proven track record. It has scaled up cooperative market research lowering costs and pooling risk among its partners.

NEEA's portfolio of activities has changed over the last twenty years. In the beginning, NEEA focused on delivering near-term savings at low cost. As utility programs ramped up after the energy crisis of 2000, NEEA's activities shifted more towards filling the pipeline for new measures and practices, and accelerating adoption of new and emerging measures by preparing to scale up activities for local utility program implementation. At the same time, the region called more heavily on NEEA to do the necessary market research to determine how best to leverage markets and to track progress on market uptake. The region also has increasingly relied on NEEA to coordinate and facilitate conservation implementation and elements of research best done at a regional level. Much of NEEA's value comes from pooling risk, aggregating regional influence and scale, sharing common costs, and focusing on longer-term efficiency plays. There has been a corresponding shift to less direct near-term acquisition from NEEA as utilities have taken on more of that role. In addition, NEEA has recently taken on market transformation activities for natural gas efficiency.

The Council's Seventh Power Plan found high value in increasing regional efficiency goals from about 200 aMW per year in 2016 to about 350 aMW per year by 2024. That is a fast ramp up – with much of the increase from acquisition of emerging measures. NEEA's role readying emerging measures and markets for large-scale uptake is an important component in meeting overall efficiency goals. Action Plan Items RES-1 and REG 2 call for the region to achieve the plan efficiency goals and to provide continued support for NEEA. The Council's Seventh Power Plan also identified a suite of actions for NEEA and its partners. These include:

- REG-10 – Develop strategies to coordinate energy-efficiency planning within region.
- MCS-4 – Develop a regional work plan focusing on emerging technologies to help ensure adaption
- REG-7 – Conduct regional sector-specific stock assessments
- MCS-7 – Monitor and track code compliance in new buildings
- REG-8- Understand the impacts of codes and standards on load forecasting and regional conservation goals
- REG-1 – Develop robust set of end-use load shapes with plan to update over time
- RES-5 – Support regional market transformation for demand response
- MCS-6 – Develop best-practice guides for new and emerging industries

- ANLYS9 – Research electric savings in water and wastewater facilities

Development of the Business Plan

The business plan process began in March 2018 after development of a draft strategic direction document. The strategic planning work confirmed NEEA's role in six broad areas of engagement, but it did not establish the size of NEEA's effort in any of those areas. The major five broad areas are:

- Emerging Technology
- New Initiatives
- Program Implementation (Existing Initiatives)
- Market Intelligence
- Convene and Collaborate

In July, NEEA considered a clean-slate scope of work scaled up the level of effort in all these categories. But the price tag came in about 15 percent above NEEA's 2015-2019 five-year budget cycle of \$164 million. Subsequently, the focus became a balancing act of what activities to scale back to best achieve goals and preserve the organizational capacity to do the work within a budget more in line with its current five-year cycle (2015-2019) budget. Considerable effort was put into understanding tradeoffs between near-term and long-term value among the options.

The resultant draft business plan was released for public comment on September 25, 2018. The scope and size of proposed NEEA activities are scaled down slightly from current levels, but the overall direction is quite like its current activity. The budget is about five percent lower than its current business plan and the draft plan includes net reductions from current activity levels in all the key areas except Convene and Collaborate.

Table 1 below shows the categories for NEEA's electric portfolio and compares the scope and budgets in each between the last business cycle (Cycle 5, 2015-2019) with the proposed business cycle (Cycle 6, 2020-2024). Changes include 20 to 37 percent reductions in five of the six categories: implementation of existing initiatives, emerging technology work, development of new initiatives, market intelligence, and long-term monitoring and tracking activities. The reduction in direct program costs is about \$10 million, or about 11 percent, between the two five-year periods. On the other hand, there is an increase in the budget for Convening and Collaborating. There are also increases in staff costs driven largely by salary and health insurance costs and compensating reductions in General and Administrative costs. The net change is about a \$9 million reduction from the previous business cycle, about 5 percent, not accounting for inflation.

Table 1 – NEEA Business Plan Budget Changes

	Budget data are in Thousands of dollars - Nominal			
	Budget C5 (2015-2019)	Draft C6 (2020-2024)	Net Change: Budget C5 & Draft C6	Percent Net Change: Budget C5 and Draft C6
Direct Project Costs				
Program Implementation	\$ 69,681	\$ 66,787	\$ (2,894)	-4%
Emerging Technology	\$ 9,973	\$ 7,146	\$ (2,827)	-28%
New Initiatives	\$ 9,043	\$ 7,250	\$ (1,793)	-20%
Market Intelligence	\$ 5,514	\$ 3,650	\$ (1,864)	-34%
Long-Term Monitoring and Tracking	\$ 2,324	\$ 1,275	\$ (1,049)	-45%
Sub-Total Direct Project Costs	\$ 96,535	\$ 86,108	\$ (10,427)	-11%
Salary & Benefits				
Direct Program	\$ 36,609	\$ 38,477	\$ 1,868	5%
Convene and Collaborate	\$ 6,324	\$ 7,287	\$ 963	15%
Administration	\$ 12,608	\$ 13,450	\$ 842	7%
Sub-Total Salary & Benefits	\$ 55,541	\$ 59,214	\$ 3,673	7%
Other General and Administrative Costs	\$ 16,165	\$ 14,028	\$ (2,137)	-13%
Sub-Total All Activities	\$ 168,241	\$ 159,350	\$ (8,891)	-5.3%

Summary of Changes

Program Implementation: The five-year program implementation budget is reduced by about \$2.9 million compared to the previous cycle. Most of the reductions come from expected ramp down of existing initiatives offsetting slower expansion of newer initiatives. Some of the decrease comes from exiting the NEEA ductless heat pump initiative early. The draft plan also proposes to reduce support for the annual Efficiency Exchange conference by making it every other year. NEEA’s web page portal for energy efficiency matters, Conduit, will also be discontinued as part of the proposed business plan.

Emerging Technology: NEEA routinely scans for, assesses, and reports on the potential for new efficiency products, services, and practices. It tests field performance of the most promising opportunities. The five-year Emerging Technology budget is reduced about \$2.8 million from current levels. This reduction is based on the relative health of the pipeline of new measures. In Cycle 4 the pipeline was relatively limited so NEEA increased that budget for Cycle 5 and the results paid off in the form of new initiatives. The proposed cutback for Cycle 6 is an adjustment as part of the balancing under a constrained budget. However, this cutback raises concerns because of the adverse long-term impacts.

New Initiatives: NEEA’s New Initiatives budget is a placeholder for opportunities which were not envisioned at the beginning of the NEEA business cycle. These include emerging technologies that are not yet ready for development. In the last cycle, NEEA budgeted about \$9 million for New Initiatives and used most of it. The work produced new initiatives in windows, very-high efficiency HVAC, and extended motor driven products for pumps that have promise to deliver large savings and eventually lead to codes or standards improvements. The proposed business plan drops this budget to about \$7 million for the five-year period. Cuts here could have the consequence of not being able to launch promising new initiatives should they arise. To mitigate this potential loss, the draft business plan also recognizes that the Emerging Technology and New Initiatives budget

areas work together and that shifts may occur between them as opportunities arise.

Market Intelligence: This category includes market research, evaluation, planning and market analysis that crosses multiple programs. Market research identifies the delivery chains for efficient products and services and how best to leverage change in those markets. It keeps track of efficient product uptake and market share, so the region can see progress and can identify areas that need focus. Market intelligence also produces the regional building stock assessments used by the Council and utility planners for load forecasting and assessments of remaining conservation potential. NEEA's Market Intelligence work has a large component of regional economy of scale.

Proposed changes to the regional stock assessments present a challenge. The draft business plan proposes to rescope the residential assessment and shift the commercial assessment later in time. This approach leaves large gaps in knowledge by eliminating major segments of the residential building market – manufactured housing and multi-family buildings. The delay in the commercial stock assessment will push findings beyond the time frame needed for the Council's ninth power plan.

Salary and Benefits: This category increases about \$3.8 million over Cycle 5. These increases are primarily adjustments salary, to accommodate increases in cost of health care, and to cover an expectation of fewer staff vacancies. Part of this work includes activities summarized as Convening and Collaborating

In summary the draft business plan is a slight scale-back from recent activity levels. Much of the change is shifting of priorities. Except for the proposal on stock assessments, the tradeoffs largely impact long-term goals and development rate of new opportunities.

Links to NEEA's Plans:

Business Plan: <https://conduitnw.org/Pages/File.aspx?rid=4615>

Strategic Plan: <https://conduitnw.org/Pages/File.aspx?rid=4524>