NW Energy Coalition
for a clean and affordable energy future

May 26, 2014

Susan Stratton, Executive Director
Jim West, Board Chair
Northwest Energy Efficiency Alliance

To NEEA Board and Director:

The NW Energy Coalition appreciates the opportunities to provide both written and oral public input on NEEA's strategic and business plans. The Coalition has been involved with NEEA as a board member and stakeholder since its inception in 1997. While not a funder, the Coalition is highly invested in the organization's success.

We appreciate the thoughtful work by the board and staff to develop the new strategic and business plans. Our comments focus on the proposed strategic focus areas, budget reductions, transparency and the organization's governance structure.

I. Strategic program focus

We are concerned about the move away from existing commercial buildings. The Northwest leads the national drive toward net-zero energy use in new construction and sets the standard for building-code compliance. NEEA has been a major factor in both achievements. Rather than pulling back, we need to dig deeper into existing buildings and identify innovative market transformation opportunities in this sector.

While many utilities have strong commercial retrofit programs, NEEA's role remains crucial: assessing savings performance over time and developing innovative financing and point-of-sale/point-of-lease mechanisms that address market barriers in the building retrofit sector. These may not be widget- or control-based programs, but they're critical to market transformation in this sector. NEEA is strategically positioned to lead a high-level collaboration among building owners, property managers and operators, and energy service companies to identify ways to support deep building retrofits. More innovation is necessary to help make utility programs even more successful in this hard to reach sector.

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II. Budget adjustments

Core budget reductions

The proposed base budget of $29 million per year, compared with the 2013 actual of $39.7 million, represents about a 27% cut in the organization's core program work. If utilities were to eschew all opt-in/opt-out offerings, NEEA's critical role in the region would be severely compromised. Even if half the optional offerings eventually were funded through NEEA, with individual utilities ensuring implementation through their own programs, NEEA still would face a 15% reduction in its core program. The laudable goal of operational efficiency cannot justify a budget cut this deep – deep enough to reduce staff and contractors' ability to do the bread-and-butter market transformation work that defines NEEA.

Utilities' conservation potential assessments typically identify technical, economic and achievable levels of savings. The predicted gap between technical and economic achievement illustrates the importance of identifying emerging energy efficiency technologies and bringing them into the pipeline to future acquisition. NEEA helps to identify those technologies and transform them from technical to economic realities. Today's rapid technological development pace requires a well-funded, highly functioning NEEA to help transform new technologies into market successes.

Critical stages in the pipeline process include such activities as: assessing market opportunities, seeding technology development, market and technology research, development and demonstration, energy efficiency planning, market scoping, baseline data collection, market strategy and channel development, technology scanning, and improving codes and standards. NEEA's proposed budget documents acknowledge that individual utilities do not fund these activities and that most are best conducted regionally. Yet all of these areas take a haircut in the proposed budget; their funding should be restored to 2010-15 budget levels.

Optional elements within programs and optional initiatives

We agree that program duplication and confusion over delivery cut the cost-effectiveness of realizing utility and/or NEEA goals. We appreciate the close inspection of each program and focus on those that could be more effectively delivered by local utilities. It may be reasonable to let utilities deliver certain elements of an initiative if they can demonstrate that they are going to adopt those activities into their local efforts.

Bringing NEEA programs directly to trade allies or customers -- often the critical final step of an initiative that entered NEEA's pipeline years earlier -- should be done by the entity with the strongest relationship. But the proposed opt-out approach puts that final step at risk. NEEA shouldn't be watching over local utility efforts, but they must make specific agreements about roles, expectations and budget allocations.

NEEA board members have characterized the Business Plan proposal's opt-out element as a shifting of responsibility, not a budget reduction. So local utility budgets should reflect the utility's additional cost of delivering program elements previously delivered by NEEA. It certainly may not be a one-for-one budget swap, but we would expect appropriate adjustment to the budgets of local utilities that assume program implementation responsibility.

We are concerned, however, that other solutions to program duplication were not fully explored and encourage the Board to more fully examine potential options to remedy existing weaknesses in the program implementation and delivery structure other than opt-out. Given all this uncertainty, we recommend that NEEA test the opt-out concept with much smaller scope, limited-duration pilot. The board should establish principles or criteria for judging pilot performance. Criteria could include:

- Opt-out does not harm other utilities that do not opt-out of the initiative.
- Proper accounting of budgets and savings that support standard allocation among utilities.
- Specific commitments from opting out utilities for local delivery of the NEEA initiative are made and met, and the final goals are achieved.

The Northwest is a large and diverse region; not every program or initiative will work in every utility service territory. Yet a specific initiative has value for the entire region in terms of lessons learned, ripple effects and production of variations on the theme. We are particularly concerned about the Commercial Real Estate and Existing Building Renewal initiative as an opt-in program. The initiative now focuses on large commercial buildings, but over time the strategies and approach should become appropriate for deploying in smaller buildings.

In addition, we have a profound need for innovation to overcome significant market barriers in the existing commercial building retrofit market. Buildings, themselves, are unique, but the barriers to achieving long-term energy savings in existing commercial buildings are similar throughout the region. Removing those barriers requires exactly the creative and cross-region thinking that NEEA does best. Yet, the current proposal is for a one-time "opt-in or not" approach that puts the ability to address this critical market segment at risk. Making this program opt-in implies that the initiative as currently defined is the only opportunity in this market. This approach reduces the effectiveness of market transformation and the ability to adaptively manage a program area to ensure that utilities, owners and customers reap the full benefit of NEEA's efforts in the future.

We are also concerned that the proposal sets no minimum level of opt-in investment for an initiative to be developed. This seems a recipe for quickly adding more initiatives to the programs already cut from the strategic plan.

III. Governance

From its long history of board membership, the Coalition is quite familiar with NEEA's internal operations and the decision-making challenges the Board faces. The move to populate the Board with senior managers from funding utilities (the Coalition did not support the cycling of state representatives every two years and advocated for more than one public-interest and industry seat) has raised NEEA's profile. The development and approval process for the 2015-19 strategic and business plans, however, exposes some weaknesses in NEEA governance that should be addressed.

- We encourage the Board to look beyond its existing utility funders for new sources of funding. There's no good reason to restrict NEEA's funding sources to utilities within the BPA footprint. NEEA could benefit from investments from utilities outside the region (BC Hydro, for example), from manufacturers or industry interested in expanding markets for their products, and from state or federal governments via grants. Leveraging dollars from new funders lowers the cost of all NEEA projects.

- While we appreciate the Board taking the final proposal out to the region for input, the process from November's draft Business Plan to the today's Scenario 4 has suffered from a surprisingly black box-like lack of transparency. We suggest a review of the process to ensure that all Board members are included in the development and in-depth discussion of budget proposals before they are released for public input.

- As a mature organization, it may be time for a Board that is less funder-driven and with more targeted expertise in areas relevant to running a large non-profit organization. Of course funders must be on the Board, but balance is needed to ensure that all of NEEA's goals and mission are accomplished.

In conclusion, the need for market transformation becomes ever more urgent as energy efficiency is increasingly relied upon to reduce greenhouse gas emissions, cut consumer bills and support economic development. NEEA's work is needed to sort the most promising technologies from a rapidly changing technical landscape and bring them to market. Its core budget must be sufficient for adaptive management that quickly reacts to opportunities, as well as for the research, data collection/analysis and testing of technologies and programs to keep the Northwest at the forefront of the clean energy economy.

Thank you for your consideration.

Sincerely,

Nancy Hirsh

Nancy Hirsh
Policy Director