COMMERCIAL SECTOR BUDGET CONCEPTS 2015

Sector: *Commercial*
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Sector Overview:

Energy Trust's Commercial Sector provides energy efficiency services and financial incentives to commercial, institutional and multifamily customers. Primary sector activity is accomplished through three Program Management (PMC) Contracts: Existing Buildings, New Buildings and Existing Multifamily. In 2015 Strategic Energy Management (SEM) will be delivered through new Program Delivery Contracts (PDCs), managed by sector staff. In addition to PMC and PDC activity, the sector supports Training, Building Operator Certification, and other efforts.

2015 Sector Themes and Key Directions:

The primary objective of the commercial sector is to make cost-effective investments in energy efficiency to meet IRP goals. In order to achieve the goals in 2015 and lay the foundation for future savings in 2016 and beyond, the commercial programs will focus efforts on:

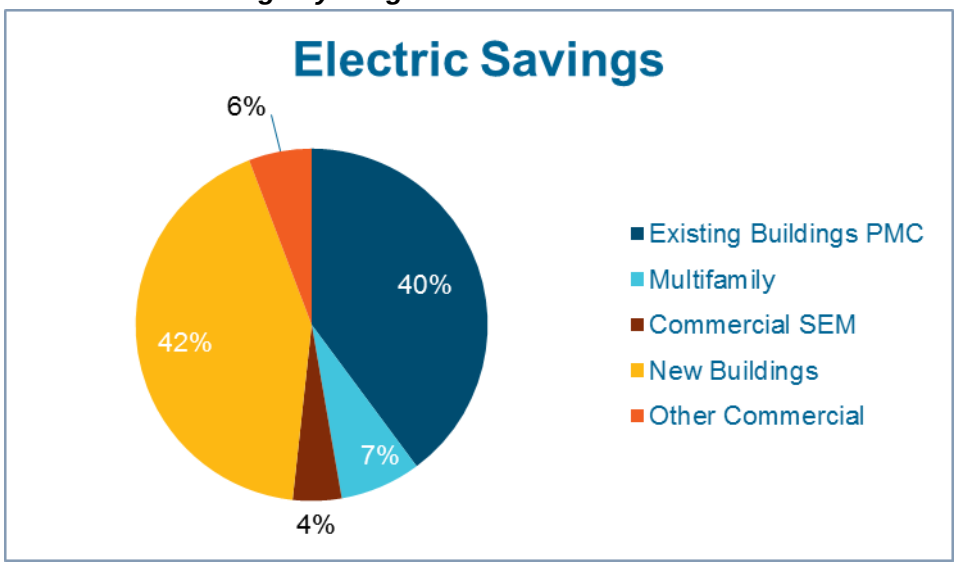
- Broadening Participation by Underserved Customers
- Developing new measures and approaches to save energy
- Continuously improving program design and services

2013 Recap:

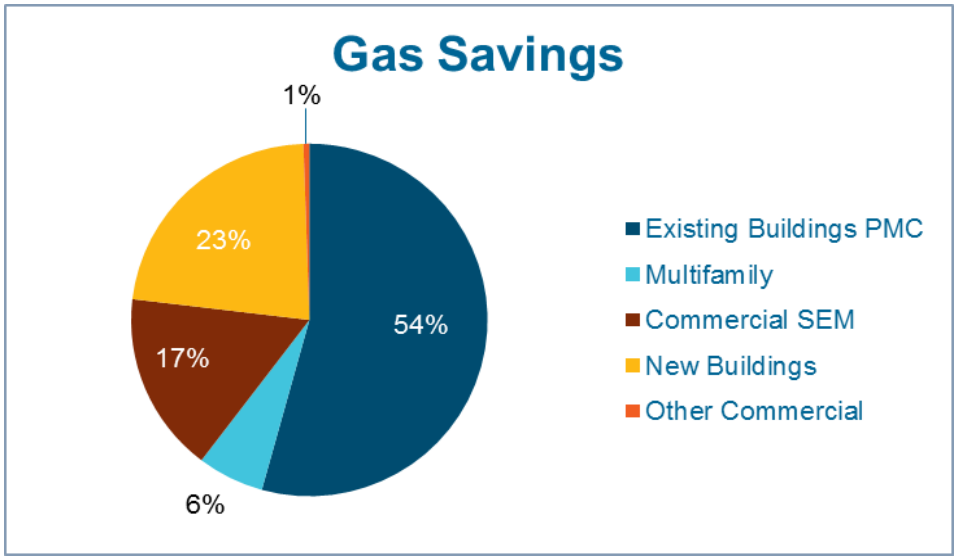
As described in the Commercial Sector 2013 Trends report[1], although the sector did not reach stretch goals in all utility territories, the sector did achieve record-high electric savings, and continued to drive down the incentive cost for gas savings. 2013 highlights include: expanding trade ally engagement, increasing momentum in LED technology , and completing the transition to a new Existing Buildings PMC contractor.

[1] http://energytrust.org/library/meetings/cac/140423_CAC_Packet.pdf

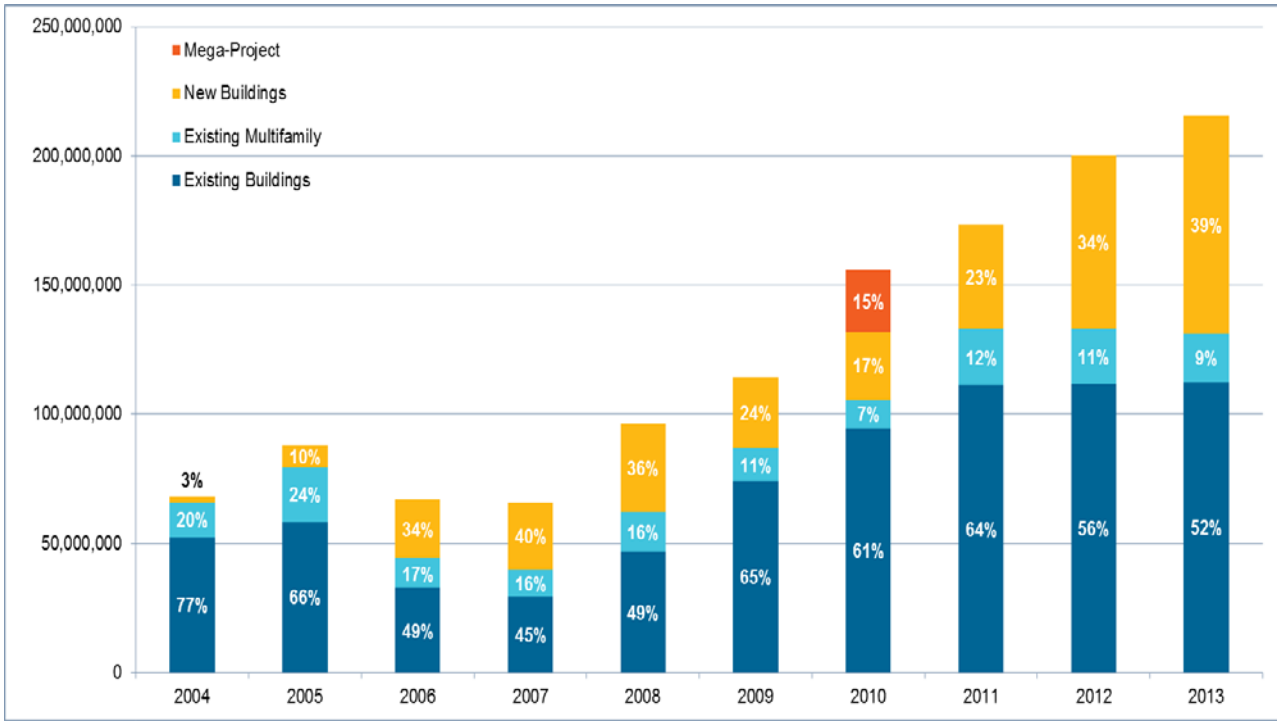
2013 Electric Savings by Program for Commercial Sector



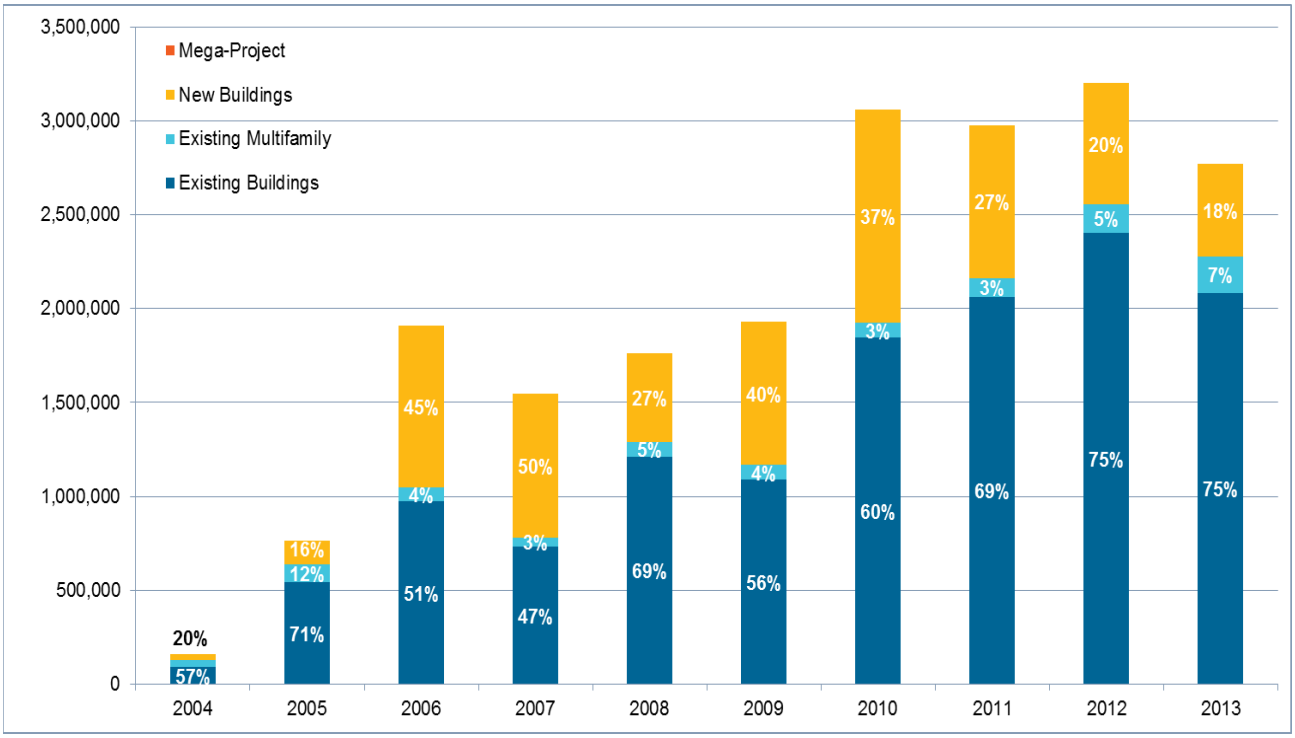
2013 Gas Savings by Program for Commercial Sector



Electric Savings (Working) for Commercial Sector Programs, 2004-2013



Gas Savings (Working) for Commercial Sector Programs, 2004-2013



2014 Current Situation / Market Conditions:

Updates to Oregon Energy Code and Federal Lighting Standards have ratcheted up baselines which is reducing the savings available per project. In addition, Energy Trust has already supported many of the largest custom capital projects in existing buildings. To meet goals, the Sector must now bring in a substantially higher volume of projects and support new technologies and approaches. Technologies such as LEDs are becoming more cost effective, while newer approaches to Operations & Maintenance savings are gaining momentum in the market. However, avoided costs have dropped significantly, impacting cost effectiveness and limiting the measures we can support with incentives. The State's Energy Incentives Program is substantially smaller and narrower in scope than in the BETC years and Energy Trust is coordinating with ODOE to identify limited opportunities to leverage incentives and tax credits to increase market penetration.

Program direction and key activities, by program

Existing Buildings

Large customers generally embrace energy efficiency practices and consistently utilize our services. Small to mid-sized customers often need additional support to move forward with energy efficiency investments. Changing baselines and technologies require program evolution and there are challenges associated with helping trade allies adapt to these changes.

Existing Buildings continues to build and reinforce relationships with non-lighting trade allies, and SEM continues to deliver substantial savings for the program's larger customers. Falling avoided costs and potential increases to free-ridership rates present challenges in continuing to maintain yearly savings levels in 2015. Custom projects are showing good potential; lighting savings are making a comeback as a result of an incentive increase for custom lighting and new prescriptive LED measures are gaining market traction.

Lighting:

- LED lamp prices continue to drop, creating more retrofit opportunities and allowing for the introduction of more prescriptive LED incentives.

- Existing Buildings will continue to track street light retrofits as LED street lighting prices decline and will adapt the incentive offering to help municipal customers install appropriate technology.
- In 2013 the program launched a pilot that provided incentives through distributors for reduced prices for LEDs for small customers. In 2014 this initiative is increasing the number of participating distributors and in 2015, it is expected to expand on the success with higher LED prescriptive savings.
- In 2014 the program continues to offer incentives for comprehensive lighting solutions, Performance Plus. Existing Buildings is limiting the number of participating trade allies to contractors with demonstrated proficiency in comprehensive project designs.

Custom

- Existing Buildings will continue to explore increases to custom incentives in order to drive additional project activity.

Prescriptive

- The program will continue to work with existing Trade Allies and new vendor groups to promote measures through training, coordination and marketing.
- In 2014 Existing Buildings is offering several prescriptive measure bonuses to spur business for specific trade ally groups and/or in specific market sectors that have large untapped electric and gas savings potential. These include: cooler doors and packaged terminal heat pumps for electric savings, boilers and steam traps in schools for gas savings, and insulation and food service equipment for both fuels.

Strategic Energy Management:

- Participants continue to see value, and savings, from SEM by implementing and planning O&M improvements and behavioral activities to reach their energy saving goals.
- Program staff is working on the development of new SEM curriculum through a new contract and the recruitment of new contractors SEM delivery services.

Schools:

- Existing Buildings is working with ODOE to provide audit and technical project support to support 110 K-12 schools in 17 districts enrolled in ODOE's "Cool Schools" initiative.
- In 2015, Energy Trust will work with ODOE to provide prescriptive measure bonuses for eligible schools, including designing schools-specific bonuses like the 2014 steam trap bonuses.

Innovation:

- Existing Buildings has launched a pilot to test the viability of providing incentives for ductless heat pumps in small commercial applications; pilot findings will inform 2015 activity.
- Work is under way to develop an offering to provide streamlined lighting installations for small customers in late 2014; this initiative is expected to be carried into and brought to scale in 2015.
- The program is developing a "Pay-for-Performance" pilot to test the ability to achieve deeper savings or reach new customers by paying for verified savings over time.

New Buildings

Several market sectors emerged strong in 2014 and are expected to continue into 2015. Urban infill continues to enroll in New Buildings with multifamily, grocery, healthcare, retail and mixed use at record-high numbers. Strategies developed over the years are delivering strong results statewide and will be continued in 2015 to maintain consistency statewide.

Small Commercial:

- Market Solutions offers six streamlined incentive packages that do not require energy modeling—to encourage owners to achieve 10-20 percent savings beyond code. These packages will be expanded to include two or three new segments including Tenant Improvement and Highrise Multifamily.

Building Code:

- New Buildings is promoting early design assistance and tiered custom incentives to reduce the costs of high-performance design strategies and strengthen code adoption.

Lighting:

- New Buildings is encouraging comprehensive lighting design with higher incentives. This will be continued into 2015 since it has been successful in identifying additional energy savings.

Innovation:

- The Solar Ready offering launched in 2013 enables customers to more cost-effectively add solar to their buildings at a later date.
- Developing Path to Net Zero strategies and provide technical support for owners and developers targeting net zero for their buildings.
- Encouraging high performance data center design through market transformation approaches.
- Considering revised HVAC approaches such as Variable Refrigerant Flow or other technologies.

Existing Multifamily

The multifamily market continues to experience historically low vacancy rates, driving increased activity in construction of new multifamily units and creating challenges to retrofits at existing properties. As a result, there has also been resistance to major capital projects that require vacant units or temporary tenant displacement.

Energy Trust has increased outreach to integrate our breadth of program offerings into the short and long-term planning cycles of decision makers, streamlined distributor buy-down initiatives and introduced innovative pilots focusing on technologies and strategies specific to the multifamily market in order to overcome the barriers posed by the current market conditions.

Market Segments:

Existing Multifamily serves all buildings that have 2 attached units or more and is designed to reach a range of ownership/use segments through our wide variety of program offerings and engagement services. The majority of savings are expected to come from the Market Rate, Assisted Living and Affordable Housing market segments making up 87 percent of all electric and 79 percent of gas savings.

Projects:

- A comprehensive redesign of the Custom Track was launched in 2014 to drive more savings from large retrofit projects on both the gas and electric side by streamlining the timeline, focus and costs associated with multifamily custom projects.
- Instant Savings Measures, ISMs, are expected to be direct-installed in more than 20,000 dwelling units in 2014.
- While savings from weatherization and windows measures are lower than during the previous energy tax credit offerings, the savings from these projects is projected to increase during 2014 and 2015 primarily due to Existing Multifamily's increased focus on engagement and assistance to trade allies who specialize in the installation of these measures.

Midstream incentives:

- Beginning in 2012, Multifamily started mid-stream appliance incentives which has increased the uptake of qualified appliances installed through maintenance and replacement channels. In June 2014, the program streamlined the enrollment process to encourage high distributor participation to remove the high barriers to entry.

Innovation:

- Existing Multifamily continues to work to overcome barriers to participation created by renter/landlord split incentives by focusing on water and sewer costs paid by the majority of multifamily property owners and managers.

- Multifamily is running several pilots including:
  - MPower Oregon pilot in collaboration with Network for Affordable Oregon Housing, leveraging HUD grants to overcome barriers in affordable housing through light touch retrofit and on-bill payment.
  - Convective Heating Pilot to examine the energy efficiency results of certain high efficiency electric wall heaters.
  - Memory care/assisted living pilot to provide comprehensive lighting designs that meet new state standards

2015 Key Actions and Initiatives

In 2015, the commercial sector will continue with strategies from 2014 and engage in the following efforts in order to meet savings goals:

The sector will emphasize improvements that **broaden participation by underserved ratepayers**

- Developing financing opportunities where they can encourage additional program participation and drive cost-effective savings.
- Developing prescriptive incentives to support greater market adoption of new cost-effective technologies such as LEDs, which would be particularly attractive for smaller business customers.
- Implementing delivery methods to provide service to small commercial customers including hassle-free direct installions of energy efficient equipment.
- Developing Strategic Energy Management offerings to cost-effectively bring benefits of SEM to smaller customers.
- Expanding regional outreach strategies to better engage and serve customers in rural, non-metro areas.

The commercial sector will continue to encourage savings through **developing new measures and approaches to save energy**

- Developing additional prescriptive incentives and expanding midstream buydowns where they can drive cost effective savings.
- Targeting O&M incentives to optimize building systems performance for customers of all sizes.
- Implementing a pay-for-performance pilot to assess the market demand and feasibility of longer-term contracts to support capital and operational savings.
- Improving the presentation of a compelling business case for deeper energy efficiency investment, supported by tools and services to assist customers with decision-making and setting priorities
- Providing point-of-sale financing information to see how it could increase project decision-making.
- Coordinating with external organizations such as NEEA, ODOE, Network for Affordable Oregon Housing, City of Portland and Multnomah County to gather new ideas and develop new approaches.

Finally, the Sector will emphasize **continuous improvement of program design and services**:

- Streamlining the application process and enhancing online tools to make it easy for customers to participate in programs
- Expanding Strategic Energy Management and transitioning the SEM delivery contract structure to encourage innovation and expand the geographic area for the offering.
- Exploring strategies to utilize data to for more targeted marketing and outreach activities as well as helping customers better understand energy saving opportunities in their buildings.
- Improving processes for project and technical review; adopting systems to better identify multiple retrofit opportunities; and improving lead capture for future targeted marketing efforts.
- Consider incentive increases to motivate customers where current offerings don't provide adequate financial returns.
- Investigate ways to communicate the benefits of integrating solar, alongside efficiency projects, to create a comprehensive energy plan at customer sites.

2015 Anticipated Challenges or Risk Factors

- Serving the needs of larger customers (>1 aMW) may become a challenge as we get closer to spending limits and potentially implement strategies to limit spending for these customers.
- Avoided cost reductions may limit the sector's ability to capture savings by reducing the cost-effectiveness of some measures. Potential measures impacted include; custom HVAC and control measures, Market Solutions,weatherization, water heating and boiler measures.
- A maturing retrofit market is resulting in limited savings opportunities per project and fewer large custom projects.
- Potential transition to a new PMC contractor for Multifamily in late 2015.
- Potential transition challenges SEM moves to a new model and new contractors are brought on.
- HB2801's potential rules on comprehensive building analysis and cost-effectiveness considerations may require adjustments to program strategies. Any new rules could create more program opportunity for New Buildings and deep retrofits, but could also impact overall program cost effectiveness.
- CFL baseline changes implemented January 1, 2014, will continue to reduce savings potential for multifamily direct install measures.
- Completion timing on large projects including data centers, lighting, and custom projects could shift accomplishments into 2016.