Briefing Paper
Proposed Enhancement to the Production Efficiency Program Delivery Structure

August 8, 2007

Summary

To simplify and strengthen the Production Efficiency program delivery structure for 2008 by contracting directly with Program Delivery Contractors and Allied Technical Assistance Contractors, improving management and communications, and fostering direct relationships between contractors, customers and Energy Trust.

Background

- Energy Trust currently contracts with a Program Management Contractor (PMC) who in turn contracts with Program Delivery Contractors (PDCs) and Allied Technical Assistance Contractors (ATACs) to serve program participants.
- PDCs serve as the primary program participant contacts, with ATACs providing engineering support.
- The program attracts many specialized, custom projects identified in engineering analyses.
- The program depends heavily on strong and effective relationships between contractors, participants, program field staff, vendors, and Energy Trust.
- With the exception of 2006, the program has fallen short of meeting its annual savings goals.
- The 2006 resource assessment identified 140 aMW of achievable potential in the industrial sector for the period 2006-2012. Staff projects that 118 aMW remains to be acquired during this time period, approximately 23.5 aMW per year.
- With most of the "low-hanging fruit" picked, future projects are expected to require more targeted outreach, marketing and sales.
- To successfully close future projects, staff also anticipates that more "hand-holding" will be both helpful and necessary.
- Lockheed Martin, the current Production Efficiency program management contractor, has participated in numerous discussions of program delivery options, offering constructive input and pledging its full cooperation in support of the program, its customers and any future transition requirements.

Analysis

Staff views the current structure of the Production Efficiency program delivery model as having served a very positive role up to this time. The technical skills and expertise of the PMC are

noteworthy. In addition, the PMC model enabled fast service in marketplace and early measurable results at a time when the Energy Trust was first starting up. Now the program is mature. Both field experience and evaluation results have identified opportunities to strengthen the current approach to better serve customers on a going forward basis.

As discussed at the June strategic planning worksession, staff identified a number of topics related to the production efficiency program, including its current structure, communications and relationships with program participants. Following the staff presentation and board discussion of these topics, the board requested that staff conduct additional analysis of the current program structure to further improve and strengthen it.

In response to the board's request, staff identified and analyzed 3 areas believed to influence the program's future effectiveness and success: 1) management; 2) communications; and 3) customer relationships. Staff was motivated to address these issues now, in anticipation of the expiration of the current PMC contract at the end of the current calendar year. Below is an analysis of each topic:

1. **More efficient management -** The existing program structure has Energy Trust managing a program management contractor who in turn manages program delivery contractors (PDCs) and allied technical assistance contractors (ATACs). Energy Trust communicates its needs and priorities to the PMC who is expected to share such information in the course of its management and direction of 4 PDCs and 13 different ATACs. This multi-tiered approach to program management has added time and resulted in inefficiencies, miscommunications and confusion. There have also been delays in a variety of areas, including program status and projected activity, data for design considerations and implementation of program changes. The lack of Energy Trust direct access to and management of PDCs and ITACs has created challenges. There have been difficulties in offering, reinforcing and ensuring support for Energy Trust priorities such as new pilot programs or initiatives for operations and maintenance and for renewable energy opportunities.

2. **More effective communications –** Energy Trust believes the current structure has resulted in periodic misunderstandings, misperceptions, inefficiencies, and other challenges to effective and timely communications between various parties. Energy Trust is viewed as bureaucratic with many layers of communication. This perception may be keeping some potential participants from availing themselves of program opportunities. Miscommunications regarding funding levels during 2005-2006 resulted in lingering misconceptions about the program. Participants recently contacted stated they were unaware of funding being stabilized, indicating that such information has not been successfully communicated. Emails sent from the PMC to the PDCs may not always be copied to Energy Trust, resulting in duplicate communications or slightly different messaging. This has produced program confusion. Though meetings between the PMC and the PDCs are expected, they have not been regularly held. In addition, the PMC has exercised its judgment about policy decisions without always seeking prior Energy Trust input. This, too, has resulted in misunderstandings that have impacted customers.

3. **Long-term customer relationships –** Unlike most other efficiency programs, the success of this program is heavily dependent upon relationships between all players including participants, program field staff, vendors, and Energy Trust. When the program was initiated in 2003, significant low hanging fruit was available for picking in the

industrial sector. Combined with the high "kicker" incentive, our first offers were designed to get attention and attract participants. Looking forward, relationships with participants will become more important, with more "hand-holding" anticipated to acquire the next tier of projects. Now the challenge is to "sell" projects with lower incentives while touting project benefits. An increased number of custom projects is expected, which often benefit from and depend upon cultivating sustained relationships.

Participants expressed an interest in having more direct contact with Energy Trust. Evaluations have reinforced this direct feedback, noting customer support for increased direct contact with Energy Trust. A simplified structure would connect Energy Trust staff and decision-makers with participants. This long-term investment is seen as preferable to having such relationships housed with a PMC, whose contract period is a maximum of 2-3 years.

In addition to requesting the above refined analysis, the board identified two primary questions at the June board strategic planning work session for staff to address:

1. How might this program change be received by participants?
2. Recognizing the critical importance of technical skills, what is the likelihood that Energy Trust could attract and retain an appropriate and effective manager?

Staff surveyed more than 20 Production Efficiency program participants by telephone to seek information from them about the current program model and to test reactions to any proposed changes in the program structure. To summarize, the majority of participants reached were unaware of the current program structure, had little or no contact with the PMC and supported the idea of eliminating a layer of program management. The following topics were raised during participant telephone discussions with staff:

- The PMC model can quickly process a large volume of standard, similar projects and can also be ramped up or down in response to demand
- The 2-3 year life of PMC contracts limits the ability to develop and maintain longer-term relationships with participants
- Participants desire more direct contact with Energy Trust staff and prefer to speak to their counterpart decision-makers

Staff concurs that being able to attract and retain a program manager with the technical skills necessary to support the PE program being managed in-house is paramount to the success of this transition and to the program's ongoing success. Since the June board worksession, staff has identified and held informal meetings with two qualified candidates who possess the requisite experience to serve industrial customers. Staff has confidence that Energy Trust could offer a competitive salary and benefits to appropriately fill this important position.

Staffing and Budget Impacts

The proposed modification would add two FTEs, a Technical Program Manager and an Industrial Coordinator, to Energy Trust staff. In addition, Energy Trust legal and contract staff would experience some increased workload to negotiate contracts with PDCs and ATACs. However, this need may be met by converting a current 30-hour per week legal contract position to a full-time FTE. The estimated annual budget impact would likely be either neutral or a slight cost savings advantage.

Summary

The proposed changes to the PE program delivery model are designed to achieve significant management, communications and relationship improvements anticipated for the future success of the program. A single layer of management currently performed by the PMC would be eliminated, simplifying the current contracting structure. Funds currently spent for the PMC contract role will be shifted to internal staff and operations, resulting in no significant cost increases and perhaps some modest savings.

The new model is expected to provide numerous benefits to PDCs, ATACs, program participants and Energy Trust staff. These include clearer and more direct lines of management and communication. Energy Trust would also develop more direct and long-term relationships with PDCs, ATACs and participants. Ultimately, Energy Trust will have direct responsibility and accountability for the program's accomplishments.

Recommendation

Staff seeks board endorsement to simplify the delivery structure for the Production Efficiency program by transitioning to in-house program management effective January 2008.

Appendix 1 – ADDITIONAL DETAILED ANALYSIS

Issue

Energy Trust believes that the current delivery model for the Production Efficiency program could be strengthened. Looking forward, it is expected to become more difficult to continue to acquire savings using the existing model. Staff wants more direct management, communication and relationships with both contractors and participants. This is believed to be necessary if the program is to continue to attract participants and their corresponding specialized, custom projects. The program will be better able to achieve these improvements if the contracting structure is modified and a single layer of PMC management is removed. This is expected to result in more direct management and accountability from Energy Trust and improved communication and relationships with contractors and customers.

This proposed structure change applies only to the Production Efficiency program, a low volume program emphasizing custom projects resulting from engineering analyses conducted by contractors. In 2006, 167 custom projects were processed reflecting the majority of program incentives and savings. In addition, a total of 57 prescriptive motor projects were processed, accounting for less than 2% of the total program incentives and savings for motors were processed.

Unlike most other efficiency programs, the success of this program is heavily dependent upon establishment and maintenance of relationships between all players including participants, program field staff, vendors, and Energy Trust. Staff expects the need for strong relationships to grow in importance in the future. Significant "low hanging fruit" has been picked in the first years of the industrial sector program, especially with the early high "kicker" incentive offerings designed to attract early participation. Now the challenge is to "sell" projects with lower incentives, touting project benefits, rather than fulfilling more routine requests. Communications and relationships are more important in this environment where the sales cycle is more complex. This is expected to grow in importance with more specialized decision-making involved in project analysis and offerings.

Existing Program Structure

The existing structure has three key elements impacting the long term prospects and success of the program. These areas can be addressed now, in anticipation of the expiration of the current PMC contract at the end of this year, and in consideration of future program and participant needs.

1. **More efficient management –** The current number of contracting layers provides ETO direct management responsibility for the PMC and only indirect and periodic access to 4 PDCs and13 ATACs. Information about Energy Trust program priorities and changes are filtered through the PMCs to PDC's and ATACs. This has added layers of management and accountability, time delays, and at times, miscommunication. The current structure results in:
   - Energy Trust being reactive to information and issues that warrant staff attention
   - Delayed responses in fulfilling requests for market data for program design considerations
   - Delayed program adjustments

- Complex and limited integration and coordination of new initiatives such as the O&M pilot
- Limited collaboration and integration of renewable energy programs
- Irregular meetings held with PDCs
- Delays in PMC invoicing
- Delays in PMC payments to PDCs

2. **More effective communications -** The existing structure creates time delays, inefficiencies, and other challenges to smooth communications between parties. This has resulted in:
   - Misunderstandings about available program funds
   - Missed opportunities to make the marketplace and customers aware of stable program funding
   - Perceptions that the program has many layers and required steps, which may deter some participants
   - Inherent delays that compromise customer service
   - Complex reporting structures
   - Reliance upon PMC relationships and communication vs. direct Energy Trust relationships and communication with customers
   - Confusion regarding email communications sent by PMC to PDCs without consistently copying Energy Trust, resulting in duplicate information and slightly different messages
   - PMC policy interpretations and decisions made without ETO input can result in lost opportunities or misunderstandings

3. **Long-term customer relationships -** There are two primary aspects of long-term customer relationships Energy Trust would like to address and strengthen: 1) Participants have expressed a desire for more direct contact with Energy Trust, eliminating program management layers and providing access to decision-makers and 2) Energy Trust anticipates deriving benefit from having ongoing direct feedback from the experiences of PDCs, ATACs and participants. Information from these sources will be used improve program design. The current structure poses limitations because:
   - Multiple layers of contracts separate large PDCs, ATACs and customers from Energy Trust
   - Relationships with participants are expected to become more important if more custom projects are to be attracted
   - Such custom projects need and benefit from investments in sustained relationships, extending beyond the 2-3 maximum tenure of PMC contracts
   - Market information is presently difficult to glean and cumbersome to incorporate into program decisions; this was true for an analysis of market conditions impacting the rate of municipal participants, which resulted in a delay in making related incentive changes

Benefits to Stakeholders

The 3 primary program stakeholders identified below are expected to derive direct benefits from the proposed structure improvements:

1. **Participants**
   - Energy Trust will be more informed about and responsive to needed changes in program design to better meet participant needs, enabling incentive adjustments, training, project management and streamlining options being considered to be made in a more timely manner
   - Participants will have a direct line of contact to Energy Trust if they desire
   - Current PDC relationships will remain, preserving direct customer service
   - Shorter decision-making timeline for specialized projects requiring interpretation of policy
   - More direct reinforcement of and response to renewable energy opportunities and questions

2. **Energy Trust**
   - More emphasize on investing in long-term relationships with participants
   - Direct line of communication with and feedback from PDCs and ATACs regarding the marketplace
   - Joint establishment of and accountability for PDC goals
   - Direct ability to address concerns and opportunities in a timely manner
   - Direct program communications and coordination with PDCs for a consistent message to participants
   - Better access to project files and FastTrack entry data
   - Inclusion of renewable program education and possible pre-screening role for the PDCs

3. **Program Delivery Contractors (PDCs)**
   - Direct relationships and two-way communications with Energy Trust
   - Greater input into program design
   - Joint establishment of and accountability for goals
   - Encouragement for innovation and creativity regarding projects and corresponding savings

Risks of Change

One risk of changing the program delivery model is the loss of program momentum. This risk can be hedged substantially by making no other changes to the program structure for 2008. Under this proposal, PDCs and ATACs contracts would be changed to Energy Trust. However, their roles would remain the same. Consistency for these stakeholders will help them focus on maintaining bringing in new projects throughout the transition period. The program is just now starting to build up after being dramatically reduced in 2006 due to miscommunications regarding funding levels. Currently, less than 30% of the 2008 budget is committed, which is low when the goal for the year is 75%.

Additional Options Considered

Two additional options for addressing the three key program issues were considered but the recommended design is still the preferred option because it addresses all key issues.

1. Maintaining the existing structure but expanding the scope of work could address communications and relationships by detailing Energy Trust expectations to have a direct pulse on the market and regular focus groups with participants. A more detailed

scope of work would increase the amount of Energy Trust staff time in oversight of the contract, monitoring the PMCs progress and taking away the PMCs freedom to run the program as they see fit. This solution would not address the issue of program control which is defined by lines of contracting.

2. Continuing with a PMC but modifying their role such that they are a contracted program technical advisor, reviewing and assigning studies and coordinating incentives with PDCs is another option. Under this scenario, Energy Trust would contract with PDCs, ATACs, and a PMC. This solution would add another element of coordination and communication effort by having the technical manager out of house and the benefit of doing so would only be because we were not able to secure that technical resource in-house in a full time capacity.

Comparison to Energy Trust goals

- Program has not met savings goals other than in 2006.
- Program experienced serious communication issues between all parties in 2005-2006 creating budgeting issues throughout Energy Trust, not meeting our goals of serving ratepayer needs most effectively.
- Have yet to realize significant Small Industrial track activity although this market sector has been included in the previous RFP, PMC proposal, and SOWs for several years.
- Although not broken, this program can benefit from modifications and more direct attention and control from Energy Trust.

Industrial Sector Potential

Achievable potential for industrial sector 2006-2012 is 140 aMW. In 2006 we achieved 8.93 aMW and we are forecasting 13.5 aMW for 2007 leaving 118 aMW 2008-2012 yet to be acquired. That equates to 23.5 aMW per year remaining to acquire, showing a continuing need for an industrial program at Energy Trust. Although the PMC models does allow for a quick ramp up and down associated with program staffing needs, we don't see a short term need to cut back in industrial.

Contract Extension

- Extension of the PMC contract is not a favorable option for the program
- Distraction from moving forward
- Would require working on extended contract and scope of work while pursuing other options
    - This translates down to PDCs and ATACs.
- Increases administrative cost burden by doubling the annual contracting load for the program with no long term benefit
- Difficult to move ahead with long looming transition
- Would have to construct six-month goals for PMC
- Out of synch with other programs
- Perceived as a simple task to just extend but requires a great deal of work as with a regular contract amendment