EnergyTrust of Oregon, Inc.

Board Decision
Home Energy Solutions/ENERGY STAR New Homes Therm Goal Reduction

October 3, 2007

Summary

Amend Energy Trust's agreement with Portland Energy Conservation, Inc. (PECI) for the Home Energy Solutions/ENERGY STAR New Homes and Products program to adjust and reduce the natural gas goal in recognition of the slowdown in the new construction market.

Background

- The current best case gas goal for the Home Energy Solutions/ENERGY STAR New Homes and Products program is 611,820 annual therms at a levelized cost of 0.25/therm. This goal was premised on prior real estate market experience and expected performance.
- In the time since contract execution, the new homes market has fallen sharply throughout the state, with the single exception of southern Oregon. Reasons driving this real estate market decline include the collapse of the sub-prime loan market and other factors beyond the control of PECI and Energy Trust or our mutual hopes and expectations. Examples include:
    - The number of new home construction permits are down by 16% in Eugene and Salem, 18% in the Portland area and 41% in Bend/Redmond
    - The amount of time homes remain for sale on the market has increased 57% (to 105 days) in Marion and Polk counties, and 45% (to 175 days) in Bend/Redmond
    - Local home builder statistics from the year prior to June 2006 compared to year ending June 2007 are comparable: Renaissance Homes permits have dropped 34% (from 367 to 243); New Tradition Homes permits have dropped 57% (from 185 to 79); DR Horton permits have dropped 69% (from 703 to 215); West Hills Development permits have dropped 73% (from 863 to 236); Ryan Olson Homes declared bankruptcy in January and has stopped certifying ENERGY STAR homes
- In addition, the multifamily program was delayed six months in anticipation of EPA approval of new multifamily measures
- Despite market conditions, PECI has maintained last year's impressive ENERGY STAR market penetration of 8.5% during this current period of market downturn
- Although the program has retained and even achieved a slight growth in the market share of ENERGY STAR homes, the decline in the Oregon's new construction market overshadows the program and competes with its ability to achieve the 2007 gas savings goals

Discussion

- The current Energy Trust/PECI contract best case gas goal is 611,820 annual therms and the conservative case goal is 458,865 annual therms
- These goals correspond to three combined program elements that are part of the PECI contract: home products, manufactured homes, and new home construction
- Energy Trust adjustment of the current therm goals would acknowledge market factors beyond PECI control and avoid contract penalties PECI would otherwise face for a shortfall in goal achievement
- Given the 34% to 73% decline in new construction permits among participating builders this year, Energy Trust proposes to adjust and reduce the therm goal for single-family and stand-alone incentives by 50% as follows:

  Current new homes goal of 527,340 annual therms X 50% = 263,670 annual therm adjustment

- In addition, given and the six-month delay experienced in EPA approval for new multifamily program measures, Energy Trust proposes to also reduce the multifamily gas goal by 50% as follows:

  Current multifamily goal of 6,660 annual therms X 50%= 3330 annual therm adjustment

- With the above 267,000 total annual therm adjustment to the new homes portion of the goal, the overall program best case gas goals would drop from 611,820 to 344,820 annual therms. The conservative case goals (75% of the best case goals) would drop from 458,865 to 258,615 annual therms.
- The levelized cost for the program would increase from $.25/therm to $.45/therm, still an acceptable level of cost and close to the PUC gas performance measure of $.40

Recommendation

Approve the recommended adjustments to the annual therm goal by adopting resolution #451 below.

RESOLUTION #451

ANNUAL THERM GOAL REDUCTION ADJUSTMENT AND ADJUSTMENT FOR ENERGY STAR NEW HOMES PROGRAM AND PECI CONTRACT

WHEREAS:

1. **Portland Energy Conservation, Inc. (PECI) is the program management contractor for the Energy Trust Home Energy Solutions/ENERGY STAR Homes and Products program ("program").**

2. **The total best case contract annual therm goal for the current agreement between Energy Trust and PECI is 611,820 annual therms with a levelized cost of .25/therm.**

3. **Since the contract was signed, the new homes market has fallen sharply throughout much of Oregon, driven by the decline of the real estate market, the collapse of the sub-prime loan market, and other factors. Although the program is retaining an impressive market share of ENERGY STAR homes, it cannot realistically be expected to achieve the current annual therm savings goals for reasons beyond control of PECI or Energy Trust.**

It is therefore RESOLVED:

1. **That the Energy Trust board of directors approves amending the January 1, 2007, program management contract by adjusting the best-case gas goal to 344,820 annual therms with a new levelized cost of $.45/therm. The conservative case will adjust proportionately to 258,615 annual therms at $.59/therm levelized cost.**

2. **The executive director is authorized to sign a contract amendment consistent with this resolution.**

Moved by: Seconded by:

Vote: In favor: Abstained:

Opposed: [list name(s) and, if requested, reason for "no" vote]