EnergyTrust of Oregon, Inc.

Board Decision
Approve Business Energy Solutions - Existing Buildings Program Management Contract

October 3, 2007

Summary

To approve the basic terms of a three-year contract with Lockheed Martin to provide program management services for the Energy Trust Business Energy Solutions - Existing Buildings Program.

Background

- The Existing Buildings Program acquires cost-effective electric and natural gas savings by providing technical assistance and financial incentives for high-efficiency equipment and energy efficient operating practices in existing commercial facilities.
- Lockheed Martin was approved as the first Program Management Contractor (PMC) for the Existing Buildings Program in November 2002. In 2005, the program management contract was competitively re-bid, and Lockheed Martin was again chosen.
- In August 2007, the program management contract was competively re-bid again. Three companies submitted an Intent to Respond. Two additional companies formally contacted Energy Trust to say they would not be bidding on the contract. Two bidders submitted proposals.
- A selection committee comprised of Energy Trust, Northwest Energy Efficiency Alliance and Clark Public Utility District representatives reviewed the proposals, qualified the proposers as finalists, and interviewed both bidders on August 15 and 16, 2007. The committee selected Lockheed Martin. The selection process is further explained in Appendix II.

Discussion

- The proposed contract will cover a three-year period from January 2008, through December 2010, with an option to renew for an additional year up to two years. Energy Trust contracts involving the expenditure of funds over more than a two-year period require notice to the OPUC unless the contract may be terminated concurrently with termination of the OPUC-Energy Trust grant agreement. This contract will be terminable at will, and so requires no notice to the OPUC.
- For purposes of preliminary negotiations, staff has assumed a first-year program budget of approximately $5,928,000. This includes a first-year contract cost of about $1,121,000, incentives of about $2,907,000 ($1,973,000 electric, $934,000 gas), and Energy Trust staffing and support expenses of $1,900,000. The actual budget and costs hinge on the adopted annual budget and action plan decisions to be made by the Energy Trust board in December of this year.

- Contract amounts for each contract year will be renegotiated annually based on the board-adopted annual budget and action plan. Each year, following board approval of a budget and action plan, Energy Trust staff and the PMC will negotiate contract amendments for the next year's contract goals and budget to conform with the board-approved budget and action plan. The resulting contract amendments would be signed by the executive director without further board action.
- Energy Trust expects work performed under this contract could save as much as 2.3 aMW (best case) at a cost of approximately $1.9 million per aMW and a levelized cost of $0.021 per kWh. Gas savings are expected to be as much as 460,000 therms (best case) at a cost of $3.80 per annual therm and a levelized cost per unit of $0.37 per therm. Actual savings, cost per kWh, therm and contract costs will hinge on future board approval of the annual budget and action plans.
- The above amounts do not include Renewable Energy Act (SB 838) funding.
- The contract will refer to expected program incentive costs and does not include these costs in PMC contract payments. Program incentive amounts will also be included and reviewed in the annual budgeting process and ensuing contract amendments.
- Once the budget and energy savings goals are finalized the program will be reviewed using the societal benefit/cost analysis. It is expected the program will pass the benefit/cost test.

Recommendation

Staff recommends approval of Resolution #450 to approve a new contract with Lockheed Martin to manage the Business Energy Solutions - Existing Buildings Program.

RESOLUTION #450

APPROVE BASIC TERMS OF A CONTRACT WITH LOCKHEED MARTIN TO MANAGE BUSINESS ENERGY SOLUTIONS - EXISTING BUILDINGS PROGRAM

WHEREAS:

1. **The current Energy Trust contract with its Existing Buildings program management contractor terminates December 31, 2007.**
2. **With assistance from a selection committee including outside parties, staff has conducted a fair and open procurement process to select a contractor to manage the program for the next 3-5 years.**
3. **Lockheed Martin has been selected through this process and proposed contract terms are in the process of being negotiated.**
4. **Staff has assumed a first-year budget of approximately $5,928,000 for this program. This includes a first-year delivery contract cost of about $1,121,000 and incentives of $2,907,000.**
5. **Savings could be as much as 2.3 aMW (best case) at a cost of approximately $1.9 million per aMW and a levelized cost of $0.021 cents**

per kWh. Gas savings could be as much as 460,000 therms (best case) at a cost of $3.80 per annual therm and a levelized cost per unit of $0.37 per therm.

6. **The above numbers are based on assumptions. Actual savings and costs will be reviewed by the Energy Trust board as part of the annual budget and action plan decisions.**

It is therefore RESOLVED:

1. **Subject to later board review of cost/benefit ratios and projected savings numbers, the board authorizes a contract with Lockheed Martin to manage the Business Energy Solutions - Existing Buildings Program from January 1, 2008, through December 31, 2010. Provided Lockheed Martin meets certain established performance criteria in the final contract, the contract may be extended for up to an additional two years.**
2. **First-year contract costs and savings goals will be included in the contract consistent with the board-approved 2008 action plan and budget. Thereafter, the contract may be amended annually following board approval of subsequent annual action plans and budgets.**
3. **The executive director is authorized to sign an initial contract and any contract amendments consistent with this resolution and board-approved action plans and budgets.**
4. **To maximize program savings and benefits, staff may reallocate funds among categories within the program budget as long as such reallocation is consistent with the board-approved annual budget and action plan decisions.**
5. **Before extending this contract beyond December 31, 2010, staff will report to the board on Lockheed Martin's progress and staff's recommendation whether to extend the contract for up to two years. See Appendix II for extension criteria. Contract terms for the extension period would remain as approved in the most recent action plans, budgets and contract at the time of the extension. Absent board objection to extending the contract, the executive director is authorized to sign the contract extension.**

Moved by: Seconded by:

Vote: In favor: Abstained:

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

APPENDIX I

Business Energy Solutions – Existing Buildings Program Management Contractor Selection

October 3, 2007

Energy Trust of Oregon follows a comprehensive competitive Request-for-Proposal (RFP) process.

Three organizations submitted an intent to respond form for the program RFP but only two submitted a proposal: Nexant and Lockheed Martin. Two additional companies interested in the contract formally contacted Energy Trust to say they would not be bidding on the contract at this time. The process was led by an RFP review team consisting of five individuals -- three Energy Trust representatives, one member from the Northwest Energy Efficiency Alliance and one member from the Clark Public Utilities. In addition, a representative from the Energy Trust legal, finance and marketing departments reviewed the proposals and participated in the interviews. The review team considered, evaluated and numerically scored the proposal on three overall major factors:

1. Proposal strength (40%) – Including such factors as ability to achieve a large volume of cost-effective energy savings; expanding program offerings; marketing outreach approach; and quality control.
2. Management strength (30%) – Including such factors as proposed management, program design, implementation and operations team members; coordination with existing programs; marketing and outreach; incentive processing; customer service; and technical knowledge.
3. Price proposal (30%) – Including overall budget; total program management and staffing costs; incentive amounts; budget management; and overall specificity and measurability of costs compared to tasks.

Based on this review both Nexant and Lockheed Martin became finalists. The review team conducted an extensive 2-hour interview with Nexant and Lockheed Martin on August 15 and 16, 2007. Lockheed Martin presented and scored well, with an overall score of 3.67 out of a total of 5. Lockheed Martin was selected to become the program management contractor, pending approval of contract terms by the Board of Directors.

Distinguishing Characteristics of Lockheed Martin's Proposal

1. Overall responsiveness to RFP requirements
2. Strong quality control proposal
3. Strong marketing and market research proposal
4. Strong approach to budget management
5. Strong planning capabilities
6. Superior approach to evolving and expanding program offerings
7. Extensive team competency and technical experience designing, implementing and managing comprehensive programs
8. Strong management and implementation team

Lockheed Martin is a large Fortune 50 company with proven engineering, marketing and research experience in the aeronautics, electronic systems and information and technology services businesses.

APPENDIX II

Energy Trust of Oregon Program Management Contractor – Contract Extension Metrics

October 3, 2007

Contract Extension Metrics

1. Cross program referrals
    a. Problems don't arise
    b. Appreciable savings being realized in referred programs
    c. Procedure for working well with other programs that will facilitate smooth referral process
2. Project pipeline
    a. Based on goals and available funding, balancing next year's savings and budget targets
3. Innovation
    a. Adding new measures
    b. Adjusting/reducing incentive levels
    c. New delivery approaches (reaching focused market sectors andor customers)
4. Teamwork
    a. How well PMC staff works with Energy Trust staff (flexibility and responsiveness)
5. Satisfactory execution of contract statement of work deliverables
    a. Program savings
    b. Levelized cost goals
    c. Budget management
    d. Data management
    e. Customer services
    f. Marketing
    g. Quality control