INDUSTRY & AG BUDGET CONCEPTS 2014

Sector: *Industry & Agriculture*

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Sector Overview

Energy Trust's Industry and Agriculture Sector provides energy efficiency services and incentives to industrial and agricultural customers through a single program. Production Efficiency provides a diverse set of custom and streamlined offerings that have been designed to help these energy intensive and complex organizations achieve cost-effective savings on an ongoing basis.

Launched in 2003, the program is designed and managed in-house, by Sector staff, since 2008, and is delivered with the support of a large number of contractors. PE is brought to market by six teams of Program Delivery Contractors (PDCs) with deep technical and program expertise, who make it easy for customers and trade allies to participate. Allied Technical Assistance Contractors (ATACs) provide high quality technical studies to enable investment decision making. Industrial Technical Service Providers (ITSPs) support the development of customer capacity to manage their own energy use and reduce energy waste in their operations, using energy information, Strategic Energy Management, and other comprehensive O&M approaches.

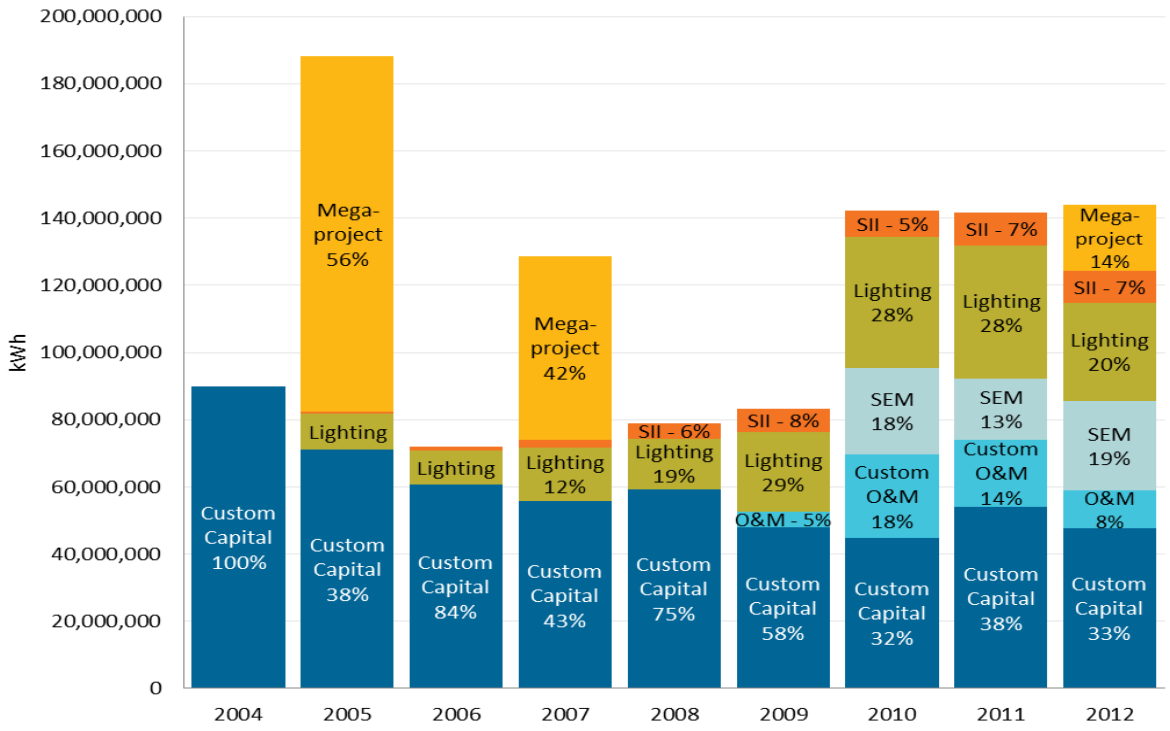
2014 Sector Themes and Key Directions

- **Easy Access: Delivering efficiency**
    - Smooth transition of new PDCs and territories for customers and stakeholders
    - Expanded outreach and custom services to small industries
    - Custom PDCs to promote opportunities for Trade Ally- delivered projects at customer sites, provide leads and encourage customer action
    - Develop or tune streamlined measures for Trade Allies to bring to market
    - Comprehensive approach to serving industrial new construction, with New Buildings program.

- **Innovation: Bringing Strategic Energy Management (SEM) to scale for all sizes of industries**
    - Finish testing SEM solution for small industries and transition out of pilot
    - Synthesize 2009-2013 Industrial Strategic Energy Management lessons learned, standardize tools and approaches, implement impeccably
    - Continue to recruit for new participants. Leverage peer to peer influence and promote SEM success stories
    - Support persistence and continuous improvement through ongoing engagement with sites practicing SEM

2012 Recap[1]

Working Savings, Electric 2004-2012



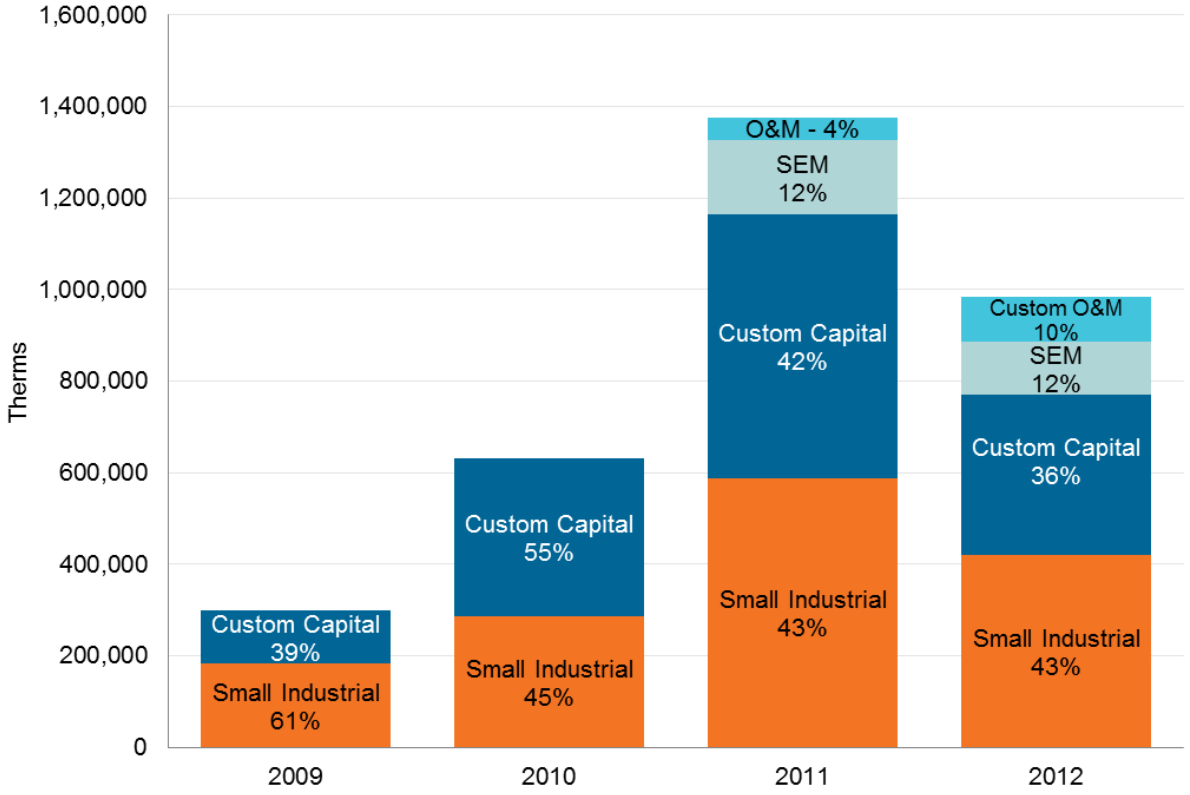
73 percent of electric savings in 2012 came from the Custom track (capital, O&M, SEM) while 27 percent of savings came from streamlined tracks (lighting & small industrial). The diversification of offerings has helped the program round out its portfolio as the contribution of savings fluctuates between offerings. In 2012, the savings from a megaproject and increased savings from SEM compensated for decreased savings from custom capital, custom O&M and industrial lighting projects.

The savings from strategic energy management engagements increased by nearly 50 percent in 2012 with another successful industrial energy improvement (IEI) cohort as well as the first booking of savings from IEI maintenance and corporate SEM offerings.

Industrial lighting savings almost doubled between 2009 and 2010, and the level of lighting savings was maintained in 2011 through deployment of the 2011 Fall Bonus. Although a greater majority of lighting projects took advantage of a bonus in 2012, a lower project volume and decreased savings per project resulted in a 26 percent drop in savings from 2011.

[1] This section exerpted from the report "2012 Production Efficiency Trends: Measures, Markets and Sources of Savings", published in May 2013 and posted at http://energytrust.org/library/meetings/cac/130501_CAC_Package.pdf

Working Savings, Gas 2009-2012



- 57 percent of gas savings in 2012 came from the Custom track (capital, O&M, SEM) while 43 percent of savings came from streamlined small industrial projects. This ratio has been consistent since 2010.
- SEM continued to garner gas savings in 2012. Two 2011 Industrial Energy Improvement (IEI) participants were eligible for gas and their SEM implementation efforts brought in 9 percent of total gas savings in 2012 which is roughly the same percentage as 2011.
- There was a 31 percent decrease in gas savings from 2011 to 2012. It is the nature of natural gas outcomes to be heavily influenced by the shifting completion dates of a small number of big projects. In 2011, the program saw the completion of a few big projects that affected the savings. In 2012, a couple of large projects pushed at the last second from 2012 to an expected completion in 2013. Small industrial, custom capital and SEM offerings saw 30-40 percent decreases from 2011 while custom O&M savings doubled.

2013 Current Situation / Market Conditions

Many manufacturers are indicating that business is improving, and some are expanding capacity. In a recent survey of highly engaged participants in the program, 50% feel the

economic landscape has improved since last year. 41% said their executive teams are making more funds available for capital expenditures. There is optimism among many, and in the Portland area, manufacturing is largely credited with driving the economic recovery.[2] But the recovery is not across the board. Industries in Southern and Eastern Oregon, especially forest products, still appear vulnerable and a few plants have closed this year.

In most ways, the market is acting as expected and the program as a portfolio is being implemented and performing as planned in the 2013 Action Plan. As of midyear 2013, the program is on track to achieve annual savings goals. This indicates that this year's primary strategy of "hold steady" on this mature custom program design is working[3], the market accepts it and reinforces that we should continue with it through 2014/ 2015.

SEM implementation is also on track and participation is strong, with 38 enrolled sites currently and 33 expected to book savings in 2013. SEM savings this year are expected to be on par with 2012's strong contribution. The development of some new SEM materials intended for 2013 will be delayed into 2014, while program staff is focused on time-sensitive competition of Custom PDC contracts in the first half of the year and ensuring smooth transition of territories and customer service in second half of the year. This delay in development should not impact recruitment for 2014 SEM participants, which is occurring now and on an ongoing basis.

A multi-year trend of decreasing industrial lighting savings is being seen in mid-year 2013 savings outcomes, which are running well behind target. The program is considering raising the custom incentives for cost-effective high bay lighting to bring into them alignment with PE custom non-lighting incentives and closer to the regional average incentives for lighting.

Gas savings are up in 2013, primarily due to a few large projects that didn't complete in 2012 pushing into this year. Due to the smaller number of larger projects that typically make up the industrial gas savings, outcomes year by year continue to be "lumpy". In Cascade Natural Gas territory, the program is on track to meet stretch goal within budget. In Northwest Natural territory, it is difficult to predict whether the savings will happen at sites paying public purpose charge or at sites eligible under the NWN Industrial DSM. As of mid-year 2013, we are getting more savings from smaller sites

[2] Portland Business Journal, "Why Oregon's Economy Continues Its Steady Growth," Steve Barton, June 4, 2013, http://www.bizjournals.com/portland/news/2013/06/04/why-oregons-economy-continued-its.html

[3] Production Efficiency recently received external validation in the form of an ACEEE Exemplary Programs award. PE was one of 3 industrial efficiency programs in the nation to be recognized in this once every 5 years compendium of best practices.

paying the public purpose charge than predicted when we budgeted, and less savings at customer sites under the Industrial DSM program.

2014 Key Actions and Initiatives

The core direction of the program will continue from 2013 through 2014, with the continuation or addition of the following activities and emphases:

- **Continue to make it easy**
    - Smooth transition of new PDCs and territories: Due to re-compete in 2013, transition of new Custom PDC contracts and territories will be complete in early 2014. Help support smooth transition for customers and contractors by holding steady on primary program offerings, strategies, base incentive levels at medium-large customer sites. Current program practices and offerings provide a high level of customer satisfaction, technical realization, low free ridership and low levelized costs. Staff will focus on supporting operational excellence during transition and maintaining or improving customer satisfaction during and after.
    - New PDC territories will be designed to provide comprehensive coverage, with an objective to provide equivalent levels of service to customers across all rural and urban areas served by Energy Trust.
    - Access to utility data with rate schedules will enable the program to identify and target sites eligible for gas services and incentives proactively. This will avoid wasting the time of Transport gas customers who are not eligible to participate and reduce wasted effort by PDCs and the program pursuing ineligible leads.
- **Provide custom services and support to small industries**
    - The same strategies that have worked for medium to large industries can be employed to better serve smaller industries. Historically, Custom PDCs have been assigned to serve medium to large industries. Starting in 2014, the program will assign Custom PDCs to serve all sizes of industry within a geographic territory. Learning how to scale custom services to most cost-effectively serve smaller sites will be a key development focus of the program over the next few years.
    - Industries located in rural areas of the state will benefit from this change, as the industrial market in those areas is made up of a higher portion of small industries.

- **Bringing Strategic Energy Management (SEM) to scale for all sizes of industries**
    - Synthesize and standardize 2009-2013 innovative program offerings including Industrial Strategic Energy Management and other comprehensive approaches to O&M savings. Continue to ramp up recruitment for new participants. Provide ongoing, customized support to reinforce persistence and continuous improvement at the 70+ sites who have taken up SEM over the past 5 years.
    - Finish testing SEM for small industries and transition out of pilot: CORE Pilot completes in summer 2014, bringing SEM training and services to smaller industrial customers. Assimilate lessons learned from pilot and if cost-effective, create a permanent offering of SEM for motivated small industries.
    - SEM offerings' importance to the PE program will continue to evolve and grow as a higher percentage of total customers complete initial SEM engagements and their embedded SEM infrastructure and systems become another point of positive customer interaction, communication and an ongoing driver of energy efficiency project identification.
- **Increase savings from streamlined measures**
    - Custom PDCs will increase customer awareness and implementation of streamlined savings projects and will direct leads towards Trade Allies.
    - The program is seeing a multi-year drop off in industrial lighting savings, which are primarily high bay applications with custom incentives. Consider increase in custom lighting incentive up to the same level currently provided for custom non-lighting measures in order to increase savings.
- **Other innovative/changing elements of the PE program offerings and 2014 plans**
    - <u>Peer to peer engagement</u> is a core strategy that continues to develop. It is used successfully as the organizing principle and key driver of change in cohort-based offerings such as SEM and ROC. Other program activities incorporate peer to peer influence, and these will continue to be tuned and developed throughout 2014, including the Champion newsletter, the annual NW Industrial Efficiency Summit, case studies, and the industrial EE speakers bureau, where leading participants are tapped to host tours and speak at conferences and meetings.
    - <u>Targeted and more strategic marketing and outreach</u>, based on enhanced access to utility data, will begin to occur within the program. Initial efforts will be designed to target eligible gas customers for outreach. Additional applications

for the data may include the initial outreach needed to extend custom services to small customers.

- Refrigerator Operator Coaching (ROC) Operator Coaching provides elements of SEM and other technical training to operators within targeted industry types to drive O&M savings. ROC is running a 3rd cohort in 2013, has very high customer satisfaction. Expect to run another cohort in 2014.
- Industrial Systems Retro-commissioning is a comprehensive but flexible approach that addresses operational issues in complex systems. This offer incorporates lessons learned from and replaces previous O&M offerings such as the Kaizen Blitz and Enhanced Retro-commissioning.
- Agriculture Initiative is primarily served through Trade Allies, supported by the SI Trade Ally PDC. Along with some specialized measures in greenhouses and wineries, the Ag Initiative brings irrigation efficiency to farms through streamlined measures and tools. Development and support of Ag Trade Allies is ongoing, as is coordination with regional and local Ag stakeholders.
- New Construction Seamlessly coordinate services with New Buildings program to avoid lost opportunities and improve the all aspects of the energy efficiency of greenfield industrial sites

2014 Anticipated Challenges or Risk Factors

PDC Transition: Maintaining customer satisfaction during and after transition of PDC territories is a primary concern we can plan for and manage to. Energy Trust staff will be taking an active role in transition of customer relationships.

Large customer funding constraints: Although 2012 spending did not trigger the limitation for spending on customers not paying 838 funding (> 1 aMW), we need to prepare for this being triggered in 2015 in PGE territory. Establish tracking system for spending on these customers across all programs serving them, and invest program development effort in offerings for smaller industries. There are ongoing questions regarding ability to commit future mega-project funds due to funding limitations.

Delivery cost increase for Custom PDCs to extend services to small industries: Less savings per site potential will likely increase average delivery cost/kWh. We need to learn how to scale these services appropriately to get the most cost-effective outcomes, and will through trial and error over the next few years. Probably will not affect gas delivery, as more small customers are eligible, have greater potential, so we expect to get more gas over time from this strategy. Currently, PE has lowest portion of budget going to delivery compared to other Energy Trust

programs and is well under PUC performance for levelized cost, so increase in the short term should be manageable.

Incentive increase: There will be an increase in PE incentive budget if custom lighting incentive change is adopted, ~ 5% across portfolio of program incentives.

Other incentive budget risks: The incentive budget is built on assumptions of percentage of different sources of savings we will achieve, based on historical experience and market trends. Although custom capital projects have the best levelized cost due to long measure life and are the best value to the ratepayer, SEM savings cost significantly less in terms of incentives. As we try each year to dial in our annual incentive budgets, to minimize carryover, we run the risk of exceeding incentive budgets if there is significant, unexpected uptick in capital projects.