

ENERGY TRUST

2014 Management Review – *Final Report*

September 22, 2014

Presented by Coraggio Group



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EXECUTIVE SUMMARY

Executive Summary

The Oregon Public Utility Commission (OPUC) grant agreement mandates that Energy Trust will contract for an independent management review and evaluation at least every five years. “The Management Review will be designed to review the efficiency and effectiveness of Energy Trust operations under this Agreement and make specific suggestions for improvement.”

We believe an additional goal of this management review is to inspire thought-provoking conversation and valuable insight that will provide Energy Trust with ideas to be better prepared to fulfill its purpose of “...providing comprehensive, sustainable energy efficiency, conservation and renewable energy solutions to those we serve.”

The OPUC, Audit Committee and Energy Trust Management identified four areas for this review:

Area #1 | Administrative Costs: Efficiency and Effectiveness

Area #2 | Administrative Costs: Allocation and Productivity

Area #3 | Program Delivery and Outcomes: Efficiency and Effectiveness

Area #4 | Staffing: Resource Planning, Staffing Planning and Staffing Level

This Management Review Report shares the most relevant information gathered from a current state review of Energy Trust performance and practices as well as benchmarking conducted with four utilities: Avista, Puget Sound Energy, Seattle City Light and Snohomish County Public Utility District.

The Report is structured in four areas with subsections that highlight particular topics. Each topic shares:

- Current State Findings
- Benchmarking Comparisons and related research
- Assessment, Recommendations and Suggestions

Coraggio worked with the Energy Trust strategic planning team to offer insights and linkages between the Management Review and the Energy Trust Five-Year Strategic Plan.

Recommendations, where appropriate, have been incorporated into the plan.

Two themes emerged through our development of the management review:

1. Energy Trust's performance and practices when compared to the Washington benchmark group are strong and well-respected.

Our review showed that:

- Of the peer utilities, Energy Trust is the one organization that showed growth in electric energy efficiency savings in each sector during the three years, 2011 – 2013.

Executive Summary

- Energy Trust's approach to cost allocation is the most conservative of the peer group. Management and General Administrative costs are fully allocated to programs when applying the cost effectiveness standard, and this does not occur at any other benchmarked utility.
- The Trust is leading in its use of business intelligence software to improve reporting and evaluation and inform its planning process for identifying future energy efficiency measures.
- Planning and Evaluation is efficient, and based on peer and market evaluation firm feedback considered to be well-respected and nationally-recognized.

2. As the energy efficiency industry matures and acquisition costs of related measures increase, to remain cost competitive Energy Trust will benefit by bringing additional focus and resources to the efficiency and productivity of its operations.

Areas that this Management Review highlights are:

- Budgeting and forecasting
- Reporting
- Resource planning, including staffing justification
- Marketing and Communications

Based on the performance and practices reviewed, benchmarking interviews, and interviews with others working with Energy Trust, it is clear that Energy Trust is building a rich heritage based on its commitment to energy efficiency savings and renewables generation, and doing so in a cost effective, collaborative and transparent way. We hope this management review plays a meaningful part in contributing to Energy Trust's future success.

Respectfully submitted,

~ Coraggio Group

Management Review Methodology

The 2014 Management Review was designed in collaboration with the OPUC, the Trust Audit Committee and management to review the efficiency and effectiveness of Energy Trust operations, with particular focus on administrative functions and costs. This design was refined upon selection of the consulting firm conducting the management review, Coraggio Group, and included four Areas of review. The areas are noted below and the Key Questions identified in these areas are found in Appendix 2.

Area #1 | Administrative Costs: Efficiency and Effectiveness

Area #2 | Administrative Costs: Allocation and Productivity

Area #3 | Program Delivery and Outcomes: Efficiency and Effectiveness

Area #4 | Staffing: Resource Planning, Staffing Planning and Staffing Levels

Coraggio used a two phased approach to conduct the management review: In the first phase (April – May, 2014), Coraggio reviewed and analyzed relevant Energy Trust documents that provided a base of understanding for each of the areas. A deeper understanding of Energy Trust's current state was provided through a series of internal interviews. Twenty-one one-on-one interviews or focus groups were facilitated, including with the OPUC and Audit Committee leaders. At the end of this phase a current state report was generated and reviewed with Energy Trust management and the Audit Committee.

In the second phase (June – July 15th, 2014), as requested by the Audit Committee, benchmarking was conducted with four utilities: Avista, Puget Sound Energy, Seattle City Light and Snohomish County Public Utility District. The goal was to compare performance and practices to reveal insights where Energy Trust could improve—or confirm—where its current practices are on par with or exceed this peer group. This information was obtained through publically available reports, interviews with energy efficiency program staff and additional information they provided.

Also in this phase, Coraggio conducted interviews with Energy Trust's funding utilities and a sampling of its marketing firms, market evaluation firms and program management contractors. This phase concluded with a Benchmarking Results Matrix that was shared with Energy Trust management and the Audit Committee Chair.

This report relies on the facts and information available to us. As is the case with any operational review, processes and systems change over time. Both the strengths documented and recommendations provided are reflective of the organization at the point in time when this management review was performed.

This Management Review Report summarizes the Energy Trust current state and benchmark findings. From these findings Coraggio presents our assessment and corresponding recommendations, with the hope that this will begin a process where Energy Trust leadership can have deeper discussion and decide which areas to pursue that provide the highest and best use of resources.

All footnotes have been consolidated and included in Appendix 5, instead of appearing on individual slides.

Highlighted Recommendations

Management Review Area	Recommendation	Page #
1 Administrative Costs: Efficiency & Effectiveness	1. Continue current investments in IT systems improvements, in particular business intelligence capabilities, and ensure that potential reduction/elimination of workload and/or additional capacity created as a result of investments is documented.	17
	2. Working with the OPUC and its funding utilities, consider moving to a two-year budget cycle.	24
	3. Conduct process improvement on forecasting and budgeting process to reduce non-value added steps.	24
	4. Identify opportunities for streamlining all of Energy Trust's marketing expenditures, especially in the Sectors.	27
	5. Pursue discussion with funding utilities to further leverage their marketing efforts for broader outreach and reduced cost.	27
2 Administrative Costs: Resource Allocation & Productivity	6. Regarding the cost allocation methodology, we do not recommend incurring additional time to further evaluate or distribute costs based on slight shifts in the cost drivers.	30
	7. Consider whether to allocate these more general/shared services type costs at the portfolio versus program level when reporting cost effectiveness test results, using either TRC or UCT.	30
	8. Request the OPUC to work with Energy Trust to reduce reporting content for the first quarter and fourth quarter reports.	33
	9. Review reporting elements with the funding utilities with a goal of improving efficiency without a loss to sharing valuable information.	33
	10. Identify, set goals, and track progress on 3-4 administrative-focused productivity metrics in the context of a continuous improvement process.	35
	11. Adopt a strategic initiative to pursue continuous improvement in all core processes of the organization—both program and administrative-related.	39

Highlighted Recommendations

Management Review Area	Recommendation	Page #
3 Program Delivery and Outcomes: Efficiency and Effectiveness	12. Pilot various changes to the management of programs relative to savings goal timing.	58
	13. Explore whether the use of an internal verification team is more cost effective than using outside firms.	61
4 Staffing: Resource Planning, Position Planning and Staffing Levels	14. Consider a pilot of expanding span of control in some program areas to test whether the layers of management are necessary and are positively impacting the development and management of programs.	71
	15. Conduct the administrative support staffing level needs assessment that was recommended in the 2010 Management Review.	78
	16. Establish clear staffing justification criteria to give guidance to the organization when considering staffing additions or reductions and to ensure a transparent process for staff budgeting.	78

Benchmarking Organizations Overview

Utility Overview Data	
Information about ETO and each of the Washington Utilities who participated in the benchmarking	
Energy Trust of Oregon	<p>2013 Revenue: \$162,465,016 [2013 Revenues from ETO's funding utilities total \$3.95B, and are as follows: Portland General Electric (\$1.81B); NW Natural (\$.73B); PacifiCorp' Oregon Revenues (\$1.2B); Cascade Natural Gas (\$.21B)]</p> <p>Employees: 100 (10 employees are renewables program staff)</p> <p>Energy Efficiency Group Employees: 90</p> <p>Services: Independent 501 (c)(3) nonprofit organization with energy efficiency programs, services and incentives in electric and natural gas, as well as renewable energy in solar, wind, hydropower and geothermal and biopower.</p>
Avista Corporation (Avista)	<p>2013 Revenue: \$1,618,505,000</p> <p>2013 Energy Efficiency Revenue: \$14,904,434</p> <p>Employees: 1,500</p> <p>Energy Efficiency Group Employees: 24</p> <p>Services: Investor-owned utility with a mix of electric, hydro, natural gas, coal and biomass generation delivered over 2,200 miles of transmission line, 18,000 miles of distribution line and 7,600 miles of natural gas distribution mains, as well as renewables in wind and water.</p>
Puget Sound Energy (PSE)	<p>2013 Revenue: \$3,187,297,000</p> <p>2013 Energy Efficiency Expenditures (Revenues not relevant): \$110,070,547</p> <p>Employees: 2,700</p> <p>Energy Efficiency Group Employees: 89</p> <p>Services Offered: Washington state's oldest local energy company, and it is investor-owned. The utility provides electric and natural gas service to homes and businesses over 2,600 miles of transmission line and 12,200 miles of natural gas distribution mains, as well as renewable programs in wind.</p>
Seattle City Light (SCL)	<p>2013 Revenue: \$964,160,192</p> <p>2013 Energy Efficiency Revenue: \$40,636,670</p> <p>Employees: 1,812</p> <p>Energy Efficiency Group Employees: 71</p> <p>Services: A municipal electric public utility with electric energy efficiency program and renewables in hydro and wind.</p>
Snohomish County PUD (SnoPUD)	<p>2013 Revenue: \$624,808,000</p> <p>2013 Energy Efficiency Revenue: \$21,311,018</p> <p>Employees: 1,025</p> <p>Energy Efficiency Group Employees: 50</p> <p>Services: A public utility district of the state of Washington with electric generation and transmission. Electric energy efficiency programs and renewable programs in hydro, wind, solar, landfill gas and biomass energy.</p>

FINDINGS, SUGGESTIONS AND RECOMMENDATIONS

Area #1: Administrative Costs: Efficiency and Effectiveness

Overview of Administrative Costs - Energy Trust

For purposes of the management review, the administrative and program support costs reviewed are those as defined by the OPUC. These costs are segmented into three categories:

Management and General - Governance/board activities, interest/financing costs, accounting, payroll, human resources, general legal support, and other general organizational management costs.

General Communications and Outreach - Expenditures of a general nature, conveying the nonprofit mission of the organization and general public awareness of services available to customers.

Program Support Costs - Costs incurred directly by programs, but of an indirect nature such as conferences, travel, supplies and meetings.

In addition, each of these categories receives an allocated share of indirect costs (These include rent/facilities, supplies, computer equipment and support and depreciation).

	2011	2012	2013
Administrative Costs	\$6,150,853	\$7,848,009	\$6,547,221
Revenue	\$133,084,407	\$146,207,992	\$162,465,016
Percent of Revenue	4.62%	5.37%	4.03%

Energy Trust administrative cost control continues to be strong relative to the performance metric set by the OPUC, staying well below the 9% target. As demonstrated in this chart, between 2011 and 2013, Energy Trust has reduced administrative costs as a percent of revenue by 13%. The absolute dollar expenditures have increased 6.4%, or \$396K. The largest area of increase was in Administrative Payroll and Related Expenses, and the largest area of decrease was in IT Services.

Area #1: Administrative Costs: Efficiency and Effectiveness

Overview of Administrative Costs – Energy Trust Staffing

2014 administrative and support functions are budgeted with 67 full-time equivalent (FTE) positions (includes Regular Employees and Interns). Compared to 2011, this is an increase of 29%, or 15.3 employees. The largest increases have been in the General Outreach (6.5 positions) and Planning & Evaluation (3.4 positions) functions. The only decrease has been in Office Management.

All position additions are approved by the Trust Board, and the rationale for these additions are stated and include overall growth in the energy efficiency programs and related savings. It is noted that program staff grew 35%, or by 10.7 employees, between 2011 and 2014. Over this same time period, energy efficiency savings increased or are forecasted to increase 17% for electric and 22% for gas.

The chart below details the change in positions by function. Positions are the sum of FTE (full-time employees who receive benefits) and interns (temporary, limited term positions of no more than 1,000 hours/year that are on Energy Trust’s payroll but do not receive benefits).

Administrative & support functions	2011 budget	2012 budget	2013 budget	2014 budget	% Change 2011-14
Administration					
General Outreach	5.5	9.5	8.5	12.0	118%
Management & General					
Executive	2.0	2.9	2.0	2.0	0%
Finance	6.7	7.9	7.8	7.4	10%
Human Resources	1.1	1.1	1.4	2.4	118%
Legal	3.5	3.6	4.0	3.9	10%
Office Management	2.2	2.0	2.0	1.8	-18%
Management & General Total	15.5	17.6	17.2	17.5	13%
Administration Total	21.0	27.1	25.8	29.5	40%
Support					
Customer Service	2.5	2.0	3.2	3.4	36%
IT	14.0	14.8	15.3	16.2	16%
Planning & Evaluation	12.0	12.8	14.9	15.4	28%
Trade Ally	2.5	2.9	2.6	2.8	12%
Support Total	31.0	32.5	36.0	37.8	22%
Administrative & support functions	52.0	59.6	61.7	67.3	29%
Programs	30.5	35.8	38.2	41.2	35%
Grand Total	82.5	95.4	100.0	108.5	32%

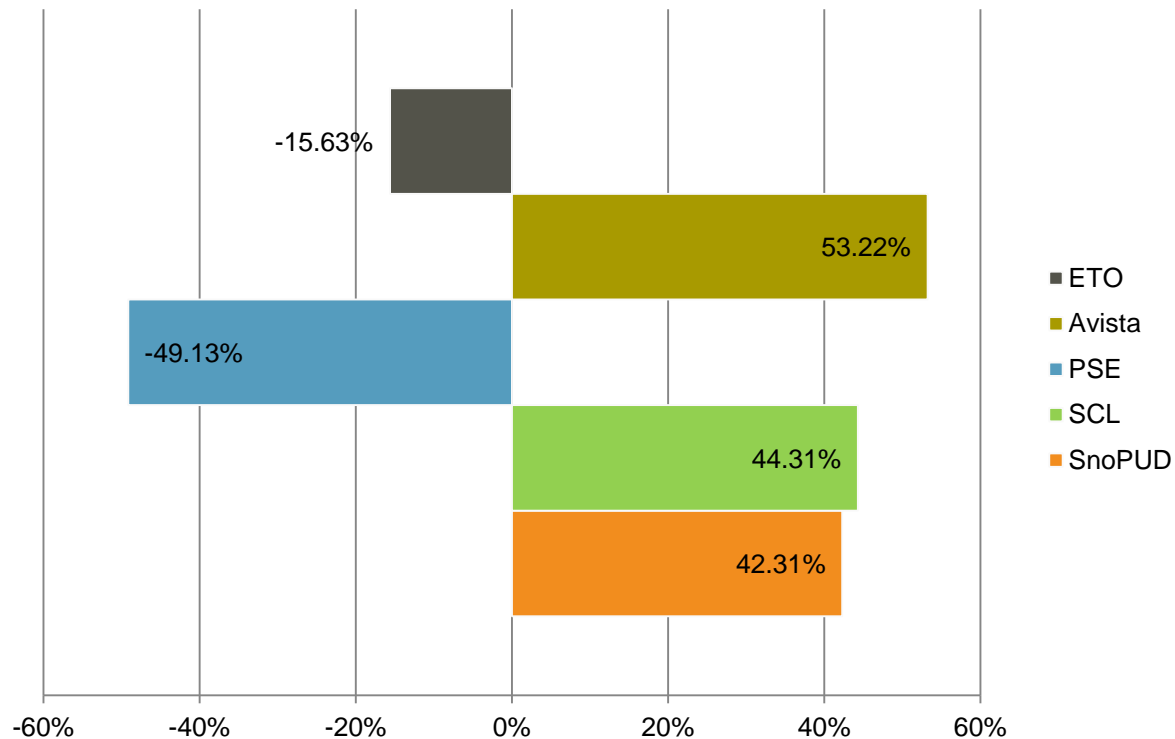
Note: Intern Employees (versus Regular Employees) represented 5.5 in 2011, 6.5 in 2012, 5.5 in 2013 and 8.5 in 2014.

Area #1: Administrative Costs: Efficiency and Effectiveness

Overview of Administrative Costs – Energy Trust and Benchmark Utilities

Administrative costs included in the Energy Efficiency programs of the Washington utilities varies significantly (see the administrative cost category definitions and three-year annual data by cost category in Appendix 6). Because the varied definitions make comparison of the absolute number or the cost as a percent of revenue difficult, the graph below shows the three-year rate of change of the administrative costs relative to the change in the size of the energy efficiency revenues (or costs where revenues were not relevant). Assuming the method by which utilities report administrative costs is consistent year-over-year, this graph provides an indication in the changes in efficiency of their administrative costs. As in the case of Avista that had a significant revenue decline in this period, efficiency can be significantly impacted by revenue change, not only administrative cost changes.

Three-Year Admin Cost Growth Relative to Revenue Growth



Area #1: Administrative Costs: Efficiency and Effectiveness

Overview of Administrative Costs - Energy Trust

The chart below shows more detail of the Administrative costs for 2013 before full allocation to the programs. [See Area #2 for information about cost allocation methodology]

<i>Figures in Dollars (\$)</i>	Programs	Management General & Admin	Communications & Outreach	Total
Admin Payroll and Related Expenses		1,892,490	862,012	2,754,502
Admin Outsourced Services		151,676	568,505	720,181
Admin Planning and Evaluation		-	-	-
Supplies	10,387	8,642	3,089	22,118
Postage and Shipping Expenses	4,409	1,620	826	6,855
Telephone	5,180	1,841	856	7,877
Printing and Publications	95,250	821	6,434	102,505
Occupancy Expenses	267,125	118,134	60,739	445,998
Insurance	40,631	17,969	9,239	67,839
Equipment	53,334	5,552	2,854	61,740
Travel	59,075	21,685	4,158	84,918
Meetings, Trainings & Conferences	41,016	37,988	6,059	85,063
Interest Expense and Bank Fees	100	5,343	-	5,443
Depreciation & Amortization	68,123	29,273	15,051	112,447
Dues, Licenses and Fees	95,540	25,832	3,007	124,379
Miscellaneous Expenses	3,433	18	-	3,451
IT Services	1,533,321	273,597	134,987	1,941,905
Program Support and Management and General - OPUC	\$2,276,925	\$2,592,479	\$1,677,815	\$6,547,221

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #1: Information Technology

Energy Trust Current State

Successful execution of Energy Trust's mission and measurement of its impact depends on capturing data from customers and stakeholders and processing and reacting to that data in order to plan for and deliver on energy savings and generation opportunities. Given that this is such a core element of Energy Trust's work, it is an area of opportunity for improving efficiency and effectiveness of Energy Trust's operations.

Energy Trust has already embarked on several significant investments into upgrading the IT infrastructure. In addition to these tools helping Energy Trust maintain market share in a more challenging landscape, the purpose of these investments includes:

- Automating data sharing between PMC's to improve forecasting and reporting capabilities
- Improving data import functionality from PGE, Pacific Power, NW Natural and Cascade Natural Gas to inform forecasting and market planning, reach more customers and identify more energy savings opportunities
- Adding functionality to Customer Relationship Management (CRM) systems to provide more insight into customer activity, support follow-up campaigns, associate sites with campaigns

Data is integral to Energy Trust and its program development and execution. Much of this data initiates from the funding utilities, and there is not a clear process to ensure and resolve problems related to data quality. This can result in inefficiency as multiple parties work towards resolutions.

Energy Trust has a robust project prioritization process that involves business partners in decisions regarding the IT pipeline. An IT Steering Committee reviews all projects and prioritizes how IT resources (both internal and contract) are assigned to projects.

As offered by many in the organization, IT is an area where Energy Trust can continue to invest for improved efficiency and effectiveness. Additionally, there is an opportunity for staff and PMCs to become more familiar with and take advantage of these technology improvements.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #1: Information Technology

External Benchmarks—Research

Unlike Energy Trust, all of the benchmark utilities' energy efficiency groups are part of a larger utility, and the corporate, shared services maintain and manage many of the IT systems that support overall business operations, including energy efficiency. These systems include, but are not limited to, human resources, accounting, budgeting, business intelligence, DSM, and CRM.

Many of the energy efficiency groups within the utilities use software, both purchased and in-house developed, to track projects and pay rebates. Some of these systems track projects as they move through steps in their lifecycle, from scoping, contracts, construction/in-market, to completion and/or termination.

Some of the outside vendors for project tracking software include SalesLogix software and modules of SAP.

Energy Trust has implemented and continues to improve upon its business intelligence system, which maintains information about customer behaviors and usage that could be used to help inform energy efficiency (EE) programs. This was unique amongst the utilities with which we benchmarked, which lacked business intelligence systems.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #1: Information Technology

Assessment

Current investments at Energy Trust seem to be in line with identified efficiency and effectiveness opportunities. It will be critical to ensure successful implementation of these systems and to identify efficiencies that can be achieved through automation. It is our understanding that these investments, when properly implemented, will result in a significant opportunity for automation (and potential for reduction/elimination of workload). In particular, if additional capacity is created, it will be important to understand where that capacity will be and how it will be re-deployed.

Energy Trust will continue to identify and integrate efficiencies through its consideration of how accounting systems will be designed for the future.

Finally, Energy Trust is an early adopter in the utilization of business intelligence systems for purposes of reporting, and ultimately providing higher analytics and insights that could offer program development guidance based on past behavior and other data. Energy Trust could benefit from being a leader among regional energy efficiency organizations to learn how to best understand customer behavior and data. Today's differing systems, data definitions and metrics makes this cumbersome, at best.

Recommendations

- 1. Continue current investments in IT systems improvements, in particular business intelligence capabilities, and ensure that potential reduction/elimination of workload and/or additional capacity created as a result of investments is documented.**

Suggestions

- ❑ Work with funding utilities to establish and standardize on process and any unclear roles and responsibilities around data management. This would ensure quality of data at the source and provide efficiency for Energy Trust as they utilize this data in various internal processes and programs.
- ❑ Where possible, accelerate the systems integration to outside contractors as well as directly to residential (Trade Allies), commercial and small industrial customers.
- ❑ For the future IT project pipeline, identify opportunities to integrate accounting and payment systems to reduce the workload.
- ❑ As an early adopter, and in the spirit of collaboration, Energy Trust may want to consider convening a regional group of energy efficiency organizations to establish data governance that will make sharing data easier in the coming years. As the costs to acquire energy efficiency grow, organizations will more often seek to share information and practices in search of finding new cost effective opportunities to extend energy efficiency penetration. Working now to ensure that data sharing can be easily integrated and compared will make this more efficient and effective.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Energy Trust Current State

This focus area covers both the general/administrative process of budgeting at Energy Trust and some of the specific challenges in budgeting and forecasting program savings/generation, and to a lesser degree program delivery expenditures.

An overview of the budgeting process is shown here:



Round-0 (r-0) (July): This high-level forecast includes program costs with incentive dollars, and is primarily to assist utilities in establishing their funding levels. Note: This step is being removed in 2014 because the utility funding conversations can be delayed until further in the Energy Trust budgeting process, at which point other budget versions can be utilized.

Utility Meetings: These meetings work to align Energy Trust's proposed budget savings/generation, related costs and estimated program reserves with the utilities' IRP estimates and projected rate revenue. In 2014 this step will move to the October time frame after R-1 is finalized.

Forecast/Round-3 (R-3) (August): All program and administrative functions forecast current year spending and savings/generation at a budget-level of detail. This forecast is used to generate the beginning reserve balance. In 2014 this step will move to the October.

Round-1 (R-1) (August-October): PMC's and staff begin by inputting expenses and savings/generation. For administrative functions, the Finance department provides prior year budget figures to start the process. This is not provided for the programs since their work often changes materially between years. This process results in a final budget draft.

Outreach (November): The R-1 draft budget is communicated to a wide audience for comment. The Executive Director, CCS and finance staff craft the budget message and create related presentation materials. This is identified as a time-consuming process.

Round-2 (R-2) (December): Based on feedback, revisions are made and a final budget draft is presented to the Board of Directors for consideration and adoption.



Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Energy Trust Current State (continued)

The budget process is considered a ‘bottoms up’ approach, as the management team does not initiate the process with targets for the program or administrative areas. Each area is permitted to submit the budget that it thinks best delivers on the Energy Trust mission and is encouraged to budget the highest possible energy savings and generation. This draft is reviewed with Energy Trust leadership, and it is not unusual that program managers are asked to increase savings and generation goals.

It is estimated that the informal budget (termed ‘Flash’) is updated 20 times over a seven week period. The Flash takes the individual input Excel templates and consolidates them for a total organizational view, which managers can review and direct for further changes. Four official budget versions are created (three starting in 2014, per the notes on the previous page).

The budget process requires a formal update of the forecast in July or August (R-3), and this utilizes the detailed budget templates. This forecast reviews 100% of the budgeted spend. This is primarily due to the complexity of the re-forecasting process which requires that program and activity costs be examined at the same level of detail as the budget (i.e., the budget templates are updated in this re-forecasting process). As noted by staff and PMCs (who participate in data entry as part of the budget and re-forecasting processes), this is a time-consuming and cumbersome process.

The chart on page 20 shows the five-year average variances of budget-to-actual and forecast-to-actual. The timeframe between the creation of budget and actuals is approximately 16 months, and approximately 4 months from forecast to actuals. The chart will show that although variances noticeably improve as a result of the August forecast, the five-year average continues to be material.

Energy Trust recognizes the significant staff effort required to develop the budget and forecast. The Finance group continues to lead efforts to explore improvements. In addition to the changes noted on page 17 that have been made for this upcoming budget process, other recent improvements include an analysis that was completed after the 2014 budget process that shared historical expenditure rate data and patterns with those who prepare the budget to better inform their budget assumptions. Also, program reserves were identified by utility.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Energy Trust Current State (continued)

Budgeting and forecasting Energy Trust expenditures with high accuracy is challenging because of a number of factors. Approximately 60% of incentive spending occurs in the fourth quarter, and approximately 50% of efficiency results are not reported by PMC's until after the calendar year ends, but before closing the books for the prior fiscal year. Some programs have tried to incent for early reporting, but this has only been effective in the Homes program, with minor impact. These two factors, when combined with the dynamics of program implementation where customers delay or cancel projects, changes in the economy and market, and the different mix and cost of savings actually acquired year to year, further contribute to this challenge. This last factor was noteworthy in 2013 when energy efficiency acquisition was achieved at significantly lower average costs for a few large industrial and commercial projects.

As a result, budgets are built to provide the flexibility needed to pursue broad opportunities while staying within the approved amounts. Energy Trust has a strong culture of accountability; staff is both optimistic and goal oriented. The focus on accountability has led to the consistent achievement of savings goals, often at a cost below what was budgeted, but under the pre-2014 budget process it has also influenced staff to budget conservatively so they would not over-spend. This pre-2014 budget process combined with other factors noted above – e.g. acquisition of large volume low-cost savings, changes in the economy, market, or mix and cost of savings, customer decisions to cancel or delay projects – has resulted in under-expenditures for both programs and support functions, resulting in a growing reserve account.

As described on pages 18 and 19, a number of changes have been implemented in this year's budget and forecasting processes to aid staff in making budget assumptions that more closely align annual energy efficiency savings with expenditures. In addition, the Board adopted new rules to access reserves and established new program reserves for each utility. This reserve will address staff concerns about insufficient availability of funds during the year should unbudgeted opportunities arise. By providing staff with these improved budget tools and preserving needed flexibility, it is hoped that a more accurate budget and mid-year forecast will result.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Energy Trust Current State (continued)

	Percent of Total Budget (2014)	Average Percent of Budget not Spent	Average Variance of Forecast versus Actual Costs
Costs By Group			
Energy Efficiency	90%		
Incentives		13%	6%
Delivery		6%	5%
Staffing		8%	-1%
Other internal program costs		40%	25%
Support and Admin [A]		23%	12%
Efficiency Total		13%	7%
Renewables	10%		
Incentives		38%	14%
Delivery (diminimus amount)		-	-
Staffing		9%	1%
Other internal program costs		59%	40%
Support and Admin [A]		35%	20%
Renewables Total		38%	15%
[A] Support and Admin before allocation	7% *		
Shared office		10%	11%
Shared IT		38%	17%
Customer Service & Trade Ally		18%	10%
Planning & evaluation		25%	18%
Outreach and communications		16%	4%
Administrative Depts Combined		18%	13%
Total Support		25%	13%
ENERGY SAVINGS / GENERATION			
Efficiency Electric Savings (aMW)		-1%	-6%
Efficiency Gas Savings (mil therms)		3%	3%
Renewable Electric Generation (aMW)		30%	14%

*Support and Admin costs are shown separately here and allocated into the programs on the lines noted with [A]

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Energy Trust Current State (continued)

To understand the source of these variances, looking at the key components in programs shows that the greatest dollar variance category is incentives, and program delivery is a small dollar amount and variance percentage (in energy efficiency programs).

Below is a chart that shows that this variability in electric and gas efficiency has increased in 2013, with incentives expenditures showing greater variability while the delivery costs remain relatively predictable. Refer to discussion on pages 19-20 for causes of the variability.

(in millions of \$ unless otherwise noted)	2013			2012			2011			2010			2009		
	Forecast	Actual	For v Act	Forecast	Actual	For v Act	Forecast	Actual	For v Act	Forecast	Actual	For v Act	Forecast	Actual	For v Act
COSTS BY GROUP															
Efficiency															
Incentives	\$74.1	\$61.7	17%	\$76.2	\$71.4	6%	\$65.8	\$66.0	0%	\$55.4	\$55.2	0%	\$45.4	\$42.7	6%
Delivery	\$46.9	\$45.2	4%	\$46.7	\$45.4	3%	\$44.9	\$42.5	5%	\$37.6	\$34.6	8%	\$30.4	\$29.2	4%
Renewables															
Incentives	\$7.5	\$6.0	19%	\$20.7	\$19.9	4%	\$16.0	\$15.7	2%	\$20.0	\$16.4	18%	\$14.5	\$10.6	27%
Delivery	\$0.3	\$0.2	27%	\$0.3	\$0.2	26%	\$0.2	\$0.3	-51%	\$0.2	\$0.3	-56%	\$0.2	\$0.2	-8%
ENERGY SAVINGS / GENERATION															
Efficiency Savings-Electric (aMW)	53.8	57.8	7%	50.3	57.6	15%	40.1	49.4	23%	41.9	47.0	12%	38.5	27.5	-29%
Efficiency Savings-Gas (mil therms)	5.6	5.5	-2%	6.2	5.8	-6%	4.6	5.0	7%	4.3	4.4	2%	3.2	2.8	-14%
Renewables Generation-Electric (aMW)	2.65	2.9	8%	4.14	4.9	18%	1.6	1.5	-7%	4.6	3.4	-27%	6.8	2.7	-61%

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

External Benchmarks—Research

All benchmark utilities prepare an annual business plan and/or budget. Two of the utilities, Puget Sound and Seattle City Light, follow a two-year budget process. Puget Sound’s process runs from June through September culminating in an Annual Conservation Plan being presented to regulatory stakeholders in November. Seattle City Light starts earlier in the year, with completion occurring in November. Avista creates an annual comprehensive business plan that starts as a “blank slate” because they assume that there are no constraints, i.e., there is complete flexibility to change. Out of this business plan comes a projected budget, with acquisition costs and cost-effectiveness test results, as well as planning for labor, marketing, evaluation, consulting, etc. Should there be changes during the year (between annual business plans) that require additional planning efforts, they conduct mid-year business plans. These can be comprehensive or isolated to a particular area depending on the planning needs at the time.

Budget-to-Actual variances for two of the utilities are shown below, and they also experience years of significant variance to budget.

Budget-to-Actual Variance (dollars in millions)			
	2011	2012	2013
PSE			
Budget	\$110.1	\$111.5	\$107.1
Actual	\$93.4	\$105.5	\$110.5
Budget-to-Actual Variance %	15.2%	5.4%	-3.2%
SnoPUD			
Budget	\$24.4	\$23.7	\$22.4
Actual	\$20.3	\$18.8	\$22.0
Budget-to-Actual Variance %	16.8%	20.7%	1.8%

One PMC interviewed indicated that they enter budget and forecasting data directly into other clients’ systems, and the Energy Trust spreadsheets are more confusing, complicated and detailed. In addition, because Excel is the budget tool, versus a webform which would allow real time changes, the process is more cumbersome.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #2: Budgeting and Forecasting

Assessment

Energy Trust's one-year budget time horizon is not well synchronized with many of its programs' life cycles, and this can make estimating savings and expenditures in a calendar year challenging.

Energy Trust leadership has expressed the desire to reduce the overall budgeting process time from 6 months to 4 months, and given the assessment of the present budget process steps, this is realistic.

Energy Trust's financial forecasting system is its budget system which is constructed to provide reports based on an extremely detailed level of data inputs. As in most forecasting, greater detail does not necessarily result in better forecasting, and Energy Trust's five-year experience suggests this.

Recommendations

- 2. Working with the OPUC and its funding utilities, consider moving to a two-year budget cycle.** This will provide Energy Trust additional flexibility in the management of its energy efficiency and renewables pipeline, and it should decrease staff and PMC efforts related to meeting solely one-year savings/generation and cost targets.
- 3. Conduct process improvement on forecasting and budgeting process to reduce non-value added steps.** Given that the August forecast (R-3) has historically been notably inexact compared to actuals and that the primary purpose of this forecast has been to generate the beginning reserve balance, we recommend that R-3 not require a budget-level of detail review and reconstruction, especially for incentives and program delivery expenses. Energy Trust can consider using macro indicators and the sector dashboards (which are updated monthly) to adjust their previously established budgets. An example of such an indicator is to utilize historical second half performance trends relative to first half, and apply those to current year. This could be modified based on known deviations from the historical experience.

Suggestions

- Create budget targets for preliminary planning and budget guidance. For Energy Trust, IRP goals may be the best starting point for the targets. The IRP goals would need to be further divided by sector for planning purposes.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #3: Marketing and Outreach

Energy Trust Current State

Energy Trust marketing and outreach is a decentralized activity with activities and expenditures managed within the programs and corporately through the Communications & Customer Service (CCS) group. In general the activities are focused on two primary areas:

- General enterprise marketing to increase awareness of Energy Trust, services available, activities and impact on the region
- Specific sector-related marketing activities to drive program participation and adoption

Program Management Contractors also conduct marketing and advertising activities for individual programs. Although Energy Trust understands that there may be some duplication or under-leveraging of marketing efforts and budget by having this segmented approach, the rationale is that if these activities were decoupled from the PMC, then they would be less willing to commit to program performance metrics because of their lack of control over this key element of program delivery. In 2014 Energy Trust added two marketing coordinator positions, one in each sector. Those roles support coordination of marketing across multiple PMCs in the sectors, and also with utilities. This additional resource also supports the Industrial and Agricultural sector, which is managed by Energy Trust staff versus a PMC, and had been lacking marketing support in prior years. These were previously long-term temporary contractors; therefore, this did not add much additional capacity.

Energy Trust utilizes outside contractors for web design and management (Pollinate) and for creative campaign development, marketing strategy and PR services (Coates Kokes). Web content management and media buying are internally resourced.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #3: Marketing and Outreach

External Benchmarks—Research

As mentioned previously, unlike Energy Trust, all of the benchmark utilities' energy efficiency groups are part of a larger utility. As such, there are corporate marketing organizations that manage some or all of the energy efficiency marketing functions.

While the budgets for marketing and outreach are generally included in the budgets of the energy efficiency groups, all of the staff are not included within the energy efficiency groups. Marketing and Outreach efforts at other utilities also include outside vendors.

Conducting these activities as part of the larger marketing efforts of the utilities have several benefits – scale of outreach, consistency of message for rate payers, and functional expertise of the marketing groups. Some of the EE groups have service level agreements with the corporate marketing function within the utility.

In interviews with Energy Trust's funding utilities, they suggested that Energy Trust could leverage more marketing tools that the utilities already offer in order to reach the market more cost efficiently.

Area #1: Administrative Costs: Efficiency and Effectiveness

Focus #3: Marketing and Outreach

Assessment

As energy savings opportunities become more challenging in the future, Energy Trust will need to explore how to streamline efforts in all areas of its cost structure, including Marketing and Outreach. Energy Trust recently created a central outreach position in the CCS Group to respond to greater demand for information and engagement in communities across the state. This position, along with two regional representatives also based in the CCS Group, will enhance the integration and coordination of program-specific outreach provided by program contractors, and will allow for reductions in contracted resources in some areas. This is a good first step, and continued diligence in ensuring alignment and lack of duplication across the portfolio of Energy Trust's marketing efforts will increase efficiency of marketing and outreach spend. In addition, we believe opportunities exist for streamlining Energy Trust's program marketing spend.

Staffing levels in Energy Trust's General Outreach have grown by 118% between 2011 and 2014. Staff have increased efforts for outreach with funding utilities, including reporting content expansion and specialization. (See the recommendations in Area #2 Focus #2 in Reporting to decrease efforts required related to reporting.) In our benchmarking research, energy efficiency groups took advantage, in some way, of the expertise of their corporate marketing function to achieve efficient and broad outreach for their programs.

Energy Trust's territory is regularly touched and communicated with by Energy Trust's funding utilities, and these utilities have larger corporate marketing departments than Energy Trust. Funding utilities may be open to supporting Energy Trust marketing efforts through existing marketing channels or vehicles, thereby giving Energy Trust the benefit of greater efficiency through their scale and expertise.

In Coraggio's experience working with smaller organizations, there is often a benefit to comparing the costs of outsourcing media buys compared with the internal resources that this work requires.

Recommendations

4. **Identify opportunities for streamlining all of Energy Trust's marketing expenditures, especially in the Sectors.** Some examples shared in our interviews included creating an overall brochure for new buildings vs. separate campaigns for HVAC, insulation, etc. We understand that each PMC is given specific, contractual goals and uses marketing tools to achieve those goals. Energy Trust should consider piloting how to remove control of marketing while allowing flexibility to achieve the PMC's goals.
5. **Pursue discussion with funding utilities to further leverage their marketing efforts for broader outreach and reduced cost.**

Suggestions

- ❑ Conduct a RFP process for media buying to compare outsourcing with internal resourcing.
- ❑ Explore opportunities for more collaboration/coordination between outside contractors and Energy Trust's CCS group. A position was recently created to ensure better integration in this regard.

Area #2: Administrative Costs: Allocation and Productivity

Focus #1: Cost Allocation Methodology

Energy Trust Current State

Energy Trust has utilized a consistent cost allocation methodology since its inception and this makes year-over-year comparisons easy relative to the administrative and support costs. The few modifications in the last six years include:

- For IT, a .5 FTE was added for PMC staff given that there is Energy Trust support for this group

- Planning & Evaluation was given a discrete cost center

Activity-based costing is not utilized though the present methodology generally seeks to represent this. The table below outlines the cost allocation methodology utilized.

Expenses	Allocation Method Used	Period Used
Building Occupancy/Shared Expenses	Total actual FTE	Total monthly hours per timesheets
Planning & Evaluation Expense	P&E projects per department, as estimated by P&E Manager	Annual projection
Customer Service Expense	# of calls to call center per project	Annual projection
Trade Ally Expense	Trade allies per project	Total to date number (TTD#) of Trade Allies
IT Expenses	IT users per department (Energy Trust FTE plus .5 of supported PMC staff)	Annual projection
Management & General	Total program expenses	YTD expenses
Communication & Outreach	Total program expenses	YTD expenses

The approximate time it takes Accounting staff to complete the allocation journal each month is less than one hour based on prior streamlining and automation efforts.

Area #2: Administrative Costs: Allocation and Productivity

Focus #1: Cost Allocation Methodology

External Benchmarks—Research

Activity-based accounting for administrative costs included in Management/General and General Communications/Outreach is not utilized by any of the benchmark utilities.

Unlike Energy Trust, all of the benchmark utilities' energy efficiency groups are part of a larger utility, and the corporate/shared services are not allocated to the business units, including energy efficiency. The types of costs that are not allocated include human resources, IT, legal, and accounting.

Avista allows for two cost allocation options: one based on first year BTU savings and the other based on avoided cost value. Avista will use its discretion to apply the cost allocation method that makes the portfolio the best and most well-rounded.

KPMG retired audit partner Becky Graham states that companies need to consider whether the allocation practices are a productive exercise. Companies have been known to allocate overhead costs when it doesn't drive any business decisions or enhance the customer experience. Although more exact, it does not necessarily create better decisions, but can be a point of dispute amongst business units.

To be considered when determining cost allocation policy, it is recommended that the policy:

- Stand the test of time
- Support the business decision-making needs of the organization
- Provide internal comparability between periods and a basis for understanding and managing costs. Although Energy Trust may consider external comparability, as long as GAAP and other regulatory requirements are followed, financial reporting will meet comparability expectations for external users.

Area #2: Administrative Costs: Allocation and Productivity

Focus #1: Cost Allocation Methodology

Assessment

Energy Trust's practice of cost allocation for administrative costs associated with Management/General and General Communication/Outreach is more stringent than the benchmark utilities or GAAP. This allocation methodology results in higher total program costs when compared to other utilities that do not apportion all support and administrative costs. This difference in allocation methodology creates a greater challenge for Energy Trust in meeting the cost effectiveness standard than faced by many of its peers.

Energy Trust reports and maintains visibility to the administrative and support costs based on their reporting function. This clear visibility allows Energy Trust to evaluate the efficiency of these groups in providing services; in other organizations that fully allocate costs, this functional view can be lost and make it more difficult to manage and evaluate these administrative and support services.

Recommendations

6. Coraggio agrees with Energy Trust's decision not to do activity-based costing given the relative size of this administrative and support cost (4.03% of revenue in 2013). **Regarding the cost allocation methodology, we do not recommend incurring additional time to further evaluate or distribute costs based on slight shifts in the cost drivers.** For example, switching the allocation method for customer service expense from 'number of calls to the call center per project' to 'number of website hits per project' may more closely reflect the cost driver, but the effort to change to this method plus the loss of prior period comparisons does not warrant the modification.
7. The other consideration related to cost allocation is its impact on cost effectiveness testing. Unless directed otherwise by the OPUC, Energy Trust has discretion in its application. **Energy Trust should consider whether to allocate these more general/shared services type costs at the portfolio versus program level when reporting cost effectiveness test results, using either TRC or UCT.** As we saw with benchmark utilities, this is the predominant approach and allowed by the Washington Utilities and Transportation Commission. If Energy Trust is at a relative disadvantage to its peers because of its more stringent administrative cost allocation policy, we recommend that in partnership with OPUC it consider changing its cost allocation policy to reflect that of other energy efficiency programs. The benefits of this would be:
 - Greater comparability to other energy efficiency programs
 - Less internal effort for management reporting
 - Potentially, energy efficiency opportunities that marginally missed the cost effectiveness standard would now pass

Area #2: Administrative Costs: Allocation and Productivity

Focus #2: Reporting

Energy Trust Current State

Energy Trust fulfills several types of reporting requirements in addition to those that are ad hoc. This review focused on some of the standard reports that Energy Trust generates, specifically:

- Annual Report, Budget and Quarterly Reports to the OPUC and Board (mandated by OPUC)

- Quarterly and annual reporting to each of the funding utilities

In the grant agreement, the OPUC requests that the budget provide projected revenues and expenditures, and contain information that may permit the reader to evaluate Energy Trust's total administrative costs and whether they are reasonable. Additionally it will provide a comparison with actual revenues and expenditures received through the first three full quarters and an estimation of projected expenditure for the remaining fourth quarter of the current year. Quarterly reports are required to report and compare budgeted to actual expenditures on a quarterly basis.

These reports currently consume significant time and resources for Energy Trust across all functions. The Communication & Customer Service group estimates that 1.5 FTE are needed to support today's reporting. Sector leads estimate that the five OPUC-mandated reports require at least 20 hours per sector per report to complete.

In a 10-week period between February 28th and May 15th, staff are involved in creating for the OPUC and each utility, a 4Q report (due 2/28), an annual report (due 4/30) and a 1Q report (due 5/15). In addition, there is an informal savings only report generated before the annual report so internal groups can review savings figures while the financials are being officially closed. There is minimal difference between the 4Q and annual reports because approximately 60% of the efficiency savings are generated in the last quarter. Related to utility summaries and the utility level/program level narrative in the OPUC reports, they are complicated in the roll up to the sector for commercial and residential, and this roll-up is not required by the OPUC.

A high degree of complexity is created relative to reporting on NEEA because the two organizations utilize different systems and approaches to reporting. In order to account for NEEA in a manner that can be integrated into the sectors' reporting, a second dashboard was created for the sectors.

Area #2: Administrative Costs: Allocation and Productivity

Focus #2: Reporting

External Benchmarks—Research

Benchmark utilities subject to the Washington Utility and Transportation Commission (WUTC) reporting requirements, have a similar experience to Energy Trust relative to seeing an increase in information shared or required in their quarterly and annual reports. Given that each utility manages its own energy efficiency programs, they do not have the complexity of breaking out program information to multiple funding sources.

Energy Trust's funding utilities offered varied feedback concerning the quarterly and annual utility-specific reporting. The feedback ranged from 'just right' to 'too much' to an appreciation that Energy Trust now reports savings and generation by utility.

PMC's also gave varied feedback about reporting requirements, which suggests a lack of clear standards in the industry. One PMC shared that all utilities require monthly quantitative reporting, and then quarterly reporting may include a narrative. Other utilities with whom they work typically only require narrative when there is an unusual occurrence, but Energy Trust consistently requires this and asks for comprehensive information, e.g., about business development and marketing. This PMC noted that it takes seven to ten days of staff time to complete each of these reports.

Area #2: Administrative Costs: Allocation and Productivity

Focus #2: Reporting

Assessment

In an effort to be fully transparent, a good partner, and tell a comprehensive story about energy efficiency, report content has grown over the last five years. Gathering the quantitative content has some glitches, but those have principally been addressed through system improvements—a few remaining improvements are underway. Constructing the report narrative is the primary demand of staff time, followed by the internal review and editing process.

The effort to create the narrative content may not be in proportion to the value derived by the respective audiences. Funding utilities and the OPUC expressed a willingness to revisit the content provided in an effort to balance the value of the information with Energy Trust staff effort.

Recommendations

8. **Request the OPUC to work with Energy Trust to reduce reporting content for the first quarter and fourth quarter reports.** Specific considerations are:
 - Could the 4Q report be limited to quantitative information with minimal narrative, and the annual report be the more comprehensive? This is based on the facts that 60% of savings are realized in the fourth quarter and that the 4Q and annual reports are issued within 60 days of each other.
 - Since there has traditionally been limited savings and generation realized in this time period, could the 1Q report be focused on quantitative measures with the primary goal to show pipeline development?
 - What level of program detail is needed by the OPUC? Does the OPUC need information provided by utility and by program (e.g., goals and performance)?
9. **Review reporting elements with the funding utilities with a goal of improving efficiency without a loss to sharing valuable information.**

Suggestions

- As Energy Trust advances in its use of business intelligence software, Energy Trust may want to consider making data available to external parties for their independent inquiry.
- Report NEEA as a separate “sector,” similar to Washington utilities on their I-937 reports. This will reduce staff effort to assimilate NEEA into Energy Trust's reporting formats. This change will require collaboration with OPUC to ensure comparability and continued transparency of NEEA’s contributions to the Energy Trust energy efficiency portfolio.

Area #2: Administrative Costs: Allocation and Productivity

Focus #3: Administrative-focused Metrics

Energy Trust Current State

Energy Trust has a comprehensive set of metrics that are tracked and regularly reported on with respect to program spending, megawatt and therm savings (see previous page on reporting). Other metrics followed, and a few that are reported to the OPUC, are noted below:

- HR-related metrics : Turnover, Time to fill, Retention rates, Employee Engagement Survey results
- Financial close by 20th of month
- Administrative and program support costs as a percent of revenue (OPUC target is to be below 9%)
- Customer satisfaction rating relative to interaction with program representatives and overall satisfaction (OPUC target is to exceed 85%)
- Number of call center calls per month
- Number of customer complaints per year
- Number of website visits per month

All Energy Trust employees receive an annual performance management review with mid-year check-in's, and as part of that process individuals create work plans. These work plans may, or may not, include performance metrics.

External Benchmarks—Research

PSE tracks similar marketing-related metrics such as unique website visits, call center calls, number of brochures distributed, etc. None of the utilities benchmarked track other administrative-focused metrics related to productivity – those that were tracked are activity focused. If tracked, these metrics are tracked in other departments (e.g. HR, IT, etc.) but the energy efficiency groups do not have access or visibility to them.

Best practices indicate that a few key performance indicators for administrative support functions should be identified which drive core processes. These metrics should be tracked and goals set which will result in improvements of core processes.

Area #2: Administrative Costs: Allocation and Productivity

Focus #3: Administrative-focused Metrics

Assessment

As Energy Trust program scope and volume has grown, so too has the need for support function expertise. One example of this is the recent addition of a project manager to the Operations team, a role that will focus on identifying and improving internal processes.

Administrative-focused metrics can serve as a valuable tool in measuring the effectiveness and efficiency of administrative functions and processes. Metrics should be linked to the achievement of specific goals in Energy Trust's strategic plan, to give them the appropriate level of focus and importance.

As Energy Trust's growth as an organization may slow, it will become increasingly important to focus on productivity. Without this focus, program opportunities may be limited because the program delivery cost may become too high to meet the cost effectiveness standard. We believe this is a critical area of focus for Energy Trust (see next Focus #4: Continuous Improvement for more details).

Recommendations

10. Energy Trust should identify, set goals, and track progress on 3-4 administrative-focused productivity metrics in the context of a continuous improvement process. These metrics would be identified through analysis of those core, key processes. Areas to evaluate in these metrics might include:

- IT (e.g., given that Energy Trust follows a “scrum” process, there are built-in metrics to assess cycle time in an IT project lifecycle, and data defects)
- Finance (e.g. average time to process an incentive request, number of budget versions—Flash reports in Energy Trust's vernacular, cycle and process time for the budget process)
- HR (e.g. average time to fill)
- Communications and Outreach (e.g. avg. impressions per campaign)

Specific metrics recommended for all core processes include:

- a. cycle time (the time required to complete a process. This is the summation of process time and wait time.)
- b. process time (the labor time required to complete a process—the time elapsed related to the work of the process)
- c. wait time (the time that the process stops and no work is being done)
- d. percent accurate (the percentage of the work product that is delivered with 100% accuracy the first time)

Area #2: Administrative Costs: Allocation and Productivity

Focus #4: Continuous Improvement

Energy Trust Current State

Energy Trust has a long practice of convening cross-functional teams to explore process improvement. Recent examples are the improvements made to the reporting process to reduce program staff time, and the changes occurring in this year's budget process. The willingness to look across the organization and consider alternative methods of achieving outcomes is a strength of Energy Trust.

Given Energy Trust's use of PMCs, PDCs and Trade Allies to execute on its mission, Energy Trust finds itself in cross-functional processes on a regular basis. For purposes of this management review, cross functional is defined as processes that span across multiple internal departments or external organizations to complete the work. Additionally, it has recently partnered with funding utilities to more fully access their customer databases. This has required the establishment of cross-functional (cross-organizational) processes and systems.

Cross-functionality increases complexity, and the need for structure to minimize confusion is imperative for performance management. Energy Trust utilizes project management skills, particularly on large projects and has realized strong results. It has identified a need to further embed this competency throughout the organization, and Energy Trust is committed to developing a project management culture. For example, a review of the reporting process showed many project management tools utilized to make this a more streamlined process with well delineated roles and responsibilities. To advance this culture and its associated tool kit, Energy Trust has recently hired a Senior Project Manager. His responsibilities include deepening the project management discipline and knowledge of staff, conducting process improvements and leading projects with known cross-functional complexities.

Some functions that are shared services, e.g., Finance/Accounting and Legal, require strong collaboration to be effective. Interviews suggested that this has been achieved with Legal. There were some suggestions that closer collaboration between Finance/Accounting and programs would result in benefits. These suggestions included a perception of missed opportunities to consider new ways to complete work without undue additional risk, and also increasing the Finance group's involvement when negotiating with utilities particularly relative to financial topics.

Another example of the need for cross-functional collaboration to realize the full potential of continuous improvement efforts was the multiple audit requirements that have been added over time. While the programs are moving to electronic transmission and record-keeping, Finance has been slower to review, and modify where reasonable, the internal controls. Also, IT support in collaborating with the PMCs is needed to realize the full efficiency. Without a coordinated, project management approach to this improvement work, the efforts will not be fully realized.

Area #2: Administrative Costs: Allocation and Productivity

Focus #4: Continuous Improvement

Energy Trust Current State (continued)

When the cross-functional process involves an IT component, Energy Trust has recently implemented the Agile method for software development. Agile is based on iterative and incremental development, where requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. It promotes adaptive planning, evolutionary development and rapid and flexible response to change. This methodology, considered a best practice in IT development today, lends itself to the collaborative, adaptive culture of Energy Trust and its market.

There is not a standard practice or methodology by which process improvements are initiated, executed and tracked, including on-going metrics, as referenced in Focus #3.

In administrative processes, a role for utilizing best practices has not been established. This management review includes benchmarking which is one method, every five years.

External Benchmarks—Research

One of the benchmark utilities has a structured effort focused on continuous improvement. In 2011 PSE created a verification team composed of four staff. The verification team members have backgrounds in a variety of quality methodologies, and although Six Sigma, ISO 9000, etc. principles are utilized, these disciplines aren't required. The verification team regularly engages with program staff to receive training on new measures/new applications, and review onsite findings with program staff at regular intervals to discuss a variety of process improvement opportunities that may have been presented during onsite verifications. While not directly engaged with a particular corporate continuous improvement initiative, verification team members have opportunities to participate and contribute to corporate continuous improvement initiatives.

The verification team supports PSE's comprehensive Continuous Improvement Process, and each division (even those in administration and support) is required to identify opportunities for improvement and report on progress annually. As part of this effort, they have undertaken numerous process improvement initiatives, including: simplifying rebate applications, speeding up incentive payments, and verification techniques and tactics that improved customers' rebate processing and instilled greater customer confidence in Energy Efficiency.

Area #2: Administrative Costs: Allocation and Productivity

Focus #4: Continuous Improvement

External Benchmarks—Research (continued)

Another well respected energy efficiency program administrator is Efficiency Vermont, and for a number of years they have pursued a structured method of process improvement. In their 2013 Savings Claim Summary Report they reference broadening their performance-based model and the work in process improvement to include administrative areas. They engaged in efforts related to an Administrative QPI (Quantifiable Performance Indicators) plan. This plan establishes performance indicators under two main categories:

1. Management Span of Control, intended to optimize administrative efficiencies while ensuring continued market impact and effectiveness
2. Key Process Improvements, utilizing lean processes to provide value to customers by increasing efficiency.

By 2013 they had completed value stream mapping workshops and established baseline performance metrics for six key processes:

- Prescriptive Process (2012 completion)
- Metering Process (2012 completion)
- Demand Response Plan Proceeding
- Engineering Custom Project Process
- Home Performance with ENERGY STAR® Process
- Residential New Construction Process

Area #2: Administrative Costs: Allocation and Productivity

Focus #4: Continuous Improvement

Assessment

Energy Trust has focused most of its improvement efforts on program delivery and reaching broader and deeper segments of the population it serves, versus the administrative and support functions of the organization.

Energy Trust has committed resources predominantly to support its program delivery and general awareness and outreach for energy efficiency and renewables. The recent hire of a Senior Project Manager to instill deep project management competence and facilitate process improvements is an early decision to shift some resource to internal focus and efficiency opportunities.

The acquisition costs of energy efficiency are estimated to increase in the coming years, and that is a normal pattern in an industry as it moves from its early growth phase into a more mature phase of a life cycle. As the growth curve flattens, in order to maintain an acceptable return on investment—or cost effective standard in energy efficiency and renewables—an organization begins to examine its processes more closely, looking for ways to remove costs. Energy Trust is entering this period, where spending resources to improve processes, both administrative and program delivery, would be beneficial.

Recommendations

11. Adopt a strategic initiative to pursue continuous improvement in all core processes of the organization—both program and administrative-related.

Suggestions

- ❑ Energy Trust would benefit by adopting a standard practice and routinely reviewing its processes to identify non-value added activities, thereby opening staff time and/or reducing cost. These process reviews could be administratively focused, but as we see, the market evaluation and program processes are integrally connected to administrative processes and would also benefit.
- ❑ In the course of interviews, people noted a few areas that would benefit from a focused improvement effort:
 - Marketing collateral design and production
 - Incentives processing with particular review of the internal control requirements. This could provide efficiencies for program staff, finance and PMCs.
 - Reporting—the OPUC and funding utility reports

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

Energy Trust Current State

For the five-year period 2010-2014 Energy Trust established energy-efficiency and renewables generation goals, and as of year-end 2013—with one year remaining in its present plan period, Energy Trust had achieved savings and generation that are on pace to exceed those goals:

Savings and Generation Performance - as of year-end 2013

	5-Year Goal	Percent Achieved
Energy Efficiency-Electric	479 aMW	91%
Energy Efficiency-Gas	34.7M therms	95%
Renewables-Electric	124 aMW	91%

These results have been achieved at a lower than estimated average cost in an economy that was in recovery and with diminished state tax credits.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research

The following charts and graphs provide an overview of the electric energy efficiency savings data provided by the benchmark utilities. It is acknowledged that this data is a three-year snapshot which may not demonstrate the full story, since energy efficiency has a thirty year history, and the emphases of programs can be based on past strategies, performance and penetration. Additionally, savings measurement methodologies vary among utilities such that exact comparisons of gross numbers is not possible. There is a sense that the opportunities to extend energy efficiency as a demand side solution are diminishing and becoming more challenging relative to meeting the current cost effectiveness standards. This three-year look does not conclusively show this picture, with the possible exception of the Commercial Sector where there is no utility that shows marked growth—the trends are either flat, down or slightly up. In other sectors, there is at least one energy efficiency group that has been able to significantly grow in a sector.

The only commonality amongst all organizations is that they all rely heavily on the Commercial Sector. It is noteworthy that Energy Trust has a historical heavier reliance on the Industrial Sector than any of the other utilities, and only their portfolio shows growth in every sector (excludes NEEA) over this three-year period.

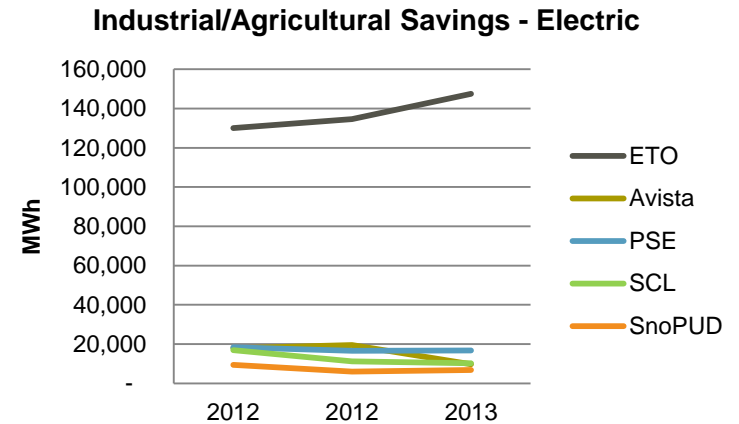
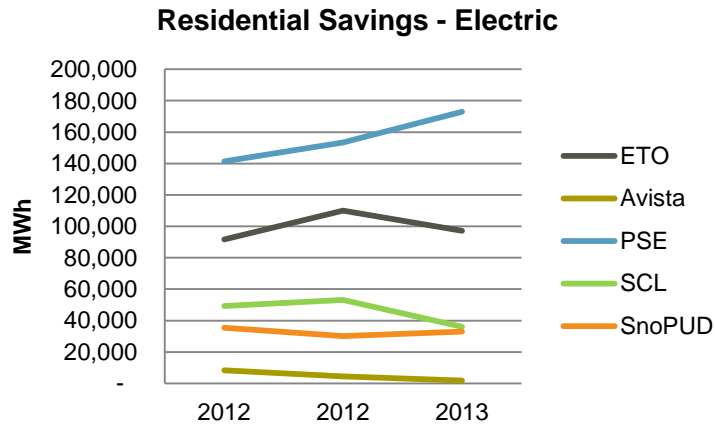
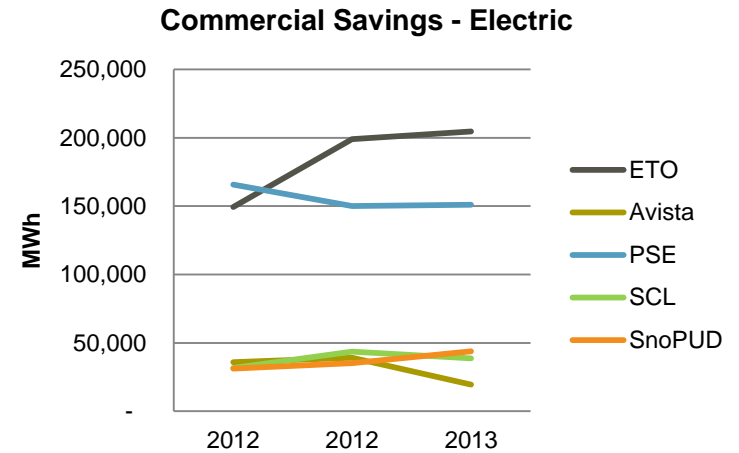
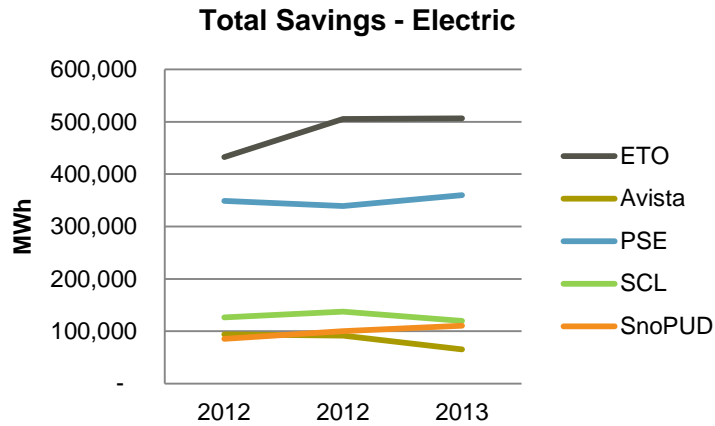
Savings (Electric)							
	2011		2012		2013		Three-Year % Change
Energy Trust	Savings	% of Total	Savings	% of Total	Savings	% of Total	
Commercial	149,450	34.56%	198,902	39.37%	204,660	40.40%	36.94%
Industrial/Agricultural	129,986	30.06%	134,553	26.64%	147,443	29.11%	13.43%
Residential	91,737	21.21%	109,934	21.76%	97,060	19.16%	5.80%
NEEA	61,265	14.17%	61,777	12.23%	57,374	11.33%	-6.35%
Total	432,438	100.00%	505,166	100.00%	506,537	100.00%	17.14%
Avista							
Commercial	35,753	37.96%	39,171	42.80%	19,555	29.84%	9.56%
Industrial/Agricultural	17,876	18.98%	19,585	21.40%	9,777	14.92%	9.56%
Residential	8,412	8.93%	4,466	4.88%	1,776	2.71%	-46.91%
NEEA	32,149	34.13%	28,295	30.92%	34,427	52.53%	-11.99%
Total	94,190	100.00%	91,517	100.00%	65,535	100.00%	-2.84%
PSE							
Commercial	165,690	47.49%	150,030	44.20%	150,930	41.93%	-8.91%
Industrial/Agricultural	18,410	5.28%	16,670	4.91%	16,770	4.66%	-8.91%
Residential	141,300	40.50%	153,300	45.17%	172,900	48.03%	22.36%
NEEA	23,500	6.74%	19,400	5.72%	19,400	5.39%	-17.45%
Total	348,900	100.00%	339,400	100.00%	360,000	100.00%	3.18%
SCL							
Commercial	31,630	25.06%	43,679	31.80%	38,759	32.33%	22.54%
Industrial/Agricultural	16,852	13.35%	11,280	8.21%	10,247	8.55%	-39.19%
Residential	49,209	38.98%	53,201	38.73%	35,952	29.99%	-26.94%
NEEA	28,540	22.61%	29,214	21.27%	34,936	29.14%	22.41%
Total	126,231	100.00%	137,374	100.00%	119,894	100.00%	-5.02%
SnoPUD							
Commercial	31,161	36.50%	35,135	35.16%	43,920	39.72%	40.95%
Industrial/Agricultural	9,419	11.03%	6,015	6.02%	6,755	6.11%	-28.28%
Residential	35,321	41.37%	30,193	30.21%	32,977	29.82%	-6.64%
NEEA	9,483	11.11%	28,596	28.61%	26,918	24.34%	183.86%
Total	85,384	100.00%	99,939	100.00%	110,570	100.00%	29.50%

Notes on Avista: Commercial/Industrial sectors a combined figure, but for this report Avista has estimated a split of two-thirds to Commercial and one-third to Industrial. 2012 NEEA Savings Reflect Washington figures. Avista's percentage change column reflects the 2011 to 2012 change only because the Idaho annual report and associated results have not yet been published.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

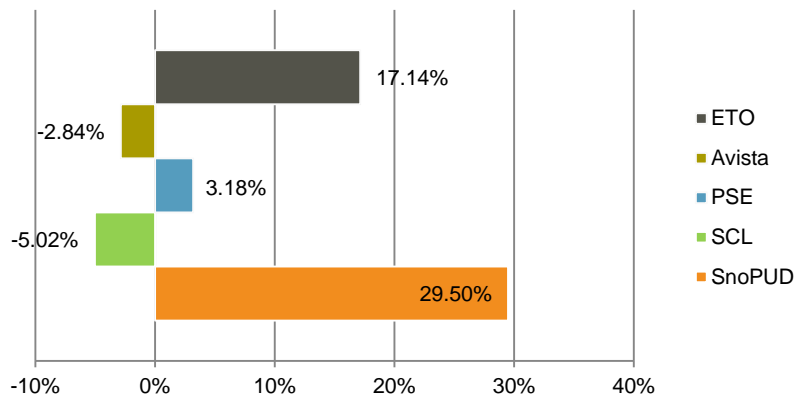


Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

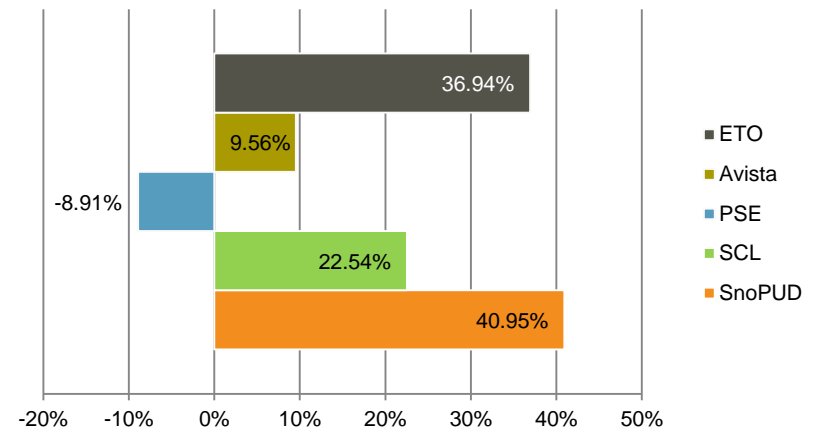
Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

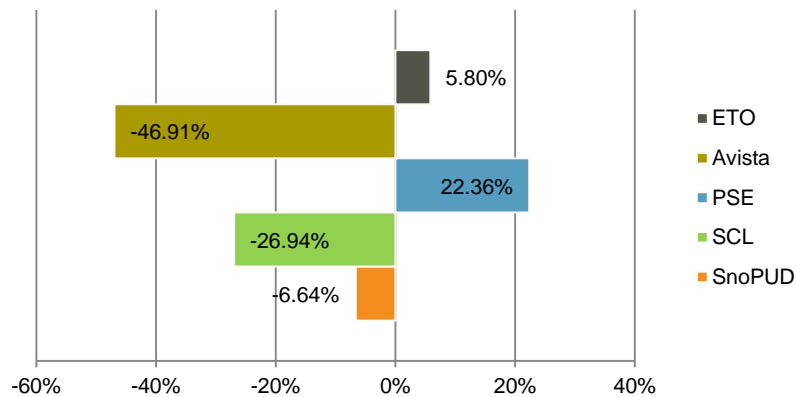
Total Three-Year Change in Savings - Electric



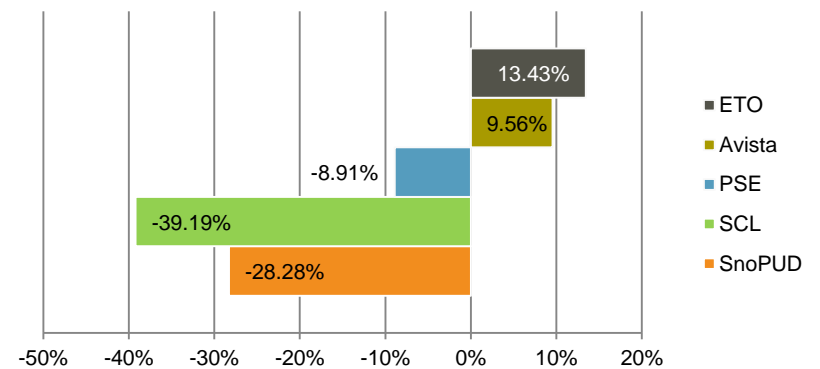
Three-Year Change in Commercial Savings - Electric



Three-Year Change in Residential Savings - Electric



Three-Year Change in Industrial/Agricultural Savings - Electric



Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

The following charts and graphs provide an overview of the gas energy efficiency savings data provided by the two benchmark utilities who administer a gas portfolio. This data is a three-year snapshot which may not demonstrate the full story, since energy efficiency has a thirty year history, and the emphases of programs can be based on past strategies, performance and penetration.

With low natural gas prices one would expect to see gas portfolio savings dropping over this three-year period, and that is the case with Avista because in October, 2012 Idaho dropped its gas energy efficiency programs based on cost effectiveness. Interestingly, PSE has seen a dramatic increase in its gas portfolio savings in both the Commercial and Industrial sectors.

Savings (Gas in therms)

	2011		2012		2013		Three-Year % Change
Energy Trust	Savings	% of Total	Savings	% of Total	Savings	% of Total	
Commercial	1,991,042	40.22%	2,522,398	43.46%	2,312,893	41.82%	16.16%
Industrial/Agricultural	1,118,507	22.59%	720,068	12.41%	1,049,445	18.97%	-6.17%
Residential	1,841,079	37.19%	2,561,801	44.14%	2,168,384	39.21%	17.78%
Total	4,950,628	100.00%	5,804,267	100.00%	5,530,722	100.00%	11.72%
Avista							
Commercial	554,916	41.18%	266,489	33.03%	202,721	36.38%	-63.47%
Industrial/Agricultural	277,458	20.59%	133,244	16.51%	101,360	18.19%	-63.47%
Residential	515,187	38.23%	407,191	50.46%	253,129	45.43%	-50.87%
Total	1,347,561	100.00%	806,924	100.00%	557,210	100.00%	-58.65%
PSE							
Commercial	3,186,000	61.43%	3,105,900	59.67%	4,443,300	67.96%	39.46%
Industrial/Agricultural	354,000	6.83%	345,100	6.63%	493,700	7.55%	39.46%
Residential	1,646,000	31.74%	1,754,000	33.70%	1,601,000	24.49%	-2.73%
Total	5,186,000	100.00%	5,205,000	100.00%	6,538,000	100.00%	26.07%

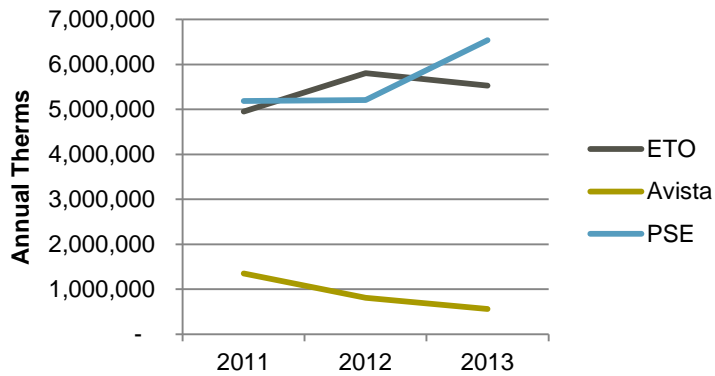
Notes. PSE estimated a 90%/10% Commercial/Industrial split of its 'Business' sector. Avista estimated a 67%/33% split.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

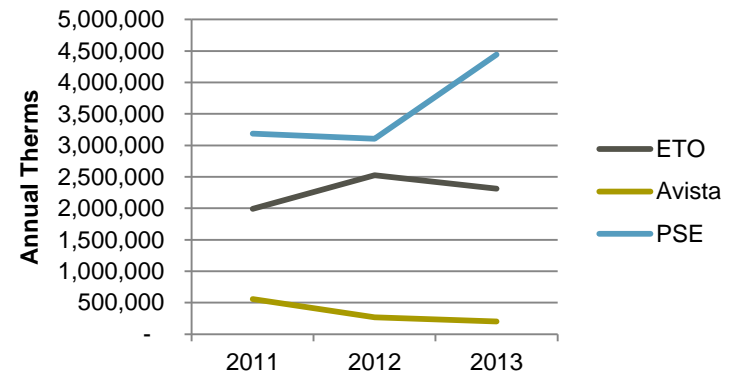
Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

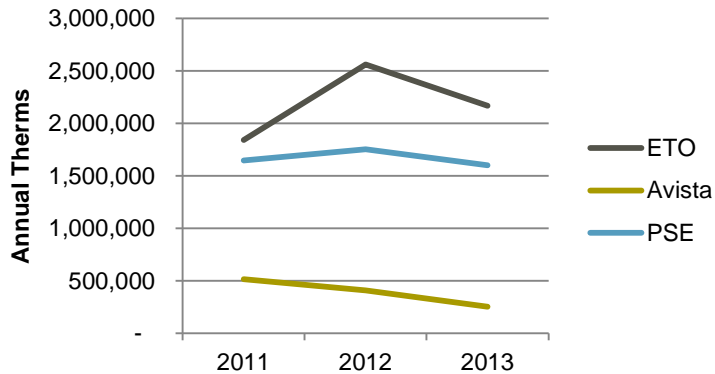
Total Savings - Gas



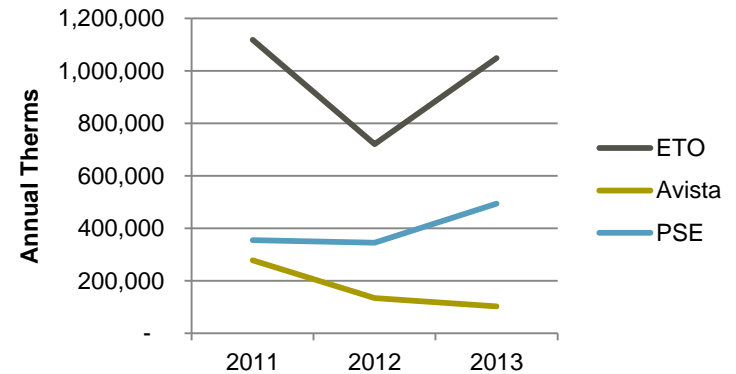
Commercial Savings - Gas



Residential Savings - Gas



Industrial/Agricultural Savings - Gas

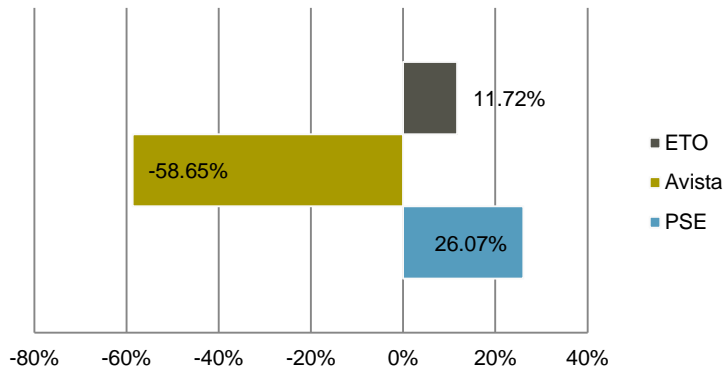


Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

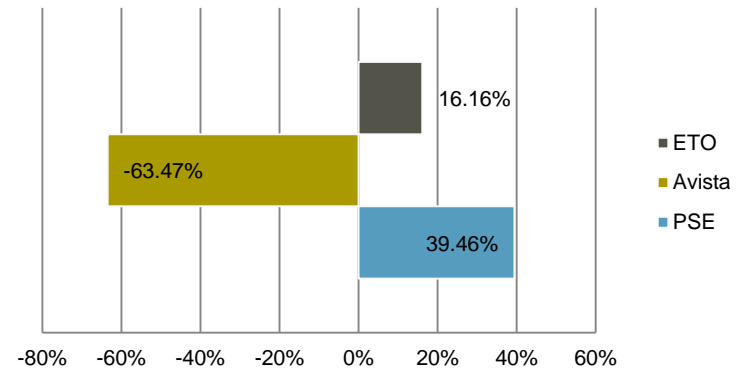
Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

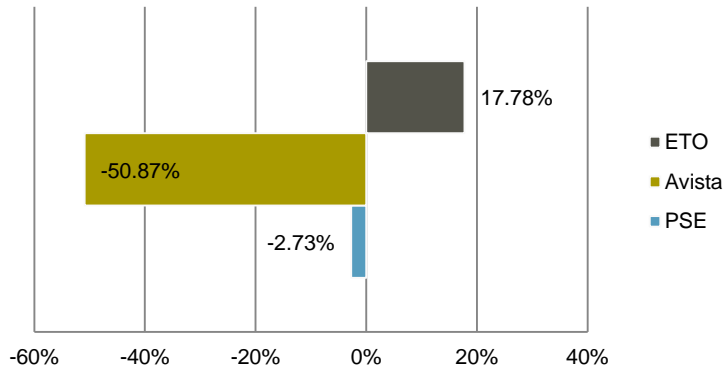
Total Three-Year Change in Savings - Gas



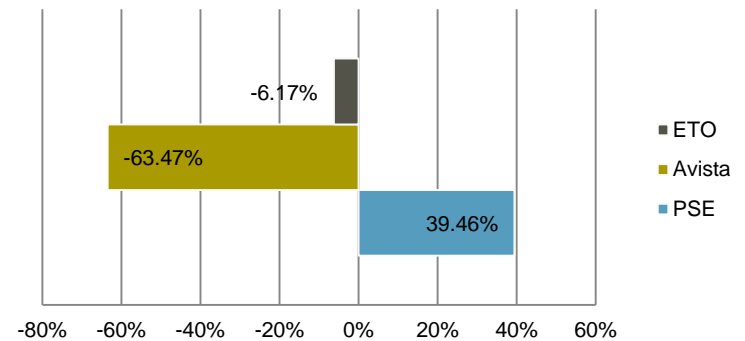
Three-Year Change in Commercial Savings - Gas



Three-Year Change in Residential Savings - Gas



Three-Year Change in Industrial/Agricultural Savings - Gas



Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1: Energy Efficiency and Renewables Savings/Generation Trends

External Benchmarks—Research (continued)

- In the various external interviews with benchmark utilities, Program Management Contractors, Market Evaluation firms and funding utilities, they offered their opinions about trends in the energy efficiency and renewables space and their projections for the future. Based on their varied perspectives, they offered varied opinions; therefore, the following is a recap of these—not a consensus.
 - Low gas prices relative to the cost effectiveness standard are resulting in administrative exceptions being granted to maintain some energy efficiency measures. As articulated in this report, in October, 2012 Idaho shutdown its gas energy efficiency programs. This topic is presently an open docket with the OPUC.
 - The industry is hitting the “middle majority” of energy efficiency adoption, especially for the programs that the focus has been on for much of the last 30 years. [This is a reference to a phase in the diffusion of innovation theory after early majority where it references a portion of the population that will adopt a new product after seeing it used successfully be either “innovators” and “early adopters.”] There are products and services at the early adoption phase, but they are not as attractive as those hitting the “middle majority.” Therefore, programs have to be given credit for those things happening at the “middle majority” while investing in the new ideas that have lower relative savings per dollar invested.
 - Because savings are getting harder to find, for existing measures to extend reach is more costly or completely different implementation methods that are riskier need to be tested and pursued (which will also result in higher net costs).
 - Behavior change is gaining interest as an area that holds promise for deepening energy efficiency adoption. This involves understanding how people think, behave and act, and implementing a more systematic, strategic approach to energy management, going beyond the often sporadic, one-project at a time approach. Big data and predictive analytics will play a role in helping organizations understand and test behavioral models for energy efficiency. Utilities have substantial historical data on its customer base, and some PMCs have begun to merge this with other demographic and behavioral data to develop more targeted approaches to reach customers.
 - Lighting still offers considerable opportunity. Some have thought that lighting’s place in the energy efficiency portfolio would be diminishing, but its outlook is strong.
 - How will distributed generation impact utilities, and what might that backlash be for energy efficiency and renewables?
 - EPA’s carbon pollution standards could have impacts on energy efficiency—the extent of which is unknown.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #2: Energy Efficiency and Renewables Acquisition Cost Trends

Energy Trust Current State

Energy Trust continues to perform better than prior years relative to overall levelized costs per kWh and annual therm. The chart below shows the 2011 – 2013 levelized cost performance for electric and gas efficiency by sector, and for the renewables portfolio.

	Levelized Cost/kWh or Therm		
	2013	2012	2011
Electric Efficiency (\$/kWh)			
Commercial	\$0.022	\$0.026	\$0.029
Industrial	\$0.021	\$0.026	\$0.025
Residential	\$0.030	\$0.030	\$0.032
Total Electric Efficiency Programs	\$0.024	\$0.027	\$0.029
Gas Efficiency (\$/therm)			
Commercial	\$0.26	\$0.34	\$0.32
Industrial	\$0.23	\$0.25	\$0.19
Residential	\$0.45	\$0.44	\$0.44
Total Gas Efficiency Programs	\$0.33	\$0.37	\$0.35
Renewable Energy Generation (\$/kWh)			
Biopower	\$0.007	\$0.012	-
Solar Electric Programs	\$0.072	\$0.054	\$0.112
Other Renewable Programs	\$0.527	\$0.035	\$0.112
Total Renewable Programs	\$0.027	\$0.042	\$0.117

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #2: Energy Efficiency and Renewables Acquisition Cost Trends

External Benchmarks—Research

Similarly to the administrative cost area, the Washington utilities apply varied methods for reporting energy efficiency costs. Levelized cost is not commonly used by these utilities, which more often use Utility Cost Test or Total Resource Cost (TRC) benefit/cost ratios. The data shared is as reported, and does not attempt to normalize amongst companies.

Seattle City Light provided levelized costs by its program sectors. This comparison shows that Energy Trust has been more effective at securing electric cost effective savings, though this is not necessarily a function of program delivery efficiency. As Energy Trust shared in its 2013 Annual Report, it benefited from savings from a large industrial project and construction of large data centers.

Levelized Costs - Electric (\$/kWh)

	2011	2012	2013	Percentage Change
ETO				
<i>Residential</i>	\$ 0.032	\$ 0.030	\$ 0.030	-6.25%
<i>Commercial</i>	\$ 0.029	\$ 0.026	\$ 0.022	-24.14%
<i>Industrial/Agricultural</i>	\$ 0.025	\$ 0.026	\$ 0.021	-16.00%
SCL				
<i>Residential</i>	\$ 0.032	\$ 0.027	\$ 0.034	6.92%
<i>Commercial</i>	\$ 0.038	\$ 0.029	\$ 0.036	-3.52%
<i>Industrial/Agricultural</i>	\$ 0.024	\$ 0.016	\$ 0.045	88.76%

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #2: Energy Efficiency and Renewables Acquisition Cost Trends

External Benchmarks—Research (continued)

Utility Cost Ratio was provided by Avista and PSE for their electric and gas portfolios. Comparing Energy Trust and Avista’s total energy efficiency portfolio, the data indicates a higher benefit to cost ratio for Avista, subject to an understanding of the components of each organization’s formula.

Utility Cost Ratio			
	2011	2012	2013
ETO			
<i>Electric</i>	2.70	2.89	2.58
<i>Gas</i>	2.40	1.32	1.45
<i>Total</i>	2.60	2.58	2.38
Avista			
<i>Electric</i>	2.69	2.64	1.72
<i>Gas</i>	2.62	0.79	0.82
<i>Total</i>	2.67	2.23	1.51
PSE			
<i>Electric</i>	3.88	2.89	3.08
<i>Gas</i>	2.80	2.48	2.94
<i>Total</i>	N/A	N/A	N/A

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #1 and #2: Energy Efficiency and Renewables Savings/Generation and Acquisition Cost Trends

Assessment

Because of the disparity amongst the benchmark utilities and program administrators in its computations of savings, generation and costs, it is difficult to assess performance without deconstructing metrics to the original data. This management review did not pursue that level of detailed analysis.

Based on a review of trend information, Energy Trust's performance appears to be stronger than some in the benchmark group, while weaker than others, e.g., PSE's electric residential energy efficiency savings and its gas commercial savings.

As the recent historical data demonstrates, the portfolio of Energy Trust's programs continue to show strong performance, in terms of both levelized cost and overall efficiency savings and generation. Although this appears to be a positive trend, a number of factors are, or are expected, to impact savings/generation and related cost trends specifically for Energy Trust. These include:

1. The reduced cost of natural gas impacts the cost effectiveness standard making it more difficult to justify projects
2. Federal and state tax credits have been severely reduced or eliminated, making it harder to develop efficiency projects
3. Expenditure limits for large customers with loads over one average megawatt could limit savings opportunities in this sector as soon as calendar 2016.

Recommendations

Suggestions

- ❑ Because so many factors contribute to a measure's savings success and cost effectiveness, Energy Trust might consider reviewing these utilities high level metrics annually to determine which programs warrant a deeper analysis in order to determine if there are insights for Energy Trust.
- ❑ As was stated in Area #1 Focus #1 on Information Technology, the challenges of benchmarking on savings/generation and costs is a reason to work to standardize the computation of certain metrics across organizations. Start with the Pacific Northwest utilities, which already have a history of working together.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

Energy Trust Current State

As has been shown, Energy Trust has over-delivered on its goals for energy efficiency and generation over the last five years—and achieved this at a lower than budgeted cost. The management challenge is that the assurance of reaching these goals is in question until close to year-end because of the historical skewing of savings and generation realization until close to year-end. Approximately 60% of savings are realized in the fourth quarter, and 50% of that is un-reported by PMC's until after the calendar year (though prior to closing).

Energy Trust has met with mixed results in offering bonuses to incent reporting of savings early. One program offered as an example where this was trialed was the Homes program—though the impact was minor. One PMC interviewed pondered whether the market now waits to report savings because they are anticipating the offering of a bonus.

Concerning the skewing of energy efficiency savings to the end of the fiscal year, market evaluation companies share that PMC goals are stated annually, and bonuses exist, at times, for the realization of those annual goals. Given this incentive system, there is an inordinate push as year-end approaches and PMCs drive to reach those goals. Incentives drive performance.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

External Benchmarks—Research

Based on the discussions with the benchmark utilities, PMCs and market evaluation firms interviewed for this management review, it is clear that every energy efficiency and renewables organization grapples with this problem. Following are the predominant reasons for savings realization timing being skewed to year-end:

- Annual contract goals are a large contributor to the problem. One PMC worked with a utility in Missouri whose fiscal year-end was September, and it experienced this skewing in the July to September timeframe, which was their year-end.
- Given the annual nature of contracts with PMCs, the early portion of the year is involved in ramp up. For those programs that run longer than one year, this program development time has less impact. In California the CPUC is considering the length of program cycles and whether five years, versus two, would be more appropriate in some cases.
- Even when the utility changes its fiscal year-end, clients can be on a calendar year budget cycle, and they are managing to their year-end. Multi-family was one client segment highlighted.
- The natural buying cycle for some energy efficiency measures happens to be in the Fall—the largest example, and one that is a large part of some utilities' portfolios, is lighting.

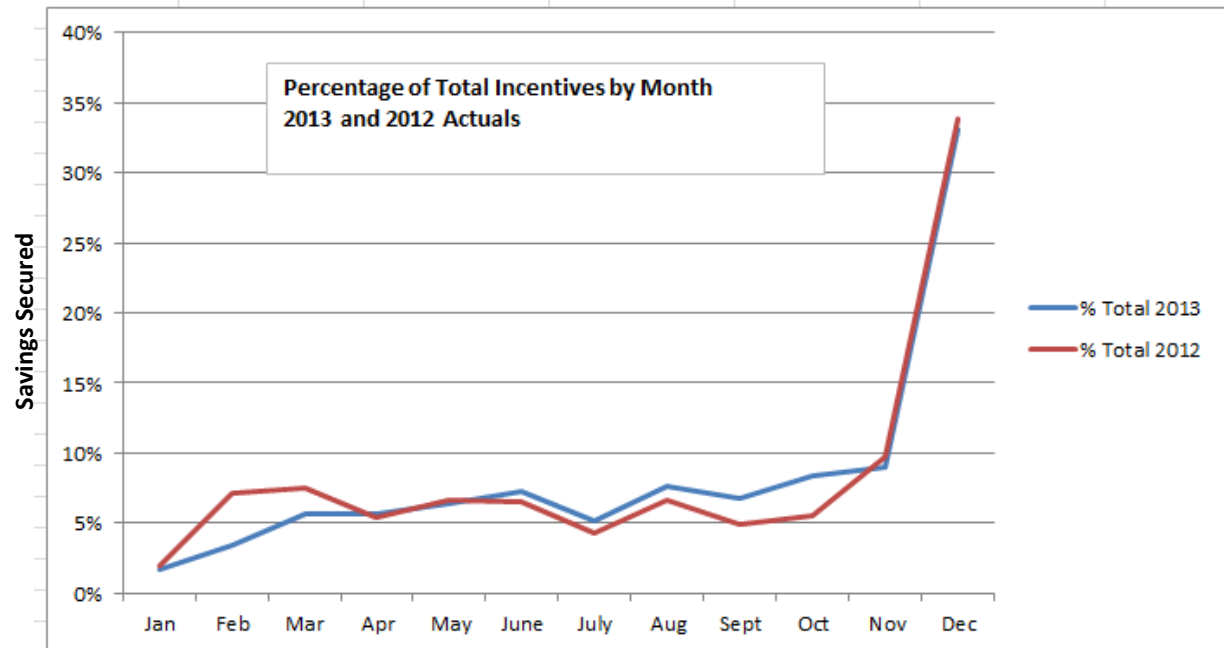
For the utilities benchmarked, they shared their historical experience around this timing challenge, and some have tracked this to gain a better understanding in the hopes of improving—smoothing out—the timing. While the same overall expenditure pattern was noted among all benchmarked utilities, it's also true that the rate of fourth quarter expenditures was highest at Energy Trust versus the peer group. In other words, the other utilities surveyed were more successful to some degree in spreading out incentives paid throughout the year.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

External Benchmarks—Research (continued)

Energy Trust



Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

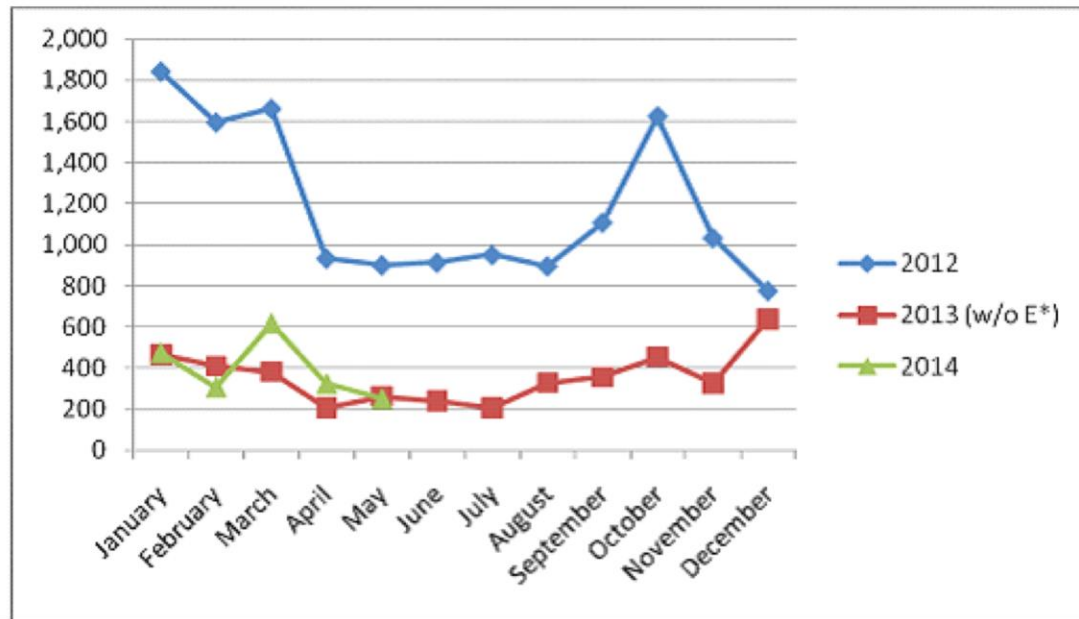
External Benchmarks—Research (continued)

Avista Corporation

For non-residential projects, the first three quarters of the year (January through September) are similar. The Q4 acquisition can be variable. There is both the impact of slower movement of projects as a consequence of seasonal vacations (Thanksgiving through New Years) as well as a drive to get some projects completed before the end of the budget year (frequently the budget year is a calendar year). Generally the latter of these two impacts (driving to get projects done before the end of the year) predominates, so Q4 is most often slightly heavier in acquisition than the other quarters.

For residential projects, a proxy for seasonality was provided through the tracking of rebates. Generally rebate processing is up in Spring and late Fall.

As you read the chart: 2012 includes Energy Star appliances; 2013 does not; 2014 had some rebates discontinued or reduced in amount which accounts for that large bump in March.



Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

External Benchmarks—Research (continued)

Puget Sound Energy

Typically, savings begin ramping up during Q3 and accelerate in Q4. This is primarily due to the number of projects started at the beginning of the year culminating in the second two quarters—especially with Commercial-Industrial projects which are impacted by the amount of time it takes to produce them.
 PSE recently completed a three-year trend on electric savings realization by month, and the results are shown below:

Percentage of Total Year Savings

Month	% (Hist.)
Jan	9.2%
Feb	7.5%
Mar	5.9%
Apr	5.0%
May	4.8%
Jun	6.8%
Jul	5.0%
Aug	8.3%
Sep	6.0%
Oct	11.1%
Nov	15.1%
Dec	15.3%
Total	100.0%

The hockey stick is somewhat attributed to when customers want to invest, which PSE does not think it can fully influence.

Seattle City Light

Historically, the Division has seen approximately 35-40% of its budget commitment and contracted energy savings occur in the 4th quarter of the calendar year.

Snohomish PUD

For residential, the heating season increases Weatherization and Heating program activity significantly during Q4 and Q1.

For commercial & industrial, year-end budget cycle tends to increase activity during Q4.

The following chart shows the weekly results for Commercial/Industrial programs for 2013:

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

External Benchmarks—Research (continued)

Snohomish PUD

For residential, the heating season increases Weatherization and Heating program activity significantly during Q4 and Q1.
 For commercial & industrial, year-end budget cycle tends to increase activity during Q4.

The following chart shows the weekly results for Commercial/Industrial programs for 2013:



Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #3: Energy Efficiency Savings Timing

Assessment

Energy Trust is not unusual in seeing a skewing of energy efficiency savings rise at year-end. Its skewing appears greater than others benchmarked.

The ability of Energy Trust to change behaviors and the extent to which it will incent behavior changes must be balanced against (a) the cost of any incentives and (b) whether its actions will result in a dis-incentive. One example provided was that if people feel they have insufficient time to make a good decision or take action because of a deadline, then they may choose not to pursue the energy efficient alternative.

Recommendations

- 12. Pilot various changes to the management of programs relative to savings goal timing.** Observe and compare changes in savings realization relative to historical Energy Trust performance. Pilot suggestions include:
1. Modify the PMC contractual incentive structure to reward for staggered realization of savings. Consideration of a reasonable ramp up time for a program must be considered when establishing this staggered goal structure.
 2. Change the expiration date on rebates to be a set number of days from purchase versus a deadline to submit by January 15th, for example.
 3. If Energy Trust moves to two-year budgeting, and savings and cost goals are also changed to two years, then this would allow Energy Trust to stagger contract expiration dates so they don't all reside at fiscal year-end. This would take a couple years to put in place until the flow of savings/generation was appropriately staggered (the early implementation period may show lighter than historical savings rates).

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #4: Program Evaluation

Energy Trust Current State

Energy Trust's Planning and Evaluation group was noted as one of the two areas that had experienced the largest growth in staffing (increasing 28% from 12.0 staff in 2011 to 15.4 in 2014). The expense for Planning and Evaluation has grown approximately 25% since 2011, while total program costs in the energy efficiency group (before allocation of administrative costs) has remained flat.

Two of Energy Trust's evaluation companies were interviewed during this management review—both are companies who conduct similar reviews for other organizations across the United States. Both of these market evaluation firms characterize Energy Trust as one of the most effective and efficient in the country relative to its program delivery. These firms characterize Energy Trust as the gold standard and the model that they turn to when offering best practice methods to other clients. Of particular note was that the engagement and collaboration of the Energy Trust evaluation team and its program teams is so strong that they are aligned in defining the issues to explore, and the budget they want to spend. Other organizations will look to the market evaluation firm to do this, which can be inefficient.

The one opportunity for improved efficiency and timeliness was around the number of reviews and the number of Energy Trust team members involved.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #4: Program Evaluation

External Benchmarks—Research

PSE's energy efficiency program size (~ \$110M) is the closest to Energy Trust's at \$118M (2013 program expenditures pre-allocation of administrative costs). Following is a table that shows only Evaluation costs for 2011 through 2013 for PSE as compared to Energy Trust's Planning and Evaluation Costs—PSE does not breakout its Planning costs. This data shows that even with the added costs for Planning, Energy Trust's dollar expenditures on Planning and Evaluation and its cost relative to program expenditures is lower than PSE.

Energy Efficiency Planning and Evaluation Costs				
	2011	2012	2013	Three Year % Change
Energy Trust				
Total Planning and Evaluation Costs	1,481	1,712	1,849	24.85%
Total Program Expenditures	117,611	128,359	118,137	0.45%
Planning & Evaluation Costs as % of Expenditures	1.3%	1.3%	1.6%	
PSE				
Only Evaluation Costs	1,998	2,260	2,528	13.11%
Total Program Expenditures	93,355	105,427	110,535	12.93%
Only Evaluation Costs as % of Expenditures	2.1%	2.1%	2.3%	

Efficiency Vermont (EV) was also considered in this comparison. In 2013 EV spent \$1.4M in P&E, or 3.3% of total program expenditures. Given its smaller size—only \$41.5M—it does not have the same economies of scale as Energy Trust, and this can negatively impact its comparison with Energy Trust.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #4: Program Evaluation

Assessment

Based on the input from market evaluation firms, Energy Trust's evaluation process is considered to be highly effective, and given the benchmarking points, it also ranks on the efficient end of the cost spectrum.

As described in Area #2 Focus #4, PSE has instituted a verification team of four staff that allows it to conduct its own verifications versus using an outside firm.

Recommendations

13. Explore whether the use of an internal verification team is more cost effective than using outside firms.

Suggestions

- ❑ Given Energy Trust has instituted improvements that have had positive outcomes relative to effectiveness and efficiency, our recommendation is to apply process improvement methodology to a broader set of its core processes (as recommended in Area #2, Focus #4).

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #5: Harder-to-Reach Program Opportunities and Outcomes

Energy Trust Current State

Energy Trust programs focus on reaching utility customers across all parts of utility service territories. While all customers are provided opportunities to take advantage of information and program offerings, Energy Trust makes special efforts to serve harder-to-reach populations. These include:

- **Rural populations**, located outside the tri-county metropolitan area: Energy Trust advertises in rural areas and has regionally based staff to ensure coverage and service throughout the less populated parts of its service territory. Some offers are specifically designed to meet the unique needs of rural business customers such as programs for farmers, horticulturalists, irrigators, small-scale wind for farms and solar projects. In addition, Energy Trust partners with utility representatives within local communities and actively recruits other organizations and contractors from within local areas.
- **Low-income customers:** A portion of the public purpose funds collected from PGE and Pacific Power customers are administered by the Oregon Housing and Community Services Department specifically for low-income customers. Since inception, Energy Trust has coordinated program delivery with OHCS to help ensure participants receive available benefits offered and to help avoid gaps in service. In addition, Energy Trust has established relationships with low-income housing authorities and developers and with Habitat for Humanity to help reduce energy costs for lower income renters. Mpower, a new program designed for low-income renters in multi-family housing, is now underway and offers loan repayment options on utility bills. "Savings Within Reach" is specifically designed to serve moderate-income customers and provides higher incentives for particular actions. In addition, Carry Home Savings Kits distributed at food banks, emergency aid agencies and utility service centers have proven successful at reaching lower income populations.

Energy Trust continues to identify innovative ways to approach service design and delivery. This includes packaged offerings for small commercial businesses in leased spaces, energy saving improvements in multi-family properties, upgrades to manufactured homes, programs for small industrial customers, and no and low-cost best practice opportunities emphasizing energy management and behavior changes rather than major capital investments.

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #5: Harder-to-Reach Program Opportunities and Outcomes

External Benchmarks—Research

All utilities have programs which seek to reach these populations in some way. Some examples of the programs they highlight are:

- **Residential Low Income Weatherization** provides funding of many cost-effective home weatherization measures to specified agencies, who install measures for low-income customers receiving gas and/or electric heat from the benchmarked utilities. Funds are used for single-family, multifamily and mobile home residences, and for energy-related repairs and energy education. For SCL, this program's UC and TRC levelized cost is \$0.119/kWh. Compared to its portfolio in general, this is 3.5x higher than total Utility Cost ratio and 2.1x higher than total TRC ratio.
- **Multifamily direct install** programs to increase customer engagement and tenant education efforts (PSE and SnowPUD), and 3rd party facilitation of shell and common area measures (SnowPUD). For example, program teams organize outreach events at apartment and condo campuses during the direct installation of energy saving measures, allowing tenants to talk with program staff at the sites and learn more about the products installed and energy efficiency in general.
- **Multifamily home (MFH) electric-to-natural gas conversion** (Avista) provides enhanced incentives for multifamily building owners or developers to install natural gas in place of electric for space and water heating.
- PSE has organized a **Small Business Direct Install program direct-to-customer outreach including small community "blitzes,"** where the energy efficiency team worked closely with the program service provider to coordinate a focused outreach initiative in communities with small-to-medium commercial districts. These "blitzes" focused on getting maximum possible engagement with the program through various outreach tactics and partnerships with community organizations, like Chambers, Downtown Associations and business leaders to promote the program to their peers.
- Both Avista and SCL mentioned **small commercial lighting retrofit** programs that offer prescriptive lighting measures that are applicable to small commercial customers and that are sufficiently easy to participate in to attract their attention. These programs focus on replacing T-12 fixtures with T8 fluorescent. Other lighting programs include PSE's "Rock the Bulb" campaign which included a series of 16 two-day weekend bulb exchange and energy education events, door-to-door community outreach with nonprofit partner Project Porchlight, to distribute 400,000 ENERGY STAR®-qualified CFL bulbs.

Few programs among benchmarked companies specifically targeted rural consumers. We believe this is because these utilities are established in rural regions as the energy provider, and do not need to have focused programs to reach these customers.

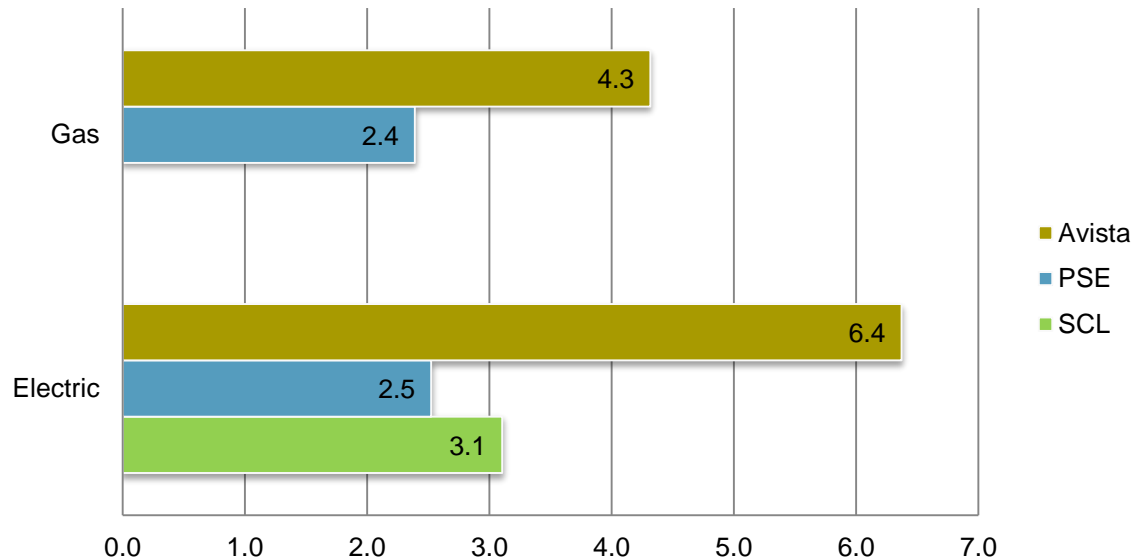
Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #5: Harder-to-Reach Program Opportunities and Outcomes

External Benchmarks—Research

Based on information provided by the energy efficiency groups of the benchmark utilities, we were able to compare levelized costs for programs considered “Low Income” by Avista, PSE and Seattle City Light. We compared the levelized cost of Low Income programs to the levelized cost of the total program portfolio. The results are expressed in a ratio – in other words, the Avista gas programs for Low Income populations are 4.3 times more cost-inefficient than the programs for the total program portfolio.

Low-Income Utility Cost Ratio Relative to Total Utility Cost Ratio



Note: The chart above uses Avista’s and PSE’s 2013 Utility Cost Ratios and SCL’s 2012 Levelized Utility Costs

Area #3: Program Delivery and Outcomes: Efficiency and Effectiveness

Focus #5: Harder-to-Reach Program Opportunities and Outcomes

Assessment

In general, the cost of serving “harder to reach” populations is higher than other programs in the energy efficiency portfolio.

Three of the energy efficiency programs delivered by the benchmarked utilities pursue these opportunities despite the higher program costs. They evaluate the cost effectiveness of their overall portfolio, and therefore allow individual programs to have a higher cost when the portfolio balances that cost with other more cost effective options. Seattle City Light referred to the Race and Social Justice Initiative of the City of Seattle as a potential rationale for pursuing more of harder-to-reach populations in energy efficiency, although they currently do not have targeted programs in this area.

Within Energy Trust, currently the cost effectiveness standard makes additional investments in this area more challenging.

Recommendations

Suggestions

- ❑ In this section, no recommendation is being made due to the need for additional analysis of the impact on Energy Trust’s overall portfolio relative to the cost effectiveness standard and a discussion of the priority of this area of investment.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #1: Staff Budgeting Process

Energy Trust Current State

The current staffing budget process at Energy Trust takes place during the Annual Budgeting Process. In the course of determining potential programs for the coming year, program managers, in consultation with Sector Leads, determine potential staffing needs for each area. In the support functions, the Directors of each function determine staffing needs. Through these processes, Energy Trust evaluates whether positions can be eliminated or reduced. Specific position details are captured in the Position Justification Form.

All newly proposed positions are submitted to the Management Team. The HR manager is consulted with any questions regarding salary or hiring details. The Executive Director recommends which positions will be included in the proposed budget, with final approval by the Board. The proposed budget is also reviewed by the OPUC and funding utilities and comments are provided to Energy Trust.

Energy Trust's workload assessments occur informally. Staffing levels at Energy Trust are evaluated internally through the annual performance evaluation process. During the annual performance evaluation, individual performance is evaluated and work plans are developed which may include specific metrics to measure progress and performance. Employees and their supervisors participate in a mid-year review where among other things the work plan is discussed and modified if necessary.

However, a formal review of workload capacity (e.g. evaluation of workload and business needs, review of time and skills required, and determination of capacity requirements) has not been completed. In addition, Energy Trust does not utilize a project management tool that estimates human resource needs by hours.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #1: Staff Budgeting Process

External Benchmarks—Research

In interviews with external stakeholders, the staff budgeting process was referred to as “lacking transparency”.

At the benchmark utilities, the HR function is a corporate function and not a part of the energy efficiency team. The staff budgeting process takes place as part of the annual budgeting process, generally led by the Finance function of the utility. For most of the benchmark utilities, FTE budget requests are approved by both the energy efficiency group director or general manager and the HR director.

To begin the hiring process, a personnel approval or requisition form is required, which seeks a business justification for the hiring, reference to an approved job description and management approval through the Director level before a recruiting process may begin.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #1: Staff Budgeting Process

Assessment

Energy Trust has the opportunity to increase the information sharing and discussion around the staff budget process. Both internal and external stakeholders report an occasional lack of clear understanding of the rationale for specific staffing budget decisions and, due to missing information, are unable to suggest opportunities for efficiencies in staffing.

For example, involving the HR department and sector leads throughout the process would be beneficial in that HR can suggest alternate ways to staff potential positions, and sector leads can coordinate their requests and find opportunities to leverage staffing across sectors. In addition, external stakeholders such as the OPUC and funding utilities would benefit from additional understanding of rationale and potential impact of staffing decisions.

Recommendations

Energy Trust should **establish clear staffing justification criteria to give guidance to the organization when proposing or considering staffing additions or reductions and to ensure a more transparent process for staff budgeting.** [This is also shown on page 77 as recommendation #16.]

Additional transparency around the staffing budget process would help both internal and external stakeholders understand the rationale for specific positions and enable a better transition from staffing planning to the initiation of hiring processes.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #2: Span of Control

Energy Trust Current State

The average span of control at Energy Trust below the Director level is 3.1 (e.g., 3.1 employees to 1 supervisor) and the average span of control is 2.6 in the Program areas. There are many different perspectives on span of control, but it is generally accepted that a span of control less than 4 is low and may lead to some inefficiencies.

In addition, Energy Trust has a high percentage of employees with “manager” or “lead” in their title. Of the employees below the Director level, 55% are considered either Leads, Senior Managers, Program Managers or Managers.

Coraggio explored this topic in many conversations with staff and Energy Trust management, and several reasons were proposed for the low span of control. The root cause is likely a combination of the following:

- Given that Energy Trust has sought to hire high-caliber, talented employees and believes in internal development as a way to challenge, grow and retain employees, it utilizes a shorter span of control to develop employee leadership and management skills.
- Energy Trust’s managers are working managers – they have a full set of operational responsibilities in addition to managing people - and so there would be little to no efficiency gains from removing management responsibilities.
- Most Energy Trust employees in the program areas are managing outside contractors, which is equivalent to managing employees. Because of Energy Trust’s unique business model, the traditional span of control guidelines may not apply. Whereas the benchmark utilities outsource 4%- 14% of program delivery costs, Energy Trust outsources 88% (based on dollars). See Appendix 7 for specific outsourcing information by utility.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

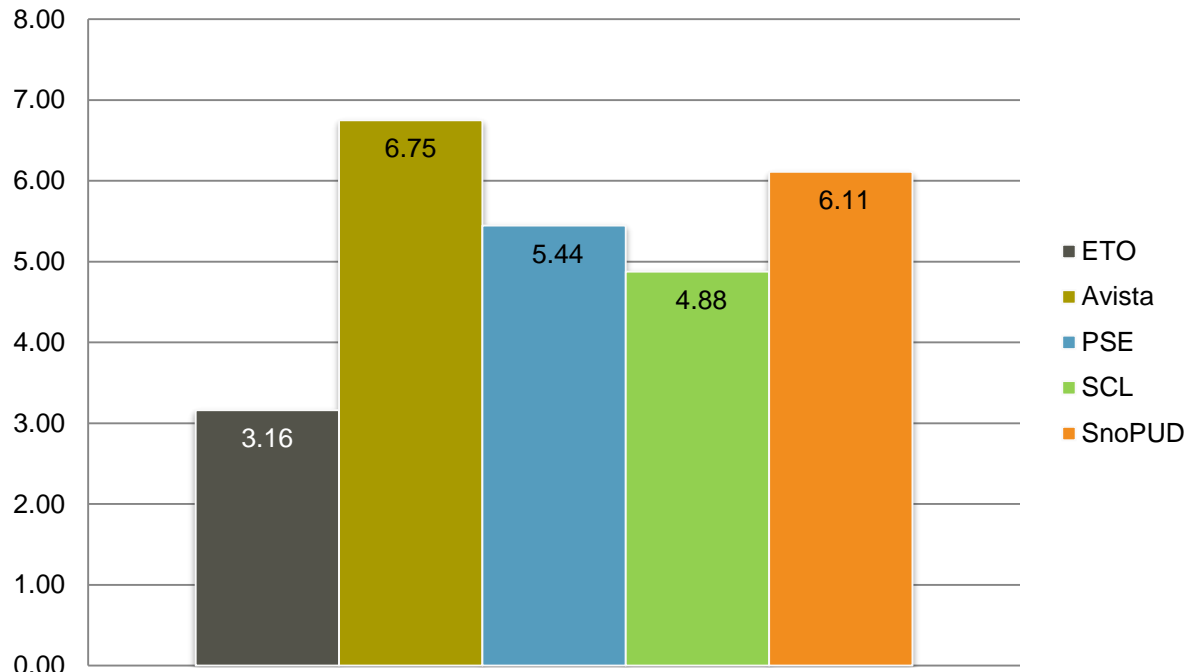
Focus #2: Span of Control

External Benchmarks—Research

Best practices indicate that span of control will vary according to the nature of your business, your business' goals, and the abilities of the people within the organization. Studies have shown that span of control should range between 5-20, depending on the above mentioned factors.

For the benchmark utilities, average span of control of the energy efficiency groups ranged from 4.88 to 6.75, while Energy Trust is at 3.16. In addition, Energy Trust had the deepest number of levels in the organizational hierarchy, with 4 levels to Executive Director vs. 2-3 levels in the other organizations.

Average Span of Control



Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #2: Span of Control

Assessment

Based on the information we collected from the 4 benchmark energy efficiency organizations, Energy Trust had more layers of management than the benchmarked organizations, primarily in the program area.

Energy Trust has the lowest span of control of the organizations in the benchmark group. A low span of control can create layers within the organization that may inhibit collaboration and communication.

Recommendations

14. We recommend that Energy Trust **consider a pilot of expanding span of control in some program areas to test whether the current management structure is necessary and positively impacts program development and delivery.**

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #3: Salary Survey Process

Energy Trust Current State

Energy Trust conducts a salary survey every other year for all positions. In addition, a specific job survey is conducted if a position is new or has changed significantly.

The most current salary survey was conducted with PLS Consulting Inc. in August, 2013. The salary survey covers the following:

- Market Analysis of Salaries
- Recommendation of new Salary Pay Ranges
- Proposed new Salary Structure
- Benefits Comparison

As a result of the salary survey, Energy Trust ensures that staff salaries are within recommended position market ranges.

In addition, this salary survey analysis is taken into account during the annual performance review and/or merit increase process, which applies for all staff who have been at Energy Trust at least six months. At this time, and depending on performance, a position salary is generally increased by 0% to 5% annually based on performance. Approved increases generally go into effect February 1.

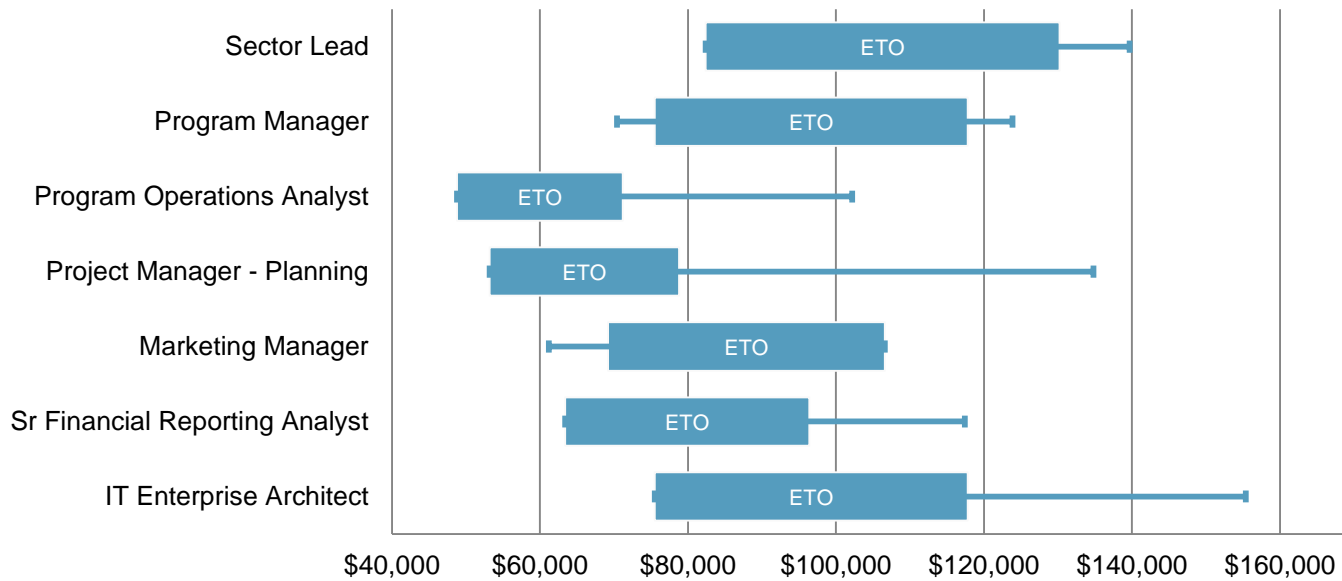
Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #3: Salary Survey Process

External Benchmarks—Research

- The benchmark utilities shared that there is no particular periodicity to salary surveys. They were unable to share an example of salary surveys with us. Salary surveys are conducted by their HR department, a corporate shared service.
- Benchmark utilities provided salary ranges for seven positions. These seven positions represent 28% of Energy Trust’s total FTE. The chart below superimposes utility peer group and Energy Trust salary ranges for certain comparable positions, shown in the chart below. Energy Trust’s salary ranges tend to be at the low end of the benchmark utilities, with the exception of the Marketing Manager.
- It is important to note that we did not conduct an exhaustive review of the benefit packages offered at the utilities, which may include stock options, collective bargaining agreements, sabbaticals, etc. Many of the benchmark utilities are public entities, hence subject to an automatic, annual step increase and cost of living adjustment. These are not a part of the Energy Trust compensation structure.

Salary Ranges by Position



Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #3: Salary Survey Process

Assessment

There does not appear to be a standard frequency to when salary surveys are conducted. Given that Energy Trust conducts salary surveys every other year, this may be too frequent to result in meaningful changes to salary information.

Energy Trust's annual salary ranges are generally on the low end of the range of the annual salary ranges of the benchmark utilities. This indicates that the salary ranges are not out of line for comparable positions in this industry.

Recommendations

Suggestions

- ❑ Energy Trust may consider reducing the frequency of its comprehensive salary surveys to every three years if the salary survey information is not changing materially.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #4: Staffing Levels

Energy Trust Current State

Staffing Levels

Energy Trust's staffing levels over its history have been influenced by a need to grow the organization in order to continue to deliver increasing levels of savings.

OPUC has indicated (in the 2014 budget comments) that total FTE should be critically evaluated each year. Further, the OPUC has communicated its concern with staffing levels at Energy Trust, and has requested that Energy Trust clearly document when position responsibilities are adjusted and/or work reassigned based on staffing and workload assessments.

Because of a lack of a formal staffing assessment or decision criteria, there is a perceived cap on staffing levels which makes future planning at Energy Trust unclear for those involved, either for those proposing or for those reviewing/approving.

Employment Department Audit

In 2011, the Employment Department of the State of Oregon conducted an audit of employment practices at Energy Trust. The audit resulted in several actions to address misclassified contractors, including:

- Misclassified contractors were hired as full time employees
- Misclassified contractors contracts were cancelled
- Misclassified contractors contracts were substantially revised or rebid

While the scope of this management review does not include a review of employment practices at Energy Trust, it does appear that improvements have been made to policies and procedures regarding Energy Trust contractors and all the items cited in the state audit have been resolved.

Administrative Staffing Assessment

In the 2010 Management Review, Recommendation #2 was that "Energy Trust, after its completed redesign is in place, should conduct an administrative support staffing level needs assessment." Energy Trust has not yet completed this administrative support staffing level needs assessment.

Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #4: Staffing Levels

External Benchmarks—Research

- Energy efficiency divisions of the benchmark utilities do not include shared services (e.g. IT, Human Resources, Legal, etc.) in their FTE count. In addition, they primarily utilize internal resources and staff for program delivery vs. outside contractors as is the case with Energy Trust's business model. As a result, we were not able to obtain a useful comparison of support and administrative FTE.
- There is not an implied or perceived cap on hiring at the benchmarked utilities, other than overall corporate mandates regarding hiring across the enterprise.
- None of benchmark utilities utilize resource planning tools within the program management or operations of the energy efficiency division. Resource planning tools are commonly used to increase efficiency by planning, organizing, and managing resources (e.g. employees, materials, contractors, etc.) and developing resource requirement forecasts in organizations where project management is a core process. Examples of these tools include Microsoft Project and several online tools (BaseCamp, Zoho, etc.).

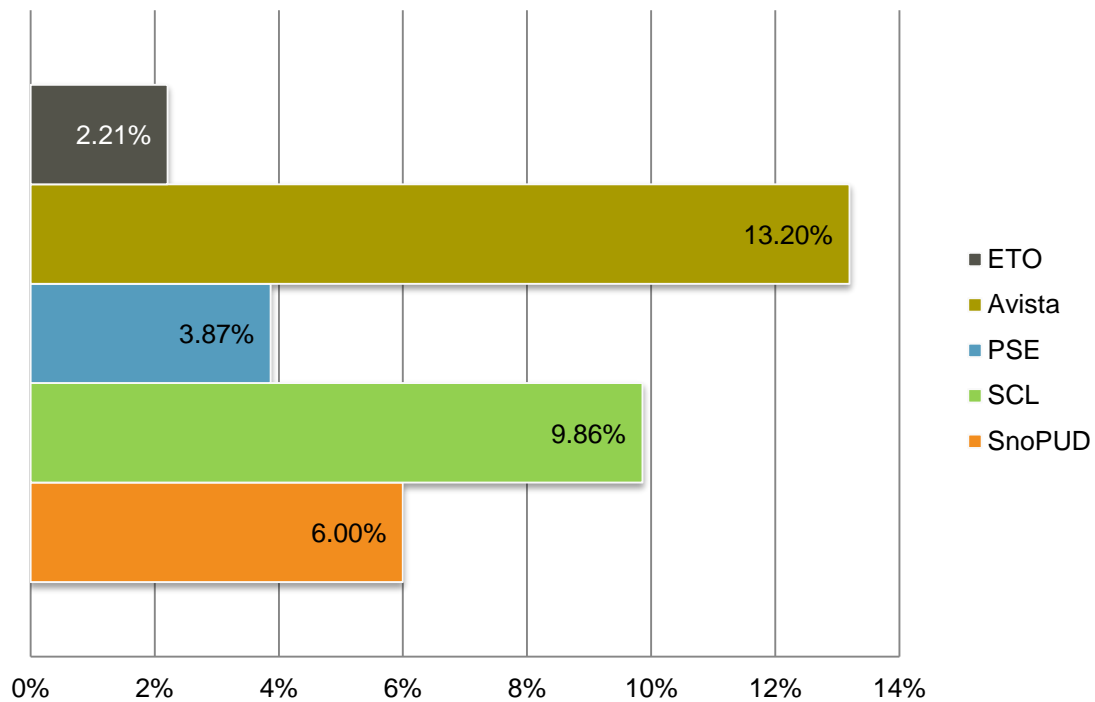
Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #4: Staffing Levels

External Benchmarks—Research, continued

- We explored the level of clerical/support staff within each of the energy efficiency groups of the benchmark utilities. In comparing clerical staff levels, we found that benchmarks for clerical staff as a % of total FTE ranged from 3.87% to 13.20%, whereas Energy Trust is currently operating at 2.2%.

Clerical Staff FTE as % of Total FTE



Area #4: Staffing: Resource Planning, Staffing Planning and Staffing Levels

Focus #4: Staffing Levels

Assessment

Energy Trust's level of clerical support is lower than that of the benchmark energy efficiency groups. The low level of administrative/ clerical support may be having an impact on Energy Trust's productivity. Given the growth of the organization and the increasingly complex work of coordinating and collaborating across multiple functions, clerical support may be too light. This observation was also made in the 2010 Management Review.

In addition, it does not appear that there is a formal staffing assessment or decision criteria. Because of a lack of a formal staffing assessment or decision criteria, there is a perceived cap on staffing levels which makes future planning at Energy Trust unclear for those involved, either for those proposing or for those reviewing/approving.

Recommendations

15. We recommend that Energy Trust **conduct the administrative support staffing level needs assessment that was recommended in the 2010 Management Review.**
16. Energy Trust should **establish clear staffing justification criteria to give guidance to the organization when proposing or considering staffing additions or reductions and to ensure a more transparent process for staff budgeting.**

APPENDIX

Appendix Items

- 1 | Interviewees
- 2 | Key Questions by Area and Focus
- 3 | Audit Committee Members
- 4 | Glossary of Terms
- 5 | Data Sources/Citations
- 6 | Benchmark Utility Administrative Costs and Definitions
- 7 | Outsourcing

Appendix 1 – Interviewees

Energy Trust Staff

- Margie Harris
- Amber Cole
- Courtney Wilton
- Debbie Menashe
- Fred Gordon
- Greg Stokes
- Pati Presnail
- Peter West
- Scott Clark
- Steve Lacey
- Oliver Kesting
- Kim Crossman
- Diane Ferington
- Thad Roth

Funding Utilities

- Scott Bolton, Pacific Corp.
- Carol Dillin, PGE
- Bill Edmonds, Northwest Natural
- Mike Parvinen, Cascade Natural Gas

Energy Trust Board

- Debbie Kitchin
- Ken Canon

Benchmark Utilities

- Jon Powell, Avista
- Dan Anderson, Puget Sound Energy
- Andrew Hemstreet, Puget Sound Energy
- Michael Little, Seattle City & Light
- Craig Smith, Seattle City & Light
- Nicole Moreland, Snohomish County Public Utility District

Others

- John Savage, Oregon Public Utility Commission
- Jason Eidorfer, Oregon Public Utility Commission
- Juliet Johnson, Oregon Public Utility Commission
- Linda Dethman, CADMUS
- Steve Kokes, Coates Kokes
- Jane Peters, Research into Action
- Tracy Scott, Lockheed Martin
- Bob Stoll, PECl
- Ben Waldron, Pollinate

Appendix 2 – Key Questions by Area and Focus

This is an easy reference that takes the Key Questions that the Audit Committee and Energy Trust Management Team developed for the 2014 Management Review and associates those questions with the Area numbers and Focus numbers in this Current State Report.

Question	Area	Focus
How do Energy Trust's administrative costs compare to other relevant organizations, including those benchmarked?	#1	Summary
Are there areas that Energy Trust could improve its efficiency in the use of administrative expenses?	#1	#1 - 4
Are there areas that Energy Trust could improve its effectiveness in the outcome of administrative expenditures?	#1	#1 - 4
Based upon a review of the allocation of costs amongst administration, management and programs, are there suggested changes?	#2	#1
How does Energy Trust's administrative cost allocation methodology compare to other relevant organizations, including those benchmarked, and best practice?	#2	#1
What are areas where Energy Trust could streamline workflow to improve the efficiency of administrative expenses? Where possible, identify those opportunities in the greatest detail possible given the data that is available.	#1	#2
How can Energy Trust enhance current processes to provide additional value to the organization, specifically including reporting and forecasting of savings and expenditures?	#2	#2
How does Energy Trust's budgeting of savings and costs compare with other utilities or similar organizations in other industries?	#3	#1 - 2
How do you address multiple stakeholders and their perceived need for unique information (or information presented in unique formats)? For Energy Trust this includes reporting to the PUC, Funding Utilities and the general public (e.g., in its annual report)?	#2	#2
What metrics and benchmarks can be used on an ongoing basis to track efficiency gains over time?	#2	#3
How do Energy Trust's key programs compare with the benchmarked organizations on outcomes related to cost per aMW and them?	#3	#1

Appendix 2 – Key Questions

Question	Area	Focus
How do Energy Trust's key programs compare on other project performance metrics, e.g., on time and on budget?	#3	#2
Within program delivery where are there opportunities for Energy Trust to improve its practices and processes?	#3	#1
Energy Trust's results are skewed to fourth quarter. Is there a benefit to have level-loading of savings? If so, what could be changed? What do other EE/RE programs experience?	#3	#2
How efficiently and effectively does Energy Trust manage cross-functional processes? How does this compare to other utilities?	#3	#3
What are the trends in savings/generation and acquisition costs?	#3	#4
What can be learned about cost effective methods to increase hard-to-reach populations with energy efficiency opportunities?	#3	#5
How does Energy Trust's Resource Planning process and practices compare to other relevant organizations? Specifically how do these processes integrate into the budgeting process?	#4	#1
How does Energy Trust's span of control compare to other organizations benchmarked, and what are the rationales for the given structures?	#4	#2
How do Energy Trust and other organizations review and identify when current positions can be eliminated or reduced?	#4	#1
How does Energy Trust's position description and salary & benefits (where possible) survey processes compare to benchmarked organizations and best practice?	#4	#3
How do various influences impact Energy Trust's overall staffing levels:		
a. Structure, goals and accountability framework?	#4	#1 – 4
b. Compliance with OR Employment Department audit?	#4	#4
c. Administrative staff needs?	#4	#4

Appendix 3 – Audit Committee Members

Audit Committee Members

- Ken Canon, Chair
- Melissa Cribbins
- Mark Kendall
- Dave Slavensky
- Karen Ward (outside expert)
- Debbie Kitchin

Appendix 4 - Glossary of Terms

- aMW - Average Megawatt
- CCS - Energy Trust's Communication & Customer Service group
- CRM - Customer Relationship Management
- EE - Energy Efficiency
- FTE - Full Time Equivalent
- IT - Information Technology
- MWh - Megawatt Hours
- NEEA - Northwest Energy Efficiency Alliance
- OPUC - Oregon Public Utilities Commission
- P&E - Energy Trust's Planning and Evaluation group
- PDC - Program Delivery Contractor
- PMC - Program Management Contractor
- R-0, 1, etc. - Round 0, Round 1, Round 2, Round 3. These reference the various formal budget versions

Appendix 4 - Glossary of Terms (continued)

- TRC – Total Resource Cost Test. The TRC Test measures cost-effectiveness from the combined viewpoint of the utility system and program participants. In short, the TRC compares the value of avoided energy to the utility system and other quantifiable resources from all sources with the full cost of the efficiency measures. When considered at the program or portfolio level, all non-measure program costs are included as well.
- UCT – Utility Cost Test. Also known as the Program Administrator Cost Test, the UCT Test measures cost-effectiveness from a utility perspective. It compares the value of the utility's avoided costs with the cost to the utility of acquiring the efficiency. Thus, its primary differences from the TRC are that (1) it does not include any energy benefits for fuels the utility does not provide; (2) it does not include any other resource benefits such as water savings; and (3) it does not include any customer contributions to the cost of an efficiency investment. When analyzed at the measure level, only incentives costs are included as utility costs. When considered at the program or portfolio level, all non-incentive program costs are included as well.
- YTD- Year to Date

Appendix 5 – Data Sources/Citations

Avista

Note: Commercial/Industrial reported as “Nonresidential,” with estimates of 66.6% Commercial and 33.4% Industrial

- 2011 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2012)
- 2012-2013 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2014)
- 2011 Total Payroll (Energy Efficiency / Renewable Energy): 2011 DSM Business Plan, pg. 29
- 2012 Total Payroll (Energy Efficiency / Renewable Energy): 2012 DSM Business Plan, pg. 66
- 2013 Total Payroll (Energy Efficiency / Renewable Energy): 2013 DSM Business Plan, pg. 54. Reflects Washington only.
- 2011 Total Program Costs: 2011 DSM Annual Report, pg. 26-28. [Actual 2011 Expenditures – (Electric General Expenditures + Gas General Expenditures)]
- 2012 Total Program Costs: 2012 DSM Annual Report, pg. 28-30. [Actual 2012 Expenditures – (Electric General Expenditures + Gas General Expenditures)]
- 2013 Total Program Costs: 2013 DSM Annual Report, pg. 31-33. [Actual 2013 Expenditures – (Electric General Expenditures + Gas General Expenditures)]. Reflects Washington only.
- 2011 Total Non-Incentive Program Costs: 2011 DSM Annual Report, pg. 26-27. [Electric System Implementation + Electric System EM&V + Gas System Implementation + Gas System EM&V]
- 2012 Total Non-Incentive Program Costs: 2012 DSM Annual Report, pg. 30.
- 2013 Total Non-Incentive Program Costs: 2013 DSM Annual Report, pg. 33. [Electric Non-Incentive and Labor + Gas Non-Incentive and Labor]
- 2011-2013 Total Revenue (Company): 2013 Annual Report (10-K).
- 2011 Total Revenue (Energy Efficiency / Renewable Energy): I-937 (2012)
- 2012-2013 Total Revenue (Energy Efficiency / Renewable Energy): I-937 (2014)
- 2011 Electric Savings (Residential): 2011 DSM Annual Report, pg. 16.
- 2012 Electric Savings (Residential): 2012 DSM Annual Report, pg. 18.
- 2013 Electric Savings (Residential): 2013 DSM Annual Report, pg. 18.
- 2011 Gas Savings (Residential): 2011 DSM Annual Report, pg. 17.
- 2012 Gas Savings (Residential): 2012 DSM Annual Report, pg. 19.
- 2013 Gas Savings (Residential): 2013 DSM Annual Report, pg. 18.
- 2011 Electric Savings (Commercial/Industrial): 2011 DSM Annual Report, pg. 22.
- 2012 Electric Savings (Commercial/Industrial): 2012 DSM Annual Report, pg. 25.
- 2013 Electric Savings (Commercial/Industrial): 2013 DSM Annual Report, pg. 27.
- 2011 Gas Savings (Commercial/Industrial): 2011 DSM Annual Report, pg. 23.
- 2012 Gas Savings (Commercial/Industrial): 2012 DSM Annual Report, pg. 25.
- 2013 Gas Savings (Commercial/Industrial): 2013 DSM Annual Report, pg. 27.
- 2011 Electric and Gas Expenditures: 2011 DSM Annual Report, pg. 26-27.
- 2012 Electric and Gas Expenditures: 2012 DSM Annual Report, pg. 28.
- 2013 Electric and Gas Expenditures: 2013 DSM Annual Report, pg. 31.

Appendix 5 – Data Sources/Citations

Avista (cont.)

- 2011 NEEA Savings: 2011 DSM Annual Report, pg. 24.
- 2012 NEEA Savings: 2012-2013 NEEA (ID and WA) Savings Report
- 2013 NEEA Savings: 2013 DSM Annual Report, pg. 29.
- 2011 NEEA Expenditures: 2011 DSM Annual Report, pg. 26.
- 2012 NEEA Expenditures: 2012 DSM Annual Report, pg. 28.
- 2013 NEEA Expenditures: 2013 DSM Annual Report, pg. 31.
- 2011 Program Administrator Cost Ratios: 2011 DSM Annual Report, pg. 6-10.
- 2012 Program Administrator Cost Ratios: 2012 DSM Annual Report, pg. 7-11.
- 2013 Program Administrator Cost Ratios: 2013 DSM Annual Report, pg. 6-10.
- 2011-2013 FTE: Data Requests

Puget Sound Energy

Note: Commercial/Industrial reported as “Business,” with estimates of 90% Commercial and 10% Industrial

- 2011 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2012)
- 2012-2013 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2014)
- 2011 Total Payroll (Energy Efficiency / Renewable Energy): 2011 Budget vs. Actuals [Electric Labor + Electric Marketing Labor + Gas Labor + Gas Marketing Labor]
- 2012 Total Payroll (Energy Efficiency / Renewable Energy): 2012 Budget vs. Actuals [Electric Labor + Electric Marketing Labor + Gas Labor + Gas Marketing Labor]
- 2013 Total Payroll (Energy Efficiency / Renewable Energy): 2013 Budget vs. Actuals [Electric Labor + Electric Marketing Labor + Gas Labor + Gas Marketing Labor]
- 2011 Total Program Costs: 2011 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs]
- 2012 Total Program Costs: 2012 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs]
- 2013 Total Program Costs: 2013 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs]
- 2011 Total Non-Incentive Program Costs: 2011 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs – (Electric DBtC + Gas DBtC)]
- 2012 Total Non-Incentive Program Costs: 2012 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs – (Electric DBtC + Gas DBtC)]
- 2013 Total Non-Incentive Program Costs: 2013 Budget vs. Actuals [Grand Total Electric Programs + Grand Total Gas Programs – (Electric DBtC + Gas DBtC)]
- 2011-2013 Total Revenue (Company): 2013 Annual Report (10-K).

Appendix 5 – Data Sources/Citations

Puget Sound Energy (cont.)

- 2011 Total Revenue (Energy Efficiency / Renewable Energy): 2011 EE Savings & Expenditures [Subtotal Electrical Energy Efficiency, Electric + Gas]
- 2012 Total Revenue (Energy Efficiency / Renewable Energy): 2012 EE Savings & Expenditures [Subtotal Customer Solutions-Energy Efficiency, Electric + Gas]
- 2013 Total Revenue (Energy Efficiency / Renewable Energy): 2013 EE Savings & Expenditures [Subtotal Customer Solutions-Energy Efficiency, Electric + Gas]
- 2011-2013 Electric Savings and Expenses (Residential): 2013 Energy Conservation Accomplishments Report, pg. 23.
- 2011-2013 Gas Savings and Expenses (Residential): 2013 Energy Conservation Accomplishments Report, pg. 23.
- 2011-2013 Electric Savings and Expenses (Commercial/Industrial): 2013 Energy Conservation Accomplishments Report, pg. 62.
- 2011-2013 Gas Savings and Expenses (Commercial/Industrial): 2013 Energy Conservation Accomplishments Report, pg. 63.
- 2011 NEEA Savings and Expenses: I-937 (2012)
- 2012 NEEA Savings and Expenses: I-937 (2014)
- 2013 NEEA Savings and Expenses: I-937 (2014)
- 2011 Utility Costs: 2011 Annual Report, pg. 23.
- 2012 Utility Costs: 2012 Annual Report, pg. 28.
- 2013 Utility Costs: 2013 Annual Report, Exhibit 2.
- 2011-2013 FTE: Data Requests

Seattle City Light

- 2011-2013 Total Admin Costs (Energy Efficiency / Renewable Energy): Data Request
- 2011-2013 Total Admin Payroll (Energy Efficiency / Renewable Energy): Data Request
- 2011-2013 Total Payroll (Energy Efficiency / Renewable Energy): Data Request
- 2011-2013 Total Program Costs: Data Request
- 2011-2013 Total Non-Incentive Program Costs: Data Request
- 2011-2012 Total Revenue (Company): Seattle City Light 2013 Annual Report, pg. 44.
- 2013 Total Revenue (Company): City of Seattle – 2014 Adopted Budget, pg. 365.
- 2011 Total Revenue (Energy Efficiency / Renewable Energy): 2011 Annual Report, pg. 91.
- 2012 Total Revenue (Energy Efficiency / Renewable Energy): 2012 Annual Report, pg. 110.
- 2013 Total Revenue (Energy Efficiency / Renewable Energy): 2013 Annual Report, pg. 96.
- 2011-2013 Electric Savings and Expenses (Residential): Data Request
- 2011-2013 Gas Savings and Expenses (Residential): Data Request
- 2011-2013 Electric Savings and Expenses (Commercial/Industrial): Data Request

Appendix 5 – Data Sources/Citations

Seattle City Light (cont.)

- 2011-2013 Gas Savings and Expenses (Commercial/Industrial): Data Request
- 2011 NEEA Savings and Expenses: I-937 (2012)
- 2012-2013 NEEA Savings and Expenses: I-937 (2014)
- 2011-2013 FTE: Data Requests

Snohomish County Public Utility District

- 2011 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2012) [Overhead + Labor]
- 2012-2013 Total Admin Costs (Energy Efficiency / Renewable Energy): I-937 (2014) [Overhead + Labor]
- 2011 Total Admin Payroll (Energy Efficiency / Renewable Energy): I-937 (2012)
- 2012-2013 Total Admin Payroll (Energy Efficiency / Renewable Energy): I-937 (2014)
- 2011 Total Program Costs: I-937 (2012)
- 2012-2013 Total Program Costs: I-937 (2014)
- 2012-2013 Total Revenue (Company): 2013 Annual Report, pg. 30.
- 2011 Total Revenue (Energy Efficiency / Renewable Energy): I-937 (2012)
- 2012-2013 Total Revenue (Energy Efficiency / Renewable Energy): I-937 (2014)
- 2011 Savings and Expenditures: I-937 (2012)
- 2012-2013 Savings and Expenditures: I-937 (2014)
- 2011 NEEA Savings and Expenditures: I-937 (2012)
- 2012-2013 NEEA Savings and Expenditures: I-937 (2014)
- 2011-2013 FTE: Data Requests

Appendix 6 – Benchmark Utility Administrative Costs and Definitions

Administrative Costs as a Percent of Energy Efficiency Revenues

	2011	2012	2013	Percentage Change
Energy Trust				
<i>Administrative Costs</i>	\$6,150,853	\$7,848,009	\$6,547,221	6.44%
<i>Revenue</i>	\$133,084,407	\$146,207,992	\$162,465,016	22.08%
Percent of Revenue	4.62%	5.37%	4.03%	-15.63%
Avista				
<i>Administrative Costs</i>	\$2,698,600	\$2,239,638	\$2,726,180	1.02%
<i>Revenue</i>	\$31,180,628	\$20,672,406	\$14,904,434	-52.20%
Percent of Revenue	8.65%	10.83%	18.29%	53.22%
PSE				
<i>Administrative Costs</i>	\$4,267,375	\$3,082,617	\$3,012,294	-29.41%
<i>Revenue</i>	\$91,937,272	\$104,775,081	\$110,070,547	19.72%
Percent of Revenue	4.64%	2.94%	2.74%	-49.13%
SCL				
<i>Administrative Costs</i>	\$5,042,959	\$7,377,512	\$8,269,764	63.99%
<i>Revenue</i>	\$32,672,298	\$29,818,310	\$39,100,000	19.67%
Percent of Revenue	15.43%	24.74%	21.15%	44.31%
SnoPUD				
<i>Administrative Costs</i>	\$3,981,850	\$5,687,199	\$5,841,544	46.70%
<i>Revenue</i>	\$20,413,712	\$18,704,235	\$21,311,018	4.40%
Percent of Revenue	19.51%	30.41%	27.41%	42.31%

Notes

- For Avista and PSE, administrative cost data only represents the electrical energy efficiency portion of their energy efficiency program costs that are found on the I-937. This data does not include “shared services” types of expenses as is included in Energy Trust’s administrative costs, e.g., Human Resources, Legal, IT, some Accounting and Executive Management.
- Because the 2013 data for Avista’s Idaho energy efficiency programs are not yet available, Avista’s figures reflect Washington only for revenue.
- SCL 2013 Revenue is total program cost.
- PSE Revenues are equal to Total Expenditures

Appendix 6 – Benchmark Utility Administrative Costs and Definitions

<p>Avista Corporation</p>	<p>Labor: The fully loaded labor of all individuals charging to the Demand Side Management (DSM) task.</p> <p>Non-incentive/Non-labor (NI/NL): All utility expenditures not otherwise captured above to include the non-labor cost of EM&V, program outreach expenses, memberships, etc. This only applies to the NI/NL costs captured for energy efficiency reporting purposes. As a utility that provides more than energy efficiency programs, Avista is structured with corporate services that are shared by its business units (e.g., Human Resources, Legal, transactional Accounting including A/P). These shared services costs are not allocated to the business units, and therefore, they are not reflected in any of the costs provided in this report.</p>
<p>Puget Sound Energy</p>	<p>Labor: Energy Efficiency program staff labor. Average FTE cost including management assessments/allocations. This Budget Category group includes assessments from Major Accounts management, Resource Planning, Corporate Communications management, IT specialists and some building maintenance allocations.</p> <p>Marketing Labor: Also Energy Efficiency staff labor, associated specifically with Marketing functions. Marketing allocates staffing according to program needs.</p> <p>Overhead: Costs primarily associated with employee labor, e.g., benefits.</p> <p>Marketing: Service and materials associated with the cost of printing program brochures, marketing pieces, advertising, banners, etc. Also includes marketing conducted by vendors and contractors.</p> <p>Employee/Office Expense: Costs associated with energy efficiency (EE) staff attending events, employee training, conferences, business meals, business parking, ferry & bridge tolls, mileage incurred on employee automobiles, office supplies, phones, subscriptions, software/hardware, etc.</p>
<p>Seattle City Light</p>	<p>Program expenditures are related to the Division's Programmatic cost element; this is debt-financed activity that delivers energy savings for the utility. Labor, labor overheads, administrative and incentive costs are included within the Program category.</p> <p>Management/General Administration are related to the Division's Non-Programmatic cost element; these are expenditures funded out of current revenues and are not directly attributable to energy savings. This includes all the labor, labor overheads and administrative costs associated with the Division, but excludes the Marketing/Renewable related expenditures from Org Unit 487, which fall under the Communications/Outreach category.</p> <p>Communication/Outreach is Org Unit 487's Non-Programmatic activities including the marketing, outreach and renewable efforts.</p> <p>Additionally, SCL is a division of the City of Seattle and many of their general management and support services are provided from the City's larger organization. These costs, e.g., Human Resources, Legal, IT support are not allocated to SCL, and therefore, are not included in the administrative cost figures that SCL reports.</p>
<p>Snohomish PUD</p>	<p>SnoPUD's Definition of "Overhead" includes but is not limited to: Costs incurred by the Energy Services Department not directly associated to actual incentives or rebates for conservation acquisition, Employee benefits & Program evaluation</p>

Appendix 7 – Outsourcing

Outsourced Costs as Percent of Total Costs, excluding Incentive Payments	
	Outsourced (PMC-type) costs as Percent of Total Costs
ETO	88%
Avista	4%
PSE	10% (electric) / 14% (gas)
SCL	7%
SnoPUD	See notes below

PSE: Includes evaluations and 3rd party administrators who help run the programs—not contractors who participate in programs. Based on 2013 expenditures outlined in the 2013 Annual Report’s Exhibit 1, Supplemental 1.

SnoPUD: No estimate available. SnoPUD shared that they primarily utilize internal program managers, except for Master Retail where a PMC is contracted. Also, in other programs lower-level program implementation is outsourced. Programs include:

- Simple Steps (EEI funded by BPA)
- Refrigerator recycling
- Small business direct install
- Matchmaker
- Data centers
- Energy smart grocer
- Lighting to Go (distributors offer rebates)

Additionally, CPA’s and market evaluations are outsourced.

Preliminary Responses to Coraggio Group Management Review and Evaluation Report—DRAFT

November 5, 2014

Coraggio Group completed an independent Management Review and Evaluation Report for Energy Trust of Oregon in which a number of recommendations were made. Energy Trust appreciates and values the recommendations and below has prepared preliminary management responses. These draft responses will be shared with our Board of Directors, the OPUC and other stakeholders during the draft 2015 annual budget and 2015-2016 draft action plan outreach period. Feedback received will be considered in the development of final responses and corresponding actions to address the management review recommendations.

1. Continue current investments in IT systems improvements, in particular business intelligence capabilities, and ensure that potential reduction/elimination of workload and/or additional capacity created as a result of investments is documented.

Response: We agree with the recommendation and have planned and budgeted to continue to invest in ongoing IT improvements. This includes both Business Intelligence systems and core tracking systems using the Agile development process. Energy Trust systems improvements are driven by business value with authorization made through the staff's Information Technology Steering Committee. The committee updated the authorization process in September 2014 to require documentation of potential business value of the proposed systems and process improvements. Method for measuring and documenting actual value is to be included in the project charter for each project. Valuation of the projects is used as one of the criteria to prioritize enhancement work to best serve the organization.

2. Working with the OPUC and its funding utilities, consider moving to a two-year budget cycle.

Response: While it is true Energy Trust spends considerable time developing its budget and action plans, we continue to derive value by engaging with utilities, advisory council members, the OPUC, board members and other stakeholders on an annual basis. The opportunity for others to know and help shape our direction and the transparency associated with the process itself continues to benefit the organization. We do question the advantages of shifting to a two-year budget cycle. Our reluctance is because:

- a. *We operate in a highly dynamic market characterized by frequent changes. Because we currently experience challenges in our ability to accurately forecast expenditures within a single year, we believe it would be even more difficult to predict and address changes over a two year period.*
- b. *We engage in an effective and productive annual planning process with our utility partners. The approach accounts for completed and pending projects and corresponding savings/generation estimates, determines program reserve requirements, estimates revenue requirements and results in savings targets and generation goals. Program concepts are developed every year and shared early with utilities and advisory councils. This pattern and frequency has been refined over time and enables us to be flexible, address changing markets, incorporate trends, technologies and products, and account for economic, regulatory and other differences impacting our assumptions and plans.*

- c. *Our grant agreement with the OPUC requires that an annual calendar year budget be prepared. A public hearing of this budget is also scheduled annually and is accompanied by a staff report and recommendations.*
 - d. *We continue to derive significant benefit from the outreach and feedback received each year.*
3. Conduct process improvement on forecasting and budgeting process to reduce non-value added steps.

Response: We agree with this recommendation and have made a number of significant changes to the budget process this year. They are as follows:

- a. *Managers were provided with three years of actual cost data for comparison purposes and given a budget target based on past spending.*
- b. *A coordinating meeting was scheduled at the front end of the preparation cycle during which program and support staff convened to discuss and compare plans, identified areas for clarification and follow-up, and ensured alignment and coordination of plans and resources for budging purposes.*
- c. *Managers were asked to budget and forecast as accurately and “tightly” as possible with the understanding that new program reserves would be available as needed to acquire all cost effective savings and meet goals.*
- d. *The timing of coordination with utilities regarding rate requirements was shifted from July to October, thereby allowing staff to eliminate a redundant forecasting step and improving the accuracy of information provided to staff and utilities resulting from gaining two additional months of actual cost data helpful to funding negotiations and budgeting.*

We believe these changes will result in a more accurate and efficient budget. We will continue to look for other efficiencies to save time and better predict revenues and expenditures.

4. Identify opportunities for streamlining all of Energy Trust's marketing expenditures, especially in the Sectors.

Background: Energy Trust implements marketing activities largely through Program Management Contractors (PMCs) in especially high volume commercial and residential programs, and by in-house staff for industrial and renewable energy programs. PMCs and program-based marketing managers produce program marketing collateral and content utilizing brand guidelines and, for in-house programs, shared marketing and production services provided by Energy Trust's Communications & Customer Service (CCS) Group. Energy Trust staff work to ensure all marketing activities are coordinated and align with Energy Trust's overall purpose and marketing objectives. This decentralized structure for marketing management and implementation has enabled programs to be flexible and nimble in their design and promotion of customer-focused services and incentives.

Response: Energy Trust agrees with the recommendation and believes opportunities exist to streamline marketing efforts and expenditures while maintaining program flexibility to market services and incentives. In response to this recommendation, the 2015 draft budget includes an initial opportunity to realize cost savings by centralizing media advertising

procurement for business programs in CCS. This will be implemented on a trial basis in 2015 and may be extended to residential programs in the future. In addition, Energy Trust marketing managers will undertake a project next year to assess marketing activities and expenditures implemented by PMCs, program-based marketing staff, and CCS Group staff and contractors to identify the best approach for future delivery of marketing activities and associated expenditures. We believe these two efforts will help streamline our marketing approach.

5. Pursue discussion with funding utilities to further leverage their marketing efforts for broader outreach and reduced cost.

Background: Energy Trust currently collaborates with each utility throughout the year to identify ways to leverage utility customer channels and communications to market Energy Trust programs, and to pursue joint marketing opportunities. As part of the budget and action planning process, Energy Trust shares early program concepts with each utility and solicits utility comments on proposed activities of particular interest. These early concepts are refined into program action plans using utility input. Eventually the approaches are incorporated into annual marketing plans and schedules, reflecting communications planned for utility marketing channels, customer outreach activities, and other joint efforts. Energy Trust marketing managers organize quarterly marketing coordination meetings with each utility, and interim meetings as needed, to update plans and identify new opportunities as program needs change.

Response: Energy Trust will continue this general approach, which has been developed and refined in consultation with utilities. In addition, in the first quarter of 2015, Energy Trust will convene meetings with each utility to review the annual marketing plan and determine what additional opportunities may exist for Energy Trust to further leverage utility marketing efforts for broader outreach and reduced cost. Energy Trust will prioritize collaborative utility marketing opportunities that align with our strategic plan strategy to broaden and expand participation, program savings targets and available resources for implementation. Special attention will be paid to utility insights, data, knowledge and experiences reaching and serving diverse customers throughout their service territories.

6. Regarding the cost allocation methodology, we do not recommend incurring additional time to further evaluate or distribute costs based on slight shifts in the cost drivers.

Response: The current system of allocating costs between administration, management and programs is relatively easy to administer and stable. The consistency of the methodology also allows for accurate multi-year comparisons of key data points. We therefore support the consultant's recommendation that the current approach be retained.

7. Consider whether to allocate these more general/shared services type costs at the portfolio versus program level when reporting cost effectiveness test results, using either TRC or UCT.

Response: We are aware that utilities operating similar programs to Energy Trust do utilize different methodologies for determining and reporting cost effectiveness, including a portfolio view. Currently Energy Trust reports cost-effectiveness to the OPUC only for major programs. The recommendation would require a new added level of analysis to report an overall benefit/cost ratio. We currently have no indication from the OPUC that providing benefit/cost ratio information at the portfolio level is preferred or would warrant additional work. By contrast, the OPUC remains very interested in program-specific performance. Given that administrative costs are typically consistent at ~5-6% of total

revenue, we do not anticipate a significant change in benefit/cost ratios. For these reasons we propose not to pursue this recommendation.

8. Request the OPUC to work with Energy Trust to reduce reporting content for the first quarter and fourth quarter reports.

Response: We very much agree with this recommendation. Energy Trust adopted a formal continuous improvement approach to OPUC reporting in 2013 and welcomes the opportunity to further streamline report content to meet OPUC needs, maintain public accountability and transparency, and reduce staff time associated with report content and preparation. Energy Trust is currently developing a proposal to the OPUC outlining different content for the Q4 and Q1 reports and identifying sections that could be eliminated. We expect to reach agreement with the OPUC on an implementation plan by the end of this calendar year and to submit new streamlined reports for the fourth quarter of 2014 in February and for the first quarter of 2015 in May.

9. Review reporting elements with the funding utilities with a goal of improving efficiency without a loss to sharing valuable information.

Response: We support this recommendation. Energy Trust developed quarterly utility activity summaries in early 2011 in response to specific, repeated utility requests for quarterly data on program activities, incentives, expenditures, savings and generation. With the establishment of a data sharing agreement in 2013, and the subsequent monthly transfer of Energy Trust program data to utilities, we believe the need for utility-specific quarterly activity summaries is greatly reduced. After data sharing was established, Energy Trust notified its utility liaisons that we would allow some time for utilities to become accustomed to Energy Trust data, and then we would consider reductions in utility reporting content. Energy Trust is developing a proposal that it will share with each utility early in 2015, identifying aggregate data we can easily extract from reporting systems by utility. We plan to implement streamlined utility activity summaries in Q1 2015.

10. Identify, set goals, and track progress on 3-4 administrative-focused productivity metrics in the context of a continuous improvement process.

Response: In 2015, Energy Trust staff will identify specific areas where productivity improvements are needed and where metrics can be established to measure continuous improvements. We plan to engage with a consultant whose expertise in this area can assist us with quantifying results. We anticipate having an approach in place by mid-2015 and will share progress with staff, the board and OPUC.

11. Adopt a strategic initiative to pursue continuous improvement in all core processes of the organization—both program and administrative-related.

Response: We support this recommendation and view it as consistent with strategies approved in Energy Trust's 2015-2019 Strategic Plan. The Strategic Plan references and requires continuous improvement activities in each goal area: Energy Efficiency, Renewable Energy, and Operations. The 2015 proposed budget supports initial continuous improvement efforts in specific areas like program design, LEAN process improvement, improved electronic forms and procurement automation and benchmarking.

12. Pilot various changes to the management of programs relative to savings goal timing.

Response: Energy Trust agrees there are opportunities to explore improvements related to this recommendation. Hot and cold weather, the push to complete projects within the construction season, certain tax benefits associated with year-end project completions and corresponding budgets result in a majority of activity being completed at the end of the calendar year. This pattern is well established, results in significant uncertainties and makes program management challenging.

We propose several steps to begin to explore the issue in 2015:

- a. Learn more about how other program administrators and utilities manage projects and distribute activity more throughout the year.*
- b. Extend the use of contract incentives and requirements for program management and program deliver contractors to place greater emphasis on completing projects earlier in the year.*
- c. Consider re-arranging bonuses to more often reward early action.*
- d. Survey market participants on what factors may motivate them to act sooner.*

13. Explore whether the use of an internal verification team is more cost effective than using outside firms.

Response: We appreciate this suggestion based on procedures employed at Puget Sound Energy and agree to explore it further. To assess this recommendation, we first needed to better understand the meaning of the term “verification” within Energy Trust’s quality management system. Energy Trust employs quality control, quality assurance, and evaluation as the major complimentary steps for quality management. After some examination and reflection, we have concluded that the services employed at Puget Sound Energy were most analogous to our “Quality Assurance” process. This is where spot-checking records and sometimes installations occur to ensure both data and program quality control processes are effectively applied. At Energy Trust, this work is performed through a combination of financial staff and program contractors, with the data issues handled primarily by program staff.

Our staff quality assurance lead does, in fact, provide suggestions for program streamlining as part of her work as does the team at Puget. During the first half of 2015 we will review the roles of staff and contractors in quality assurance at Energy Trust to see if they are effective at minimizing costs and providing the most constructive advice for improving program effectiveness.

14. Consider a pilot of expanding span of control in some program areas to test whether the layers of management are necessary and are positively impacting the development and management of programs.

Response: Energy Trust will follow up on parts of this recommendation. As noted by Coraggio, Energy Trust has the lowest span of control among the five benchmarked organizations measured. What was also noted is that unlike the other benchmark organizations, Energy Trust outsources the vast majority of its operating expenses, such that most internal managers supervise both staff and contractors. We understand each entity functions somewhat differently, which hinders a true “apples to apples” comparison.

Changing management structures, especially on a temporary or pilot basis, can be disruptive to operations. Further, there are benefits to a lower span of control in the form of accelerated employee development and adequate supervision of staff and contractors. However, we do agree with the recommendation that there may be advantages to increasing this span in certain organizational areas. Energy Trust appreciates the benchmark data and analysis provided by Corragio, and will remain cognizant of span of control considerations in the normal course of making staffing decisions. Span of control will be added as a factor to evaluate when making staffing decisions (see recommendation #16).

15. Conduct the administrative support staffing level needs assessment that was recommended in the 2010 Management Review.

Response: Energy Trust agrees that an assessment of staffing should be conducted and has budgeted for this to occur in 2015. Staff will continue to manage administrative needs in other ways until the assessment helps inform organization administrative needs and options. Consideration of any administrative staffing changes derived from the assessment will be made during the 2016 budget process.

16. Establish clear staffing justification criteria to give guidance to the organization when considering staffing additions or reductions and to ensure a transparent process for staff budgeting.

Response: We agree with the recommendation to develop additional criteria to prioritize and make staffing decisions. Such guidelines will be prepared and communicated with internal staff and external stakeholders. Staffing criteria should guide and inform decision-making, be in the best interests of ratepayers, and retain flexibility for managers to make informed business decisions based on each unique situation.

Energy Trust recommends establishing multiple “factors” to evaluate any proposed additions, changes, or reductions to staffing levels including:

- *Ability to achieve strategic plan goals*
- *Ability to achieve energy savings and renewable energy generation targets in a cost effective manner*
- *Performance improvements using automation, outsourcing, restructuring or other means*
- *Opportunities to reduce operating costs or gain administrative efficiencies*
- *Positive/negative consequences to business operations and delivery of services to customers*
- *Workload and staff retention*
- *Span of control*

Once established, we will update current staffing justification forms to reflect new decision-making criteria and promote their use through staff training.