

Memo

To: Tracy Babbidge, Chief, Bureau of Energy and Technology Policy

From: Diane Duva, Director, Office of Energy Demand
Walter McCree, Research Analyst CCT, Office of Energy Demand

Date: February 6, 2015

Subject: Rationale Memo Supporting the Department's Approval with Conditions of the 2015 Annual Update of the 2013-2015 Conservation and Load Management Plan

OVERVIEW

The Demand Team has completed its review of the 2015 Annual Update of the 2013-2015 Electric and Natural Gas Conservation and Load Management Plan (*2015 Annual Update*). The *2015 Annual Update* is consistent with Connecticut General Statutes section 16-245m, Connecticut's Comprehensive Energy Strategy, and conditions of approval outlined in DEEP's October 31, 2013 Decision approving the 2013-2015 Electric and Natural Gas Conservation and Load Management Plan (2013-2015 Plan). We recommend approval of the 2015 Update, including the 2015 Statewide Marketing Plan and the Connecticut Program Savings Document—10th Edition for 2015 Program Year, with conditions as recommended below. Prior to the approval of the 2013-2015 Plan, the Department reviewed and concluded that the 2013-2015 budgets represented an equitable distribution of Connecticut Energy Efficiency Funds.

As part of our approval of the 2014 Annual Update, the Department did not approve the 2015 budgets for the Evaluation Plan or the Evaluation Administrator, nor the budget for the Connecticut Energy Efficiency Board (EEB) Technical Consultants. Instead, the Department noted that the Companies and the EEB should consider what revisions are warranted for 2015 for the Evaluation Plan, the Evaluation Consultant budget, and the EEB Technical Consultants' budgets. This was in light of recent changes, including deferral of evaluation studies to 2015 and beyond, and the role of the Executive Secretary in relieving administrative tasks from technical consultants. While initial efforts were made, we have found that further revisions are warranted. We have reflected this in the conditions of approval.

CONDITIONS OF APPROVAL

1. Evaluation Plan should be revised to reflect the recommendations in this memo.
2. Evaluation Administrator Budget should be revised to reflect the recommendations in this memo.
3. EEB Technical Consultant Budget should be revised to reflect the recommendations in this memo.
4. Process for Procuring EEB Consulting Services should be updated and procurement should be initiated regularly.
5. Budget Tables for 2015 should be revised to reflect the recommendations in this memo.

CONSISTENCY WITH 2013-2015 PLAN

The *2015 Annual Update* continues the 2013-2015 Plan's increased investments in energy efficiency as well as includes some important refinements and updates. These refinements and updates reflect expectations that Connecticut will continue to experience increasing demand for energy efficiency programs. This demand is in part a reaction to increasing price pressures on electricity, driven significantly by the recent increase in gas-fired electrical generation in the New England region and constraints on natural gas transmission infrastructure during winter months. The *2015 Annual Update* therefore reflects the Approval with Conditions of C&LM Plan

2014 Update to meet expectations in programs experiencing unprecedented demand and the need to focus on winter peak savings measures.

As noted in the Connecticut Energy Efficiency Board's (EEB's) February 8, 2015 letter of support for the *2015 Annual Update*, the *2015 Annual Update* emphasizes action in three critical areas including:

- a commitment to high-quality program performance to achieve savings and benefits for customers;
- comprehensive customer energy solutions and whole building approaches focused on meeting customer needs; and
- marketing/outreach and web-based customer engagement through Energize Connecticut to reach customers with tailored information and services, and targeted program offerings to help mitigate the effects of high winter energy prices on customers.

We concur with these areas of focus and EEB's recommendation noted in their letter that adequate utility company "funding and personnel be focused on supporting and accelerating the development and adoption of the 2015 program enhancements."

We recommend approval with the following conditions:

1. Evaluation Plan

- a. **By no later than May 1, 2015**, the Companies and the EEB should revise the 2015 portion of the *2014-2016 EEB Program Evaluation Plan: 2015 Update*. Evaluations are important to ensure program cost-effectiveness. It is equally important that the timing of the evaluations be synchronized to allow for incorporation of program design recommendations into the program planning process. Additionally, the number and scheduling of the evaluations should be monitored to ensure that sufficient capacity exists on the part of the EEB members, EEB Committees, the Companies, the technical consultants, and the Evaluation Administrator to adequately review the results and respond timely to recommendations. DEEP commends the Companies and the EEB for the inclusion in Chapter Seven of the *2015 Annual Update* of a summary of the outcomes, recommendations, and responses of the evaluation reports. This is an important tool for ensuring that the evaluation process effectively influences program planning and design.
- b. The update should focus on process and impact evaluations as required by Connecticut General Statutes section 16-245m, while transferring market assessment and other sector-based research studies to sector-based budgets. Moving the expense of conducting such studies to the sector-based [Residential, Commercial and Industrial] budgets will provide for the benefits of each such study to be directly compared against the benefits of other energy savings investments. The goal is to hold the evaluation plan budget for 2015 to an amount no higher than \$3,500,000.
- c. **By no later than May 1, 2015**, the Connecticut Energy Efficiency Board Evaluation Committee should revise the *2014-2016 EEB Program Evaluation Plan: 2015 Update* to incorporate the addition of a statutorily required report. Specifically, Connecticut General Statutes Section 16-243v(k)(6) specifies that by January 1, 2016, DEEP and the Energy Efficiency Board should engage an independent third party to evaluate the program and submit a report to the Connecticut General Assembly. Therefore, as a practical matter, the *2014-2016 EEB Program Evaluation Plan: 2015 Update* should be revised to include this additional evaluation.

2. Evaluation Administrator/Consultant Budget

By no later than May 1, 2015, the Evaluation Administrator/Consultant budget should be revised downward commensurate with the adjusted *2014-2016 EEB Program Evaluation Plan: 2015 Update*, with the goal of holding the budget to an amount closer to the original annual budget of \$250,000, approved in DEEP's October 31, 2013 Decision approving the 2013-2015 Plan.

3. Technical Consultant Budgets

- a. Given recent changes, including deferral of evaluation studies to 2015 and beyond and the role of the Executive Secretary in relieving administrative tasks from technical consultants, the budget for the EEB Consultant Compensation can be reduced by approximately 12%, as outlined below. The Companies and the EEB should collaborate to determine, **by no later than May 1, 2015**, how the Consultant Compensation Budget for 2015 will be reduced by approximately \$100,000. The goal of streamlining this budget is to shift any savings into direct energy dollars that can be put towards efforts in the Residential and the Commercial & Industrial sectors.
- b. The explanation below outlines more detailed recommendations/directions regarding modifications to the Consultants' Budget, including adhering to the 2015 budget set for the Executive Secretary at the time of the hire. Specifically, we recommend approving a 2015 budget of \$154,172 originally identified in March 2014, and recommend not to approve the \$168,071 proposed in the *2015 Annual Update*.

EEB CONSULTANT WORK PLANS FOR 2015

We analyzed the 2015 Consultant Work Plans as submitted, and reviewed each proposed 2015 work plan for each EEB Consultant to determine to what extent the consultant's assignments and tasks are appropriate and whether any tasks could be handled by the Companies or, alternatively, by the Department. We converted the total hours for each EEB Consultant for each of their assignments to actual weeks based on a 40 hour week to get a better handle on each Consultant's actual work effort for their individual tasks. We identified Issues and Questions raised regarding each work plan, and have outlined recommendations for the Consultant Work Plan Approval Process below.

Overall Issues/Questions:

1. There are opportunities to reduce administrative redundancy. Minimize clerical/administrative functions of technical consultants, and reassign those to the Executive Secretary.
2. For the next three-year Conservation and Load Management Plan, we recommend that the EEB review the roles and responsibilities each Consultant to ensure no redundancies exist and maximize the expertise of each technical consultant.

Executive Secretary

The proposed 2015 Executive Secretary budget is \$168,071, which represents a \$13,899 increase over the original 2015 budget agreed to at the time of hire (\$154,172). The Executive Secretary bills at a rate of \$120 per hour. The proposed hours for 2015 total 1080 hours.

It appears that the increase proposed in 2015 is due to the fact that the 2015 Work Plan includes increased time and labor rate for an Assistant to the Executive Secretary. When the Assistant's salary is separated, the Executive Secretary's labor budget is \$129,600. The original proposed budget for an assistant was 360 hours at \$35/hour, although the 2015 budget as submitted proposes 600 hours at \$40/hour.

Issues/Questions:

1. This Consultant is the only Consultant that also bills for an Assistant. If the Executive Secretary chooses to engage the services of an Assistant, we believe any increased salary and hours allocated to Assistant time should offset the Executive Secretary budget. This puts the amount of Assistant hours wholly within the Executive Secretary's discretion, without affecting the overall budget, and allows for the Executive Secretary to control costs through the use of lower cost services for some administrative tasks.
2. The 2015 budget contains an increase from the agreed-upon 2015 budget at the time of hire. The additional hours were discussed at EEB meetings, although we are concerned that the rationale for increasing the hours is not sufficient to justify an increase. We believe the 2015 budget for the Executive Secretary should be revised to the originally contracted amount.

EEB Marketing and Analysis Consultant

The proposed 2015 Marketing and Analysis Consultant budget is \$107,950 which represents a \$4,950 increase from 2014 of \$103,000. The Marketing and Analysis Consultant bills at a rate of \$105 per hour. Under the current documented proposal, the total 990 hours of work equates to approximately 25 weeks, assuming a 40 hour work week.

Issues/Questions:

1. The task in item 2 of this consultant's budget includes several tasks that are duplicative of other consultant and Committee Member efforts. Accordingly, the projected number of hours, 350 hours, should be revised downward.
2. While the other consultants were selected as part of an open RFP process, it appears this was not the case with the EEB Marketing and Analysis Consultant. The EEB should issue a Request for Proposal (RFP) for a Marketing Consultant on a schedule that aligns with the other Consultant RFP processes. Moreover, going forward for 2016 and beyond, the Board should clarify the process for procuring its Consultants. We have included this as condition of approval #4.

EEB Senior Technical Consultant

The Senior Technical Consultant proposed 2015 budget is \$170,400, which represents an increase of \$9,800 over the approved budget for 2014 (\$160,600). The Senior Technical Consultant bills at a rate of \$170/hour. Under the current documented proposal, the total 920 hours of his work effort equates to approximately 23 weeks, assuming a 40 hour work week.

EEB Technical Consultant(s) Residential and Financing Programs

The proposed Residential Technical Consultants 2015 budget is \$149,954, which represents a decrease of \$11,867 below the approved budget for 2014 (\$161,821). This assumes a collective labor rate of \$170/hour. This budget includes dollars and work for three consultants at one combined labor rate of \$170 per hour. Under the current documented proposal, the total 866 hours of work equates to approximately 22 weeks, assuming a 40 hour work week.

Issues/Questions:

1. The Residential Technical Consultant work plan should be refined to fully separate the duties of the Financing Consultant (below) and to ensure no redundancies remain.
2. It is unclear why the Residential Technical Consultants bill at the same rate as the Senior Technical Consultant.
3. Individual work plans and deliverables need to be identified for each individual consultant.

EEB Financing Consultant

The Financing Consultant's proposed 2015 budget is \$60,300. This is a new consultant title for 2015, and as such there was no approved budget for 2014. The Financing Consultant bills at a rate of \$170 per hour. Under the current documented proposal, the total 350 hours of work effort equates to approximately 9 weeks, assuming a 40 hour work week.

Issues/Questions:

1. The Financing Consultant work plan should be refined to fully separate the duties of the Residential Technical Consultants (above) and to ensure no redundancies remain.
2. It is unclear why the Financing Consultant bills at the same rate as the Senior Technical Consultant.

EEB C&I Technical Consultant

The C&I Technical Consultant proposed 2015 budget is \$151,550, which represents a decrease of \$8,390 below the 2014 approved budget (\$159,940). The labor rate is \$150 per hour. Under the current documented proposal, the total 924 hours of his work effort equates to approximately 23 weeks, assuming a 40 hour work week.

EEB Technical Consultant (RD&D and Program Support)

The RD&D and Program Support Technical Consultant proposed 2015 budget is \$12,000, which represents no change from the approved budget for 2014. Changes are not required to his work plan since his job description, also, seems to be specific to EEB activity. The RD&D and Program Support Technical Consultant bills at \$125 per hour. Under the current documented proposal, the total 96 hours of work effort equates to approximately 2.4 weeks, assuming a 40 hour work week.

Issues/Questions:

1. How can we maximize the RD&D value of this consultant?

Recommendations for Improving Work Plan Development and Approval Process

The EEB Consultants provide valuable expertise on energy efficiency policy and programs. Nevertheless, there are some areas where individual work plans could be streamlined and hours can be shifted to better achieve the EEB's mandate. Our specific recommendations to be considered are as follows:

1. The EEB should review the roles and responsibilities of each consultant before developing the next three-year Conservation and Load Management Plan.
2. The EEB should initiate a regular process to review the contract of each Consultant and develop a clear schedule when the EEB should initiate an RFP process for each consultant title. This should be included in an update of the "EEB Structure and Rules."
3. The EEB should have all of the consultant work plans and contract documents available in an easily accessible place for Board Members. One way this can be accomplished is through a secure portal on the Energize Connecticut website. We will recommend that the EEB Marketing Committee and its Energize Connecticut Web Committee investigate this option.
4. Individual Consultant Work Plans would best be drafted at the Committee level, as outlined below, and then sent to the full EEB for final approval. This mirrors the process for other EEB planning documents (The Statewide Marketing Plan, the Evaluation Plan).

<i>Consultant Committee:</i>	Senior/Managing Technical Consultant, Executive Secretary, Financing Consultant, and Technical Consultant Work Plans
<i>Residential Committee:</i>	Residential Consultant Work Plan
<i>C&I Committee:</i>	C&I Consultant Work Plan
<i>Marketing Committee:</i>	Marketing and Analysis Consultant Work Plan

Each Committee should be the initial drafters of the work plans. Each Work Plan should specify the duties and obligations of each consultant, including what meetings should be attended and billed for, and which ones should not be attended and billed for without prior approval. After drafting, the Committee may choose to engage their Consultant(s) in the work planning process, or choose not to, and then submit the work plan(s) to the EEB. Once the final Work Plans are approved by the EEB, they should be appended to the Annual Update and Multi-Year Planning Documents.

To facilitate Work Plan development at the Committee level, work for all consultants should be clearly identified specifying all of their roles and job responsibilities and labor rate. Each consultant should have their own individual work plan, as opposed to a combined multi-consultant Work Plan with blended hours. The Department recommends that each Committee consider the following when drafting their consultant work plans:

- Reduce administrative redundancy. Minimize clerical/administrative functions of technical consultants, and reassign those to the Executive Secretary.
- Some consultants have different billing rates, depending on whether they are working with another consultant, including an increased rate when working with other consultants. Consultants should clarify how they bill time spent briefing or consulting with each other on EEB business. The consultants may need to identify a reduced billing rate for intra-consultant discussions.
- Limit billing for activities that are not pre-approved by the EEB or its Committees. The Committees need to clarify with greater specificity in the work plans the tasks and deliverables for each consultant. Any tasks subsequently assigned to the consultant should only be assigned by the Committees or the EEB.
- Focus on the Consultant's ability to add value to programs and planning. For example, the committees could ask the Consultant(s) to research and highlight specific industry trends, or other specific assignments on key topics, with deliverables.
- Limit unnecessary travel expenses.
- Identify a flat labor rate that remains constant for all hours billed.
- In-state travel should be billed at the Federal Standard Mileage Rate and adjusted on a yearly basis.

4. Process for Procuring EEB Consulting Services

While DEEP recognizes the importance of the Consultants' contributions and support to the largely volunteer Energy Efficiency Board, it is equally important for the EEB to periodically review the assignments, roles, and responsibilities of this technical support. This will ensure that the assistance evolves as the EEB's capabilities and roles evolve, and as the programs and capacity of the Companies evolve. Therefore, as part of the development of the next three-year conservation and load management plan, and to ensure that adequate technical support will be in place by January 1, 2016, the Companies and the Energy Efficiency Board should, **no later than September 1, 2015**, update the process for procuring technical consultants and initiate the procurement of the team who will assist the Companies and the EEB in achieving the next three-year plan's savings and goals.

5. Submission of Revised Budget Tables

- a. The Companies should revise their budget tables and submit them no later than **March 20, 2015**. Any compliance items or updates that DEEP previously directed to be submitted by March 1, 2015 regarding the 2013-2015 Plan and/or the *2015 Annual Update* may be submitted after March 1, 2015 though no later than March 20, 2015, unless otherwise approved by the commissioner.
- b. The revised budget tables should reflect the conditions of approval noted, as well as any adjustments necessary to reflect the 2014 actuals that became available subsequent to the December 2014 submittal of the proposed budget tables.
- c. The budget reductions directed in the conditions above should be reallocated for investment in the Residential and Commercial and Industrial sector programs, commensurate with the standard allocations between those sectors.

LOOKING AHEAD TO THE NEXT THREE-YEAR CONSERVATION AND LOAD MANAGEMENT PLAN

We look forward to working collaboratively with the Board and the Companies in the next three-year conservation and load management planning process. We are confident that the Companies and the EEB will continue to successfully plan for the effective implementation of energy efficiency investments in Connecticut. We expect this investment in the state's energy efficiency programs to not only increase Connecticut's energy savings but also to provide economic and environmental benefits to the state's ratepayers and taxpayers.