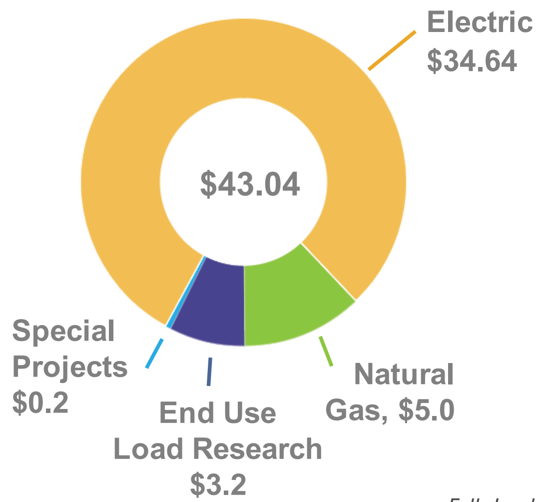
NEEA 2019 OPERATIONS PLAN EXECUTIVE SUMMARY

OVERVIEW

In 2019, delivering on current Business Plan goals while preparing for the transition to the next business cycle (2020-2024) will be top priorities for the alliance. The alliance will also deliver its first dual-fuel (electric and natural gas) funded program and first natural gas savings. Other focus areas include employee and stakeholder engagement and beginning space planning and lease negotiation.

At the end of 2018, the alliance's emerging technology pipeline is healthy, nearly double what it was at the start of the Business Plan, measurable change has been made in all target markets, and estimates are that the alliance will reach its savings goal for all investments but fall slightly (between 5-15 percent) short of the target for current investments.

Figure 1 - 2019 Organization Budget Detail by Funding Source ($ Millions)



Fully Loaded Costs

2019 ORGANIZATIONAL PRIORITIES AT A GLANCE (ELECTRIC AND GAS)

1. Meet Cycle 5 goals:
   a. Continue to fill energy efficiency pipeline
   b. Make measurable change in all target markets
   c. Remove barriers, create sustainable market conditions and track market progress to measure adoption of energy efficiency
2. Prepare for smooth transition to Cycle 6:
   a. Move to product grouping approach
   b. Wind down some programs
   c. Assess continuation of special projects
   d. Secure funding agreements
3. Deliver first dual-fuel funded program and first natural gas savings
4. Support employee and stakeholder engagement
5. Begin space planning and lease negotiation

RISKS

1. Differing alliance priorities introducing adoption challenges
2. Standard date for heat pump water heaters may be delayed due to local and national adoption trends
3. Lack of progress and activity from federal partners
4. Regional bandwidth to effectively manage portfolio
5. Natural gas prices create cost-effectiveness challenges
6. Lack of investment in natural gas technologies means difficulty getting manufacturers engaged

OPPORTUNITIES/ RISK MITIGATIONS

1. Identifying opportunities for flexibility in implementation
2. Partnering extra-regionally to increase Northwest influence
3. Finding efficiencies in program management and regional convening
4. Increasing coordination between natural gas and electric programs
5. Leveraging platform data to inform regional program strategies and address challenges

Final 2019 Operations Plan (Electric and Natural Gas) are available at: neea.org

CYCLE 5 (2015-2019) ELECTRIC BUDGET

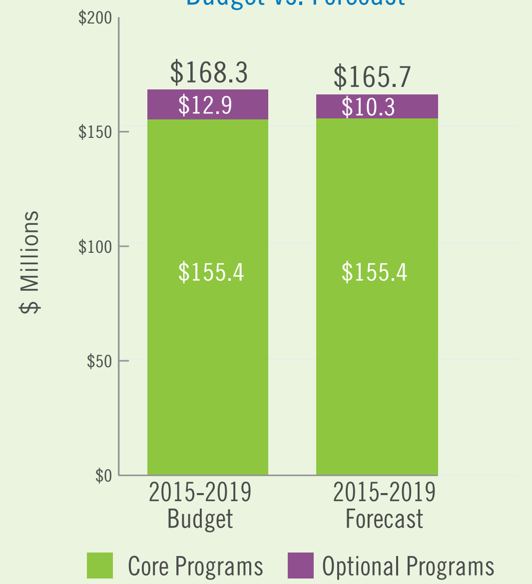
Total projected Cycle 5 electric Business Plan expenditures are $165.7 million: $155.4 million for core programs and $10.3 million for optional programs (Figure 2). This forecast represents a –1.5 percent variance (–$2.5 million) from the original business plan budget of $168.3 million due to fewer than expected expenditures on optional programs. These figures do not include special projects such as the End Use Load Research project.

2019 ELECTRIC BUDGET DETAIL

The 2019 electric operating budget is $34.6 million (Figure 3). Program expenses, which include direct costs as well as salaries and benefits, represent 89 percent of the 2019 budget. Administrative costs, which refer to NEEA's Business Administration and Executive cost centers, are 11 percent of the budget.

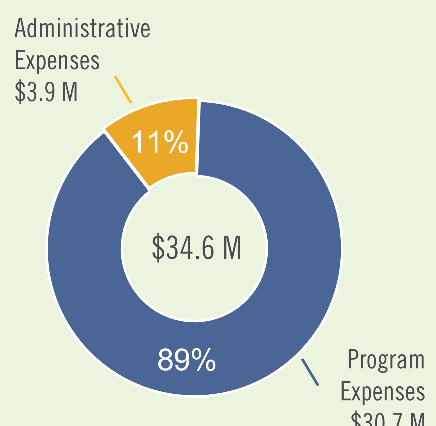
The 2019 electric budget represents an increase of approximately $2.1M over the 2018 forecast. As shown below, residential program investment will decrease by $1.1 million while the commercial and industrial budget will increase by $900K (see variance comments on the next page). Stock Assessment expenses will increase by $1.0 M as some 2018 expenses shift to 2019. Administrative costs will increase by $300K due to planned increases in IT investment, consulting fees for space planning, and transferring professional development budget from cost centers to human resources.

Figure 2: Business Plan Budget vs. Forecast



Fully Loaded Costs

Figure 3: 2019 Total Electric Expenses



Fully Loaded Costs

Figure 4 - Electric Budget Detail by Activity - $ Millions

Fully Loaded Costs

**Other = evaluation, technology, marketing, program administration*

2019 ELECTRIC BUDGET DETAIL (CONT.)

NEEA staff are preparing to advance four electric programs past the Scale-Up milestone in 2019: Luminaire Level Lighting Controls, Manufactured Homes, Next Step Homes and Retail Product Portfolio. These program advancements are contingent upon approval by the alliance's Regional Portfolio Advisory Committee. The organization is also preparing to transition the Reduced Wattage Lamp Replacement program into Long-Term Monitoring and Tracking. Key electric program budget variances between 2018 and 2019 are described below (direct expenses).

- **Heat Pump Water Heaters** - Program expenses will decrease by $1.1 million from 2018 forecasted expenses as the program continues to move away from up-stream incentives.
- **Reduced Wattage Lamp Replacement** - Program expenses will decrease by $1.3 million in 2019 as market activities end and program efforts shift to data-collection for Long-Term Monitoring and Tracking.
- **Luminaire Level Lighting Controls** - Program expenses will increase by $366 thousand in 2019 as the program passes the Scale Up milestone and enters market development.
- **Stock Assessments** - Budget for the Commercial Building Stock Assessment will increase by $1.0 million as a result of implementation delays in 2018, which caused some expenses to be moved to 2019.

2019 ELECTRIC PERFORMANCE SCORECARD

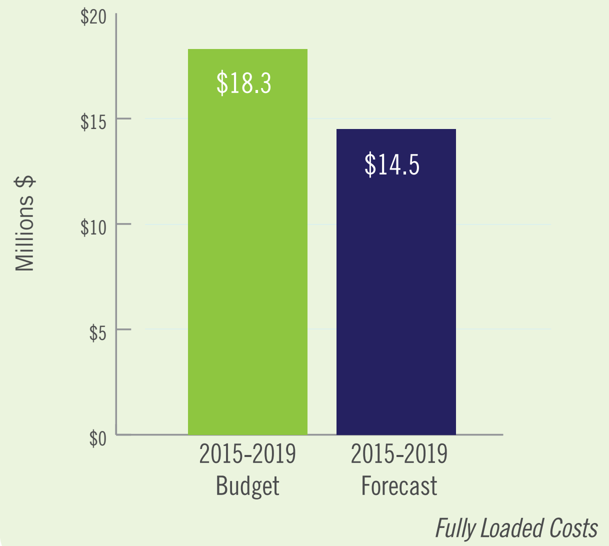
			Target[i]	Q3 2018 Forecast
STRATEGIC GOALS	**Goal 1: Fill the Energy Efficiency Pipeline**	Scanning portfolio health (aMW)	1400	1340
		Pipeline health (aMW)	1000	1190
		Program advancement (aMW)	175	200
	Goal 2: Create Market Conditions for Efficiency	2019 Program milestones on-track	90%	N/A
			Target	**Q3 2018 Forecast**
CO-CREATED ENERGY SAVINGS (aMW)	**Current Business Plan Investments** (2015 - 2019)	2019 Energy Savings	18	18
		5-yr Energy Savings (2015-2019)	75	60-70
		10-yr Energy Savings (2015-2024)	180	180-210
	All Investments (1997-today)	2019 Energy Savings	28	28
		5-yr Energy Savings (2015-2019)	150	190-210
COST-EFFECTIVENESS FINANCE AND OPERATIONS	**Cost-Effectiveness**	Levelized Total Resource Cost [ii] ($/kWh)	<$0.035	$0.029
	Finance	Annual Expenses ($M)	$34.6	$34.6
		Business Admin Expenses (%)	<13%	N/A
	Staffing	Employee Retention % (12-month)	>90%	N/A

i - Scanning Portfolio Health and Pipeline Health targets are snapshots in time, whereas the Program Advancement target is a 5-year cumulative goal
ii - Current Investments 2015-2019

CYCLE 5 (2015-2019) NATURAL GAS BUDGET

Total projected Cycle 5 Natural Gas Business Plan expenditures are $14.5 million (Figure 5) - $3.9 million less than the original business plan budget of $18.3 million. This variance is largely due to a slower than anticipated ramp up in natural gas work at the beginning of the cycle and manufacturer delays bringing products to market.

Figure 5 - Natural Gas Business Plan Budget vs. Forecast

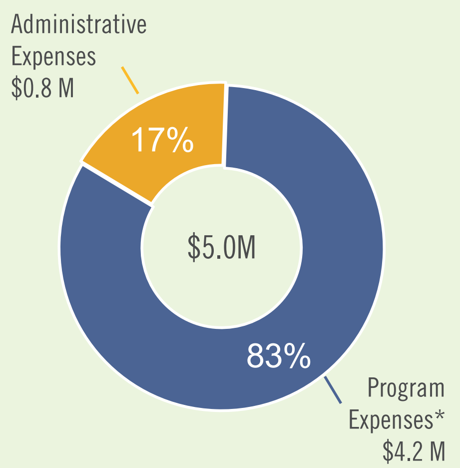


2019 NATURAL GAS BUDGET DETAIL

The 2019 natural gas operating budget is $5.0 million (Figure 6). Program expenses, which include direct costs as well as salaries and benefits, represent 83 percent of the 2019 budget while administrative costs are 17 percent. In 2019, the Efficient Gas Water Heater program budget will increase to $920K as NEEA staff prepare to advance the program past the Initiative Start milestone. Next Step Homes, the alliance's first dual-fuel funded program, is scheduled to advance past Scale Up and into market development. Both advancements are contingent upon approval by the Natural Gas Advisory Committee. Gas Dryers and Hearths are not included in the 2020-24 Business Plan and so program activities will wind down in 2019. Key budget variances from 2018 to 2019 are detailed below:

- **Efficient Gas Water Heaters** - Direct program expenses are budgeted to increase from $280 to $920K as the program ramps up following the Initiative Start Milestone
- **Next Step Homes -** Natural gas funders will invest $400K in Next Step Homes for the first time in 2019.

Figure 6 - 2019 Total Natural Gas Expenses



*Includes scanning, implementation, market research and codes & standards

Fully Loaded Costs

Figure 7 - Natural Gas Budget Detail - By Activity ($ Millions)