

Memorandum



November 19, 2019

TO: NEEA Board of Directors

FROM: Jeff Harris, NEEA staff

SUBJECT: Draft Guidelines for Extra-Regional Engagement

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Our Ask: Review and discuss; support for adoption into NEEA Operating Policies.

Background.

The attached Guidelines document was reviewed at the September 2019 Board meeting. It includes revised language based on the discussion at the Board meeting. If adopted, the Guidelines would become part of NEEA's operational policies that will help direct both NEEA and the Board to navigate the interactions between NEEA and extra-regional engagements.

Revision Summary.

The attached version includes the following revisions:

- Edited to highlight key strategic and operational aspects
- Goals simplified to focus on risk mitigation and value delivery to the Northwest
- Strategies shortened to three main elements in support of the high-level goals
- Process section has been broadened to include governance and Board communications elements; including the need for confidentiality and executive sessions for full Board discussions
- The section previously referred to as Governance and Structure has been re-titled as "Examples" and moved to the end of the document as illustrative references.

Recommendations for Board action.

Staff requests that the Board provide an informal indication of support for incorporation of the revised Guidelines as part of NEEA staff operational policy.

Guidelines for Extra-Regional Engagement

Draft

~~August 27~~October 20, 2019

Purpose: These guidelines are intended to provide a flexible framework for NEEA Board and staff to appropriately engage with market transformation opportunities outside the Northwest region. It is intended to be used in conjunction with the existing body of NEEA policies and guidelines including the New Strategic Opportunity Screening and Review Guidelines.

Primary Goals:

1. ***Increase value delivery to Northwest region.*** Extra-regional engagements should be prioritized for the value they can bring back to Northwest. This value can come in a variety of forms including but not limited to:
 - ~~a. Maintain/increase market relevance and leverage to protect Northwest interests~~
 - ~~b-a.~~ Accelerate Northwest market adoption through increased scale outside the Region
 - ~~c-b.~~ Reduce costs to the Northwest through broader sharing of expenses for demonstration efforts, infrastructure elements, or codes and standards activities
 - ~~d-c.~~ Reduce risk of new technology development through broader participation
 - ~~e-d.~~ Reduce risk that other forms of market transformation practice may pull market actors in different directions with a loss of Northwest influence and value delivery.
2. ***Effectively Manage Risk of Erosion of Increase Northwest Influence with Market Decision Makers.*** The Northwest influence over national or international markets is fundamentally limited by our market size. Other Regions and organizations are looking to build their own MT efforts and ramp up their energy efficiency efforts. Recent failures in water heating and appliance markets has indicated that success in the Northwest alone is not enough to influence national markets. To maintain or increase~~engage risk of losing~~ our influence, the Northwest will need to ~~find partners outside our region who share our goals and are aligned with our approaches to market transformation~~strategically prioritize and engage with selected extra-regional entities and opportunities.
- ~~3.1. ***Strengthen Market Partnerships.*** Aligning extra-regional energy efficiency market transformation efforts with Northwest interests allows NEEA to maintain and enhance its influence with manufacturers, distributors, retailers and other market actors.~~

Key Strategies: NEEA will employ the following strategies to engage and achieve the goals associated with extra-regional opportunities:

1. ***Strengthen/Build Strategic Partnerships with Like-minded Extra-Regional Organizations.*** Identify and partner with extra-regional organizations to maintain and enhance Northwest influence with manufacturers, distributors, retailers and other market actors. This also reduces the risk of market decision maker confusion and the corresponding loss of leverage for the Northwest.
2. ***Increase Northwest leverage extra-regionally through specific market transformation initiative Specific Partnerships.*** Identify and seek Extra-regional partnerships can significantly increase the aggregated market represented by an MT initiative, which can increase the leverage with market decision makers. If these partnerships are align~~extra-regional partners that can align with or join specific~~ ed with Northwest market transformation

~~market transformation programs and practices initiatives, then they significantly increase the chance to influence products to meet Northwest needs.~~

~~**Strengthen Market Partnerships. Aligning extra-regional energy efficiency market transformation efforts with Northwest interests allows NEEA to maintain and enhance its influence with manufacturers, distributors, retailers and other market actors.**~~

- ~~1. **Provide technical support for development of market transformation supporting infrastructure.** NEEA should provide technical support and model best practices to other regions to facilitate development of similar support structures in other regions. This creates the foundation from which to build common market transformation initiatives that increase market aggregation for both the Northwest and other regions. Examples include providing best practice guides to evaluation and savings measurement for market transformation programs.~~
- ~~2.1. **Increase Northwest leverage extra-regionally through specific market transformation initiative partnerships.** Extra-regional partnerships can significantly increase the aggregated market represented by an MT initiative, which can increase the leverage with market decision makers. If these partnerships are aligned with Northwest market transformation programs and practices, then they significantly increase the chance to influence products to meet Northwest needs.~~
- ~~3. **Build alignment with Northwest MT efforts through increased awareness and understanding of the Northwest market transformation practices.** NEEA will participate in strategic opportunities to increase extra-regional awareness and understanding of the Northwest model for market transformation that will result in increased alignment in extra-regional efforts.~~
- ~~4. **Evolve Northwest market transformation practices to continue relevance and effectiveness with national and international market actors.** The Northwest will need to continuously improve our own market transformation practices and ensure that its extra-regional partners also evolve to continue to be able to influence market actors and bring value back to the Northwest.~~

Guiding Principles: These principles will guide overall extra-regional engagement activities:

- ~~1. Maintain core Northwest support for the Northwest alliance and~~
- ~~2.1. Deliver on commitments made in Strategic and Business Plans.~~
- ~~3. **Remain focused on NEEA's purpose as stated in the Strategic Plan and Bylaws** and Operate within existing NEEA bylaws, policies and guidelines~~
- ~~4.2. **Remain focused on NEEA's purpose as stated in the Strategic Plan and Bylaws**~~
- ~~5.3. Secure funding support from extra-regional entities to cover NEEA costs of any substantive extra-regional engagements beyond business-as-usual activities of engagement~~
- ~~6. Leverage core NEEA strengths in market transformation and avoid non-essential work that could be done by other energy efficiency implementation organizations/companies.~~
- ~~7.4. Don't duplicate efforts. Leverage extra-regional efforts where it makes sense; look for innovation and opportunity to learn from experience in other regions.~~
- ~~8. Be flexible and adaptable, keeping focused on bringing value back to the Region.~~
- ~~9.5. Pursue opportunities that emerge as part of NEEA's Northwest-market engagement activities or that come to NEEA as a function of our market transformation reputation while actively monitoring extra-regional advancements with strategic implications for NEEA's purpose in the Northwest.~~

Process, Governance, and Governance and Structure: The following structural models are examples to be considered but are not intended to limit other models that may be needed based on the opportunities as they arise:

~~1. Market transformation advice and support.~~

- ~~a. Description: NEEA would provide market transformation advising services to help build and align market transformation capabilities in other organizations and other regions. These activities would be paid for by the recipient entities.~~
- ~~b. Key Issues: Staffing resources and prioritization of existing Northwest commitments.~~
- ~~c. Governance: No significant governance implications.~~
- ~~d. Risk: Relatively low risk of over-extension of staff resources even with cost coverage by the extra-regional entity. Low to moderate up-side risk to MT initiatives if they are addressing national markets that are misaligned with our own efforts.~~
- ~~e. Example: Work under contract to Nicor Gas to support increased Midwest market transformation capability.~~

~~2. Informal Strategic Partnerships.~~

- ~~a. Description: NEEA and extra-regional organizations form strategic partnerships where the entities agree to align our market transformation programs and requirements without any substantive financial exchange between the partners.~~
- ~~b. Key Issues: Requires additional coordination with extra-regional parties.~~
- ~~c. Governance: No significant governance implications.~~
- ~~d. Risk: Low risk.~~
- ~~e. Example: The Energy Star Retail Product Portfolio program where NEEA and ten other sponsors nationally agree to a set of programs operating principles, but each entity is individually contracted with the retailers and support contractors.~~

~~3. Formal Strategic Partnerships.~~

- ~~a. Description: NEEA and extra-regional parties agree under formal written contract to align market transformation efforts representing a significant leverage opportunity to influence national market actors. Costs for common MT components are shared, lowering costs and increasing influence for Northwest consumers. May involve direct contracts with revenue coming back to the Northwest from extra-regional entities.~~
- ~~b. Key Issues: Involves legal and contract negotiations.~~
- ~~c. Governance: These may or may not have governance implications depending on the situation and scale.~~
- ~~d. Risk: Low to Moderate. Depending on scale of partnership, financial risk and resource requirements could increase for the organization. Significant upside risk if the entity is large enough to qualify for a formal partnership; if it was misaligned with Northwest efforts it could significantly damage or inhibit Northwest market actor influence.~~
- ~~e. Example: NEEA was a founding partner of the Super-Efficient Dryers Initiative (SEDI) that had multiple national funders. SEDI was largely responsible for encouraging U.S. manufacturers to bring heat pump dryers to the domestic market.~~

~~4. NEEA as Market Transformation Program Administrator.~~

- ~~a. Description: NEEA as program administrator for an individual or whole portfolio of market transformation programs outside the Northwest region funded through extra-regional sources. The effort would be funded entirely by extra-regional sources.~~

- ~~b. Key Issues: Scale and scope of the opportunity; essentially replicating NEEA's comprehensive Northwest regional portfolio for another geography. The size of the opportunity would determine the viability of the effort, funding sources and governance.~~
- ~~c. Governance: This would likely have implications to the extent that the funding sources and magnitude created a potential for divided loyalty to the existing NEEA Board and core funders in tension with the new, extra-regional portfolio funders and stakeholders.~~
- ~~d. Risk: Moderate to high: Depending on the scope and scale, re-creating NEEA's comprehensive approach to market transformation would require growth in resources and infrastructure. Growing sustainably to support the new portfolio could be challenging for the organization.~~
- ~~e. Example: NEEA could bid on and be selected as an independent market transformation program administrator.~~

Process Communications: The Strategic Planning Committee (SPC) will continue to serves as the primary point of Board engagement and interaction with NEEA staff on any new strategic opportunity. The SPC and NEEA staff will work together to screen extra-regional opportunities and engage the Board as needed.

For those opportunities that the SPC deems in need of Board engagement, NEEA staff will develop a New Strategic Opportunity Assessment (NSOA) for Board consideration as described in the NEEA Guidelines for New Strategic Opportunity Screening and Review¹. The NSOA will articulate the character of each opportunity, projected financial or internal resource impacts, and potential governance implications on for the organization. The NSOA will include, and an assessment of benefits and risks including any governance implications to the organization as well as alternatives actions.

The SPC, supported by staff, will also be the primary point of Board-level communication with other Board Committees including the Executive, Governance, and Finance and Audit Committees as required. Due to the sensitive nature of many of these opportunities and the potential contractual and staffing impacts, communications on any given opportunity will likely contain confidential material. Accordingly, full Board discussions of these opportunities may require discussions in executive session. Given the unique nature of each opportunity, staff will work closely with the SPC and other Board committees to determine the appropriate level of communications and Board decisions protocols necessary to protect confidentiality while supporting effective Board decision-making.

Example Engagements: The following models are examples of possible extra-regional engagements and the corresponding implications for the organizations. They are listed below in order of increasing levels of engagement. These examples are not intended to limit other models that may be needed based on the opportunities as they arise:

1. Market transformation advice and support.

- a. Description: NEEA requested to provide market transformation advising services to help build and align market transformation capabilities in other organizations and other regions. These activities would be paid for by the recipient entities.
- b. Key Issues: Staffing resources and prioritization of existing Northwest commitments.
- c. Governance: No significant governance implications.

¹ The Board Guidelines for New Strategic Opportunity Screening and Review can be found on the NEEA Board SharePoint site here: <https://neeanet.neea.org/departments/board/Lists/Board%20Guidelines/AllItems.aspx>.

- d. Risk: Relatively low risk of over-extension of staff resources even with cost coverage by the extra-regional entity. Low-to-moderate up-side risk to MT initiatives if they are addressing national markets that are misaligned with our own efforts.
- e. Example: Work under contract to Nicor Gas to support increased Midwest market transformation capability.

2. Informal Strategic Partnerships.

- a. Description: NEEA and extra-regional organizations form strategic partnerships where the entities agree to align our market transformation programs and requirements without any substantive financial exchange between the partners.
- b. Key Issues: Requires additional coordination with extra-regional parties.
- c. Governance: No significant governance implications.
- d. Risk: Low risk.
- e. Example: The Energy Star Retail Product Portfolio (ESRPP) program where NEEA and ten other sponsors nationally agree to a set of programs operating principles, but each entity is individually contracted with the retailers and support contractors.

3. Formal Strategic Partnerships.

- a. Description: NEEA and extra-regional parties agree under formal written contract to align market transformation efforts representing a significant leverage opportunity to influence national market actors. Costs for common MT components are shared, lowering costs and increasing influence for Northwest consumers. May involve direct contracts with revenue coming back to the Northwest from extra-regional entities.
- b. Key Issues: Involves legal and contract negotiations.
- c. Governance: These may or may not have governance implications depending on the situation and scale.
- d. Risk: Low to Moderate. Depending on scale of partnership, financial risk and resource requirements could increase for the organization. Significant upside risk if the entity is large enough to qualify for a formal partnership; if it was misaligned with Northwest efforts it could significantly damage or inhibit Northwest market actor influence.
- e. Example: NEEA was a founding partner of the Super-Efficient Dryers Initiative (SEDI) that had multiple national funders. SEDI was largely responsible for encouraging U.S. manufacturers to bring heat pump dryers to the domestic market.

4. NEEA as Market Transformation Program Administrator.

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