

Pro Forma

Modeling the impact of program marketing on contractor revenues

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National Home Performance Council



The National Home Performance Council

- National, non-profit organization
- Supports whole-house upgrade programs through research and convening projects
- Addresses problems that limit growth and development of whole-house programs

NHPC Stakeholders

- Federal agencies (DOE)
- State energy offices (NASEO, MD, NY, TX)
- Program implementers (CSG, ICF)
- Utility sector (EEI, LIPA, and currently reaching out to several others)
- Industry (NAIMA, ABM)
- Real estate (Eco-Brokers / AEEREP)
- Non-profit stakeholders (ACEEE, ASE, EPC)

NHPC Current Projects

- Cost-effectiveness testing
- Data collection and transfer standards
- Smart grid and whole house energy efficiency upgrades
- Incorporating energy efficiency data in MLS systems and appraisals

“Pro Forma Project:” Two Goals

- Help program administrators:
- Understand contractor financials
 - Making a profit is challenging
 - Understanding key drivers of profit is important
- Understand the impact of program decisions on contractor revenues

Ideal Model

- Full integration of program and contractor finances
- Contractor side of the pro forma represents multiple contractors

Initial Project

- Integration of program *marketing* efforts and contractor pro forma
- Look at program marketing expenditures on a per channel basis
- Model how those expenditures will impact a contractor's financial situation

Quantifying Program Marketing

- What assumptions are made when a program implements marketing efforts?
- What efforts are made to quantify impacts?
- How are impacts conceptualized?

Brought to you by...

- NHPC as sponsor (and contributor)
- Sustainable Spaces / efficiency.org as prime contractor
- LEAP as participating program
- Funding from U.S. Department of Energy

– thank you, DOE!!!

Presentation Overview

- Review of contractor model
- Review of program marketing model
- Review of program marketing data collection and revenue generation issues
- Review of full integrated pro forma

Program Marketing Actuals

- For data entry on a per-channel basis
 - Number of leads, audits and retrofits
 - Average job size (or total revenue)
- *Question: Could you generate this data from your existing systems, and, if so, how much effort would it take?*

Program Marketing Costs

- For entering data regarding costs on a per-channel basis
 - Direct costs
 - HR costs
 - G&A costs
- *Important note: The period for the costs must match the period in which the lead/audit/retrofit totals were generated*

Program Marketing Costs

- Program marketing costs combine with data from “Marketing Actuals” tab to create key metrics
 - Average cost / lead by channel
 - Average cost / audit by channel
 - Average cost / retrofit by channel
 - Lead-audit conversion rate by channel
 - Audit-retrofit conversion rate by channel
 - Average job size per channel

Program Marketing Assumptions

- Take key metrics from Marketing Costs tab
- Project key metrics out into the future on the basis of assumptions about how each channel will perform in the future
- *The past does not always predict the future!*
- Writing out logic underlying the assumptions may be very useful

Program Marketing Pro Forma

- Shows implications of program marketing spend in terms of actuals leads / audits / retrofits
 - Leads, audits, and/or retrofits
 - And/or conversion rates
 - Average job size (weighted)
- Only point of contact between marketing and contractor model
- Costs not in original model, but built into integrated pro forma

Contractor Pro Forma

- Drivers derived off-spreadsheet
 - Lead to audit conversion rate
 - Close rate
 - Average project size
 - Revenue per hour per crew member
 - Crew utilization
 - Base wage

Contractor Pro Forma

- Drivers derived off-spreadsheet, cont'd
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Best Practice : Recognize Spillover / Market Transformation

- Spillover and market transformation effects should be considered in the net-to-gross calculation
- *or*, simply use gross savings if spillover and market transformation data not available

Best Practice : No Arbitrary Caps for EULs

- Some programs impose arbitrary caps on effective useful life (EUL) of energy efficiency measures
- For measures with long life-spans, no reason that measures should not be valued for the duration of their useful life

Best Practice: Evaluate Appropriate Time Frame

- More complex energy efficiency programs typically have long start-up periods;
- Costs front-loaded in first few years;
- Mature programs' experience demonstrates that costs fall over time
- Develop ways to ensure that costs spread over time

Best Practice: Use Appropriate Discount Rate

- For SCT, use Treasury bonds or similar rate to reflect cost to society as a whole;
- This option also logically defensible for TRC;
- Alternative, use WACC or lower to reflect the low-risk nature of energy efficiency investments

Best Practice : Recognize all Energy Savings

- All fuel savings should be captured, not just those provided by the utility sponsoring the program
- An issue when gas and electric services are provided by separate utilities
- Consideration of bulk fuels also an issue

Best Practice : Recognize Non-Energy Impacts

- Studies consistently find non-energy impacts important
 - Comfort and health issues particularly important for consumers
- Non-energy *costs* should be considered if relevant
- Significant impact on TRC

Best Practice: Recognize Future Costs of Environmental Compliance

- Recognize future costs of environmental regulation if they are quantifiable and almost certain to occur
- Examples: EPA regulations (MATS, CSAPR, NSPS)

Best Practices: In Progress

- Preliminary recommendations based on existing literature and stakeholder experience
- Further research and refinement of recommendations important

Use PAC if Best Practices Not Feasible

- Program Administrator Test has significant benefits:
 - Simpler and less expensive to administer
 - Compares the cost of efficiency to the cost of supply-side measures
 - Useful for considering bill impacts

Tests are Important Analytic Tools

- Testing is important and can help to ensure that programs have real benefits
- But tests should be used mindfully -- larger goals important
 - Reduce consumer bills
 - Reduce energy consumption
 - Meet EEPS goals

Key Issues: Rates and Bills

- Key public policy concern: rates and bills
- Energy efficiency can cause rates to rise
- But *bill* impact can be negligible for smaller programs
- Larger programs can keep bills down over the longer term by delaying or preventing creation of new generation, transmission and/or distribution costs

More Research Needed

- More research on best practices important: identify and clarify
- Research that addresses rate / bill impacts also important

Synapse Energy Economics Study

- NHPC commissioned Synapse Energy Economics study with support from EFI
- Report addresses:
 - Appropriate uses of tests
 - Range of best practices
- To be released in July 2012

Comments / Questions Please Contact Us

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Thank you!

