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)
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
• 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
  - Lead to audit conversion rate
  - Close rate
  - Average project size
  - Revenue per hour per crew member
  - Crew utilization
  - Base wage
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
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
• 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
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 on best practices important: identify and clarify

• Research that addresses rate / bill impacts also important
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
National Home Performance Council

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Thank you!