

GOVERNANCE STRATEGIES FOR EFFECTIVE ENERGY PROGRAM PLANNING AND ADMINISTRATION^a

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Abstract

In the current economic environment, even prosperous energy and utility organizations find themselves resource constrained and experiencing pressure from internal and external stakeholders, including public utility commissions, shareholders, investors, and existing and potential customers, to operate more quickly and efficiently using fewer staff and fixed budgets. In addition, because of numerous highly publicized instances of corporate and governmental ethical lapses, proper and effective governance – right governance – has begun to receive increasing emphasis. The closer attention to governance has added to management’s responsibilities. This paper is directed primarily toward administrators of energy programs, including government, not-for-profit organizations, utility companies, energy services companies, and consultants in the energy field. In it we argue that actions to ensure effective governance are extensions of strategic planning and evaluation efforts that likely are already in place, although not fully recognized, and present a discussion of three essential elements of effective governance.

Introduction

The New York State Energy Research and Development Authority (NYSERDA) administers a broad portfolio of energy efficiency programs that serve numerous, diverse market segments and audiences. Over several years, NYSERDA has developed a dynamic strategic planning process with evaluation as a critical central component. In 2001, NYSERDA implemented a portfolio evaluation process that transcended the traditional program-by-program approach to evaluation. The evaluation model centers on and is integrated with NYSERDA’s corporate strategic planning activities.^b Experience has begun to reveal what practitioners and theorists have long argued, that evaluation and strategic planning are crucially interdependent and that coordination of the two functions provides important economic and efficiency benefits and supports effective organizational governance.

This paper discusses the benefits when strategic planning and portfolio evaluation are used to support and complement program and corporate governance. Effective governance calls for rational, coordinated efforts involving organizations’ Boards, management, and stakeholders. Implementing rational, coordinated processes allows management to overcome organizational inertia and functional fragmentation and allows administrators to identify and exploit synergies among programs and among the organization and its allies. Equally important, strategy-based governance allows administrators to identify redundancies and disconnects among the organization’s services. The integration of evaluation and strategic planning in an organic whole allows management to present its staff and constituencies

^a The views expressed in this paper are those of the authors and do not necessarily reflect the views of the New York State Energy Research and Development Authority.

^b See references [1], [2], and [3].

with a coherent vision of the organization's goals, objectives, and strategies. Because organic organizations undertake continual self-assessments, they are able to align their goals among disparate programs, reassign resources when necessary, and make timely adjustments – ensuring more effective corporate and program governance.

Right Governance

As the amounts of government and utility funding for public benefits programs increase so does the need for stricter accountability. Accountability in this context exists along several dimensions but the three addressed in this paper are crucial for effective governance: (1) policy rigor, (2) adherence to legal and explicit ethical standards and, (3) measurable results. Active administrative oversight and results-oriented project management are essential for effective governance. Equally important is an organizational atmosphere of openness and transparency that is mission directed, complies with applicable laws and regulations, and upholds clear ethical standards of employee behavior.

Policy Rigor

As administrator of a public benefits program with a multi-million dollar annual budget, NYSERDA, like similar organizations, offers a full complement of energy efficiency deployment and research and development programs, including services designed for low-income consumers and projects that promote environmental protection. Since public benefits programs are designed to meet public policy goals using public funds, they must operate effectively and efficiently while meeting necessary economic criteria. Selection of metrics to measure effective governance is a major challenge to administrators of public benefits programs; the diverse services and audiences that must be addressed complicate the selection process. For example, since research and development programs are designed to secure future, unknown possibilities and outcomes, the results of strict economic analyses, when used, must be interpreted carefully. The same can be said of market development programs. Often the future value of such programs and the hedging opportunities they promise, rather than benefit-cost results, should guide administrators in making programmatic decisions. The same can be said of programs serving the low-income sector and of environmental protection programs that have extremely long time horizons. The crux of the issue for administrators should be whether, and to what extent, these programs are meeting the organization's public policy goals at a fair and reasonable cost and providing value to the citizens served by the programs. While strict adherence to economic justifications is important for some programs, notably service and commodity programs, it is less appropriate for traditional government and research and development programs. Instead, other public policy drivers provide the justification for such programs. Rigorous policy and economic analyses, where appropriate, provide the basis against which program successes are measured.

Legal and Ethical Culture

Disciplined organizational and personal accountability are key elements of today's corporate culture. Identifying the values and principles that will guide employee behavior is critically important for management, and management's expectations must be clearly stated and consistently and constantly reinforced. Cultivating a desirable culture must always be first and foremost in employees' minds and not be relegated to periodic pronouncements. To ensure respectful compliance with laws and regulations and to create a culture of ethical behavior requires that administrators enunciate and abide by a clear and concise code of conduct. Elements should include a robust performance appraisal system, performance metrics and objectives, an approachable communications hierarchy, and fair, timely enforcement. NYSERDA does its best to maintain a professional and collegial culture among a

workforce noted for diverse skills and professional experience and expertise. Communication flows freely and the formal management hierarchy is fairly flat yielding an organization that tends to be organic and flexible. NYSERDA's rigorous contracting process helps ensure that laws and regulations are respected. Teams that include equal representation by professionals within NYSERDA and by external experts competitively select more than 95 percent of NYSERDA's contractors. Management is involved at all stages of the development process, beginning with approval of the project concept through contractor selection. NYSERDA's Board is involved in reviewing projects and in approving most contract actions.

Meaningful Results

Meaningful results are an important cornerstone of right governance. An organization's activities must further its stated goals. Reports can look impressive and mask the reality that the apparent accomplishments do not parallel the organization's mission or reason for being – and some accomplishments might not be in the organization's best interests. Inaccurate or irrelevant reporting might not imply intentional misdirection but reflect inadequate oversight and guidance. Management might not have identified the organization's goals, failed to clearly communicate them to the staff that needs to execute them, or failed to monitor progress reports.

These considerations precede the important governance issue of responsibly, accurately reporting results of activities that seek to achieve the organization's goals. The salient question becomes, are the organization's activities making adequate progress toward meeting the organization's goals. The answer to this question has implications for allocating organizational resources and for setting and retooling organizational goals.

The issue of adequate progress toward goals is important for organizations such as NYSERDA that offer a heterogeneous collection of programs and services. It is true that different approaches are needed for evaluating research and development programs, market development programs, incentive programs^c, and so forth. Selection of the appropriate approach and determining what constitutes sufficient progress for each type of program present important challenges for administrators.

As a public benefit organization with responsibilities that include a substantial publicly funded system benefits program, NYSERDA measures progress toward a hierarchy of goals. NYSERDA has four overarching public policy goals^d that provide guidance for the activities of the entire organization. The statewide system benefits program administered by NYSERDA has its own set of goals and its own external advisory committee. Individual programs within NYSERDA, including its administrative support units such as communications, finance, and contracts, set three-year program-specific goals annually, as part of the strategic planning process. Progress toward accomplishing the goals of individual programs is reported in the annual strategic planning document.

^c Anyone who has tried to evaluate "simple" incentive programs would argue this undertaking is by no means a slam-dunk.

^d (1) Improve system-wide reliability and peak reduction through end-user efficiency actions. (2) Improve energy efficiency and access to energy options for underserved customers. (3) Reduce environmental impacts of energy production and use. (4) Facilitate competition to benefit end users.

All programs and functions within an organization need to be coordinated and focused first on the most important goals of the organization, those deemed critical to its mission, second on support for an organization environment that complies with legal and ethical standards of behavior, and third on performance metrics that reflect the most important aspects of an organization's mission.

Roles and Responsibilities

Ensuring effective governance requires Boards and management to understand and operate within proper boundaries and to recognize their distinctive roles and responsibilities. For example, the role assumed by an effective Board includes: ensuring that a comprehensive planning function exists and is carried out within the organization; reviewing strategic alternatives and options presented to them by management; identifying and providing guidance with respect to acceptable levels of organizational risk; examining plans for implementation of strategies, and monitoring results with management and offering necessary operational and tactical guidance. Effective Boards leave the running of the organization to management. NYSERDA's Board approves the strategic direction indicated by management, approves NYSERDA's annual three-year corporate strategic plan, holds regular committee meetings with management to review program goals, strategies, and metrics, and has final approval of all contract actions.

Management is responsible for the organization's day-to-day operations and all the standard organizational functions such as human resource management and personnel, compensation and benefits, contracting, procurement, finance, marketing, communication and public relations, and corporate compliance with laws and regulations. Management frames and communicates the corporate culture and environment within which all employees work. NYSERDA's management meets regularly to address policy issues and formulate strategic direction, and its frequent interactions give it flexibility to moderate its course and adopt needed program changes in a timely fashion. Corporate intelligence with respect to markets, customers, services, and successes and failures is cultivated at all levels within the organization.

Strategic Planning

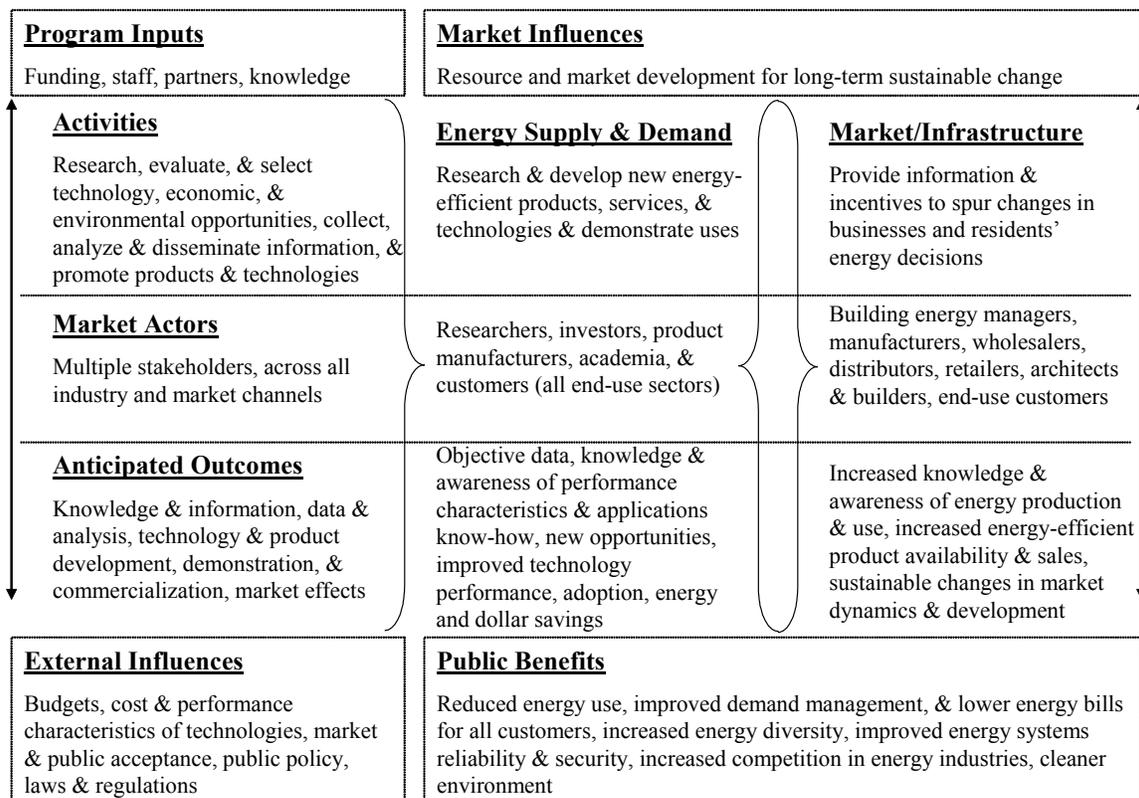
Since its inception as a research and development organization, NYSERDA has conducted some form of strategic planning. In its early years, this took the form of the rudimentary annual planning, budgeting, and accounting processes that are typical of many organizations. The acceptance of strategic planning as a resource served NYSERDA well when the organization became administrator of a substantial statewide public benefits program in 1998. During the ensuing years, strategic planning and, now, right governance, have matured and become increasingly relevant and essential to the organization.

NYSERDA still conducts applied R&D and now deploys substantial energy efficiency programs but those functions have evolved as NYSERDA management realized how the State's widespread adoption and use of innovation and technology improved citizens' economic and environmental well-being. NYSERDA has emerged as a mission-driven organization with the primary focus of helping New York achieve its energy, economic, and environmental goals.

NYSERDA employs a variety of strategies to meet its goals because of its diverse responsibilities. The development and dissemination of objective data and technical analyses help scientific and technical entrepreneurs develop and prepare technologies for commercialization, and financial incentives support research in emerging technologies. Financial incentives provided at numerous points in the commercialization process promote the adoption of the supported technologies. Funding is also provided for pilot projects and demonstrations. Programs to build consumer awareness and demand are important strategies for promoting adoption of technologies and also for reducing reliance on financial incentives as end users and decision makers come to understand and act independently on the value of energy efficiency. NYSERDA also offers numerous programs covering the full spectrum of energy users from low-income consumers to large industrial projects.

Delivery of such diverse programs requires the development and use of internal and external mechanisms that enable staff to monitor and respond to changing market conditions and evolving customer needs. At the same time, to be effective, programs must present their customers with consistent requirements and services. As programs mature and resources are used, management has begun putting heavier emphasis on leveraging outside financial investment and expertise. Internally, management has actively worked to identify and emphasize synergies among programs because exploiting synergies allows NYSERDA to deliver quality programs and frees staff and resources for analytic and technical activities to support its mission. A summary process map illustrating the logic of NYSERDA's programs is presented below. It reflects the various activities, market actors, and outcomes that keep NYSERDA's staff aware of its important and strategic activities.

NYSERDA STRATEGIC PROCESS MAP



Rationalizing the strategic planning process facilitates right governance. For example, more than 97 percent of NYSERDA's projects are contracted through competitive selection and procurement

processes. Competitive selection is important for identifying and retaining the most innovative ideas and identifying the best technical and service approaches. When unsolicited projects are funded, and less than three percent of all projects are sole source, they are usually in aid of federal grants and often procure services offered by contractors with unique technical expertise. Careful and rigorous procurement practices facilitate economic accountability and reinforce NYSERDA's culture of objective professionalism.

The fairly intense annual strategic planning process, touching every unit and every employee within the organization, complements ongoing portfolio and individual program evaluations. Both the strategic plans and quarterly and annual evaluation reports are subject to rigorous review by senior management and permanent independent outside advisory groups. The encouragement and acceptance of outside review and advice further support NYSERDA's commitment to right governance, economic responsibility, uncompromising ethical standards, and meaningful results.

Conclusions

Effective governance of public benefits energy programs is contingent upon several key factors. First, the process by which the funding is obtained should be open and needs driven. A compelling public purpose must be supported by clear policy goals. Second, active stakeholder involvement must be supported and encouraged throughout the organization. Interested parties must be involved in identifying program goals and developing program strategies. Stakeholder input is crucial for identifying public needs and stakeholders must be represented by the parties charged with reviewing and reporting on program metrics and progress toward goals. Third, program administrators must be held economically, legally, and ethically accountable for delivering program results. They must recognize that such accountability goes hand-in-hand with an open stakeholder process. Fourth, the organization's internal roles and responsibilities must be clearly delineated to ensure that the organization operates effectively. Fifth, the process of evaluating programs must be fully and strategically integrated with program planning, design, and delivery within the context of daily organizational operations because, without continuing nurture and attention, effective governance becomes increasingly difficult.

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