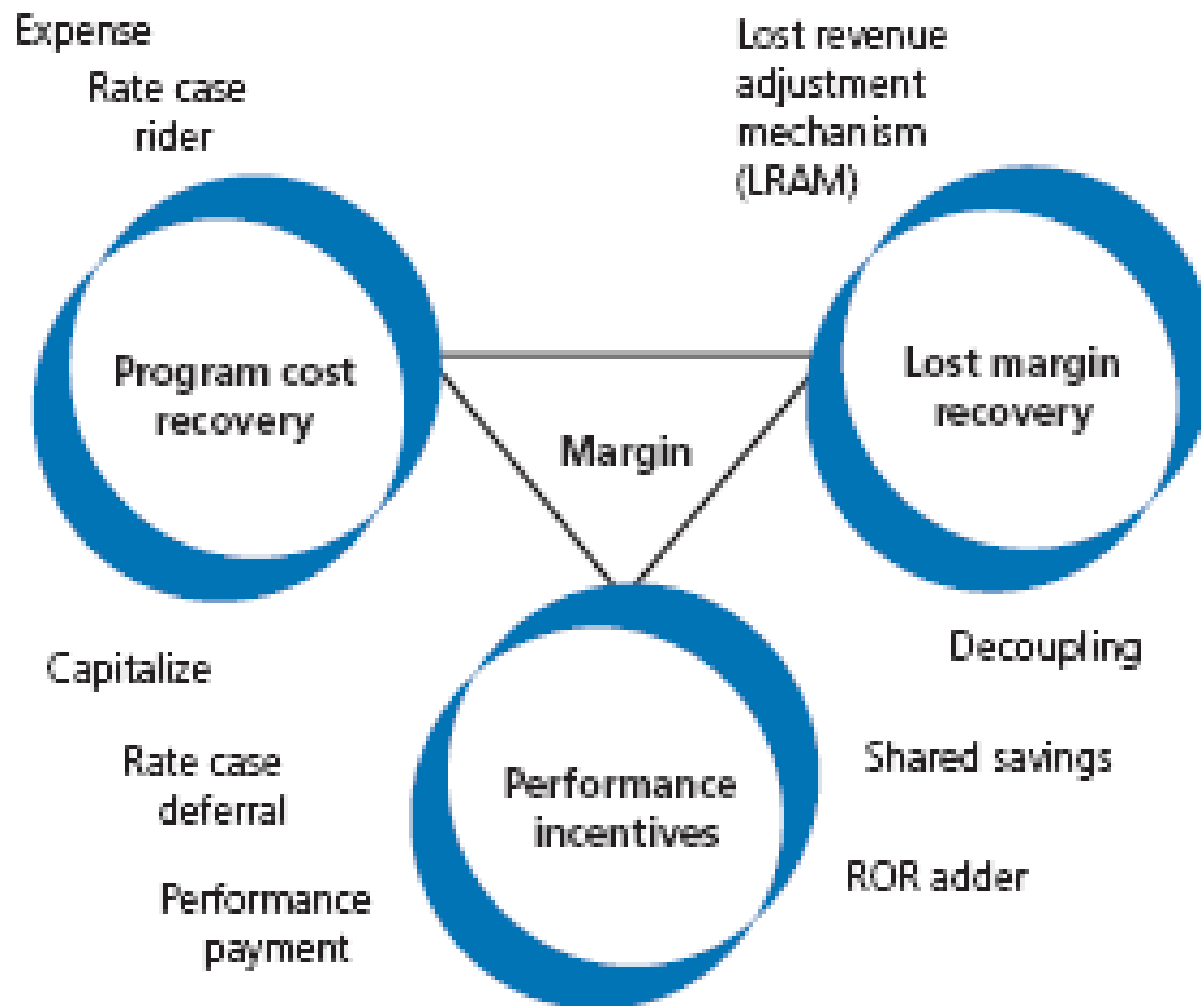


# Performance Incentives

Designs and Practices from Other States

EEAC Consultants

4-21-09



# Performance Incentives

Distinguish between:

- Level of incentive
- Design of incentive mechanism

# Types of Incentive Mechanisms

- Performance Target Mechanism
  - Utility receives performance-based incentive of an additional X% of program costs if it achieves EE portfolio goals or target level of performance (often applied as a scale, commonly with a cap as a % of program costs)
- Shared Net Benefits Mechanism
  - Utility retains X% of the present value of TRC net benefits from the portfolio of EE programs
- Cost Capitalization or Bonus ROE Mechanism
  - Utility capitalizes the annual program costs over first X years of the installed measures at authorized ROE + Y (e.g., 500) basis points

**Table 6-1. Examples of Utility Performance Incentive Mechanisms**

State	Type of Utility Performance Incentive Mechanism	Details
AZ	Shared savings	Share of net economic benefits up to 10 percent of total DSM spending.
CT	Performance target Savings and other programs goals	Management fee of 1 to 8 percent of program costs (before tax) for meeting or exceeding predetermined targets. One percent incentive is given to meet at least 70 percent of the target, 5 percent for meeting the target, and 8 percent for 130 percent of the target.
GA	Shared savings	15 percent of the net benefits of the Power Credit Single Family Home program.
HI	Shared savings	Hawaiian Electric must meet four energy efficiency targets to be eligible for incentives calculated based on net system benefits up to 5 percent.

State	Type of Utility Performance Incentive Mechanism	Details
IN	Shared savings/rate of return (utility-specific)	Southern Indiana Gas and Electric Company may earn up to 2 percent added ROE on its DSM investments if performance targets are met with one percent penalty otherwise.
KS	Rate of return incentives	2 percent additional ROE for energy efficiency investments possible.
MA	Performance target Multi-factor performance targets, savings, value, and performance	5 percent of program costs are given to the distribution utilities if savings targets are met on a program-by-program basis.
MN	Shared savings Energy savings goal	Specific share of net benefits based on cost-effectiveness test is given back to the utilities. At 150 percent of savings target, 30 percent of the conservation expenditure budget can be earned.
MT	Rate of return incentives	2 percent added ROE on capitalized demand response programs possible.

State	Type of Utility Performance Incentive Mechanism	Details
NV	Rate of return incentives	5 percent additional ROE for energy efficiency investments.
NH	Shared savings Savings and cost- effectiveness goals	Performance incentive of up to 8 to 12 percent of total program budgets for meeting cost-effectiveness and savings goals.
RI	Performance targets Savings and cost- effectiveness goals	Five performance-based metrics and savings targets by sector. Incentives from at least 60 percent of savings target up to 125 percent.
SC	N/A	Utility-specific incentives for DSM programs allowed.

# Massachusetts Electric PA Mechanism 2005-2009

$$\text{Incentives} = \text{EE Spending in Year} \times \begin{matrix} 5\% \\ (\sim 8.25\% \text{ pre-tax}) \end{matrix} \times \begin{matrix} \% \text{ Achieved} \\ \text{in Relation to Planned} \\ (75\% - 110\%) \end{matrix}$$

## Three Measures to Earn Incentives

Savings Incentive	Value Incentive	Performance Metrics
<p>Goal: Maximize savings</p>	<p>Goal: Maximize net benefits (benefits – costs)</p>	<p>Goal: Establish PA focus on specified program outcomes or plan development</p>
<p>Rewards PA for acquiring additional lifetime energy and demand savings (kWh and kW) and project associated non-electric benefits</p>	<p>Rewards PA for seeking additional cost effective savings (kWh and kW) and non-electric benefits</p>	<p>Enables the PAs and stakeholders to highlight elements of the EE Plan which might not receive the attention they merit in the hierarchy of carrying out the Plan</p>

Structure and key content adopted from PA slides

# Three Components of CT Mechanism

- Electric system benefits (the \$ value of kWh and kW savings)
- Electric system net benefits (benefits minus costs)
- Performance incentive metrics (program specific indicators)

# CT Performance Incentive Mechanism

Performance (% of Target or Goal)	Pre-Tax Incentive as a % of Cost Basis (% of program costs)
70%	2%
80%	3%
90%	4%
100%	5%
110%	6%
120%	7%
130% (maximum)	8%

# Rhode Island

For electric programs, the shareholder incentive mechanism will continue to include two components:

- (1) kWh savings targets by sector and
- (2) performance-based metrics.

A target incentive rate of 4.40% in 2009 applied to the eligible spending budget for 2009. The projected spending budget for 2009 is approximately \$23.5 million.

The total target incentive for 2009 is 4.40% of the approved spending budget, or approximately \$1.036 million. Of this total, \$150,000 will be the target incentive for the performance-based metrics and the remainder will be for the kWh savings target (~14.5% of incentives).

The threshold performance level for energy savings by sector is 60% of the annual energy savings goal for the sector.

The Company must attain at least this threshold level of savings in the sector before it can earn an incentive related to achieved energy savings in the sector.

The Company will have the ability to earn an incentive for each kWh saved, once threshold savings for the sector are achieved, up to 125% of target savings. The incentive per kWh saved.

The incentive cap on energy savings will be equal to 125% of the target incentive amount for energy savings.