MA ENERGY EFFICIENCY ADVISORY COUNCIL

→ CONSULTANT TEAM

PERFORMANCE INCENTIVE OVERVIEW

▶ July 17, 2024

WHAT ARE PERFORMANCE INCENTIVES FOR?

- Performance Incentives (PI) provide a fiscal motivation to pursue program objectives
- Powerful ability to align program administrator objectives with Commonwealth objectives
- Required component of a 3 year plan pursuant to the Green Communities Act
- Needs to reflect the multiple priorities of a given plan and weight them appropriately
- Performance Incentive mechanisms are set relative to the plan, and therefore program administrator earnings depend on performance relative to plan

REGULATORY GUIDANCE ON PERFORMANCE INCENTIVES

- **Energy Efficiency Guidelines state a performance incentive mechanism should be:**

Designed to encourage pursuit of all available cost-effective energy efficiency

Designed to encourage program designs that will achieve Commonwealth energy goals

Based on clearly defined goals and activities that can be sufficiently monitored, quantified and verified after the fact

Available only for activities where the PA plays a distinct and clear role in bringing about the desired outcome

As consistent as possible across PAs

Created to avoid any perverse incentives

ADDITIONAL GUIDANCE

- **PI mechanisms need to avoid "double counting" of PA efforts**
  - Source: 2019-2021 Plan Order on the Renter Component
- **PI mechanism should include a "value component" to promote cost-efficiency**
  - Source: Most recently required for 2025-2027 term in Unitil EERF docket
- **"Metric" based performance incentive mechanisms should "induce PAs to undertake activities they would not otherwise undertake"**
  - Source: DPU 13-67

BASIC STRUCTURE OF PAST PI MECHANISMS

- **Historically the PI mechanism has had two major components:**
  - A savings component based on ***total*** benefits achieved through the plan
    - Meant to prioritize overall savings
  - A value component based on ***net*** benefits (total benefits minus the cost of program delivery)
    - Meant to prioritize cost-efficiency
- **Other components have been targeted at priority areas**
- **Components have three key "levels"**
  - Threshold level – the point at which earning begins
  - Design level – the planned value for the component
  - Cap level – a cap for PI achievement above design

EXAMPLE: CORE COMPONENTS

	Planned	Achieved
Benefits	$10M	$11M
Costs	$4M	$6M

- **At threshold levels of 75%, PAs would start earning at $7.5M in benefits and $4.5M in net benefits**
- **PA achievement would be 110% of the savings component and 83% of the value component**
- **If each component were worth $5M, total earnings would be $9.6M of the $10M design level**

OTHER PI COMPONENTS

- **Other PI components have involved re-allocating large portions of the savings component into priority savings components**

☑ **Electrification**
- Approved for 2022-2024 plan with modifications to require weatherization

☑ **Equity**
- Approved for 2022-2024 plan with modifications to targeted community list

- **Other components have been focused components on specific outcomes**

☒ **Renter**
- Designed to give a flat dollar amount to PAs per renter served.
- Was rejected by DPU due to double counting with benefits generated by measures adopted by renters

☑ **Active Demand**
- Approved for 2019-2021 plan to specifically incentivize PAs to develop ADM capabilities and market

PI BUDGET & PAYOUT METHODS

- **PI budget is directed to be "kept as low as possible" per EE Guidelines**
- **Historically PI has been 4-5% of the total non-PI budget**
- **PI is disbursed based on a $ earning per $ benefit achieved basis**
- **These payout rates are calibrated to help emphasize specific outcomes**
  - In the proposed 2022-2024 Plan's PI mechanism, the electrification & equity component payout rates were 20% higher than the savings component
    - $0.0172 per benefit $ versus $0.0143 per benefit $

2022-2024 PI MECHANISM – AS FILED

Component	What's Included	Threshold	Design	Cap
Equity	Benefits achieved in specific communities and selected Boston zip codes (not including large C&I) and for moderate income customers statewide, including from electrification Equity benefits for Res/IE to be at least 25% of Res/IE portfolio benefits for electric and 45% for gas by 2024	85%	100%	N/A
Electrification	Benefits from electrification measures that are not in EJ communities or not for moderate income customers statewide	60%	100%	N/A
Standard	Benefits achieved in the rest of the service territories that are not counted in the two benefits components above	75% threshold of standard component or meeting weighted average portfolio threshold	100%	125% of standard EE until equity & electrification thresholds are met
Portfolio	All program benefits, with the exception of MAC benefits from fossil fuel systems, are eligible to earn PI in one (and only one) of the above PI components	Weighted Avg Threshold of 73% elec / 77% for gas *	100%	125%

2022-2024 PI MECHANISM – AS APPROVED

PI Mechanism and Components,

2022-2024 Plan, Original Plan vs. Compliance Filing

PI Mechanism (Electric) 2022-2024 Original Plan		PI Mechanism (Electric) 2022-2024 Compliance Filing	
Equity Benefits (38 EJ Communities & Mod. Income)	18%	Equity Benefits (60 EJ Communities & Mod. Income)	13%
Electrification Benefits	28%	Electrification Benefits	20%
Standard Benefits	54%	Standard Benefits	37%
Discontinue Value Component (Net Benefits)	0%	*Continue* Value Component (Net Benefits)	30%

% of total PI values above are for the Electric PI Mechanism.

- **Only 33% of total electric PI in the revised Plan allocated to achieving equity and electrification benefits compared to 46% in the Original Plan**
  - Due to the DPU Order requiring a Value component (30%) in the revised PI mechanism

2025-2027 PERFORMANCE INCENTIVE AS OF 7/11/24

Component	What's Included	% of Total PI Pool	Threshold	Design	Cap
Equity	Targeted benefits such as statewide Low-Income (excluding fossil fuel measures), Moderate-Income, Renters, and Small Business Turnkey	TBD - Will account for largest portion	TBD	100%*	125%
Savings	All non-equity production	TBD	TBD	100%*	125%
Value	Total benefits minus program costs – potentially excluding equity measure costs	TBD	TBD	100%*	125%

- ***There is discussion around the inclusion of specific targets to serve as "locks" for the above-design performance**
  - Example: To exceed 100% of the savings component, the PAs have to support at least 90% of the planned amount of existing building commissioning studies

THANK YOU

Questions?