

VEIC Study Review Synthesis
Chapter 9 - Utility Performance Incentives
October 19, 2012

Summary of Chapter 9

Chapter 9 provides an overview of the key elements for creating and designing an effective program administrator incentive mechanism. It compares the current New Hampshire approach and suggests modifications that might better align utility and Core program goals. The chapter contains 28 recommendations and sub-recommendations. The chapter explains that under a traditional regulatory structure such as that in place in New Hampshire, utilities have inherent *disincentives* to pursue energy efficiency which may result in reduced energy sales and shareholder earnings. However, performance incentives can be designed into the efficiency programs to offset and/or overcome these disincentives, thus encouraging utilities to pursue energy efficiency resources more aggressively. There are multiple ways to design and implement performance incentives, some of which are dependent on the design and implementation approach of the EE programs themselves.

The Core programs and Performance Incentives (PI) should be informed by overarching state energy policy goals, which may include specific policy objectives for the State’s EE programs. Performance Incentives for EE programs should motivate the utility or other program administrator to meet or exceed goals and objectives agreed upon by the stakeholders or as directed by the PUC.

Findings

In general, there is broad agreement with many of the VEIC recommendations regarding performance incentives, and these recommendations could be implemented relatively swiftly, at low cost. Their implementation does not require legislative action. The majority of recommendations regarding performance incentives are appropriately acted upon through the Core energy-efficiency management and oversight process at the PUC.

Top Priorities for Early Action

Integrate the Chapter Recommendations into Core Performance-Incentive Review Subgroup Work Plan

As the Chapter 9 recommendations are focused more on the details of program design and implementation than on legislative policy, the recommendations do not require legislative action. In addition, there is currently a group of regular participants at Core Quarterly Meetings at the PUC called the “Core Performance-Incentive Review Subgroup” comprised of utility representatives and other stakeholders. This group’s purpose is to discuss/evaluate PI issues and make recommendations for modifications to the Core Management Group. The VEIC Report’s Chapter 9 recommendations will be reviewed by this group. The EESE Board recommends periodic updates as to progress on these matters.

1) Implementation:

Core Performance-Incentive Review Subgroup

2) Periodic Review:

EESE Board

Priorities for Medium or Long-Term Action

Periodically Review the Performance Incentives (PI) and Adjust Accordingly

Performance Incentives (PI) should be reviewed periodically to insure that they are working towards meeting energy policy objectives. There is currently a group of regular participants at Core Quarterly Meetings at the PUC called the “Core Performance Incentive Review Subgroup” comprised of utility representatives and other stakeholders. This group’s purpose is to discuss/evaluate PI issues and make recommendations for modifications to the Core Management Group. The VEIC Report’s Chapter 9 recommendations will be reviewed by this group. The PUC, in its Order No. 25,315 issued on January 9, 2012 stated “The Settling Parties agree to include in quarterly meetings a discussion of the VEIC Independent Study of Energy Policy Issues Final Report and to work with the EESE Board and subcommittees to reduce duplication of effort. We agree that discussion of the VEIC report is an appropriate subject matter for the quarterly meetings. The quarterly meetings are intended to allow Staff and the parties to review the implementation of the gas and electric energy efficiency programs and issues related to those programs¹.”

1) Review:

Core Performance-Incentive Review Subgroup

2) Development:

NH Public Utilities Commission, NH Utilities & Stakeholders

3) Implementation:

NH Public Utilities Commission

Review the Goal-Setting Process

Though there was no specific VEIC recommendation regarding “goal setting” in the “Performance-Incentive Chapter,” it would be useful to review the process by which EE-program-savings goals are set to ensure that the process is adequately robust. Setting appropriate savings goals is important as the ratio of actual savings achieved to planned savings goals is used as part of the current PI formula. Further, savings goals should be developed to align with policy goals and available funding.

1) Review:

Core Performance-Incentive Review Subgroup

2) Development:

NH Public Utilities Commission, NH Utilities & Stakeholders

3) Implementation:

NH Public Utilities Commission

¹ NH PUC Order No. 25,315, 2011-2012 CORE Electric Energy Efficiency and Gas Energy Efficiency Programs Order Approving 2012 Energy Efficiency Program Updates, Issued January 9, 2012 <http://www.puc.nh.gov/Regulatory/Orders/2012orders/25315e.pdf>

Incorporate Market-Transformation Metrics to Support Development of Market Infrastructure²

When discussing modifications to the existing incentive structure, the “Core Performance Incentive Review Subgroup” should also consider actively identifying and incorporating market-transformation-type metrics into the CORE Programs’ Energy Efficiency Program Performance Incentive metrics and goals structure. This is in keeping with another foundational market transformation recommendations of the report, which calls for allowing utilities to claim benefit not only for installation of efficiency measures³, but also for some of the work they do that helps to develop markets, and helps to promote and support high-efficiency codes and standards

1) Review:

Core Performance-Incentive Review Subgroup

2) Development:

NH Public Utilities Commission, NH Utilities & Stakeholders

3) Implementation:

NH Public Utilities Commission

Areas for Further Consideration

Consider Relationship of EM&V, Goal Setting and Performance Incentives

The inter-relationship among independent evaluation, monitoring and verification of energy efficiency programs (noted in Chapter 3), the setting of appropriately aggressive program savings goals, and potential performance incentive levels that can be earned should be an area of ongoing review by the Core Management Team and EE program stakeholders.

1) Review:

Core-Management Team and EE-Program Stakeholders

2) Development:

NH Public Utilities Commission, NH Utilities & EE-Program Stakeholders

3) Implementation:

NH Public Utilities Commission

Consider Areas of Disagreement

It should be noted that, while there was broad agreement with most of the VEIC recommendations, the recommendations to a) tie incentives to the budget rather than actual expenditures) and b) create a tiered-incentive structure were exceptions. The PUC has previously reviewed and approved the use of “actual” expenditures in the current PI formula⁴.

1) Review:

² Item 1.8.5, “Market development (and not simply resource acquisition) is rewarded” in the “Building Blocks that Lead to Market Development and Market Transformation”, page 1-9.

³ Ibid.

⁴ NH PUC Order No. 25,189, 2011-2012 CORE Electric Energy Efficiency and Gas Energy Efficiency Programs Order Approving Settlement Agreement, Issued December 30, 2010, <http://www.puc.nh.gov/Regulatory/Orders/2010orders/25189eg.pdf>

Core-Management Team and EE-Program Stakeholders

Background

The purpose of a well designed Energy Efficiency Program Performance Incentive (PI) is to encourage performance to achieve and exceed specified program goals and/or metrics. The PI should be well designed to account for the current regulatory structure, policy goals, legislative mandates, and financial impacts on utilities and program administrators of the efficiency programs. The PI should serve as an effective motivator but not be any higher than necessary as costs are borne by ratepayers. The design of any PI should take into consideration regulatory mechanisms such as revenue decoupling and/or lost base revenue recovery which may also be in place⁵ as these mechanisms interact with any PI to influence utility behavior and compensate the utility.

⁵ Neither of these regulatory mechanisms is currently in place for any New Hampshire utility regulated by the PUC. Implementation of either would require review and approval by the PUC.