

Performance Incentive Working Group

January 17, 2019



Objectives of PI Working Group

- Strive for focused, consensus-based decision making
- Recommend appropriate PI calculation methodology for 2020 by the end of Q2 2018
- To extent possible, recommended methodology should be adaptable to evolution in program design
- Incorporate a kW demand metric (electric only)
- Ensure Low Income offerings are appropriately incented in spite of challenges with benefit-cost

Settlement Language

12/8/2017 - A Performance Incentive Working Group, discussed below in Section II.M.(1), shall be formed in 2018 to **review potential PI calculation methodologies that could further promote the achievement of New Hampshire's EERS goals**. Likely candidates for study include (but are not limited to) metrics to cover income eligible participation and peak load reductions. **The PI Working Group shall make recommendations for the 2020 Plan update**. The Settling Parties further agree that any of the Settling Parties may make recommendations about the Performance Incentive for the 2020 Plan update in addition to any recommendations made by the Performance Incentive Working Group.

12/13/2018 - The Performance Incentive Working Group will continue its work into 2019 with the goal of **completing its work by the end of June 2019**. **The Utilities shall consider for inclusion in the 2020 plan update the results of that Working Group, which will include a metric related to peak demand reduction**. Any of the Settling Parties may make recommendations relating to Performance Incentives for the 2020 plan update in addition to any recommendations made by the Performance Incentive Working Group.

EERS Goals

- **Primary Goals:**
 - kWh Savings (electric) and MMBtu Savings (gas)
 - Cost Effective Programs (B/C)
- **Secondary Goals:**
 - MMBtu savings from delivered fuels
- **Identified areas of interest**
 - Demand Savings (active and passive, summer peak)
 - Robust Low-Income programs

NH's Current Performance Incentive

PI is calculated by multiplying a percentage factor by the Actual spending in each sector capped at 105% of budget

Electric Savings %: Percentage of electric lifetime savings to the all fuels lifetime energy savings.

If > 55%, multiplier for each sector is 2.75%

If < 55%, multiplier for each sector is 2.2%

Component	Threshold	Target percentage	Maximum percentage	Sector Caps
C&I kWh Savings	65% planned sector lifetime savings	2.75% Planned vs. Actual	3.4375% Planned vs. Actual	Sector PI is capped at 6.875% of sector Actual Expenditures
C&I B/C	> 1.0 Sector B/C	2.75% Planned vs. Actual	3.4375% Planned vs. Actual	
Residential kWh Savings	65% planned sector lifetime savings	2.75% Planned vs. Actual	3.4375% Planned vs. Actual	Sector PI is capped at 6.875% of sector Actual Expenditures
Residential B/C	> 1.0 Sector B/C	2.75% Planned vs. Actual	3.4375% Planned vs. Actual	

MA's Proposed PI 2019-2021

- Each PA sets their design-level PI based on its share of total planned statewide benefits.
- Actual PI earned is based on each PA's actual benefits compared to their own plan.
- The Active Demand and Renter components have not yet been approved by the DPU.

Component	Threshold	Target percentage	Maximum percentage	
Value	75% planned portfolio net benefits, > 1.0 B/C	~36% of total PI pool negotiated	125% of each PAs design level	
Savings	75% of planned portfolio gross benefits	~58% of total PI pool negotiated	125% of each PAs design level	
Savings – Active Demand	75% of planned portfolio active demand benefits	~ 4% of total PI pool negotiated	125% of each PAs design level	
Renter participation	75% of planned renter participants	~2% of total PI pool negotiated	125% of each PAs design level	

Elements of MA PI that could work well in NH

Focus on Benefits

- Actively pursue benefits beyond kWh or MMBtu, in line with fuel-neutral program design
 - LI Weatherization generally has significant benefits, even though it has fairly low kWh savings and lower B/C ratios
 - Passive demand reduction has good benefits
 - In the future, active demand reduction will produce more benefits
 - In the future, energy optimization activities will produce more benefits, though they can result in negative kWh savings
 - The EERS Goal for Annual kWh savings ensures a continued focus on kWh

Elements of MA PI that could work well in NH

Focus on Benefits

- MA includes NEIs in its PI framework both for planning and reporting of benefits and calculating PI
- A shift to benefits-based PI does not lead to an *increase* in PI due to inclusion of NEIs as long as the calculation of benefits **includes (or excludes) NEIs in both planning & reporting:**

a) Planned benefit including NEI / Actual benefit including NEI

OR

b) Planned benefit without NEI / Actual benefit without NEI

Elements of MA PI that could work well in NH

Portfolio Approach

- Energy efficiency should be pursued wherever it is available
- Provides a focus on the whole portfolio, rather than the sectors individually
- Higher kWh projects of C&I customers can help “carry” lower kWh projects of residential and income eligible customers to achieve growing EERS kWh and therm targets
- Allows more cost effective projects to help “carry” lower B/C projects (e.g., income eligible programs), without having to separate them out completely
- Each sector still receives appropriate program focus and investment as budgets are developed and allocated between the sectors based on the source of funding (SBC, FCM, RGGI, LDAC)

Elements of MA PI that could work well in NH

Value Component of PI

- Based on Portfolio Net Benefits
- Similar to NH's current B/C component
- “Value” is based on Utility's Cost (*not* Utility + Customer Cost)
- Total Benefit - Utility Cost = Net Benefit
 - Rewards utility for achieving planned benefits at lower cost.
 - Project that costs \$8,000 and total benefit of \$15,000 has a B/C of 1.875 regardless, but utility is rewarded for doing it with a lower rebate

State	Total Project Cost	Rebate	Total Benefit	Net Benefit
NH	\$ 8,000	\$ 4,000	\$ 15,000	\$7,000
NH	\$ 8,000	\$ 2,000	\$ 15,000	\$7,000
MA	\$ 8,000	\$ 4,000	\$ 15,000	\$11,000
MA	\$ 8,000	\$ 2,000	\$ 15,000	\$13,000

Elements from MA to Consider in NH

Demand Savings Component of PI

- PI component for Demand Savings is in **addition** to PI component for *overall* Savings, reflecting the new, distinct program risk and MA policy priorities
- PI component for Demand Savings is a small portion of overall PI Pool (~4% of total design level PI)
- Overall Savings Component is based on level of benefits from *both* planned portfolio EE savings and Active Demand savings
- MA only included Demand Savings component once ADM become a standard offer with distinct benefits

Elements from MA to Consider in NH

Program Focus Component

- Proposed in MA: Renter Participation PI component
- Small percentage of overall PI pool (< 2% electric, 4% gas)
- Awaiting DPU approval, which is not guaranteed
- Proxy for “hard to serve”, including income eligible
- Challenge to identify baseline for each PA (i.e., who is being served now, out of what total renter population)

Other Potential Adjustments to NH PI

- Calculate PI based on budget, not actual spending
- B/C threshold of 1.0 for portfolio, not by sector
- Remove 55% electric savings requirement, which has never been triggered
- With Portfolio approach, income eligible projects remain in B/C calculation
 - LI is still an energy-savings program, contributing savings
 - Portfolio B/C > 1.0 discourages very low B/C projects
 - Portfolio B/C significantly lessens pressure on income eligible
 - Benefits-based approach values the benefits from income eligible programs in spite of modest kWh opportunities

Where MA Does it Differently...

- MA negotiates the dollar level of design-level PI for each 3-year term in a “pool” approach based on the overall value of programs and risk involved in achieving benefits, split among the different components (i.e., savings, value, demand, renter)
- NH design level PI is set at 5.5% of spending (which could be applied instead to initial budget)
 - NH can continue to split the PI amount between different components by assigning different target percentages

Potential application of MA elements and other discussed elements

- PI = a percentage factor x Each Utility's Portfolio budget
- Minimum B/C Threshold of 1.0 for each Utility's Portfolio

Component (2020)	Threshold	Target PI	Max PI	Future
<u>Savings</u> – EE and passive demand benefits, actual compared to plan	75% planned lifetime benefits 75% planned lifetime kWh / therms	62% of the 5.5% PI target	62% of the 6.875% PI Maximum	Could include passive demand and/or fuel switching benefits. Could remove kWh savings threshold
<u>Value</u> - EE and passive demand net benefits, actual compared to plan	75% lifetime net benefits (PA costs minus total benefits)	36% of the 5.5% PI target	36% of the 6.875% PI Maximum	Could be influenced by the outcome of NSPM review
<u>Demand Savings</u> (benefits or savings, planned vs. actual)	TBD % of Planned Passive Demand Savings	Additional % PI target	Additional % PI Maximum	Could shift to active demand in the future if/when fully incorporated
<u>Other</u> (related to LI?)	TBD	2% of the 5.5% PI target	2% of the 6.875 PI Maximum	TBD

Potential Impacts from 2019 Studies

- NSPM Cost Effectiveness Test Review
- Energy Optimization through fuel switching
- Feasibility and Scalability of Active Demand Management offerings

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Discussion