

Proposal for New EE Incentive Mechanism in CA

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July 2012

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Principles

- IOUs that perform better at securing energy efficiency savings should be more profitable than those that perform poorly
- Level playing field with supply side resources
- Create a win win opportunity for customers and shareholders
- Provide a balance of potential risks and rewards, tied to performance
- Spur utilities to reach policy goals

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Objectives

- Capture all cost effective energy savings through efforts that achieve deeper, more comprehensive, and longer lasting savings
 - Maximize GHG reductions by maximizing energy savings
 - Encourage both market transformation and resource acquisition programs
- Simple, transparent, and predictable with timely implementation
- Ensure utility commitment to EE as top priority
- Ensure prudent use of customer funds
- Encourage accurate, timely and collaborative EM&V
- Encourage codes and standards
- Encourage innovation

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Summary of Proposal

This incentive mechanism would spur the utilities to maximize energy and demand savings, while ensuring EE savings are cheaper than alternative resources. It would give the utilities an opportunity to earn a profit based on their performance at saving energy and demand, and for meeting specific performance metrics to meet CPUC objectives. Once the portfolio is cost effective, earnings would increase linearly as a function of energy and demand savings. Earnings would be capped at a predetermined level (set based on the factors described in D.07 09 043), and the utilities could only reach the cap if they capture energy savings that exceed the level expected in their applications. Utilities would face a penalty in the form of a “cost effectiveness guarantee” that ensures that customers will never lose money on their investment in efficiency efforts.

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Outline of Proposal (1 of 3)

Assessing Performance:

- Earnings calculated based on lifetime energy and demand savings (electric and natural gas).
 - All ex ante values, except ex post updates for actual installations
 - Count *lifetime* savings of (i) all net savings from programs and (ii) all C&S installations in territory in that year.
 - Time limit for counting C&S savings (i.e. utilities get to count lifetime savings from new C&S from measures actually installed in their territory that year, and for X number of years after the new C&S goes into effect)
 - Cap on effective useful lives (EUL) eliminated or lifted

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Outline of Proposal (2 of 3)

Threshold:

- Pass PAC

Penalty:

- Cost effectiveness guarantee

Cap:

- Magnitude defined up front based on multiple factors listed in D.07 09 043 (i.e., supply side comparability, clear signal to investors, relative risk/reward profiles of resources, level of performance, fair to customers)
- Portfolio (including earnings) must pass PAC cost effectiveness test (or earnings are capped to ensure it)
- Sub cap on earnings from C&S savings

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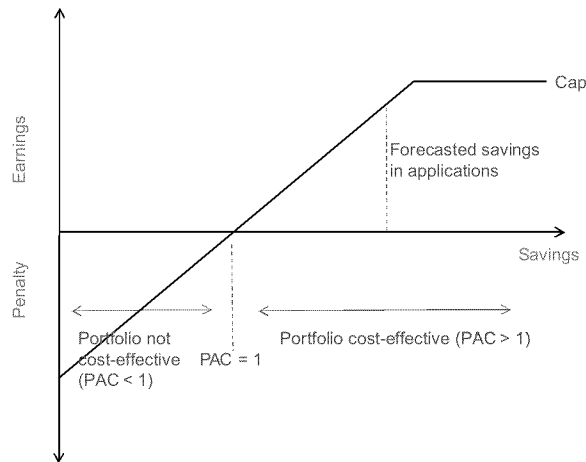
Outline of Proposal (3 of 3)

Earnings:

- Divide cap into two pots for energy and demand savings vs. performance metrics
- Category 1: X% of cap available for rewarding **energy and demand savings**
 - Cap further divided it into three “savings pots” for potential earnings based on each metric (GWh, MW and therms).
 - Earnings for each “savings pot” based on linear function as saving increase (e.g. earn nothing at 0 GWh, 5% of “electric savings pot” at Y GWh, 10% at 2Y GWh, etc.).
 - Linear function reaches cap at >100% of expected savings in IOU applications
- Category 2: Y% of cap available for rewarding **performance metrics** that are:
 - **Limited in number.** Should include very few performance metrics based on the Commission’s top priority efficiency policy objectives.
 - **Distinct from the benefits goal.** Performance metrics should only focus on policy objectives that are in conflict with, or cannot be sufficiently achieved through, the “energy and demand savings” category.
 - **Quantifiable.** Only quantifiable metrics that are clearly specified up front and have a predictable process for evaluating performance should be included.
 - **Outcome oriented.** Metrics should focus on the desired outcome that the Commission is seeking, not activities or processes.
 - For example: lost opportunities, comprehensiveness

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Illustration



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Summary of Improvements from Existing Shared Savings RRIM

- Focuses on maximizing cost effective energy savings as the primary metric, which aligns with maximizing GHG reductions
- Given a fixed budget, utilities would seek to maximize lifetime savings
- Directly rewards comprehensive and long lived efficiency upgrades
- Does not disadvantage “non resource” programs (i.e. no incentive to cut non resource program costs)
- Compares efficiency directly to the alternatives as a utility resource
- Linear function eliminates “steps”
- Puts codes and standards and programs on equal footing, so utilities pursue most cost effective approach
- Simpler and more predictable, and reduces number of variables needed to calculate potential earnings / penalties

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