

Overview of Utility Incentives

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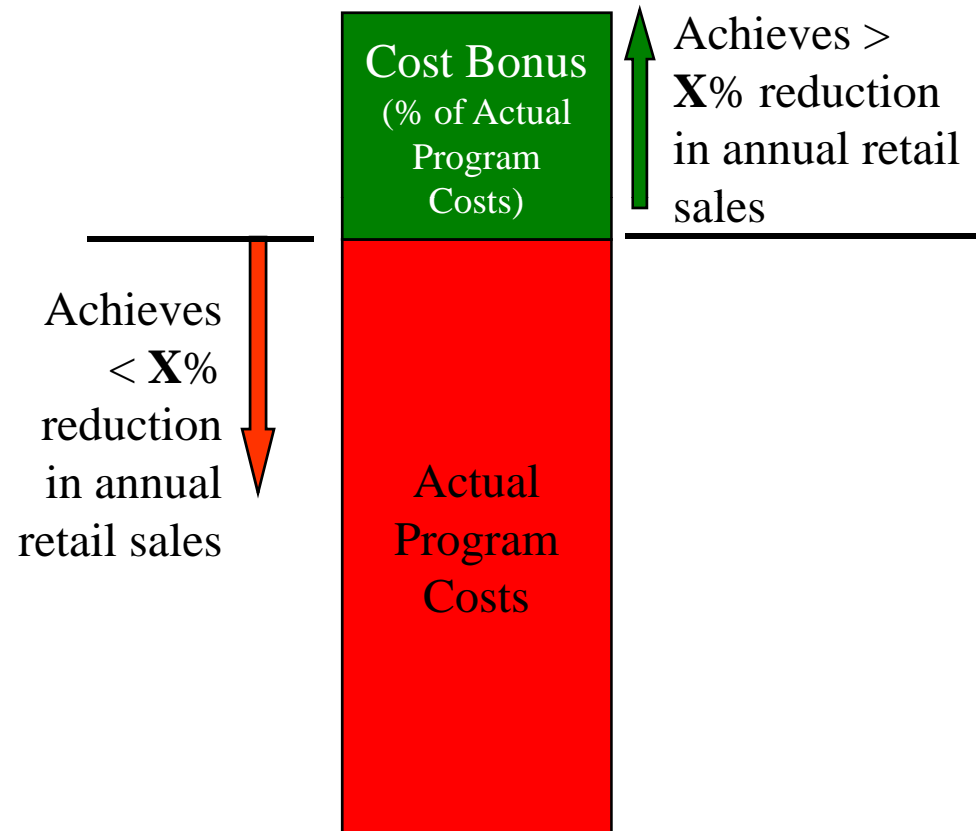


About RAP

- RAP is a non-profit organization providing technical and educational assistance to government officials on energy and environmental issues. RAP Principals all have extensive utility regulatory experience.
- Funded by US DOE & EPA, Energy Foundation and other foundations, and international agencies. We have worked in 40+ states and 16 nations
- RAP advises governments directly, does not appear for parties in contested cases (but may be Commission witness or adviser)
- Also provides educational assistance to stakeholders, utilities, and advocates

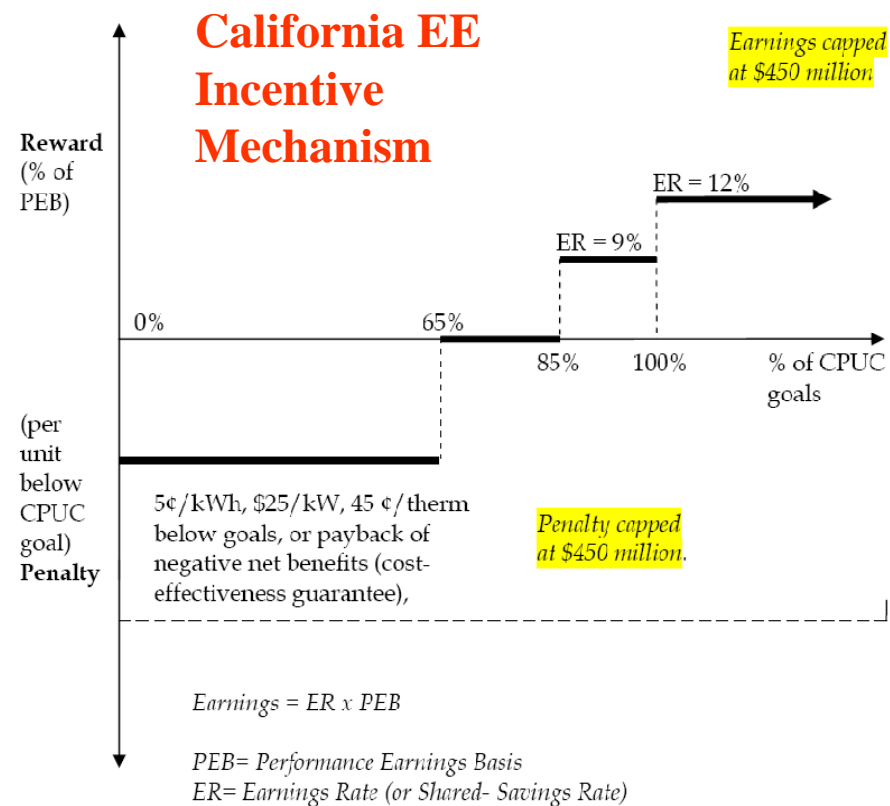
Performance Target Incentive Mechanism

- Utility able to fully recover program costs
- As an incentive, utility is rewarded an additional % of total program costs
- Incentive level typically tied to achievement of energy (and/or demand) savings goals



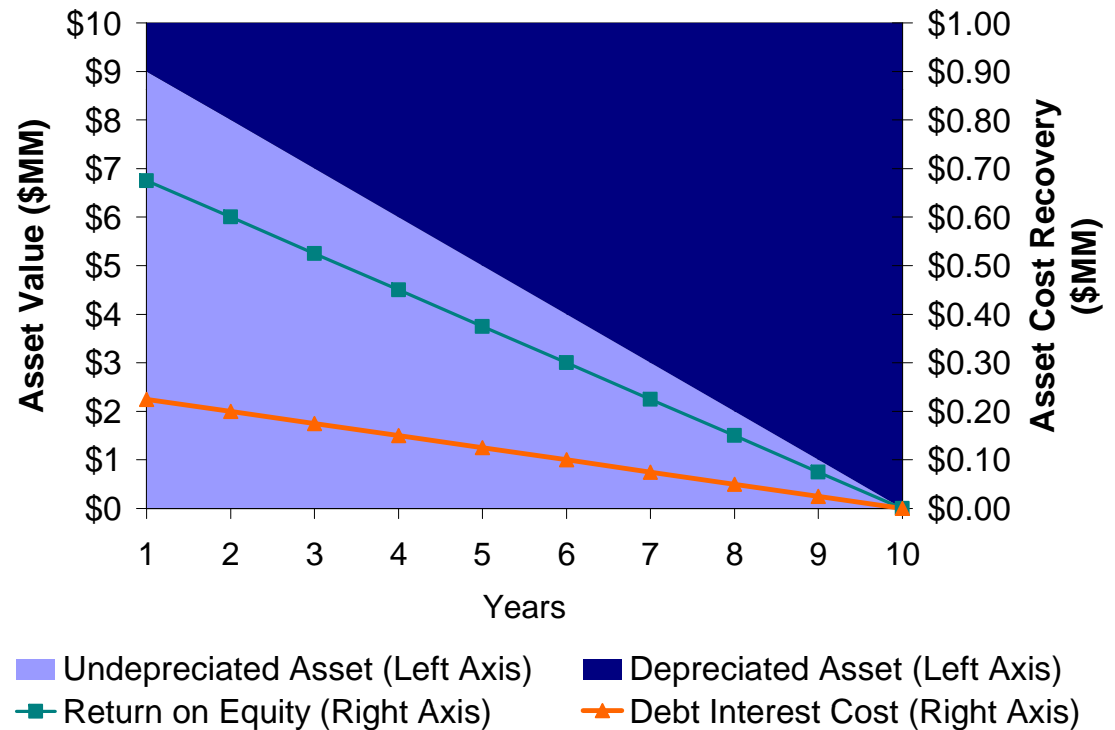
Shared Net Benefits Incentive Mechanism

- Utility retains % of the net resource benefits of the EE program portfolio
- Incentive level typically tied to achievement of energy savings goals or level of net benefits
- Benefits are typically defined as avoided costs of energy, capacity, T&D savings, and environmental benefits (in some cases)



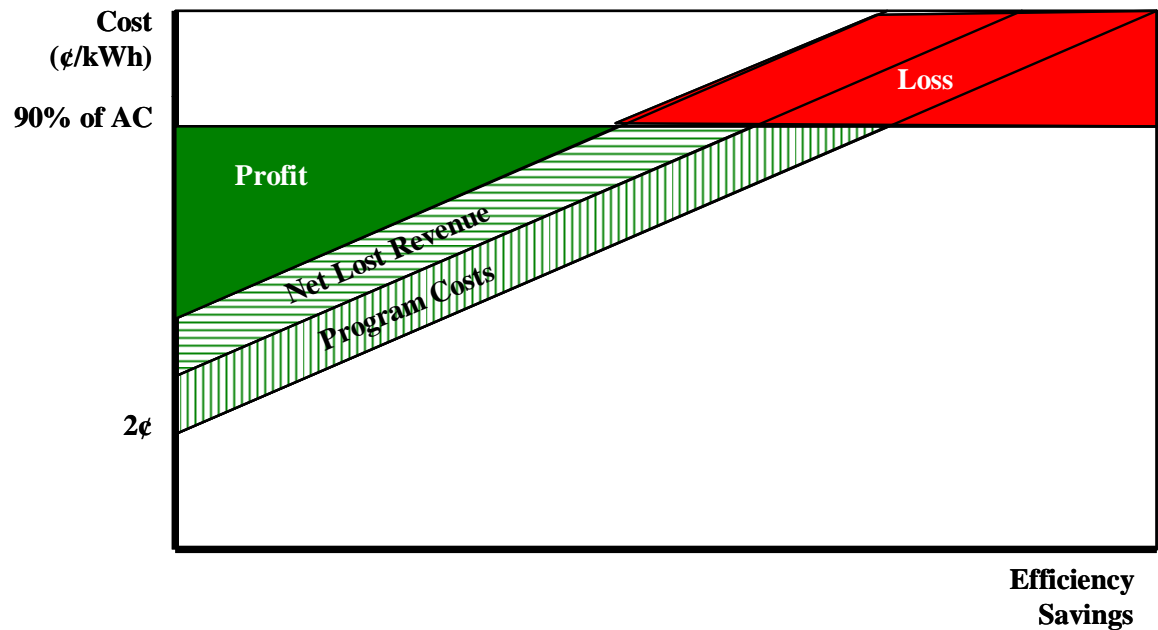
Cost Capitalization Incentive Mechanism

- Utility is able to capitalize/ratebase EE program costs (similar to supply-side assets)
- EE investment is typically amortized over avg. lifetime of EE measures
- Utility earns a return on the un-depreciated EE asset, often with a kicker to its authorized ROE



“Save-a-Watt” Incentive Mechanism

- Duke Energy proposed an incentive mechanism that values DSM demand and energy savings at 90% of their lifetime avoided costs
- Avoided “investment” in energy and capacity is amortized over lifetime of the EE measures
- Utility able to *charge* ratepayers a return on the un-depreciated avoided “investment”
- Mechanism covers program costs, any net lost revenue, and traditional incentive payment






Examples of Positive Incentives

- Arizona (Net Shared Benefits)
- Connecticut (Performance Target)
- Massachusetts (Performance Target)
- Minnesota (Shared Net Benefits)
- New Hampshire (Modified Shared Net Benefits)
- Nevada (Cost Capitalization)
- Vermont (Performance Target for 3rd Party Administrator)



Positive Incentives: Arizona

- Required funding levels >\$10 million
- Includes low income assistance
- Utility keeps a portion of net economic benefits
- Incentives capped at maximum of 10% of DSM budget



Positive Incentives: Connecticut

- Utilities receive “performance management fees” tied to performance goals based on lifetime energy savings and demand savings.
- Incentives earned for outcomes from 70-130% of pre-determined goals (70% earns a 2% of budget as pre-tax incentive, 80% earns 3%, and so on, up to 130% which earns an 8% pre-tax incentive)
- In 2004 utilities collectively reached 130% of their energy savings goals and 124% of their demand savings goals and received performance management fees of \$5.27 million
- In 2007, utilities exceeded goals, but overspent their budget due to customer demand
- Adjusted for overspending, 2007 Performance Management Fees for CT utilities were \$5.72 million



Positive Incentives: Massachusetts

- Program-by-program shareholder incentives are 5% of expenses after taxes
- Threshold performance level is 75%, and exemplary performance is set at 110% of program design (i.e. expected performance)
- Incentives are revised periodically
- Regulatory finding: Incentives must be large enough to promote good program management, but small enough to leave almost all of the energy efficiency funds to directly serve customers



Positive Incentives: Minnesota

- Utilities receive a percentage of net benefits created by their investments in EE when energy-savings goals are met or exceeded
- @ 150% of energy savings goal utility earns ≈30% of its conservation budget
- Commission may order utilities to develop and submit incentive plans
 - ❖ Must review and make changes to the plans by the end of 2008



Positive Incentives: New Hampshire

- Shareholder incentives are 8-12% of program budgets by sector
- Cost-effectiveness incentive:
 - ❖ 4% of budget times cost-effectiveness ratio (actual to planned cost-effectiveness)
 - ❖ Minimum ratio of 1.0
- Energy Savings incentive:
 - ❖ 4% of budget times ratio of actual to saved energy savings
 - ❖ Minimum 65% of planned energy savings



Positive Incentives: Nevada

- DSM bonus rate of return 5% (i.e. 500 basis points) higher than returns for supply investments
- Applies to all “Critical Facilities”:
 - ❖ Reliability
 - ❖ Diversity of supply- and demand-side resources
 - ❖ Development of renewable resources
 - ❖ Fulfilling statutory mandates and/or retail price stability
- Can earn bonus return on equity (above) or get CWIP treatment or creation of “regulatory asset” account



Positive Incentives: Vermont

- Energy Efficiency Utility (statewide third-party administrator for efficiency) contracts with the Public Service Board
- Receives up to 3.5% of its budget during a three-year period
- Incentive categories include:
 - ❖ Program results incentives (electricity savings, total resource benefits, peak summer and winter demand savings overall and in certain geographic areas)
 - ❖ CFL sales by grocery stores
 - ❖ Community-based projects with reduction in community electricity use
- Minimum performance requirement standards include:
 - ❖ Minimum levels of spending on residential, low-income, and small non-residential customers, and
 - ❖ Geographic equity



Sources

➤ AZ:

- ❖ Decision 67744 in Docket E-01345A-05-0816, page 20 and paragraph 45 of the Settlement: Use “search” function at <http://edocket.azcc.gov/>

➤ CT:

- ❖ Conservation and Load Management Plan 2008, Docket 07-10-03, October 2007:
[http://www.dpuc.state.ct.us/dockcurr.nsf/6eaf6cab79ae2d4885256b040067883b/c573a5f38efe099a85257367006c6d9d/\\$FILE/FINAL%202008%20ELECT%20PLAN.pdf](http://www.dpuc.state.ct.us/dockcurr.nsf/6eaf6cab79ae2d4885256b040067883b/c573a5f38efe099a85257367006c6d9d/$FILE/FINAL%202008%20ELECT%20PLAN.pdf);
- ❖ Final Decision for Docket 07-10-03:
<http://www.dpuc.state.ct.us/dockcurr.nsf/6eaf6cab79ae2d4885256b040067883b/ea1e2ba8f3cba3858525746e006de69f?OpenDocument>



Sources

- MN: ACEEE Description of MN incentives:
<http://aceee.org/pubs/u061.pdf?cfid=808004&cftoken=98549903>
- Statutes:
 - ❖ http://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP_SEC&year=2007§ion=216B.16
 - ❖ http://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP_SEC&year=2007§ion=216B.241
- VT: EEU Contract:
 - ❖ <http://www.state.vt.us/psb/EEU/2006-2008Contract/2006-2008EEUContract.htm>



Sources

➤ MA :

- ❖ Commission Order: <http://www.mass.gov/Eoca/docs/dte/electric/06-34/5807dpuorder.pdf>
- ❖ ACEEE: <http://www.aceee.org/pubs/u061.htm>

➤ NH:

- ❖ ACEEE: <http://www.aceee.org/pubs/u061.htm>
- ❖ Order 23-574, issued November 2000:
<http://www.puc.state.nh.us/Regulatory/Orders/2000ords/23574e.pdf>

➤ NV:

- ❖ Nevada Administrative Code 704.9523 (3)(e)(4):
<http://www.leg.state.nv.us/NAC/NAC-704.html#NAC704Sec9523>
- ❖ NAC 704.9484 (3)(c): <http://www.leg.state.nv.us/NAC/NAC-704.html#NAC704Sec9484>



Learn More

- **Energy Efficiency Policy Toolkit**
 - ❖ <http://raponline.org/Pubs/General/EfficiencyPolicyToolkit3-1-06.pdf>
- **Profits & Progress Through Least-cost Planning**
 - ❖ <http://www.raponline.org/Pubs/General/Pandplcp.pdf>
- **Profits and Progress Through Distributed Resources**
 - ❖ http://www.raponline.org/showpdf.asp?PDF_URL=Pubs/General/ProfitsandProgressdr.pdf
- **Performance-based Regulation For Distribution Utilities**
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- **Performance-Based Regulation in a Restructured Electricity Industry**
 - ❖ <http://www.synapse-energy.com/Downloads/pbr-naruc.doc>
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 - ❖ <http://www.aceee.org>



Additional Plan References

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