Review of the Massachusetts Performance Incentive Mechanism

March 21, 2018
Performance incentives in MA have focused on achieving the two main goals:

1. Achieving **Savings ($)** while achieving all cost-effective energy efficiency
   - **Benefits** over the life of installed measures relating to electric energy, capacity, natural gas, oil, propane, water, NEIs expressed in Net Present Value monetary benefits

2. Achieving **Value ($)** through investment in energy efficiency
   - **Net benefits** (Benefits minus the customer + utility costs associated with the programs)
The MA Performance Incentive: Two Components

<table>
<thead>
<tr>
<th>Component</th>
<th>Goal: Maximize savings (total benefits in $NPV)</th>
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</thead>
<tbody>
<tr>
<td>Savings Component</td>
<td>Rewards PAs for acquiring additional lifetime primary energy and demand savings as well as other energy and non-energy benefits</td>
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<td></td>
<td>= 61.5% of total planned performance incentive pool based on the total dollar amount of benefits</td>
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<thead>
<tr>
<th>Component</th>
<th>Goal: Maximize the value of the programs (total lifetime benefits minus total lifetime costs)</th>
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<tbody>
<tr>
<td>Value Component</td>
<td>Rewards PAs for achieving energy and non-energy benefits while minimizing unnecessary utility and customer expenditures</td>
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<td>= 38.5% of total planned performance incentive pool based on the total dollar amount of net benefits</td>
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The MA Performance Incentive: Design

PI Pool
- The statewide design level PI pool is determined during the planning process
- 2016-2018: PI was 6% of total electric & 4% of total gas PA program budgets
- These amounts are pre-tax

PA Allocation
- During planning, the PI pool is divided among PAs according to each PA's proportion of planned statewide benefits and net benefits
- During reporting, PI is earned by each PA based on its performance compared to its own planned benefits and net benefits

Earned PI
- Earned at the portfolio level (shortfall in one sector can be made up by another)
- Earned over the three year period (shortfall in one year can be made up in another)
- Threshold = 75% of planned benefits and Portfolio B/C > 1.0
- Max PI = 125% planned benefits