

Pay for Performance

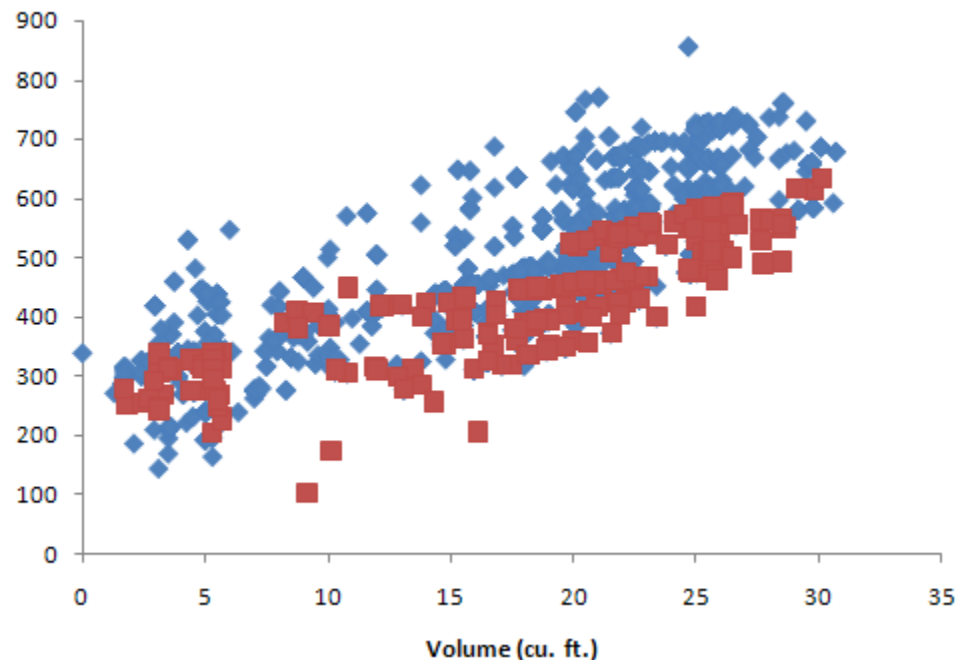
a different approach to incentives

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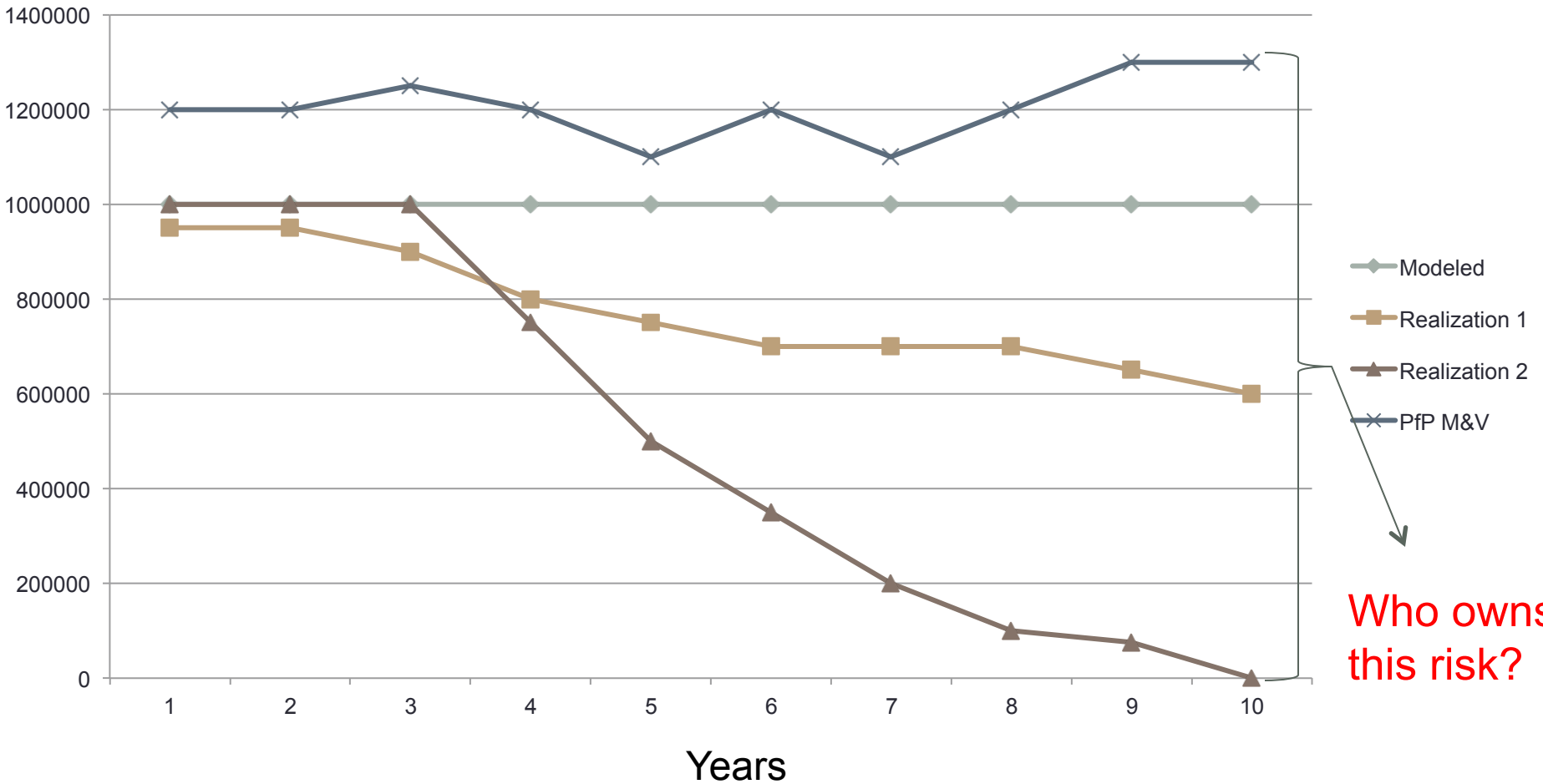
Aren't all incentives performance based?

- Payments conditioned on measure and verified savings
- Savings “deemed” by sanctioning body such as RTF
- Engineering estimate of savings for “custom projects”
- Duration of savings determined by specified measure life

Performance (kWh/year)



Current Approach: Savings over time



Who owns
this risk?

What is Pay for Performance (P4P)?

P4P is an energy efficiency project incentive structured on annual payments for measured and verified energy savings.

(Today's one time up-front rebate/incentive, replaced by annual payments based on yearly measured & verified savings over a negotiated term)

P4P Approach

- Transition from measure by measure to building system focus
 - Sustained optimized performance of current building systems
 - Large capital investments that modernize building infrastructure
- Changed business case that relies on annual revenue streams instead of one time cost buy down
- Game changing approach that is less dependent on cream skimming of the lowest cost, highest yield measures
- Addresses the uncertainty of long term persistence of savings

Attribute comparison

	Risk	Energy Savings Quantification	Persistence of Savings	Cost	Market Factors
Traditional Approach	Utility assumes the risk of savings realization at installation and over the assumed life of the measure	Ex ante savings quantification is contentious and increasingly expensive; Difficult to account for human behavior (+/-); Tends to be measure dominated	Savings decay can be common due in part to human behavior, but the utility has no recourse; Lost savings are not quantifiable	Relative ease in establishing incentives with assumption driven analysis of size, shape, and duration of savings	Single widget or project focus; Tactical, short term customer relationship approach
Pay for Performance	Contractor-customer share risk for ex ante savings floor; Utility risk at installation much reduced	With accepted M&V protocol, quantification of savings is highly certain; Behaviors can be accounted for (+/-); Whole building/system oriented	Less savings decay expected due to economic motivation of the customer; Human behavior can be a positive and is quantifiable	Requires a different approach to calculate the value of the savings based on agreed savings floor and length of the agreement	Strategic integration into customer business model and decision-making process; Long term focus

Attribute comparison

	Risk	Energy Savings Quantification	Persistence of Savings	Cost	Market Factors
Traditional Approach					
Pay for Performance					