National Grid 2021 – 2023 Three-Year Plan

Performance Incentive Mechanism Update

July 16, 2020

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Performance Incentive Mechanism Background

- **LCP Statute and Standards allow National Grid the opportunity to earn a performance incentive for implementing Least-Cost Procurement.**
- **Performance Incentive Mechanisms (PIMs) are designed to provide proper incentives to National Grid to achieve positive desired outcomes that are in the interest of customers**
- **RI PUC has recently adopted PIM guidance principles (Docket 4943) that governs any PIM proposal before that body, including the ongoing work on a new energy efficiency PIM**
  - EE PIMs are directly designed to achieve goals outlined by the PIM Principles, including maximizing customer net benefits, and valuing the same unit of benefit in the payment of a performance incentive

Current (2020) Performance Incentive Refresher

- **Current (2020) PIM affords the company opportunity to earn 5% of eligible spending budget upon achieving savings goals.**
  - PIM structure has been in place for more than a decade with minor variations
- **Earning opportunity begins once programs achieve 75% of savings goal and is capped at 125% of savings goal.**
  - Earning curve is steeper from 75% - 100% of goal than from 100% to 125% of goal, less upside opportunity
- **Budget rules are in place, and were modified for 2020, to incent cost controls on either side of the goal**

New PIM Proposal

Current Areas of Alignment

- Establish shared benefits model for PI earnings
- Performance and earnings determined on an annual basis, not based on cumulative performance over Three-Year Plan
- Lock as much of design mechanism as possible in 3YP, but maintain flexibility to set payout rate based on binding annual plan goals and budgets
- 125% PI earnings cap at 125% of target outcomes, long-term term thresholds at 75% of target outcomes
- “Straight-line” performance and payment curves between threshold and capped earnings

Areas of Ongoing Discussion

- Specific payout rates (and resulting design level earning opportunity)
- Granularity of performance and earning calculations (program vs. sector vs. portfolio level)
- Split between **total** and **net** (i.e. total benefits net of costs to achieve) benefits
- PI mechanism to account for other priorities
- Near-term earnings threshold accommodations for COVID-related uncertainty

Comparison of Existing and Newly Proposed PIMs

Category	Existing (2020) PIM	New PIM Structure
Earning Opportunity	5% of eligible spending budget upon achieving savings goals	Defined percentage of planned benefits (total and net of costs)
Performance Cap	125% of Design-level earning opportunity upon achieving 125% of planned savings	125% of Design-level earning opportunity upon achieving 125% of planned benefits
Earning trajectory	Linear, but steeper from 75% threshold to design-level earning opportunity than from threshold to cap	Linear with no breaks from standard threshold to cap
Earning driver	Achievement of annual kWh, kW and annual therm savings relative to plan	Achievement of $ benefits relative to plan (which incorporate economic value of all savings)
Impact of spend to achieve savings / benefits	Automatic goal adjustments based on relationship of actual to planned spend	Accounted for through ‘net benefits’ based earning streams

Performance Incentive – Next Steps for Three-Year Plan

- **Plan Draft notes that the PIM is a work in progress and budgets and costs in this plan draft do not yet include performance incentive**
  - National Grid is continuing to work with OER, Division, C-Team to develop alternative PIM for inclusion in the Three-Year Plan and 2021 Annual Plan

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STATE OF RHODE ISLAND
ENERGY EFFICIENCY & RESOURCE MANAGEMENT COUNCIL

CONSULTANT TEAM

Codes & Standards -- EE Plan Support & Performance Incentive Option

Presented By: EERMC Consultant Team

Date: July 16, 2020

Introduction

- **Codes:** RI State building codes (fire, electrical, energy, etc.) set the legally-required *minimum* standards new construction and large renovations
  - Adopted at a state-level ~ once every 3 years.

- **Equipment Standards:** Statutes or rules & regulations that establish minimum energy standards for equipment and appliances (e.g. air conditioners, stoves, faucets, TVs, etc.) sold in RI.
  - Can be adopted at any time via the legislature
  - Cannot regulate equipment that already has a federal energy standard (federal preemption)

Codes & Standards Work within EE

Code Compliance Enhancement Initiative

- Has been part of EE since 2013
- Provides training to code officials, engineers & architects on the energy code to support fuller compliance
- Energy savings evaluated and attributed to trainings – expected this work will continue to be part of the EE performance incentive

Code & Equipment Standard Advancement

- New work within EE – piloted in 2019
- Would provide technical assistance for code amendments & appliance standards
- Energy savings can be evaluated, but attributing them to the technical assistance provided is challenging (more on this later)

Why Support Codes & Standards Advancement in EE?

Advancing Code & Equipment Standards is **Highly Cost-Effective**!

It also offers a **Large Potential for Energy Savings**, ghg reductions, etc.

State	Energy savings from state standards through 2035 (MMBtus/capita)	Year most recent state standards adopted	Score for adoption of state standards
California	47.8	2019	2.5
Colorado	18.3	2019	1.5
Washington	18.3	2019	1.5
Vermont	16.5	2019	1.5

Source: ACEEE 2019 Scorecard

It's a fast way to **Transform Markets**

It's a **Best Practice**

Why a Different PI for Codes & Standards Advancement?

- PI mechanisms focus on rewarding benefits that are **attributable** to programs, i.e. # of LEDs installed
- Codes & Standard adoption is highly political – technical assistance will help, but we won't be able to accurately say how much it influenced the adoption of a new code amendment or standard
- Some states attempt to estimate attribution for codes & standards technical assistance (e.g. MA) while others don't (e.g. AZ)
  - Process needed to balance the cost of evaluating potential impact; the budget the Company would receive for the work; and the benefits of a positive outcome.

Why Pay the Company for this Work?

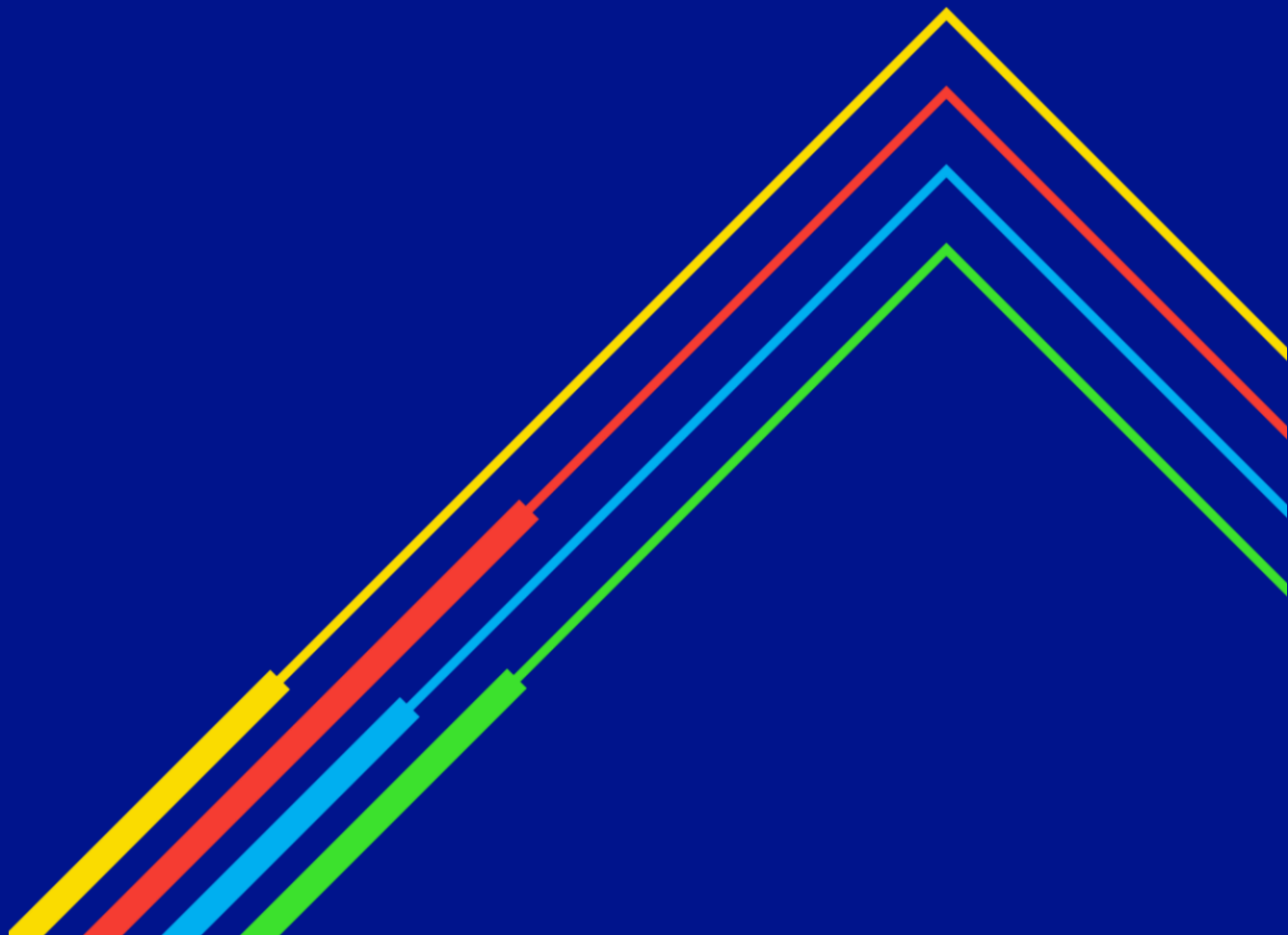
- Current structure provides a Disincentive for the Company
  - As baselines increase, fewer energy savings are "claimable/ attributable" to the Company
- A PI mechanism for Codes & Standards advancement would encourage the utility to pursue the most cost-effective means of achieving energy savings – it removes the current disincentive
  - An alternative for the Company would be to use the budget for code support to pursue other savings that would support the core PIM, so important to reward the effort on codes

High-Level PI & Reporting Proposal

1. Limit the Company's work funded by EE dollars to technical assistance (ensures this will remain a small portion of the overall program budget)
2. Only pay the Company if a code amendment or equipment standard is successfully adopted
3. Evaluate & Report GROSS savings with an explanation that attribution is difficult in this space – keep savings/benefits from this work separate from general EE benefit reporting
4. Remove the Disincentive – ensure that the Company is paid slightly more if an energy efficient code amendment or appliance standard is adopted

Codes & Standards: new program update

RI EERMC meeting
July 16, 2020



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C&S development support: a new program for 2021-23

Technical guidance to accelerate adoption of EE policies:

- Building energy codes
- Appliance & equipment standards
- Existing building performance standards

Features of this program:

- Unlocks new sources of savings
- Reduces bill impacts due to high cost-effectiveness
- Spreads portfolio benefits to more customers
- **Raises baselines (i.e. reduces otherwise claimable savings)**

Broad stakeholder support for this approach, but also broad recognition that it does not fit cleanly within existing savings and PI model

Currently investigating a simple model which directly ties compensation to lost earnings opportunity

Illustrative Example:

- The furnace program saved a total of Y therms of natural gas last year.
  - Y therms of natural gas savings provided $E in PI for the Company last year.

- In 2021, a new appliance standard for furnaces is passed with technical support from National Grid. The standard goes into effect January 1, 2022.
  - The Company will earn $E - $e in PI from the furnace program in 2022.

- Concept: the Company earns $e * (1 + Negotiated Adder) in 2022 for Codes & Standards support.
  - The number of years these earnings recur is being negotiated.

Ongoing collaboration toward a model that aligns Company incentives with stakeholder goals

Approach currently under investigation:

- Success-based compensation model tied to forgone savings and earnings opportunity from incumbent EE program
- An “adder” would be applied, to appropriately incentivize the Company to pursue codes and standards based savings approaches
- Codes & Standards based earnings determined at time of implementation, applied towards period when benefits are realized

Next Steps:

- Estimate magnitude of forgone earnings opportunity impacted by current C&S pipeline
- Refine guidelines for how earnings opportunity would be forecasted
- Define an approach for products / systems / markets where no incumbent program exists

General approach to be decided for the 2021-23 Plan
Specific C&S measures and approaches included in each Annual Plan