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Performance incentive mechanisms can support broad policy goals, RMI finds

Author

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Dive Brief:

- Performance incentive mechanisms (PIMs) offer utilities the flexibility needed to meet both traditional and emerging demands, according to a July 30 report from Rocky Mountain Institute, which reviews historical examples of PIMs and offers eight recommendations for improving their results.
- States have successfully used PIMs to support energy efficiency and demand reduction goals for a number of years and more recently began exploring how PIMs can support a broader range of technologies, Cara Goldenberg, manager in RMI's electricity practice, said in an email.
- RMI's report is an essential read for any public utility commission working on developing performance incentive mechanisms, Mike O'Boyle, director of electricity policy at Energy Innovation said. "The principles they've articulated are

supported by the cases studies they've examined."

Dive Insight:

The report examines the ability of PIMs to nudge utilities' behavior, which depends on the development, design, and implementation of incentives.

Successful examples include PIMs for utilities in New York and Rhode Island to support distributed energy resource (DER) adoption and utilization, including distributed storage, according to Goldenberg. Con Edison, in New York, also has a PIM focused on avoiding GHG emissions with the adoption of electric vehicles and heat pumps. Hawaii has implemented a shared savings mechanism – a type of PIM – to support the procurement of solar and storage from competitive providers, Goldenberg continued.

The report's recommendations include determining the role PIMs can play in supporting public policy goals, evaluating how they can work within current regulatory frameworks, and considering how PIMs can support utility growth into new service areas, among others.

The report offers useful guidance for regulators, utilities, and other stakeholders in developing effective PIMs, Rachel Gold, director of utilities program for the American Council for an Energy-Efficient Economy (ACEEE) said in an email. "The report points to the need to ensure that PIMs derive from state public policy goals, are outcome-based where possible, and are designed to motivate utilities to take different actions," Gold said.

O'Boyle agreed that effective PIMs require regulated utilities to deviate from "business as usual."

"In the past, a number of states have defined metrics using first-year savings goals, incentivizing energy efficiency spending instead of savings, focusing on shorter-term energy savings instead of deeper investments," according to Gold. Incentives are becoming better aligned with states' policy goals.

Public utility commissions have a broad mandate to ensure the public interest is served, according to O'Boyle. However, rate cases are not the ideal place to have discussions of PIMs. Addressing PIMs in the course of a rate case favors stakeholders with the resources necessary to engage in the whole scope of issues litigated in a rate case.

O'Boyle pointed to recent experiences in Hawaii and Minnesota as examples of engaging with stakeholders outside of a rate case, a path that can lead to better quality incentive design. "The amount of stakeholder outreach and engagement they did is a great model for other states," he said.

"In response to an increasing need to involve more stakeholder groups in regulatory processes, we are seeing states host more collaborative processes for PIM development," RMI's Goldenberg said, "In the past, groups such as environmental justice organizations or local governments may not have been included in PIM development."