



## 6. Performance Incentives that Align with Equity Priorities

Performance incentive mechanisms (PIMs) are financial incentives or penalties that encourage program administrators to achieve certain targets or performance levels. If performance incentives are designed to encourage energy equity, program implementers will deliver more programs to historically marginalized and/or excluded communities. Policymakers can do this by adding energy equity performance incentives that align with state energy equity policy to a program administrator's portfolio.

Performance incentive mechanisms encourage utilities to reach a level of performance by offering them a financial incentive. Performance incentives are a key component of energy efficiency programs because they can allow investments in energy efficiency programs to compete with utility investments in pipes and wire infrastructure, removing what is known as the throughput incentive. [The throughput incentive](#) is the term for the financial disincentive for utilities to offer energy efficiency programs. Since utilities earn profits through increased sales of electricity whereas energy efficiency programs aim to reduce sales.

PIMs are still [a largely untapped resource](#) to incentivize energy efficiency programs, and like other parts of the EM&V process, still focus largely on savings and cost-effectiveness. Yet, these tools can encompass numerous areas depending on state needs, and work to [align the utility business model with state equity and climate policy](#). This report will outline ways to encourage energy equity through performance incentive structures and identify current PIMs structures that can serve as models for other jurisdictions.

### *Establishing Performance Incentives that Center Equity*

Policymakers can add energy-equity focused PIMs to energy efficiency portfolios to include representatives from historically marginalized and/or excluded communities in many ways, including:

- **Using a stakeholder process that allows for meaningful stakeholder engagement from initial concept to final performance incentive structure.** PIMs are meant to encourage program implementers to be innovative in achieving a performance requirement. It is important in establishing incentives focused on energy equity that the needs of historically marginalized and/or excluded communities are a priority. Policymakers and program implementers can do this through creating a robust stakeholder process and incorporating feedback throughout the design process.
- **Using multifactor PIMs structures and clearly defining metrics for performance.** Multifactor PIMs include a number of different targets that program implementers must achieve to receive an incentive. This type of PIMs structure can allow for energy-equity PIMs to work in conjunction with state energy efficiency goals around energy savings and cost-effectiveness. For example, Massachusetts uses multi-factor PIMs that include: cost-effectiveness, energy savings, electrification, and equity. To make these performance incentives successful, it is important to

identify clear metrics for program implementers to meet that can be monitored, quantified, and verified.

- **Identifying reasonable incentives and penalties to both encourage utility investment and avoid costs to ratepayers.** In establishing PIMs, it is important that incentives [are transparent, valued at an appropriate amount, and reward performance](#). Policymakers can establish incentives in three different ways: shared net benefits, pool of shared incentives, or rate of return. Shared net benefit incentives allow program implementers to earn a percentage of the net benefits from delivered energy efficiency programs. With rate-of-return incentives, program implementers earn an incentive based on a percentage of total program budgets. A pool of shared incentives is where policymakers identify a total amount of incentives that can be split among program implementers.

### **Centering Energy Equity with PIMs**

Below is a list of performance incentives that can encourage energy equity in program design and performance. These PIMs are categorized based on whether they primarily promote procedural-, distributional-, or structural equity. Considerations of transgenerational equity are embedded in each

#### **Procedural Equity Performance Incentive Mechanisms**

[Procedural equity performance](#) incentives encourage inclusive, accessible, authentic engagement and representation in processes to develop or implement programs and policies. Ensuring procedural equity means that community members “define, drive, and hold accountable clean energy policy and program decisions and outcomes.” Performance incentives that encourage procedural equity will encourage program implementers to engage with and incorporate feedback from historically marginalized and/or excluded communities for both program design and workforce efforts.



- **Participation of Underserved Customers:** This incentive encourages program administrators to conduct additional outreach and promotion to underserved communities. Setting a performance incentive that drive participation can address distributional equity, as this performance incentive distributes benefits of programs to historically under-participating segments. Including a participation metric for customers in historically marginalized communities can also encourage coordination with local community agencies. Community-based organizations, who have built trust with local residents, can be a valuable resource to increase participation of the community members in energy efficiency programs and workforce training opportunities.
- **Workforce Composition Metrics:** Setting a performance incentive based on the number of workers hired and promoted from community training programs can also provide an incentive to create relationships with locally-based organizations. Incentives that look to increase transactions with women-owned or minority-owned businesses (WMBE) or hire locally/diversify their workforce can encourage program implementers to expand their relationships in order to meet these targets. For more information on workforce best practices, see NEEP’s [Equitable Workforce Best Practice Guidance](#).

### Distributional Equity Performance Incentives

Distributional equity performance incentives can encourage program implementers to design programs that prioritize historically marginalized and/or excluded communities because they require that all customers receive the benefits of energy efficiency programs. Currently, energy efficiency program implementers are required to ensure access to programs, which is why most states will have a low-income portfolio, set of programs, or spending target. By encouraging that a certain amount of savings or benefits result from programs that aim to achieve distributional equity, policymakers can ensure that program administrators focus on designing programs that break down past participation barriers such as siloed funding and marketing. This will encourage programs to not only be offered to historically marginalized and/or excluded communities, but also that they be successful in them.



- **Net Benefit Performance Incentive:** Program administrators earn an incentive [based on the net benefits they achieve](#) from energy efficiency programs. If program administrators are able to achieve a portion or all of the net benefits identified for targeted communities, the utility or program administrator can receive an incentive.
- **Low-Income Savings Performance Incentive:** Program administrators earn an incentive by achieving a certain amount of savings. Current energy efficiency program PIMs focus on energy savings, which can lead to program implementers overlooking other important considerations – such as equity and accessibility – when delivering programs. Including a savings target that requires a portion of savings from environmental justice communities, moderate- and low-income residents, small businesses, and other marginalized groups identified by state policy will encourage program design to deliver to these areas, ensuring equitable access.

### Structural Equity and Performance Incentives

Structural equity performance incentives seek to ensure that programs do not perpetuate disparities that have resulted from historic, cultural, and institutional dynamics and build community wealth. Performance incentives to encourage structural equity will ensure equal access to the benefits of energy efficiency programs and proactively remove barriers that have prevented participation by historically marginalized and/or excluded communities.



- **Equitable Market Transformation Performance Incentive:** Program administrators can earn an incentive for achieving targets that prioritize investment of clean energy technology in historically marginalized and/or excluded communities. This performance incentive can be based on the number of weatherization projects completed or benchmarks that accelerate adoption of clean energy technology, such as heat pumps and electric stoves. Setting performance incentives focused on accomplishing benchmarks instead of a number of savings is one way to encourage program administrators to be innovative in design and execution of programs that address historical barriers to adoption. Policymakers can use state climate plans

or other targets to identify appropriate metrics, such as implementing interim targets through energy efficiency plans to achieve a statewide goal of weatherizing homes.

- ***Equitable Workforce Performance Incentive:*** Creating a performance incentive to encourage more diverse hiring practices in local communities can foster career opportunities and economic growth in the energy efficiency industry for historically marginalized populations. Program administrators can earn a performance incentive for training and contracting with local and/or minority owned businesses.

### ***Examples of States Establishing Energy Equity Incentives***

Below are examples of two states that have included performance incentive mechanisms that align energy equity PIMs with other state energy efficiency goals. In 2021, Hawaii approved a performance-based rate structure that included a new portfolio of PIMs. In 2022, Massachusetts adopted a multi-factor PIM that included a metric for participation. Below is a preview of both of these mechanisms and process used to identify them.

#### **Hawaii**

In Hawaii, the Public Utility Commission (PUC) [adopted a performance-based rate for Hawaiian Electric](#). Under the performance based rate structure established for Hawaiian Electric, the company earns additional revenue if it achieves performance in key areas: interconnection, low-to-moderate income energy efficiency, and advanced metering infrastructure. The decision to include performance-based rates and the scheme to use them was a culmination of over two-and-a-half years of work through a stakeholder process that included utilities, the state consumer advocate, local governments, clean energy companies, and environmental groups.

The [Low-to-Moderate Income \(LMI\) energy efficiency incentive](#) promotes customer engagement as well as customer equity and affordability by encouraging program administrators to coordinate and increase energy savings opportunities for low- and moderate-income customers. It does this by requiring Hawaiian Electric, the state utility, to engage with customers to better market energy efficiency programs, whether they be offered by it or the state's energy efficiency utility, Hawaii Energy. The incentive [includes two performance metrics](#): a "savings" metric that measures the delivery of energy savings to LMI customers, and a "participation" metric that measures increased participation by LMI customers. Hawaiian Electric can receive up to two million dollars as reward.

#### **Massachusetts**

Massachusetts Department of Public Utilities (DPU) created a multi-factor performance incentive to measure performance and reward utilities through a statewide incentive pool. The multi-factor plan contained four goals: equity, electrification, value (cost-effectiveness), and a standard component (savings). Program administrators proposed the equity component so that they would be accountable to align programs with the state's landmark [2021 Climate Act](#) and Equity Working Group recommendations.

While adopting the measure, the [DPU found](#) that an equity component tied to a net-benefit goal can encourage equitable and cost-effective program implementation. The equity goal is a net-benefit goal applied on the community level to encourage program implementers to design programs that will deliver benefits to historically marginalized and/or excluded communities. This component is unique in that it is measured on the community level, which requires it to be broken down by zip code. To earn incentives for achieving the low-income goal, program administrators must deliver 85 percent of planned net benefits to historically marginalized and/or excluded communities.

## **Resources**

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