

WA Conservation Working Group

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Guidelines for Setting Incentive Levels for Electric Energy Efficiency Measures¹

Incentive levels for electric energy efficiency measures to meet targets cost-effectively need to be thoughtfully set in consideration of multiple factors. The principles of standard incentive level setting should apply to all conservation incentives directed to consumers, retailers or trade allies as appropriate. However, there may be certain circumstances in which one or more principles may not apply to a unique incentive level setting situation². The list of principles below incorporates the conditions related to incentives and conservation program implementation (Condition 7C), including the following, consistent with the Energy Independence Act³:

- A utility must offer a cost-effective portfolio of programs in order to achieve all available conservation that is cost effective, reliable and feasible.
- Incentive levels and other methods of encouraging energy conservation need to be examined periodically for effectiveness in fulfilling the company's obligation under WAC 480-109.

This list may be changed, modified or updated in the future.

Principles of what ~~can~~ should be considered in setting incentive levels include:

- The primary objective standard for conservation incentives is the determination of cost effectiveness using a total resource cost analysis including all costs and benefits as defined by the Northwest Power and Conservation Council.
- Energy conservation incentives should be offered to customers, retailers, wholesalers, manufacturers or trade allies when the measure or program is anticipated or has been shown to be cost-effective using the total resource cost (TRC) test.
- Incentives should be designed to instill "ownership" of the measure by the customer.
- Incentives should be designed to significantly influence the potential customer's choice in favor of the measure.
- Incentive levels should be periodically reviewed to ensure they are set at (but not above) a level that effectively influences a customer's decision to invest in a measure or program.
- Existing incentive levels and proposed changes to incentive levels should be supported by relevant market information.
- Incentive levels should be reviewed when there is reason to believe that market conditions for that measure or program may have significantly changed which may be informed by market research, EM&V, federal incentives, and other data or studies.

¹ The goal of this document is to increase understanding - look under the hood at how utilities should approach the setting of incentives. These principles are not exhaustive, are intended to be balanced together, are provided solely for guidance, and represent a snapshot in time.

² Northwest Energy Efficiency Alliance (NEEA) and low-income conservation programs are exceptions.

³ The language in Condition 7C varies slightly between the Orders approved for PacifiCorp in Docket UE-100170, Puget Sound Energy in Docket UE-100177 and Avista in Docket UE-100176. The principles listed attempt to broadly incorporate the intent of all three conditions 7C.

- Incentives can be based on financial, non-financial, or a combination of such benefits to the customer to the degree the portfolio remains cost-effective.
- Incentives should cease or be phased out (retrofits) when a law, standard, or code removes the need for those incentives.

Example standard practices in support of the principles include:

- Customers should typically pay a portion of measure costs as they will ultimately own and maintain the equipment so they need to have a commitment to the investment in the resource.
- Utilities should examine market conditions that impact customer participation and what other actions are encouraging market changes.
- For lost opportunity measures, utilities should invest no more than 100% of a measure's estimated cost in a cash incentive unless market information warrants a higher incentive.
- For retrofit measures, utilities should typically invest no more than 75% of a measure's estimated cost for a cash incentive unless market information warrants a higher incentive. Incentives should move the market, not just provide a bonus opportunity for free riders
- When reviewing, setting and or adjusting incentive levels, utilities should take into consideration other market-based incentives available to customers for a particular measure