May 12, 2016

Pay-for-Performance Pilot –

Process Evaluation Phases 1 and 2

Prepared by:

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Portland, Oregon

For:

Energy Trust of Oregon, Inc.

Energy Trust Pay-for-Performance Pilot – Process Evaluation

EXECUTIVE SUMMARY

This report describes MetaResource Group's (MRG) findings and recommendations from their process evaluation of Energy Trust's first commercial Pay-for-Performance pilot. Under this pilot, Energy Trust makes an incentive payment at the end of each year for three years, based on verified energy savings. This differs from Energy Trust's other programs that pay a one-time incentive post-implementation, based on forecasted, rather than verified, savings. Energy Trust issued an RPF in February 2014, seeking three or more commercial office buildings to participate. In the late spring of 2014, Energy Trust selected two pilot pay-for-performance projects. Ultimately, Energy Trust signed a contract with just one customer in October 2014. In March 2016 following project completion and savings verification, Energy Trust made the first of three annual performance payments.

Findings

- Energy Trust staff worked diligently to create a pilot Pay-for-Performance program at the OPUC's request, and the OPUC assisted them. The pilot has demonstrated advantages for achieving savings.
- With a multi-year incentive payout, customers and service providers are "on the hook" for savings, creating a long-standing relationship that encourages participants to "push the envelope" with measures.
- The pilot included both low- and no-cost O&M measures *and* capital measures. This enabled the service provider to select a comprehensive set of measures with full knowledge of operations.
- In 2016, Energy Trust will move capital measures into their standard incentive track, and focus pay-for-performance on O&M. It is unclear how this might impact service provider participation, delivery of comprehensive projects, and project economics.
- The service provider worked closely with contractors to ensure correct installation and operation of capital measures. Even with additional field time, the service provider says the business model for this arrangement works and the project is cost-effective. Cost-effectivity was an important pilot objective for Energy Trust.
- Energy Trust capped the incentive at 125 percent of the savings projected in the service provider's proposal to mitigate Energy Trust's risk, while still encouraging more measures. The verified savings exceeded the cap primarily because the service provider implemented additional measures.
- The service provider would like Energy Trust to raise the cap. In the interviews, Energy Trust staff said that they are going to raise it in 2016 but have not settled on an amount.
- Pay-for-Performance enables customers who do not participate in Energy Trust's Strategic Energy Management (SEM) offering to receive incentives for low- and no-cost measures.
- Given Energy Trust's many offerings, they may add "outreach managers," to "sell" the best combination of programs. The participating service provider is concerned about an added layer of customer interaction.
- The customer and service provider have their own performance-based contract; the customer purchases savings from the service provider at the end of each year for three years at market cost. This solves the

problem of the owner paying for upgrades while tenants benefit. In this case, the participating customer bills the service provider's fee to the tenants as part of their triple net lease payment.[1]

- To verify savings after measure implementation, the service provider is doing top-down regression analysis. MRG reviewed the report and found the estimation to be sound. This met Energy Trust's pilot objective of understanding whole-building energy savings analysis. Energy Trust has verified the service provider's savings estimate: it is 16 percent of the building's total annual electric usage.
- MRG believes the market will respond well to an expanded program. The pilot customer is pleased with the experience so far. They are on the board of the local Building Owners and Managers Association (BOMA) and plan to present Pay-for-Performance to the membership.
- In the Phase 2 interview with the service provider, he said the retro-commissioning (RCx)[2] program launched in October 2015 has a much higher incentive and measure life than Pay-for-Performance. Energy Trust staff say that they will bring the RCx offering into alignment with Pay-for-Performance.
- Among the factors that led to a failure to sign a contract between Energy Trust and a second customer, none suggests that Pay-for-Performance should not be expanded and offered again.
- Interviews with a Northwest utility doing a Pay-for-Performance pilot revealed that their offering is somewhat different, primarily because of a much higher incentive level.

Recommendations:

- Consider lowering the savings threshold from 10 to 15 percent to perhaps 5 to 10 percent to allow broader participation. This lower threshold may also be needed with capital measure removed.
- Expand the target market to include office-type space in industrial facilities.
- Customers and service providers interviewed agreed that quarterly incentive payments, rather than annual, would be helpful, particularly because the service provider fronted the money for the improvements.
- Because Energy Trust has decided to remove capital measures, we recommend cross-marketing the standard incentive track and continuing to encourage service providers to take a holistic approach.
- Before making a decision on expanding the Pay-for-Performance offering, research whether there are at least several contractors in the market willing to bid and able to effectively deliver on this.
- After our first-round interviews, MRG suggested shortening the RFP. In our second round, Energy Trust said that in 2016, they will eliminate the RFP, and pre-qualify service providers with a streamlined application.
- Interviews and MRG's non-legal review of the customer contract found it long and complex. Energy Trust staff said that in 2016, they would simplify the customer contracting process and document. (A new contract document was not available for review by MRG at the time of this report.)
- If Energy Trust expands the program, we recommend involving a Program Management Contractor (PMC). A PMC can handle engineering tasks, data entry, etc. and also help 'translate' between Energy Trust program objectives and the perspective of customers and service providers.

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[1] In commercial real estate, a net lease requires the tenant to pay, in addition to rent, some or all of the property expenses that normally would be paid by the property owner.

[2] Energy Trust defines RCx as "a systematic process applied to existing buildings for identifying and implementing operational and maintenance improvements and ensuring their performance over time"

MEMO

Date: 9/5/2016
To: Board of Directors
From: Phil Degens, Evaluation Manager
Sam Walker, Senior Project Manager, Commercial
Subject: Staff Response to the Pay for Performance Pilot

The Pay for Performance pilot resulted in restructuring the Pay for Performance offering. In 2017 the new Pay for Performance offering will be marketed through a set of pre-qualified contractors. This is expected to allow for a more effective communication of Pay for Performance goals and expectations leading to a better understanding of Pay for Performance by contractors and owners. This will also remove the need for a lengthy request for proposal process and contract negotiation process.

The 2017 offering will allow projects to include only operations and maintenance (O&M) measures or O&M with capital measures. Projects with capital measures will have different incentive rates, as well as incentive caps.

A simple weather adjusted pre/post billing analysis was used to estimate savings in the pilot. This is viewed as adequate to measure contracted savings, while remaining transparent in its savings methodology, as well as cost effective for the contractor to implement and report on. A similar methodology will be used to estimate contracted savings in 2017.

Energy Trust sees Pay for Performance as providing another way to obtain in-depth, multi-year O&M savings from a niche group of buildings that are not receiving incentives through the Existing Building Program's other offerings.