

Pay-For-Performance Schemes in Europe

May 2022 - Briefing

As the SENSEI project is reaching its end, Filippos Anagnostopoulos, project coordinator, explains the motivations behind the project as well as the advantages of Pay-For-Performance, and why energy efficiency is more important than ever in Europe amidst the current energy crisis and Russian tensions.

The IEECP briefings offer short insights into ongoing projects and how they play a central role in the energy transition.

Useful links:

- [The SENSEI Project](#)
- [More on P4P](#)
- [IEECP projects](#)

What is Pay-for-Performance ?

Pay-for-Performance (P4P) is an innovative approach to finance energy efficiency where payments are linked to the measured performance. P4P can be used to:

- **Improve subsidy schemes** with periodic payments that are proportional to measured energy savings, using advanced Measurement and Verification techniques.
- **Aggregate projects into portfolios** to attract investments from financial institutions that are looking to invest in bigger projects.
- **Recognize energy efficiency as a demand-side energy resource** by quantifying its benefits for the energy system.

Benefits & Challenges

Benefits:

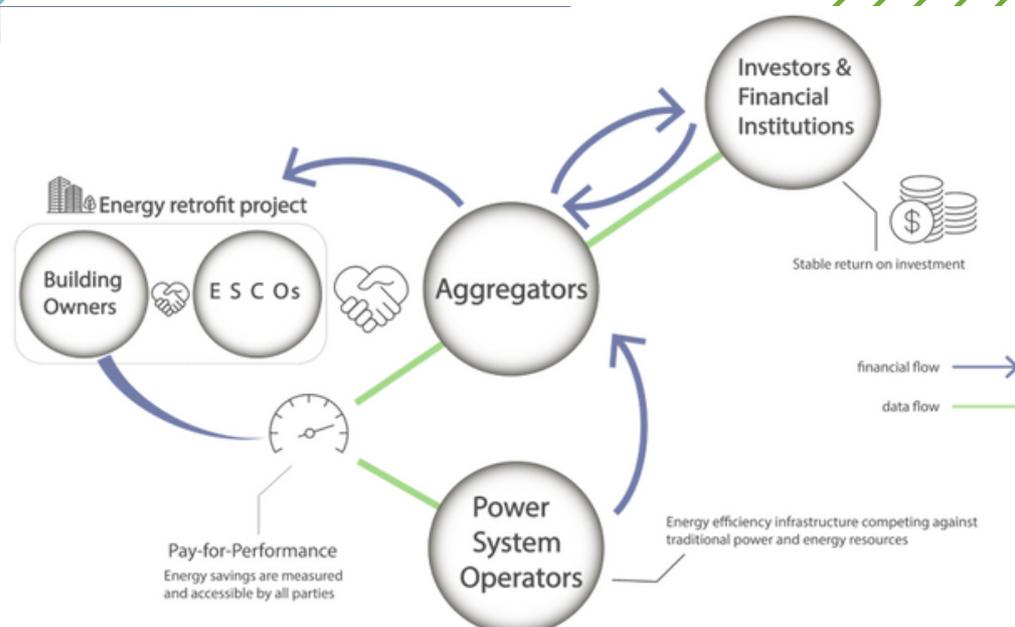
- An **effective way to engage** in energy efficiency projects for **third-party investors and energy providers**, which channels larger amounts of financing.
- **Avoids the need for technical upgrades.**
- Participation in capacity auctions as **demand side energy source.**
- Optimization of energy efficiency programmes through **deeper savings.**

Challenges that can be overcome with P4P:

- **Lack of investment** in building stock and private sector, financial institutions are attracted to low transaction and administrative costs for large projects with consistent and long term cash flow.
- **Strong misalignment of incentives** since payments are made with almost no accountability in terms of energy savings.

Concrete example of P4P Scheme

The aggregator gathers securities financing from financial institutions and channels it to renovations, while a system operator rewards the aggregator for reducing the overall demand.



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SENSEI's role in P4P

The project investigates P4P in the US to aggregate retrofit projects and improves the effectiveness of subsidy programmes.

This enables to provide energy efficiency as an energy resource and service to the grid.



www.senseih2020.eu



The Renovation Wave is an EU Green Deal priority and pushes the renovation of existing buildings. The Commission invites the market to pilot P4P schemes to boost renovations.

Examples of advancements in Measurement and Verification techniques



- SENSEI's **eensight tool** will provide essential insights for investors, energy companies, legislators and building owners.



- **IPMVP**, International Performance Measurement and Verification Protocol.
- **CALTRACK**, process of arriving at a calculation of avoided energy use.

Necessary steps to pilot P4P schemes in Europe

1. Secure high level commitments (Political, System Operators) to pilot energy efficiency programmes based on Pay-For-Performance and metered savings.
2. Designate a competent managing authority (e.g. an energy agency) to oversee and support the co-design and execution of pilots.
3. Adopt a transparent methodology for metered savings using measurement and verification methods such as CalTRACK or eensight to increase accuracy and transparency.
4. Issue tenders for energy efficiency projects that adopt the Pay-For-Performance approach and a compensation structure based on metered savings.
5. Gather insights and good practices from the first pilots, conduct capacity building activities, and repeat piloting with improved refinements.

Interested ? Already involved in a similar scheme ?



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