



Position Statement on Deemed Savings

EVO is issuing this position statement to clarify that **deemed savings is not a measurement and verification (M&V) method**, and that it should not be relied upon to reflect an energy efficiency (EE) project's achieved savings.

Background

Energy efficiency is widely recognized as the cleanest and lowest cost solution for countries to meet their energy supply needs and GHG emission reduction targets. This underscores the criticality for savings from EE to be reliably measured and verified. In an effort to reduce EE implementation costs and time, some entities are using methods to claim EE project savings results without post-implementation measurements, which violates fundamental M&V principles and thus cannot be relied upon to reflect the achieved savings of an EE project.

One such method is “deemed savings” (sometimes referred to as “stipulated savings”), which estimates future energy savings on a theoretical basis without requiring performance measurement of an EE project after implementation. The deemed savings approach has incorrectly been referred to by some as an M&V option, and it has been suggested that EVO add deemed savings as a fifth M&V method (Option E) in its globally recognized International Performance Measurement and Verification Protocol (IPMVP). However, since deemed savings does not include the measurement of energy use after implementation, it cannot be considered an M&V method and thus can never be an IPMVP option.

Rationale

Savings from EE are unique in that they reflect a reduction (or absence) of energy use and therefore cannot be directly measured like kilowatt hours (kWh) generated from power production. EE project savings are determined by comparing measured energy use after an EE project to the equivalent energy “baseline” prior to, or in the absence of, its implementation. This post-implementation M&V is at the core of generally accepted M&V principles embedded in the IPMVP, which specifies four M&V options to guide stakeholders in accurately and reliably measuring and verifying savings.

While some stakeholders in the market claim that M&V is impractical due to time and expense, EVO does not believe these claims have merit for EE project investments. Investment in a power generation project without the installation of a meter to measure the energy generated would be unthinkable. Similarly, it is illogical to expect EE projects to be funded on a scalable basis without an M&V “meter” to measure the energy saved and the associated return on investment. It is also unreasonable to expect EE, as the cleanest and usually most cost-effective energy resource available, to be recognized as a sustainable and marketable commodity if its benefits are not properly measured on a consistent basis.

The Role of Deemed Savings

EVO recognizes that there is a useful role for deemed savings in the determination of savings at a program – rather than project – level, when achieved savings can be determined through a reliable program impact evaluation that does not require M&V of each individual project’s results. Examples include point-of-sale lighting rebate initiatives and appliance endorsement labeling efforts, which generally involve hundreds or thousands of smaller EE improvements that can be measured programmatically using statistically valid measurement sampling techniques. In such cases, deemed savings or quasi-deemed savings algorithms can be legitimately relied upon when planning and tracking the progress of the program. These same algorithms and deemed savings values may then be used or updated by a qualified impact evaluator to determine program effectiveness.

However, any legitimate program evaluation must rely on some form of M&V being performed on at least a randomly selected, statistically valid sample of EE projects or improvements that are part of the program. Failure to perform post-implementation M&V on any of a program’s EE projects renders the results unreliable for claiming achieved savings.

Conclusion

It is EVO’s position that deemed savings is not an M&V method and cannot be relied upon to reflect an EE project’s achieved savings

Lesson Learned from U.S. Government’s Experience

In an attempt to simplify its ramp-up of EE via energy savings performance contracts (ESPCs) in federal buildings, the U.S. government permitted the use of deemed savings in the 1990s as a method for determining its long-term savings-based payments to ESCOs on some measures. This practice of accepting deemed savings was eliminated in 2008 following revelations that the energy savings claimed on some ESPCs exceeded actual savings. The lessons learned from the U.S. government’s experience are instructive, and it is noteworthy that ESPC activity in the U.S. has grown since the government prohibited deemed savings, with investment nearing \$1 billion per year. Nonetheless, other EE stakeholders in the U.S. and around the world continue to accept deemed savings on their EE projects.

May 26, 2019

(Revised October 22, 2019)