

Modified Energy Efficiency Cost Tests

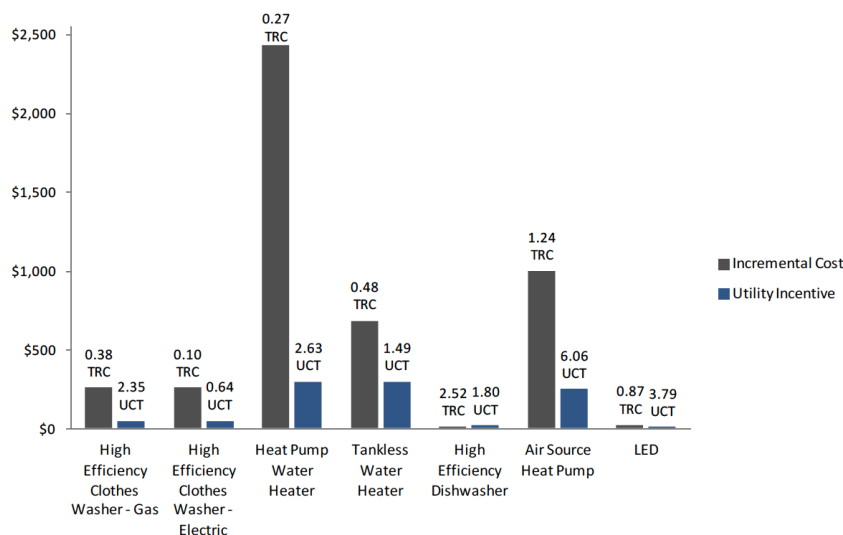
Description:

Most states include “cost effectiveness” criteria for investment in energy efficiency technologies. This is to ensure that any investments in efficiency are less expensive than the generation they will be offsetting. The majority of the states that have these tests have adopted the 2001 California Standard Practice Manual Economic Analysis of Demand-Side Programs and Projects “Total Resource Cost Test” (TRC). Stated simply, the TRC test is a measure of the total program benefits (for participants and non-participants) divided by the total program costs (for participants and non-participants). Importantly, the TRC test considers both rate payer-funded incentives and individual customer costs as the “total cost” in determining cost effectiveness.

Discussion of the Policy:

A [recent analysis by Cadmus group](#) suggests that applying TRC exclusively may not fully reflect the benefits to the utility and customer. Cadmus group proposed testing demand-side management (DSM) programs with the TRC when compared to supply side resources, and testing programs with the Utility Cost Test (UCT) to determine approval for cost recovery. In this way, only the costs to ratepayers would be considered in determining the application of ratepayer funds, not the cost to participating customers, allowing for small ratepayer-funded incentives to stimulate investments by program participants. Cadmus further argued that participation rates by customers are a better metric of whether, from the customer’s perspective, benefits outweigh costs to participate in a given program.

Figure 1. Incremental Cost vs. Utility Incentive by Measure



Source: [Cadmus Group](#)

Example State Programs:

A list of state cost-effectiveness testing requirements is available through the [American Council for an Energy-Efficient Economy](#) (ACEEE). All program descriptions below are pulled directly from the ACEEE database.

- The District of Columbia relies on the Social Cost Test (SCT). The rules for benefit-cost tests are found in the [Clean and Affordable Energy Act of 2008](#).
- Georgia does not have a primary cost-effectiveness test. Rather, the state uses all five of the tests identified by the California Standard Practice Manual. These are the TRC, UCT, Participant (PCT), Social Cost (SCT), and Ratepayer Impact Measure (RIM).
- New Mexico (HB 267). As of last year, New Mexico relies on the UCT:
http://swenergy.org/Data/Sites/1/media/documents/legislation/documents/2013_Legislative_Activity_Report.pdf

Key Components:

- An identification of the investments that are contingent upon the cost effectiveness test.
- Any circumstances where the cost effectiveness test may be waived (for example, economic development or technology transfers).
- Components of the cost effectiveness test: Costs and benefits to be evaluated.

More Information:

- California Standard Practice Manual Economic Analysis of Demand-Side Programs and Projects:
http://www.calmac.org/events/spm_9_20_02.pdf
- Cadmus Group, Whose Perspective? The Impact of the Utility Cost Test:
http://www.cadmusgroup.com/wp-content/uploads/2012/11/TRC_UCT-Paper_12DEC11.pdf
- Synapse, The Resource Value Framework presentation:
http://www.homeperformance.org/sites/default/files/hpc_aceee-summer-study-2014-rvf-presentation_201408.pdf
- Regulatory Assistance Project, Energy Efficiency Cost-Effectiveness Screening Report:
<http://www.raponline.org/document/download/id/6149>