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5: Guidelines for Policy-Makers

Missouri Public
Service Commission

A common misperception is that there is a "best" perspective for evaluating the cost-effectiveness of energy efficiency. On the contrary, no single test is more or less appropriate for a given jurisdiction. A useful analogy for the value of the five cost-effectiveness tests is the way doctors use multiple diagnostics to assess the overall health of a patient: each test reflects different aspects of the patient's health. This chapter describes how individual states use each of the five cost-effectiveness tests and why states might choose to emphasize some tests over others. Four hypothetical situations are presented to illustrate how states may emphasize particular tests in pursuit of specific policy goals.

5.1 Emphasizing Cost-Effectiveness Tests

Nationwide, the most common primary measurement of energy efficiency cost-effectiveness is the TRC, followed closely by the SCT. A positive TRC result indicates that the program will, over its lifetime, produce a net reduction in energy costs in the utility service territory. A positive SCT result indicates that the region (the utility, the state, or the United States) will be better off on the whole. Table 5-1 shows the distribution of primary cost-effectiveness tests used by state.

Table 5-1. Primary Cost-Effectiveness Test Used by Different States

PCT	PACT	RIM	TRC	SCT	Unspecified
	CT, TX, UT	FL	CA, MA, MO, NH, NM,	AZ, ME, MN, VT, WI	AR, CO, DC, DE, GA, HI, IA, ID, IL, IN, KS, KY, MD, MT, NC, ND, NJ, NV, OK, OR, PA, RI, SC, VA, WA, WY

Source: Regulatory Assistance Project (RAP) analysis.

Cost-effectiveness overall as analyzed by the TRC and SCT is not necessarily the only important aspect to evaluate when designing an energy efficiency portfolio. Even if benefits outweigh costs, some stakeholders can be net winners and others net losers. Therefore, many states also include one or more of the distributional tests to evaluate cost-effectiveness from individual vantage points. Using the results of the distribution tests, the energy efficiency measures and programs offered, their incentive levels, and other elements in the portfolio design can be balanced to provide a reasonable distribution of costs and benefits among stakeholders. Table 5-2 shows the distribution of cost-effectiveness tests used by states for either the primary or secondary consideration.

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