# National Standard Practice Manual

## Frequently Asked Questions

# Introduction, Purpose, Scope

**1. Why is there a need for a National Standard Practice Manual (NSPM) at this time?**

Since the 1980s, the *California Standard Practice Manual* (CaSPM) has been the prevailing guidance document for energy efficiency cost-effectiveness analysis throughout the United States and Canada. More and more, it is being used to determine the cost-effectiveness of other types of distributed energy resources. Last updated in 2002, the CaSPM presents important limitations with which jurisdictions have increasingly struggled over the years. This has led to the inconsistent application of the traditional tests: the Utility Cost Test (UCT), the Total Resource Cost (TRC) test, and the Societal Cost Test (SCT).

The NSPM builds upon the concepts and techniques of the CaSPM in various ways by addressing limitations and applying lessons learned over the years in the use of the CaSPM traditional tests. In particular, the NSPM addresses the limitations of the CaSPM by providing:

a. A universal set of principles to guide analyses. In a fast-changing world, it is difficult to anticipate and address all issues related to cost-effectiveness analyses that may arise. The NSPM offers guiding principles that provide a necessary foundation for tackling any cost-effectiveness issue.

b. Guidance on development of a primary cost-effectiveness test. While many jurisdictions at least nominally consider results from a variety of cost-effectiveness tests, virtually all ultimately rely on a single primary test to determine which resources are cost-effective. Much has been written in the CaSPM and other reference documents about how to apply each of the traditional tests, but no energy industry reference provides guidance on how to decide *which* test should be a jurisdiction's primary test. That is a core purpose of the NSPM.

c. Guidance on how to align cost-effectiveness analyses with a jurisdiction's energy policy objectives. Regulators and other decision-makers cannot assess whether a resource's benefits exceed its costs without first being clear about what they want resource investment decisions to accomplish. Thus, one of the core principles of the NSPM is that a jurisdiction's primary cost-effectiveness test should be aligned with its energy policy objectives. From this flows the notion that a jurisdiction's primary test should reflect a perspective guided by the energy and other applicable policy goals—referred to within the NSPM as the "regulatory perspective."

d. Flexibility in the development of a jurisdiction's primary test. The three commonly used traditional cost-effectiveness tests (UCT, the TRC test, and the SCT)—are conceptually fixed. That is, they each include a pre-defined set of costs and benefits that would not change—either from jurisdiction to jurisdiction or over time—if they were applied in a manner consistent with the perspectives they are designed to represent. However, the cost-effectiveness perspective that should flow from each jurisdiction's mix of energy policies may not align well with any of those three tests. The NSPM recognizes the need for flexibility in the construct of a primary cost-effectiveness test.

e. Guidance on how to address common mischaracterizations or misapplications of the traditional cost-effectiveness tests. Many jurisdictions have used or are currently using cost-effectiveness tests that go by the name of one of the traditional tests but deviate from the conceptual construct of that test. This is partly because the CaSPM fails to clearly articulate the need to include participant non-energy benefits in tests that are conceptually designed to include participant impacts (i.e., both the TRC and SCT).

f. Guidance on a variety of key cost-effectiveness inputs. A variety of reference documents focus solely on the question of which categories of costs and benefits to include in one of the traditional tests, with little or no discussion of a variety of key inputs such as the mix of utility system impacts that should be considered, choice of discount rate, analysis period, how to address spillover and free-ridership, etc.

### 2. Is the National Standard Practice Manual relevant to all types of energy efficiency resources?

Yes, while the focus of the NSPM is on energy efficiency resources that are funded by and implemented on behalf of electric and gas utility customers that require regulatory oversight, the concepts can also apply to the assessment of other types of efficiency resources. Examples include building codes and appliance standards, government-funded efficiency resources, tax incentives for efficiency improvements, and more.

### 3. Is the National Standard Practice Manual relevant to other types of distributed energy resources, and more broadly, supply-side resources?

Yes. The principles and concepts provided in the NSPM are relevant to all types of distributed energy resources, such as energy efficiency, demand response, distributed generation, distributed storage, and electric vehicles. The NSPM can be used as the foundation for assessing the cost-effectiveness of other types of distributed energy resources. However, there may be some ways in which the NSPM concepts should be applied differently to other types of distributed energy resources.

The NSPM principles and Resource Value Framework can be applied to supply-side resources as well. This could be in the context of integrated resource planning or when conducting any sort of economic analyses of specific generation, transmission, or distribution infrastructure investments. This approach would not only ensure sound practices for analyzing supply-side resources, it would also ensure that EE resources are analyzed comparably and consistently with supply-side resources. Further, with the increasing nexus of energy and water efficiency, the principles and framework of the NSPM could also be applied beyond energy resources.

### 4. Is the National Standard Practice Manual relevant to all types of electric and gas utilities?

Yes. The NSPM is relevant to all types of electric and gas utilities, including: investor-owned utilities, publicly owned utilities, federal power authorities, municipal utilities, cooperatives, and more.

### 5. Is the National Standard Practice Manual relevant to all types of jurisdictions?

Yes. *The NSPM is relevant to any jurisdiction where energy efficiency resources are funded by and implemented on behalf of electric or gas utility customers.* The NSPM uses the term "jurisdiction" broadly to encompass a range of decision-making bodies including: states, provinces, federal power authorities, municipalities, cooperatives, etc.

## Cost-Effectiveness Principles

### 6. What are the National Standard Practice Manual's key principles?

The key principles are summarized in the table below.

| | |
|---|---|
| Efficiency as a Resource | Energy efficiency is one of many resources that can be deployed to meet customers' needs, and therefore should be compared with other energy resources (both supply-side and demand-side) in a consistent and comprehensive manner. |
| Energy Policy Goals | Cost-effectiveness practices should account for the applicable policy goals of each jurisdiction, as articulated in legislation, commission orders, regulations, guidelines, and other policy directives. |
| Symmetry | Cost-effectiveness practices should be symmetrical, for example by including both costs and benefits for each relevant type of impact. |
| Forward-Looking Analysis | Analysis of the impacts of efficiency investments should be forward-looking, capturing the difference between costs and benefits that would occur over the life of efficiency measures with those that would occur absent the efficiency investments. |
| All Relevant Impacts | Cost-effectiveness practices should account for all relevant, substantive impacts, even those that are difficult to quantify and monetize. Using best-available information to approximate hard-to-monetize impacts is preferable to assuming that those costs and benefits do not exist or have no value. |
| Transparency | Cost-effectiveness practices should be completely transparent; they should fully document and reveal all relevant inputs, assumptions, methodologies, and results. |

### 7. Why is it important to consider energy efficiency as a resource?

The primary purpose of using utility customer funds to invest in energy efficiency programs is to avoid or defer spending on other types of electricity or gas resources. In other words, energy efficiency programs are a utility resource that should be optimized relative to other types of utility resources.

This principle is important when resolving or prioritizing certain cost-effectiveness issues. For example, it supports the concept that any primary screening test should at a minimum include all utility system costs and benefits, as this allows for a direct comparison with other types of utility resources. As another example, this principle suggests that the Participant Cost test is not directly relevant for cost-effectiveness analysis (though it may be helpful to inform program design) because it does not provide information regarding how an energy efficiency resource compares with other utility resources.

### 8. Why is it important to account for energy and other applicable policy goals?

Energy efficiency has implications for a variety of policy goals. Consideration of these goals can significantly affect the outcome of the cost-effectiveness analysis. Ignoring these goals could undermine a jurisdiction's ability to meet them, and might be inconsistent with legislative or regulatory requirements or directives.

### 9. What is meant by energy and other applicable policy goals?

Cost-effectiveness tests should account for all policies that are relevant to energy efficiency and are within the jurisdiction of the regulator or other agent making decisions on cost-effectiveness analyses. These are typically articulated in legislation, regulations, executive orders, commission orders, and more. It is important to note that the mix of such policies can both vary across jurisdictions and change over time within jurisdictions. The table below summarizes examples of common policy goals.

| |
|---|
| *Common Overarching Goals:* provide safe, reliable, low-cost electricity and gas services; protect low-income and vulnerable customers; maintain or improve customer equity |
| *Efficiency Resource Goals:* reduce electricity and gas system costs; develop least-cost energy resources; promote customer equity; improve system reliability and resiliency; reduce system risk; promote resource diversity; increase energy independence (and reduce dollar drain from the jurisdiction); reduce price volatility |
| *Other Energy Resource Planning Goals:* support fair and equitable economic returns for utilities; provide reasonable energy costs for consumers; ensure stable energy markets; reduce energy burden on low-income customers; reduce environmental impact of energy consumption; promote jobs and local economic development |

### 10. How should a jurisdiction decide which policy goals to account for in cost-effectiveness tests?

Each jurisdiction should decide which policy goals should be accounted for in its cost-effectiveness test. Ideally, this decision would be made with stakeholder input, and it should be based on the jurisdiction's specific relevant legislation, regulations, decisions and orders, etc. Importantly, applicable policy goals often evolve over time in response to changes in the energy industries, changing perspectives from the legislature and regulators, and the evolving interests of and input from industry stakeholders. As such, identifying applicable policies for a jurisdiction is not a static process, but likely to evolve (e.g., as part of regulatory processes and stakeholder discussions.)

### 11. Why is it important to ensure that cost-effectiveness tests are symmetrical?

For each type of impact included in a cost-effectiveness test, it is important that both the costs and the benefits be included in a symmetrical way. Otherwise, the test will be skewed and will provide misleading results.

This is a common problem with the application of the Total Resource Cost test. While 65 percent of states use the TRC test and include participant costs, 69 percent of those states do not account for participant benefits. This means that most states apply the TRC test in a way that is significantly skewed against energy efficiency resources.

### 12. Why is it important to ensure that cost-effectiveness tests are based on forward-looking analyses?

Historical (or "sunk") costs should not be included when estimating the impacts of future investment decisions. Historical costs cannot be changed, and they will remain in place under any future scenario. Therefore, they are not relevant when comparing future investment choices. Thus, cost-effectiveness analyses should consider only marginal

impacts. These are defined as the incremental changes that will occur because of the energy efficiency resource, relative to a scenario where the resource is not in place.

In addition, cost-effectiveness analyses should include long-run costs and benefits. Electric and gas resources can last for 40 or even 60 years. Thus, the resource decisions made today will affect customers for decades in the future. Utilities have a responsibility to meet customer needs in a safe, reliable, and low-cost way over the long term. Regulators have a responsibility to protect customers over both the short term and the long term. Over-emphasis on short-term costs could unduly increase long-term costs for customers.

### 13. Why is it important to ensure that cost-effectiveness tests account for all relevant impacts?

Some of the costs and benefits of energy efficiency resources can be difficult to quantify and to put into monetary terms. Some of these hard-to-monetize impacts can have significant implications for the results of the cost-effectiveness analysis.

If some of the relevant impacts are not included in the cost-effectiveness analysis, then the results of the analysis will be skewed and misleading. Using best available information or specific techniques to approximate hard-to-monetize impacts is preferable to assuming that such impacts do not exist or have no value.

### 14. Why is it important to ensure that cost-effectiveness analyses are transparent?

Energy efficiency cost-effectiveness analyses require many detailed assumptions and methodologies, and they typically produce many detailed results. *In order for policymakers and other efficiency stakeholders to properly assess and understand cost-effectiveness analyses, analyses must be well documented and provide all relevant information in a transparent way*. The NSPM provides templates that jurisdictions can use to document their assumptions and results. Use of such standardized templates across jurisdictions can help to increase transparency and comparability across cost-effectiveness practices.

## The Resource Value Framework

### 15. Does the National Standard Practice Manual propose a new framework or a new test?

Both. The NSPM offers a framework—referred to as the Resource Value Framework—that a jurisdiction can use to choose or develop a cost-effectiveness test that best meets its interests and goals.

The test that is chosen or developed through the application of the Resource Value Framework can be referred to as the jurisdiction's *Resource Value Test*.

### 16. What is the purpose of the Resource Value Framework?

The Resource Value Framework is designed to be used by each jurisdiction to develop the primary test for assessing energy efficiency cost-effectiveness. The primary test should answer the fundamental question: *Which efficiency resources have benefits that exceed costs, where the benefits and costs are defined by the jurisdiction's applicable policy goals*?

The Resource Value Framework provides the underlying principles and a multi-step process to support a jurisdiction's effort to answer this question, resulting in a comprehensive and transparent process that can help inform decisions on efficiency policies and practices in the jurisdiction.

### 17. What are the key elements of the Resource Value Framework?

The Resource Value Framework is a series of steps that a jurisdiction can take to develop a cost-effectiveness test that complies with the principles and concepts in the NSPM and meets the specific interests and needs of the jurisdiction. The key steps are described in the table below.

| Steps | Actions |
|---|---|
| **Step 1** | Identify and articulate the jurisdiction's energy and other applicable policy goals. |
| **Step 2** | Include all the utility system impacts in the test. |
| **Step 3** | Decide which non-utility impacts to include in the test, based on applicable policy goals. |
| **Step 4** | Develop methodologies to account for all relevant impacts, including those that are hard to quantify. |
| **Step 5** | Ensure that the test is symmetrical in considering both costs and benefits. |
| **Step 6** | Ensure the analysis is forward-looking and incremental. |
| **Step 7** | Ensure transparency in presenting the inputs and results of the test. |

### 18. The National Standard Practice Manual frequently refers to regulators and other decision-makers. Who are the regulators/decision-makers in this context?

The NSPM uses the term "regulators" and "other decision-makers" broadly to refer to those policymakers, institutions, or agents that are authorized to determine utility resource cost-effectiveness and oversee utility system investment decisions. In many cases this will include Public Service Commissions, but it can also include legislators, boards of publicly owned utilities, the governing bodies for municipal utilities and cooperative utilities, municipal aggregator governing boards, and federal, regional, or state power planning agencies.

### 19. The National Standard Practice Manual introduces the concept of a "regulatory perspective." What is the regulatory perspective?

The traditional cost-effectiveness tests are based on several different perspectives for framing the costs and benefits to include in each test: the utility perspective, the participant perspective, the total resource cost perspective (which includes utilities and participant), and the societal perspective. While these are all important perspectives, they are not necessarily aligned with another very important perspective: the regulatory perspective.

*This perspective reflects the responsibilities of regulators and other decision-makers to consider the fundamental objectives of providing safe, reliable, low-cost electricity and gas services as well as achieving applicable policy goals*. This perspective may be different from the utility, participant, or societal perspective, and yet it is the most important perspective for making cost-effectiveness determinations.

### 20. Why is the regulatory perspective important when designing cost-effectiveness tests?

The regulatory perspective is important because it allows regulators to develop cost-effectiveness tests that are better tailored to their jurisdiction's interests and goals. It enables regulators to design a test that might be different from the traditional cost-effectiveness tests, while still adhering to sound economic and public policy principles.

The underlying premise of the regulatory perspective is that one cannot determine whether a resource has benefits that exceed its costs without first being clear about what resource investment decisions should accomplish. Thus, a jurisdiction's cost-effectiveness assessment should include the categories of impacts—costs and benefits—related to its applicable policy goals.

Acknowledgement of the regulatory perspective makes clear that jurisdictions have many choices when deciding which cost-effectiveness test to adopt. The three traditional tests—the Utility Cost, the Total Resource Cost, and the Societal Cost Test—are just three options among many.

### 21. How is the regulatory perspective different from the social perspective?

The societal perspective is typically defined as including all costs and benefits to society, which can be broad and numerous in the case of electricity and gas utility resources.

The regulatory perspective is more narrowly defined as including those costs and benefits that are within the jurisdiction of the relevant regulatory body. Regulators in some jurisdictions might have relatively broad authority, based in their specific policy goals, while others may have relatively narrow authority.

### 22. Can the Resource Value Framework be used to determine the funding and magnitude of utility-sponsored energy efficiency resources?

The Resource Value Framework can be used to answer the fundamental question of: *Which resources have benefits that exceed their costs, where the benefits and costs are defined by the applicable policy goals of a jurisdiction*? The framework helps to identify the full scope of efficiency resources whose relevant benefits exceed relevant costs.

Regulators and other decision-makers typically need to answer a second critical question: *How much utility customer funding should be spent on energy efficiency resources?* The primary cost-effectiveness test is necessary but may not be sufficient for answering this second question.

Some jurisdictions may decide to provide utility customer funding sufficient to implement all cost-effective energy efficiency resources identified by the Resource Value Test, while others may choose to consider additional, jurisdiction-specific factors, such as:

- The results of secondary cost-effectiveness tests;
- Statutory or other requirements to implement all cost-effective energy efficiency;
- Statutory or other budget caps or constraints on efficiency resources;
- Statutory or other energy efficiency resource standards or other targets;
- Goals related to customer equity, or to providing access to all customer classes and customer types;
- Goals related to minimizing lost opportunities, or to addressing all electricity and gas end-use markets; and
- Rate, bill, and participation impacts of efficiency resources.

### 23. Does the Resource Value Framework provide too much flexibility, or undue flexibility, to regulators and other decision-makers?

No. The Resource Value Framework simply acknowledges and accounts for the authority and responsibility that regulators and other decision-makers already have.

Regulators and decision-makers are typically provided with responsibility to make decisions on efficiency resource cost-effectiveness based on statutes, regulations, commission orders, executive orders, and more. The Resource Value Framework simply acknowledges that responsibility; it allows for a perspective that is different from the utility, the participant, or the societal perspective.

Furthermore, the Resource Value Framework makes the objective of cost-effectiveness explicit, provides the principles to be used for developing cost-effectiveness tests, allows for transparency of the decision-making, and promotes stakeholder input on the key cost-effectiveness questions. All of these features should lead to a more informed and more successful process for determining a jurisdiction's cost-effectiveness test.

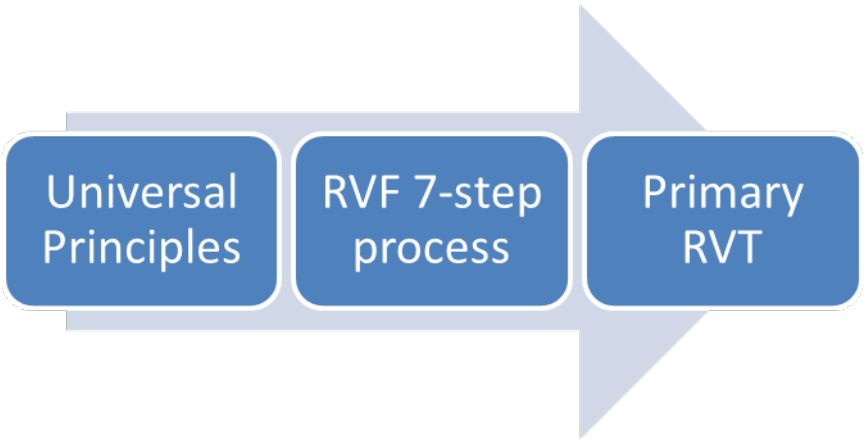
## The Resource Value Test

### 24. What is the purpose of the Resource Value Test?

The purpose of the Resource Value Test is to be the primary test to assess the cost-effectiveness of energy efficiency resources. The Resource Value Test is designed to reflect the ultimate objective of energy efficiency cost-effectiveness analyses: to provide customers with safe, reliable, low-cost electricity and gas services, while meeting other relevant energy policy goals.

### 25. How should a jurisdiction develop its Resource Value Test?

Each jurisdiction should develop a Resource Value Test using the NSPM principles and the Resource Value Framework. The Resource Value Test should include all utility system impacts plus all applicable policy impacts relevant for the jurisdiction.




### 26. How should a jurisdiction articulate its energy and other applicable policy goals?

Ideally, applicable policy goals should be assessed and articulated with a process that is transparent and open to all relevant stakeholders such as consumer advocates, low-

income representatives, state agencies, efficiency representatives, environmental advocates, and others. Key stakeholders can provide important viewpoints regarding the value of energy efficiency in the context of the jurisdiction's policy goals.

This stakeholder input can be achieved through a rulemaking process, a generic jurisdiction-wide docket, commission orders on specific energy efficiency plans, working groups, technical sessions, or other approaches appropriate for the jurisdiction. The process should address objectives based on current jurisdiction policies, and should also be flexible to address new or modified polices that are adopted over time.

Some jurisdictions may wish to incorporate input from government agencies or representatives that do not typically make decisions regarding energy efficiency cost-effectiveness, but would nonetheless have insights on the jurisdiction's applicable policy goals. For example, a state's public utility commission may wish to incorporate input from that state's department of environmental protection or department of health and human services.

### 27. Why should a jurisdiction include all the utility system impacts in the test?

The utility system costs and benefits should provide the foundation for every cost-effectiveness test. This ensures that the test will, at a minimum, indicate the extent to which total utility system costs will be reduced (or increased) by the efficiency resource over a specified period. It will also indicate the extent to which average customer bills will be reduced (or increased) by the efficiency resource, because total utility system costs determine average customer bills.

Utility system avoided costs are some of the most important inputs to any cost-effectiveness analyses of energy efficiency resources, and they will significantly affect the results of the analyses*. Therefore, it is essential to ensure that avoided cost estimates are comprehensive, up-to-date, informed by stakeholders, and ultimately reviewed and approved by regulators.*

### 28. How should a jurisdiction decide which non-utility impacts to include in the test?

After all of the utility system impacts have been included in the primary cost-effectiveness test, any additional impacts should be included *if they are consistent with and justified by applicable policy goals.* The types of non-utility impacts that might be included in a Resource Value Test are summarized in the table below.

| Non-Utility Impact | Description |
|---|---|
| Participant impacts | Impacts on program participants, includes participant portion of measure cost, other fuel savings, water savings, and participant non-energy costs and benefits |
| Impacts on low-income customers | Impacts on low-income program participants that are different from or incremental to non-low-income participant impacts; includes reduced foreclosures, reduced mobility, and poverty alleviation |
| Other fuel impacts | Impacts on fuels that are not provided by the funding utility, for example, electricity (for a gas utility), gas (for an electric utility), oil, propane, and wood |
| Water impacts | Impacts on water consumption and related wastewater treatment |
| Environmental impacts | Impacts associated with $CO_2$ emissions, criteria pollutant emissions, land use, etc.; includes only those impacts that are not included in the utility cost of compliance with environmental regulations |
| Public health impacts | Impacts on public health; includes health impacts that are not included in participant impacts or environmental impacts, and includes benefits in terms of reduced healthcare costs |
| Economic development and jobs | Impacts on economic development and jobs |
| Energy security | Reduced reliance on fuel imports from outside the state, region, or country |

### 29. How should a jurisdiction decide whether to include participant impacts in its Resource Value Test?

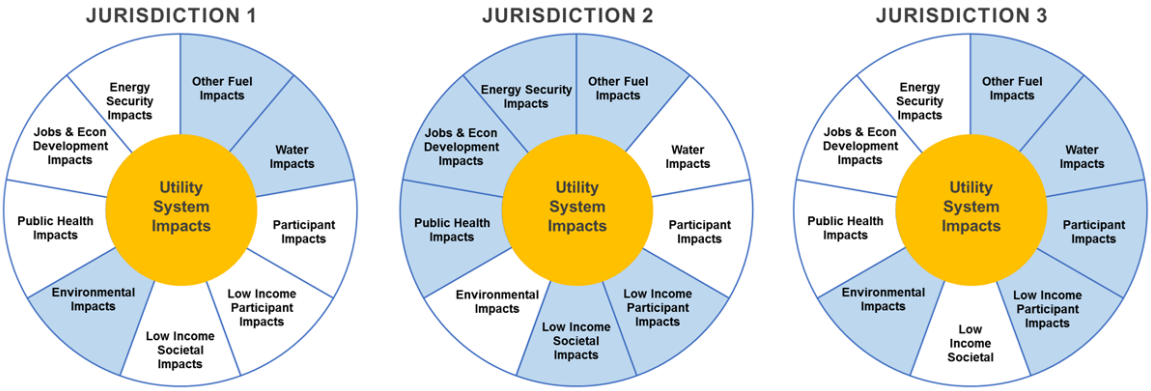
The decision of whether to include participant impacts is one of the more important decisions in determining a Resource Value Test. In making this decision, it is important to consider two overarching factors:

- The decision of whether to include participant impacts in the primary cost-effectiveness test is a policy decision. Regulators may choose to include participant impacts in the primary cost-effectiveness test if that would achieve the jurisdiction's policy goals.
- If regulators decide to include participant costs in any cost-effectiveness test, the test must also include participant benefits, and *vice versa*. This is necessary to ensure symmetrical treatment of participant impacts, consistent with Symmetry Principle.

Several additional issues should be addressed when deciding whether to account for participant impacts in the primary cost-effectiveness test. Regulators and other decision-makers should determine whether there is a policy justification for including participant impacts in the primary test, as well as the rationale and advantages of including participant impacts in the primary test.

### 30. What are some examples of Resource Value Tests that a jurisdiction could develop?

The figures below provide some examples of Resource Value Tests that different jurisdictions might develop. In all cases, the utility system impacts are included in the Resource Value Test. The difference across these examples are due to different non-utility system impacts that have been chosen by each jurisdiction, based on their policy goals.




# Relationship to Traditional Tests

### 31. How is the Resource Value Test different from traditional cost-effectiveness tests?

The Resource Value Test might be different from traditional cost-effectiveness tests, depending on a jurisdiction's energy policy goals. The table below provides a comparison of the Resource Value Test with the traditional cost-effectiveness tests.

**Comparison of RVT with the Traditional Tests**

| Test | Perspective | Key Question Answered | Categories of Costs and Benefits Included |
|---|---|---|---|
| Utility Cost Test | The utility system | Will utility system costs be reduced? | Includes the costs and benefits experienced by the utility system |
| Total Resource Cost Test | The utility system plus participating customers | Will utility system costs plus program participants' costs be reduced? | Includes the costs and benefits experienced by the utility system, plus costs and benefits to program participants |
| Societal Cost Test | Society as a whole | Will total costs to society be reduced? | Includes the costs and benefits experienced by society as a whole |
| Resource Value Test | Regulator/decision-makers | Will utility system costs be reduced, while achieving applicable policy goals? | Includes the utility system costs and benefits, plus those costs and benefits associated with achieving relevant applicable policy goals |

### 32. Could the Resource Value Framework result in developing a primary test that is the same as one of the traditional tests?

Yes. A jurisdiction's use of the Resource Value Framework may lead to adoption one of the traditional cost-effectiveness tests. This will happen if the policies of that jurisdiction are completely aligned with those traditional tests. For example:

- A jurisdiction whose policies are limited to the goal of reducing utility costs over the long run, and nothing else, might use the Resource Value Framework and end up choosing the Utility Cost test as its primary test.

- A jurisdiction whose policies are limited to the goals of reducing utility and participant costs over the long term, and nothing else, might use the Resource Value Framework and end up choosing the Total Resource Cost test as its primary test.
- A jurisdiction whose policies require the consideration of all relevant societal impacts might use the Resource Value Framework and end up choosing the Societal Cost test as its primary test.

**33. Could the Resource Value Framework result in developing primary tests that are different in different jurisdictions?**

Yes. The Resource Value Test that is created in one jurisdiction might be different from tests created in other jurisdictions, depending upon the policy goals and choices of each jurisdiction.

**34. Can a jurisdiction use the National Standard Practice Manual if it already has a cost-effectiveness test?**

Yes. Any jurisdiction can use the NSPM to ensure that its current cost-effectiveness test and practices adhere to the fundamental cost-effectiveness principles.

In addition, any jurisdiction can use the manual to ensure that the inputs to its current cost-effectiveness test (e.g., utility system impacts, participant impacts, discount rates, free-riders, spillover) are sound and consistent with best practices.

## Secondary Cost-Effectiveness Tests

**35. Can the Resource Value Test be used with other cost-effectiveness tests?**

The Resource Value Test is intended to be used as a jurisdiction's primary cost-effectiveness test, because it will best account for the totality of the jurisdiction's energy policy goals.

Nonetheless, jurisdictions may want to also use other cost-effectiveness tests to provide different types of information on costs and benefits. There are several reasons why jurisdictions might choose to apply secondary cost-effectiveness tests, including:

- To inform decisions regarding which categories of impacts to include in the primary Resource Value Test;
- To inform decisions regarding how much utility customer money could or should be invested to acquire cost-effective savings;
- To inform decisions regarding which efficiency programs to prioritize if not all cost-effective resources will be acquired;
- To inform efficiency program design; and
- To inform public debate regarding efficiency resource acquisition.

For any test used to assess energy efficiency cost-effectiveness, whether primary or secondary tests, the key principles of the NSPM should be applied.

# Foundational Information

**36. What foundational information does the NSPM provide in addition to guidance on how to develop a jurisdiction's primary cost-effectiveness test?**

Part II of the NSPM provides additional information on developing inputs to cost-effectiveness tests. The foundational information covers the following topics:

- Methods that can be used to determine or account for all relevant impacts (Chapter 7).
- Considerations for including Participant Impacts (Chapter 8).
- Identifying appropriate discount rates (Chapter 9).
- Selecting an assessment level (Chapter 10).
- Selection of an analysis period (Chapter 11).
- Treatment of Early Replacement (Chapter 12.).
- Treatment of Free-Riders and Spillover (Chapter 13).
- Traditional Cost-Effectiveness Tests (Appendix A).
- Distributed Energy Resource Costs and Benefits (Appendix B).
- Accounting for Rate and Bill Impacts (Appendix C).