EE-02: Incentive Guideline - Simple Payback of Customer Investment in Energy Efficiency

New York State Department of Public Service
Office of Energy Efficiency & the Environment

Energy Efficiency Guidance

Approval: Colleen Gerwitz	**Title: Deputy Director, Office of Energy Efficiency & the Environment (OEEE)**
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I. Purpose:

Within the Energy Efficiency Portfolio Standard (EEPS) program, two main cost tests are applied before new energy efficiency measures are added to a Program Administrator (PA) commercial or industrial program. The first is the Total Resource Cost (TRC) test and the second is the customer payback test. The customer payback test is based upon the customer's net investment in the energy efficiency measure(s) and other factors. It results in a number indicating the number of years in which the investment is recouped by the customer. This guidance document is issued to clarify what is meant by the payback of the customer's investment in a measure, how it is to be calculated, and the implications to establishing customer incentives / rebate levels.

II. Background:

In its October 23, 2009 Order the Commission recognized that many C&I programs included proposals to offer prescriptive rebates based on a percentage of different factors including: a) measure cost; b) incremental measure cost compared to standard-efficiency equipment; or c) the incremental measure costs, including installation costs. It further discussed how the variations in the rebate levels could lead to customer confusion and inequalities for customers. To address this, it established a guideline:

> *As a result, we establish a guideline that the total incentive paid for any rebate will not exceed an amount that produces less than a one-year payback period for commercial customers and one-half year for industrial customers.*[1]

This order also established caps for projects to ensure that a disproportionate amount of funding would not be spent on a few projects. It did not, however, define/calculate how the customer's investment in the equipment/measure was to be determined. As a result there have been inconsistent interpretations of the rule. A number of PA's have used the incremental cost (cost difference between the energy efficient and the minimally-compliant model/version of the equipment) as the customer's investment. Other PA's have used the total customer cost less any incentives received from the PA as the customer's investment. The two different methods utilized to calculate payback produce widely varying results.

[1] 2009 Order Approving Certain Commercial and Industrial Customer Energy Efficiency Programs With Modifications, p. 28.

The guidance in this document regarding the payback test applies only to commercial and industrial customers.

III. Guidance:

A. Simple Customer Payback Calculation

The basic formula for the simple customer payback for commercial and industrial customers is as follows:

> Simple Customer Payback in Years = Customer Investment in Energy Efficient Measure / Annual Energy Bill Savings

1. Customer Investment

In all cases, customer investment is the full installed cost of the equipment LESS any incentives provided by the PA. No other costs (e.g., lost sales due to equipment downtime) are permitted.

2. Annual Energy Bill Savings

Annual Energy Bill Savings = Energy Savings per Year for Measure x Rate per Unit of Energy Paid by Customer

B. Incentive / Rebate Level Cap

1. Commercial Customer Incentives:

Total incentive paid must produce a payback of one year or greater.

2. Industrial Customer Incentives:

Total incentive paid must produce a payback of 0.5 year or greater.