

Summary of Key Principles Related to Third Party Incentives to Ensure Accurate TRC Calculations

In general, the full cost of study-based services (e.g., facility energy audits, energy surveys, energy assessments, retro-commissioning) should be classified as incremental costs in the TRC analysis.

In general, the full cost of direct installation of efficiency measures (materials and labor) should be classified as incremental costs in the TRC analysis.

While “Incentives Paid to Third Parties” (e.g., direct install, audits) historically have been treated as implementation costs in the TRC analysis for some Program Administrators, in the IL EE Policy Manual adopted by the ICC, such costs (e.g., direct install, audits) are treated as “Incentives Paid to Third Parties”, which is treated as a transfer in the TRC analysis, but in order to perform an accurate TRC calculation, when transferring such costs from the implementation cost category to the “Incentives Paid to Third Parties” category, such costs (e.g., direct install, audits) must also be categorized as “Incremental Costs” in the TRC analysis in order to arrive at an accurate TRC.

Individual Utility Programs

If single fuel utility program, count entire costs, will include benefits from both fuels.

Joint Utility Programs: Joint TRC must be balanced in terms of adjustments to benefit and cost side.

- (1) do the entire TRC for both fuels (gas and electric benefits, full incremental cost); or
- (2) do TRC for each fuel separately with an allocation of incremental costs that is appropriate. Count only gas or only electric portion of benefits and costs.

It is technically incorrect TRC calculation to include both gas and electric savings from a jointly implemented dual fuel savings efficiency measure in a direct install program and include the gas utility third party incentives only as an incremental cost and exclude the electric utility third party incentives as an incremental cost.

Note: In DSMore Batch File, “cost per cust” is terminology used for incremental cost input. In Peoples TRC file, “Incremental Cost” is terminology used for incremental cost input.

In general, the Incremental Cost assumed in the TRC analysis for a Retail Time of Sale (TOS) measure and a Direct Install (DI) measure is often different. For example, see below Hypothetical Examples for a Residential Advanced Thermostat Measure:

Retail Time of Sale Advanced Thermostat: Incremental Cost=\$175, where Material Cost=\$225 new Advanced Thermostat Less Baseline Equipment Cost \$50 blend of Programmable Thermostat and Manual Thermostat Cost. For simplicity, assume no incremental installation cost in comparison to baseline thermostat installation cost.

Customer Incentives (Paid by Utility)=\$100. Count BOTH Gas and Electric Savings in TRC.

TRC Costs=\$175xNTG Ratio¹

Direct Installation of Advanced Thermostat: Incremental Cost=\$285, where Material Cost=\$225 new Advanced Thermostat plus Installation Labor=\$60.

Third Party Incentives (Paid by Utility)=\$285. Count BOTH Gas and Electric Savings in TRC.

¹ Both benefits (energy savings) and costs (measure costs, including both measure cost and labor (for DI programs)) are reduced by the NTG ratio so that only costs and benefits caused by the EE program are included in the calculation.

TRC Costs=\$285xNTG Ratio

Alternative A: Combined Joint TRC for **Direct Installation** of Advanced Thermostat, Assume \$50 Co-Pay:

Incremental Cost=\$285=($\$235 + \50)=(Utility Contribution + Customer Contribution), where \$235 is Utility Net Contribution to Incremental Cost (Third Party Incentives less any Customer Co-Pay) and \$50 is Customer Contribution to Incremental Cost (i.e., Co-Pay).

Third Party Incentives= $\$235=(\$285 - \$50)$, where \$285 is new Advanced Thermostat Material Cost plus Installation Labor Cost and \$50 is Customer Co-Pay, which serves as offset to Third Party Incentives.

Count BOTH Gas and Electric Savings in TRC. **TRC Costs=\$285xNTG Ratio**

Alternative B: Combined Joint TRC for **Direct Installation** of Advanced Thermostat, Assume \$50 Co-Pay:

Incremental Cost=\$285, where Material Cost=\$225 new Advanced Thermostat plus Installation Labor=\$60.

Third Party Incentives= $\$235=(\$285 - \$50)$, where \$285 is new Advanced Thermostat Material Cost plus Installation Labor Cost and \$50 is Customer Co-pay, which serves as offset to Third Party Incentives.

Count BOTH Gas and Electric Savings in TRC. **TRC Costs=\$285xNTG Ratio**

For Joint Programs: If an Advanced Thermostat measure has both gas and electric savings and gas contributes 65% of the total benefits (avoided costs) of the measure, the incremental costs and the third party incentives can be split 65% to gas and 35% to electric so that the TRC test comes out approximately the same for each fuel.

Combined Joint TRC for Direct Installation of Advanced Thermostat, Assume zero co-pay:

Incremental Cost=\$285=($\185.25 (65% gas) + $\$99.75$ (35% electric)),

Third Party Incentives= $\$285=(\185.25 (65% gas utility) + $\$99.75$ (35% electric utility)),

Count BOTH Gas and Electric Savings in TRC. **TRC Costs=\$285xNTG Ratio**

Electric-only TRC for Direct Installation of Advanced Thermostat in Joint Program:

Electric-only Incremental Cost=\$99.75=($\$285 \times 35\%$)

Third Party Incentives Paid by Electric Utility= $\$99.75=(\$285 \times 35\%)$

Count ONLY Electric Savings in TRC, **TRC Costs (electric TRC)=\$99.75xNTG Ratio**

Gas-only TRC for Direct Installation of Advanced Thermostat in Joint Program:

Gas-only Incremental Cost=\$185.25=($\$285 \times 65\%$)

Third Party Incentives Paid by Gas Utility= $\$185.25=(\$285 \times 65\%)$

Count ONLY Gas Savings in TRC, **TRC Costs (gas TRC)=\$185.25xNTG Ratio**
