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ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE CONTINUATION,)
EXPANSION, AND ENHANCEMENT OF)
PUBLIC UTILITY ENERGY EFFICIENCY)
PROGRAMS IN ARKANSAS)

DOCKET NO. 13-002-U
ORDER NO. 7

ORDER

On January 4, 2013, by Order No. 1 in this docket (“Order”), the Arkansas Public Service Commission (“Commission”) established a process and a timeline to resolve issues related to the development and implementation of the second three-year cycle of comprehensive utility energy efficiency (“EE”) programs in Arkansas. The following investor-owned public utilities (“IOUs” or “utilities”) are parties to the proceeding: Entergy Arkansas, Inc. (“EAI”), Southwestern Electric Power Company (“SWEPCO”), Oklahoma Gas and Electric Company (“OG&E”), The Empire District Electric Company (“Empire”), CenterPoint Energy Arkansas Gas (“CenterPoint”), SourceGas Arkansas, Inc. (“SourceGas”) and Arkansas Oklahoma Gas Corporation (“AOG”). The Arkansas Attorney General (the “AG”) and the General Staff of the Commission (“Staff”) are also parties. The following intervenors are parties: Arkansas Advanced Energy Association, Inc. (“AAEA”), Arkansas Community Action Agencies Association (“ACAAA”), Arkansas Electric Energy Consumers and Arkansas Gas Consumers (“AEEC/AGC”), National Audubon Society (“Audubon”), Sierra Club, and Wal-Mart Stores Arkansas, LLC (“Wal-Mart”).

On January 17, 2013, the Parties Working Collaboratively (the “PWC”) submitted a Joint Motion to delay the procedural schedule and to delay implementation of the

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second three-year program cycle by one year, in order to allow time for the Commission and the PWC to resolve the issues that were raised in Order No. 1. The PWC includes all parties except Wal-Mart, who did not object to the Motion. The Commission granted this motion by Order No. 2, on January 30, 2013, and accordingly, parties filed initial comments on May 15, 2013, and Reply Comments on June 3, 2013.

The delay in the procedural schedule was granted in part because the first evaluation of a full year of EE program data, conducted by the Independent Evaluation Monitor (“IEM”), Dr. Katherine Johnson, would not be filed until June 1, 2013. Dr. Johnson submitted her testimony and *Annual Summary Report on Evaluation, Measurement and Verifications Findings* (“EM&V Report”) for Program Year (“PY”) 2012 on June 3, 2013.

On April 19, 2013, the PWC submitted a *Joint Motion to Request Potential Study* (“Joint Motion,” or “JM”). On April 30, 2013, by Order No. 4, the Commission broadened the scope of testimony in this docket to include consideration of lessons learned and proposed program improvements that can reasonably be implemented during 2013 and beyond to address under-performance for particular programs during 2012 and to more effectively target hard-to-reach customer segments.

Issue 1: EE Program Procedural Issues

A subset of the PWC—the Joint Commenting Parties (“JCP”)¹—comment that the significant evolution of the framework surrounding EE programs during the time since the Conservation and Energy Efficiency (“C&EE”) Rules were adopted in 2007 merits changes to the current schedule for reviewing EE program performance and tariff

¹ The JCP are comprised of the IOUs, ACAA, AAEA, and Staff. While EAI is included in the JCP, it comments separately regarding avoided costs, non-energy benefits, and the incorporation of avoided costs into the utility performance incentive.

adjustment. JCP at 3-4. The JCP propose that the date for utilities and other program administrators to file EE Program Annual Reports and EECR rider updates be changed from April 1 to May 1 of each year, with any approved EECR rider updates taking effect on January 1 of the subsequent year. *Id.* at 5. The JCP recommend that the Commission approve EECR adjustments by September 1 following the May 1 filing. *Id.* at 6. The JCP state that this schedule will place program year expenditures, program budgets, and EECR rates on the same calendar year basis. *Id.* at 5-6. The JCP recommend that this schedule be implemented in 2015, with a one-time exception to the schedule in 2014 to enable a transition between schedules. *Id.* at 6-7.

The JCP include the following table indicating their recommended timeline for schedule changes:

JCP Proposed Filing Dates

EE Filing/Event	Current Schedule	Recommended Schedule
2013 Annual Report & EECR (2014 Budget / 2013 true-up)	April 1, 2014	
Effective date of 2014 EECR Rate	June 1, 2014	
2015-2017 Program Filing	June 1, 2014	
2015-2017 Program Approval		November 27, 2014
2015 EECR Rate Transition Filing (2015 Budget / no true-up)		April 1, 2015
2014 Annual Report & EECR (2016 Budget / 2014 true-up)		May 1, 2015
Order Approving Transition Filing		May 28, 2015
Effective date of 2015 EECR Rate Adjustment		June 1, 2015
Order approving May 2015 filings		September 1, 2015
Effective date of 2016 EECR Rate		January 1, 2016
2015 Annual Report & EECR (2017 Budget / 2015 true-up)		May 1, 2016
Order approving May 2016 filings		September 1, 2016
Effective date of 2017 EECR Rate		January 1, 2017
2016 Annual Report & EECR (2018 Budget / 2016 true-up)		May 1, 2017
Order approving May 2017 filings		September 1, 2017
Effective date of 2018 EECR Rate		January 1, 2018

The JCP indicate that the January 1 implementation date for EECR adjustments to go into effect will provide concurrent recovery of Commission-approved budgeted program costs, thereby eliminating the regulatory lag that has existed in the current mechanism. *Id.* at 5. By way of example, the JCP recommend that the May 1, 2015 EECR filing would include the PY 2014 true-up and the projected costs for the 2016 program year. The 2016 EECR filing will include the PY 2015 true-up and the projected costs for the 2017 program year. *Id.* The JCP state that the proposed schedule represents a balanced approach, in that recovery of incentives for the prior program year is delayed from the current June 1 until January 1, or a full year following the program year upon which the incentive was earned. *Id.*

Regarding the transitional year, the JCP recommend that, during 2015, the true-up of the 2014 program costs would be addressed in the May 1 filing. This one-time EECR update would be effective through December 2015 and would be superseded by the 2016 Program Year EECR update, which would become effective January 1, 2016. In subsequent years the recommended schedule would continue without the need for an additional adjustment. *Id.*

The JCP oppose consolidation of EE program approvals within a single docket. *Id.* at 8. The JCP state that such consolidation will result in a massive, confusing record that complicates the required finding that each utility's EE programs are beneficial to the utility and ratepayers alike. *Id.* at 8-9. The JCP provide the example that it would be administratively inefficient and perhaps violate the requirement that intervenors must have a direct interest at stake to involve a party interested only in a single utility's case in a docket addressing all utility's EE programs. *Id.* at 9-20. Further, the JCP state

that, with multiple utilities and parties, it may be unclear whether a party is addressing all of the utilities' EE program portfolios, the portfolio of a single utility, or a single program. *Id.* at 10. The JCP recommend instead that the Commission should retain separate utility EE tariff dockets for approval of each utility's EE program and EECR adjustment, and pursue administrative efficiencies by allowing pre-filed testimony to be introduced into the hearing record by stipulation. *Id.* at 8.

Further supporting the JCP's opposition to a consolidated EE docket, EAI states that, if anything, it may be more practical to have utilities begin to implement their own cycles for portfolio submission, with staggered filings, as in the integrated resource planning ("IRP") process. EAI at 8. EAI notes that the PWC's own efforts to gain administrative efficiencies by consolidating utility EE reporting and making it more consistent was tabled due to the need to respond to Order No. 1. *Id.* EAI recommends that the PWC be directed to focus on this further integration of EE reporting. *Id.* Also, EAI generally comments that it is better for the Commission to propose policy issues for resolution by the PWC, rather than proposing solutions for litigated comment, as in Order No. 1. *Id.* at 4-5.

The AG agrees with the JCP regarding scheduling changes, except that the AG views a hard September 1 deadline for Commission EECR approval as unnecessary given that complex issues may arise and that the new EECR would not go into effect until January 1, and the AG sees no reason to delay the transition year to 2015, rather than 2014. AG at 10. Other than these two exceptions, the AG states that the scheduling changes will significantly improve the annual process, allowing time for more evaluation and review of EE program savings and EECR filings. *Id.* at 10-11. The AG states that the

merits of consolidating EE program review in a single docket are unclear: while a single docket might streamline consideration of core programs and cross-cutting issues, utility-specific issues will always arise as long as utilities separately administer their programs. *Id.* at 11-12.

AEEC/AGC supports the JCP's proposed May 1 filing date for Annual Reports and EECR rider adjustments, with 60 days provided for review of the filings by parties. AEEC/AGC at 2. AEEC/AGC favors a schedule under which the Commission would approve tariff adjustments within 120 days. *Id.* AEEC/AGC states that these extensions to the current timelines for review are needed in light of the higher level of costs being requested for full program implementation. *Id.* at 2-3. While AEEC/AGC opposes creation of a single EE docket for review of individual utility programs, it supports consideration of policy issues common to all utility EE programs within a single docket in order to ensure consistency and reduce administrative and participation costs. *Id.* at 3.

Sierra Club supports a combined EE docket in furtherance of standardized statewide programs, but in the alternative would favor handling cross-cutting issues within a single docket. Sierra Club at 2. Audubon similarly states that a more unified procedural approach would be congruent with collaborative EE program planning, but recommends that the Commission consider alternative approaches that may accomplish the same objectives, if necessary to address objections to consolidation. Audubon at 1.

Ruling Regarding Consolidated Docket and Proposed Alternative Schedule

The Commission accepts the JCP's recommendation that individual utility tariff dockets be retained for utility EE program and tariff adjustment approval, in order to

preserve a distinct basis in substantial evidence for each decision. The Commission also accepts the recommendation by parties that cross-cutting or common issues should be addressed through a separate, single docket or dockets.

The Commission accepts the JCP's recommended schedule for transition in 2015 to a May 1 annual filing date, as indicated in the table above, with a transitional-year filing in 2014, with the exception that the Commission will strive to approve programs and tariff adjustments by September 1, but reserves the right in cases of controversy, if necessary, to investigate solutions for a longer period of time. The Commission agrees with the JCP that the recommended schedule will enhance the opportunity for performance review and that it will better align program implementation and cost recovery. Also, it is reasonable to schedule the transitional year filing for 2015 because the new three-year program cycle will be implemented during that year.

Accordingly, the Commission approves the revised filing deadlines and procedural schedules for immediate use in the preparation and approval of the next three-year EE planning and program cycle for PY 2015-2017. Also, the Commission directs Staff to file a draft of any C&EE rule amendments necessary for the implementation of this scheduling change on or before noon of January 10, 2014, in Docket No. 06-004-R.

Issue 2: Proposed Commission Targets and *Motion for Potential Study*

In support of the Joint Motion, the PWC state that Order No. 1 contemplates substantial changes to the Commission's C&EE Rules and the associated EE framework, and that the PWC has met several times to discuss the issues associated with those

changes.² JM at ¶¶ 1 & 3. In that context, the PWC has determined a need for a Potential Study on the Performance Targets for 2015-2017. *Id.* at ¶ 3. The PWC recommend that the Commission consider Arkansas-specific market conditions through a Potential Study before establishing the proposed EE goals and targets for years 2015-2017. *Id.* at ¶ 4. The PWC state that, absent a Potential Study, the EE goals or targets proposed in Order No. 1 will not reflect market conditions and other factors specific to Arkansas, such as changes in residential and commercial energy codes, availability of savings, avoided costs, and the amount of program expenditure needed to achieve energy savings. *Id.* at ¶ 4. The PWC seek approval to expeditiously issue a Request for Proposal (“RFP”) for the performance of a Potential Study that would be jointly funded by the IOUs, with costs recovered through each utility’s Energy Efficiency Cost Recovery (“EECR”) rider. *Id.* at ¶ 5. The PWC state that time is of the essence, since it will take six to nine months after issuance of the RFP to complete the study, and then parties would need to submit comments to the Commission on how to interpret the results to set EE goals. *Id.* The PWC indicate that they “anticipate working collaboratively to address the scope and other issues in connection with the proposed Potential Study.” *Id.* at ¶3.

EAI comments in support of the Potential Study that having the results of the first full year of existing program performance—which were not available until after the targets proposed in Order No. 1—is critical to evaluating the reasonableness of the targets. EAI at 6. EAI states that the Commission’s proposed targets appear to be based upon results in other states, and thus to assume that a significant proportion of savings

² The Commission notes that, at this time, it has not proposed amendments to the Conservation and Energy Efficiency Rules (“C&EE Rules”).

will be achieved through lighting programs. *Id.* EAI notes that other issues addressed in Order No. 1, such as the AG's recommendations to quantify avoided capacity using a Real Economic Carrying Charge ("RECC") and to adjust EE program savings downward for leakage of installed measures to other jurisdictions, would significantly influence the reasonableness of the proposed framework.³ *Id.*

AEEC/AGC supports the Potential Study to ensure that goals and funding levels are set at realistic levels which reflect recent reductions in market energy prices and relatively low economic growth. AEEC/AGC Reply at 11. AEEC/AGC also recommends that any expansion of EE programs be deferred. *Id.* AEEC/ACG asserts that the cost of most EE programs far exceeds the current market price for energy and capacity, providing the example that the average cost of EAI's EE program expenditures per MWh saved over the last four years was \$334/MWh—more than 13 times the average SPP and MISO market prices of approximately \$25/MWh last year. AEEC/AGC Reply at 2. AEEC/AGC states that EAI, SWEPSCO and OG&E's more recent IRPs indicate a surplus of low cost baseload energy, rendering EE programs not cost effective currently, nor until market prices increase significantly. *Id.* at 2-3. AEEC/AGC presents a table that sums EAI's EE annual program savings in each year from 2009 through 2012: dividing those savings by EAI's total sales, AEEC/ACG concludes that EAI's programs have saved only 0.28% of retail kWh sales. AEEC/AGC argues that it makes no sense to approve

³ Leakage is the cross-territory energy savings that occur when EE program-incentivized efficient products are installed outside of the funding utility's service territory. Subsequent to this comment by EAI, the Commission, by Orders No. 63 and 85, respectively, of Dockets No. 07-082-TF and 07-085-TF, established a policy on leakage. On August 30, 2013, the parties actively participating in the collaborative process in Docket No. 10-100-R ("the Moving Parties", comprising the utilities, Staff, the AG, ACAA, and Audubon) submitted a Joint Motion to Approve Technical Reference Manual 3.0 and Waiver of Hearing, including a new Protocol K addressing leakage and incorporating the Commission's directives in Order Nos. 63 and 85 above.

EAI's 2013 EE program budget exceeding \$70 million when alternative supply sources are available at much lower cost. *Id.* at 6.

Audubon supports the Joint Motion and views the Potential Study's results as indicating an approximate upper limit on reasonably achievable savings. Audubon at 2. Audubon cautions that potential studies are not program implementation plans and cannot account for various factors such as program portfolio design, differences among program administrator portfolios and resources, and the time required to "ramp up" programs. *Id.* at 2-3. Audubon states that savings goals must be scaled to an achievable level given available time and resources. *Id.* at 3.

Sierra Club states that it supports the targets proposed by the Commission. Sierra Club at 2. Sierra Club, however, also supports a Potential Study on the basis that it will increase confidence that the proposed targets are achievable, it may show that higher targets are achievable, and it will enable a more informed conversation regarding the targets, including whether perceived barriers are technical, economic, practical, or a matter of program design. *Id.* at 2.

Dr. Johnson's EM&V Report states that, despite mixed results, most programs achieved their savings goals and it is clear that the EE programs are gaining traction in the market. IEM Report at 72. She states that the progress made in the past 12 months has been remarkable. *Id.* She urges the utilities to "Stay the Course—Collaboratively—with Additional Joint Implementation." *Id.*

Her "first, critical recommendation" going forward is for the performance of a market potential study. Dr. Johnson adds that she made this same recommendation a

year ago in her PY 2011 Report. PY 2012 EM&V Report at xii and 70.⁴ She also states that [a]ll three evaluation teams engaged by the IOUs (ADM Associates, Inc. (“ADM”), Cadmus, and EnerNOC Utility Solutions Consulting (“EnerNOC”)) identified the benefits that such a study would provide, including gathering information about customer preferences, participation likelihood, and savings potential across the entire state, as well as additional technologies to consider in future program designs. She indicates that the market potential study should be a multi-utility, cross-fuel effort to ensure the most efficient use of ratepayer funds, requiring coordination between all members of the PWC.” *Id.* at 70.

The Commission takes administrative notice that several of the individual utility evaluation reports referenced by Dr. Johnson mention particular benefits of a market potential study. The evaluator for CenterPoint, AOG, and SourceGas EE programs (ADM Associates, Inc., or “ADM”) found that the current programs of these utilities have been designed and implemented without the benefit of guidance from a market potential study, which should be done to make sure that program resources are allocated in an efficient manner. CenterPoint Annual Report, Appendix A at 2-8 through 2-9; AOG Annual Report, at 33 and Appendix A at 4-31, 5-21 and 7-24; SourceGas Annual Report, Appendix A at 2-10. As part of its program evaluation of these programs, ADM took the opportunity to conduct surveys—which fell short of a full market potential study—of several hundred customers who did not participate in the

⁴ In the Report for PY 2011, the IEM recommended that utilities consider “performing market assessments, such as a market potential study based on primary data from Arkansas,” in order to “ensure that planning projects are based on actual market conditions.” The IEM recommended that the study “should be coordinated statewide and linked to other EM&V tasks to ensure cost-effectiveness.” *Annual Summary Report on Evaluation, Measurement & Verification Findings*, Johnson Consulting Group, June 1, 2012.

CenterPoint, AOG, and SourceGas EE programs. For example, ADM asked residential customers who did not participate in CenterPoint EE programs what percentage of them have tankless water heaters versus storage-tank water heaters, and the age of those units; similarly, ADM asked commercial customers to identify their highest gas loads and the age of equipment serving those loads. CenterPoint Annual Report, Appendix A at 2-8 through 2-9.

Cadmus indicated that SWEPCO's initial estimates of market demand for some programs (Load Management Standard Offering Program, Appliance, and Home Performance with Energy Star) were low, and others (CFL, Small Business Direct Install) were high. SWEPCO Annual Report, Appendix A (*Energy-Efficiency Portfolio Evaluation Report 2012 Program Year*) at 5 and 15-16. Cadmus recommends that SWEPCO conduct market research or a potentials study to better understand customer preferences and participation and savings potential. *Id.* at 16.

Similarly, Cadmus recommended that Empire conduct market research to better understand residential customers' housing characteristics and purchasing habits to inform residential prescriptive program design. Empire Annual Report, Attachment B (*Empire, Evaluation Report*) at 7. As an example, Cadmus recommended that Empire seek to understand the types, ages, and quantities of electric HVAC equipment found in customers' homes, the types of new equipment they are likely to purchase, and where they purchase such equipment. *Id.*

EnerNOC recommended that OG&E should research the target market for its commercial and industrial ("C&I") programs to find the current market share of high efficiency equipment; to understand the common characteristics of customers already

investing in energy efficiency and what characteristics make up the next tier of customers the program is hoping to reach; and to proactively identify specific equipment to promote. OG&E Annual Report, Appendix D (*Evaluation of OG&E Arkansas FY 2012 Energy Efficiency Programs*) at v.

Dr. Johnson further testifies that the various evaluators this year provided more than 400 recommendations on ways in which to improve the EE programs. Johnson Direct at 5. Dr. Johnson recommends that the Commission continue to encourage joint-collaboration and implementation of cross-fuel programs. *Id.* at 6. She reports that such joint program implementation can significantly reduce the cost per achieved kWh or therm, by sharing the administrative cost of the programs, and even more so when measure costs are allocated across fuel types. IEM Report at 72.

She further recommends that utilities continue to improve database tracking; that evaluators undertake strategic primary evaluation research in 2013 to ensure that the TRM is reliable and based on Arkansas-specific data; that utilities and evaluators should track and report on the implementation of IEM recommendations for program improvement; and that evaluators should take several steps to improve the timing and conduct of EM&V activities. IEM Report at 70-73.

Besides the evaluator comments specifically addressing the Market Potential study and the IEM's general program improvement recommendations, the utilities' Annual Reports and accompanying ("Appendix A") evaluator reports provide a snapshot of progress, challenges, and recommendations for improvement after the first full year of comprehensive program implementation. For instance, EAI's EE Annual Report indicates that during this first full year of comprehensive program implementation,

energy savings more than doubled and that EAI's programs are building a growing network of vendors and contractors to support program implementation. Entergy Annual Report at 5-6.⁵ Overall, EAI achieved 111% of the Commission's energy savings goals, while spending roughly \$29 million (74%) of its \$39 million planned budget. *Id.* at 5; Workbook at A1. EAI served about 510,000 participants, rather than the 934,568 planned (in this case, "participants" includes each individual light bulb or other measure); for programs other than upstream lighting and Residential Benchmarking (which each reach a mass market of over 100,000 customers), EAI served about 15,000 of the planned 26,000 customers. Workbook at A2.

Six of EAI's fourteen programs became available to customers later in the year than planned. *Id.* at 10-11. For instance, the EAI Residential Direct Load Control program (which installs controls on air conditioners allowing EAI to reduce compressor cycling during peak events) installed almost 8,000 air conditioner control devices during 2012. *Id.*, Appendix A at 247, Figure 39. However, over 5,000 of these devices were installed after August, and only two events were called in 2012. *Id.* While the program met only 40% of its demand reduction goal in 2012, EAI's evaluators indicate that it is well-positioned to meet or exceed its 2013 goals. *Id.* at 240. Furthermore, based on the first year level of achievement, the program provided 32% of the Total Resource Cost ("TRC") test net benefits for the EAI portfolio, and was the largest factor contributing to a total EAI portfolio RIM test score of 0.98. EAI Annual Report Workbook at B2.

⁵ This performance has garnered an Award of Excellence at Platt's 2012 Global Energy Awards. *Id.* at 6.

EAI notes that its 2012 IRP includes a load forecast showing that, by 2023, EAI could achieve 700 MW of cumulative peak demand reduction and 1,788,584 cumulative MWh of energy savings for a total cost of \$750 million, which compares favorably with other potential resource options under most scenarios modeled. *Id.* at 134. EAI states that, while the IRP DSM assumptions remain valid for planning purposes, at the current level of EE effort, over the long term EAI will surpass them. *Id.*

EAI's evaluator (Cadmus) interviewed over 150 program participants across seven programs and about 80 non-participants. EAI Annual Report, Appendix A at 5. Cadmus states that "in every case respondents listed lack of funding as their primary program barrier." *Id.* at 5. Cadmus thus recommends offering low-cost financing to customers through partnerships with national lenders or local banks through an on-bill repayment mechanism. *Id.*

Cadmus notes that seventy-five percent of non-participating customers indicated no awareness of any EAI EE programs. *Id.* at 6. No more than 4% of non-participants are aware of any particular program, and 1% of non-participants are aware of most individual surveyed programs. *Id.* However, for program participants, a customer satisfaction survey of 400 participants in nine programs found 95% to 100% customer satisfaction for all but two surveyed programs, with the remaining two having customer satisfaction rates of 84% and 86%. *Id.* at 15.

SWEPCO achieved 113% of the Commission's energy savings goals while spending \$5.3 million (78%) of its \$6.8 million planned budget. SWEPCO Annual Report at 7. SWEPCO served 94,807 customers rather than the planned 28,556, but when CFL sales are removed from the calculation, it served roughly 3,800 of 15,600

planned customers. SWEPCO Annual Report Workbook at A2. SWEPCO reports that its long, non-contiguous, narrow territory is a significant challenge for implementation of each of its programs. SWEPCO Initial at 1-2. SWEPCO added new appliances to its upstream CFL/Appliance program, launched a new Home Performance with Energy Star program, and added direct-install program components targeted to multi-family housing, small businesses, and (late in 2012) dual-fuel commercial and industrial customers. SWEPCO Annual Report at 6-7.

SWEPCO's evaluator (Cadmus) found that, overall, 82% of non-program participants are not aware of SWEPCO's EE programs, with 1-4% reporting awareness of individual programs. SWEPCO Annual Report, Appendix A at 9. Cadmus notes that these results are not unexpected or unusual during early program implementation, and that it believes customer awareness will increase over time with strategic marketing efforts. *Id.* Cadmus reports 99% to 100% customer satisfaction with surveyed programs. *Id.* at 18.

Cadmus found that, while SWEPCO's programs are designed to provide comprehensive offerings, few achieved comprehensive uptake of whole building measures; that program goals and budgets could be significantly better aligned; and that SWEPCO does not offer residential load control or promote appliance incentive programs to its commercial customers. *Id.* at 15-16 and 31-32. Cadmus reports that SWEPCO is exploring the possibility of offering energy-efficiency home improvement loans in future years; Cadmus recommends that SWEPCO continue to explore this option. *Id.* at 132.

CenterPoint achieved 114% of the Commission's energy savings goal and spent 78% of its planned budget. CenterPoint Annual Report at 45 and 6. CenterPoint served 114,934 customers rather than the planned 61,546; however, other than the Home Energy Reports program and the program that mails customers free, low-flow showerheads and faucet aerators, CenterPoint served 4,753 of 7,746 planned customers. *Id.* at 9, 11, 13, 16, 19, 22, 26, 29, 32, and 35.

CenterPoint's evaluator (ADM Associates) reports that there are many opportunities for cross-fuel coordination that are not being capitalized upon, including joint implementation of mailer kits, and that the portfolio has a gap in residential building envelope offerings, in that both the AWP and HEAL programs have participation criteria that may prevent most CenterPoint customers from participating. *Id.*, Appendix A at 1-3 through 1-4. Evaluators note, however that HEAL could serve as a model for cross-fuel savings and for its measure financing provisions. *Id.* at 1-6. ADM states that CenterPoint's C&I Solutions program (which produced over a quarter of its portfolio therm savings) was highly successful and that many projects already had incentives reserved for 2013. ADM notes, however, that the program has not yet engaged certain key trade allies in a meaningful manner. *Id.* at 1-5.

The AG suggests that the Commission may need to scale back its proposed targets in order to reduce rate impacts on customers who do not participate in EE programs. AG at 13 (the AG's concerns are further detailed below in the discussion of program cost effectiveness evaluation). Sierra Club disagrees that reduced targets are the answer to non-participant rate impacts, and states that reducing program goals to avoid non-participant impacts would be inconsistent with the purpose of the Energy Conservation

Endorsement Act (“ECEA”), which aims to achieve broader structural and societal benefits. *Id.* Audubon recommends that making comprehensive programs available to all customer sectors is a better way to address equity and rate impact concerns. Audubon Reply at 4.

Ruling Regarding Joint Motion and Targets

The Commission appreciates the work of the parties in reaching consensus regarding a coordinated, joint Potential Study; the work of program administrators in ramping up EE program performance; and the assistance of Staff, the AG, evaluators, and intervenors in supporting, verifying, and providing constructive critiques of that performance. This “remarkable progress,” noted by Dr. Johnson, is a credit to the State. Not inconsequentially, according to the IEM, “[c]ustomer satisfaction, a critical indicator of programs success, was overwhelmingly positive across the entire Arkansas energy efficiency program portfolio” including “high marks for all aspects of the program operations including the simplicity of the paperwork, rebate processing time, and interactions with the contractors.” IEM Report at vii and 22. The Commission notes that its further rulings in later parts of this order are necessarily interconnected with the issues of energy savings potential and target-setting, because the setting of reasonable EE savings targets, and the evaluation and achievement of cost-effective EE potential, depends in part on the rules for defining achievement and determining cost-effectiveness.

The Commission supports implementation of a joint Potential Study, but requires clarification of several issues. The Joint Motion does not detail the purposes, scope, or

methods of the proposed study. Rather, it indicates that “the scope and other issues” will be determined in the future through PWC collaborative deliberation.

The Commission takes administrative notice that the National Action Plan for Energy Efficiency (“NAPEE”) indicates that potential studies may generally fall within three categories (although a particular study can perform more than one function): (1) High-level studies that generally build a case for energy efficiency; (2) Investment-grade estimates of specific savings needed to avoid a particular supply-side investment; or (3) Detailed Planning and Program Design studies. *Guide for Conducting Energy Efficiency Potential Studies*, NAPEE, November 2007, at ES-3. NAPEE further indicates that such studies may estimate four types of EE potential: (1) technical potential, (2) economic potential, (3) achievable potential (or “maximum achievable potential”), and (4) program potential (or the potential achievable through the implementation of a specific set of programs). *Id.* at 2-4. Technical and economic potentials are theoretical maxima, independent of program design and real-world barriers to program achievement. Maximum achievable potential and program potential, however, are dependent upon program budgets and designs and (the Commission would assert) on related jurisdictional policies. *Id.* Finally, NAPEE points out that, while detailed potential studies useful for program design must include various types of baseline, energy forecast, cost, and disaggregated sales data, the quality and availability of data is often the limiting factor of a potential study and drives the methods used. *Id.* at 3-3.

Audubon’s comments that the PWC Potential study would indicate an approximate upper limit on reasonably achievable savings; that it would not account for

various factors such as program portfolio design, differences among program administrator portfolios and resources, and the time required to “ramp up” programs; and that savings goals would need to be scaled to an achievable level given available time and resources. These comments seem to indicate that Audubon currently views the proposed Potential Study as less than a program design study, and as an estimate of maximum achievable potential, if not of economic potential. On the other hand, the recommendations of Cadmus, ADM, and the IEM (in some cases with some level of explicit agreement by utilities), appear to focus on primary data collection necessary for the improvement of specific programs, and for the appropriate development of program portfolios and the strategic allocation of funding among programs within a portfolio.

The Commission interprets the Joint Motion to refer to a study with enough data collection, analysis, and detail to inform program and portfolio design--in effect helping describe not only what the maximum achievable potential is, but also how to better realize it. Each purpose is legitimate, and each requires careful consideration of the types of data collection and analysis that would need to be specified for an RFP bidder. Furthermore, it seems reasonable that a joint, comprehensive Potential Study would overlap in purpose and methodology (as indicated by recent Cadmus surveys and the recommendations of the IEM), with program evaluation and the annual updating of the TRM and its Protocols.

The Commission therefore directs the PWC to develop and submit to the Commission for its approval, on or before noon on November 1, 2013, an RFP and accompanying testimony that describes PWC's more detailed recommendations for an Arkansas EE Potential Study that reasonably lays the groundwork to maximize the

achievement of cost-effective EE potential, including: a clear set of objectives and expected outcomes and uses for the potential study; a scope of work that includes data collection and study approach as well as a report outline; a recommended budget (or budget range with options); and a schedule with timelines for solicitation of a Potential Study consultant, data collection, report preparation, review of drafts, and presentation of the final report. The RFP should provide that all data, assumptions, formulas and algorithms used to estimate EE potential shall be transparent to the Commission and to stakeholders. The Potential Study shall estimate potential, taking into account the rulings in this Order regarding avoided costs and program and portfolio screening for cost effectiveness. The Commission recommends that the PWC consider the parameters of the Potential Study with the following issues in mind and inform the Commission of the PWC's recommendations about them when the RFP is submitted for approval:

1. Which of the four common types of EE potential will be quantified, and over what time period? Will potential be presented as a specific number or a range with indicated estimates of confidence and precision?
2. What time period will the Study cover (5 years, 10 years, 20 years, etc.); will the study assume only existing commercially available technology and/or make assumptions for future innovation?
3. What will be the source(s) of data used to generate the indicated potential for energy efficiency in Arkansas? What is the basis for knowing that such data are available within the cost and schedule indicated?

4. How is the budget—or range of budgets—for the potential study estimated? What trade-offs were made between Study schedule, costs, and accuracy of results? Are there some alternative budget, schedule, and quality options that the Commission should consider for the potential study?

5. Will the Study include baseline market studies and will the Study use existing Arkansas TRM and EM&V data and/or be a basis for a coordinated effort to strengthen and update the Arkansas-specific measure/program baseline information in the TRM and thus be useful for other EM&V activities?

6. Will the Study address subsectors of residential, commercial and industrial customer classes, such as: low-income residential, multifamily, institutional, agricultural and industry-specific industrial subsectors? Will the Study indicate results as state totals or by service territories; and/or by different regions (e.g., urban/rural) and demographics in the state?

7. Will the Study include an assessment of the energy efficiency delivery markets (i.e. contractors, retailers, distributors, etc. that do or could serve the Arkansas market)?

8. How will the Study account for inter-utility and cross-fuel EE savings opportunities and the administrative improvements recommended by the IEM and program evaluators?

While a Potential Study can help inform goal setting, goal-setting and the establishment of the related utility performance incentive are ultimately the province of

the Commission, in its role of establishing a framework that produces a just and reasonable balance between utility and ratepayer benefits. After three years of Quick Start programs without Lost Contribution to Fixed Costs (“LCFC”) and utility performance incentives, the Commission in late 2010 approved an overall framework including those elements “only in the context of significant goal setting . . . not [as] an independent right of utilities, but rather [as] a component of a coordinated group of policies reasonably calculated to deliver overall benefits to ratepayers, to utilities and to society in a cost-effective manner.” Order No. 14, Docket No. 08-137-U at 18. The Commission will consider the results of the Potential Study—not as a definitive statement of what is possible—but rather as part of its reasoning in establishing goals and incentives for 2016 and 2017 and in approving three-year plans.

With regard to goal-setting for 2015, the Annual Reports and EM&V reports show that most IOUs are exceeding existing Commission goals, despite spending less than their approved budgets and reaching fewer than planned participants. This is true despite growing pains during the first full year of program implementation, despite partial-year implementation of some programs and despite non-participant program awareness levels that are frequently at or near 1%. Evaluators make over 400 specific recommendations for program improvement, including cross-fuel improvements, facilitation of financing to address near-universal customer concerns with the first cost of measures, and filling of program gaps that can lower administrative costs per unit of energy saved and create new energy savings opportunities. Also, EAI indicates that at the current level of effort, it will exceed its long-term energy savings plans, which formed one of the bases for the targets proposed in Order No. 1. This evidence is not, as

some parties suggest, borrowed from other states, but rather is rooted in the recent experience and considerable documentation by and work of parties in this docket.

Also, the Commission interprets the JCP's proposal to receive performance incentives for meeting up to 150% of Commission goals as an indication that the JCP believe that some level of achievement above the current level is possible. Multiplying the current level of achievement (0.75% for electric utilities and 0.40% for natural gas utilities) by 150% would yield an upper bound for incentives of 1.13% for electric utilities and 0.60% for natural gas utilities. This is one more indication that an initial, incremental increase in energy savings goals is reasonable. Finally, no party indicates that the Commission's proposed goals are unachievable.

Thus, given the time sensitivity and the need to carefully plan to maximize the usefulness of the Study, and in order to provide some clarity and direction, the Commission hereby relies upon the evidence of growing and more cost-effective achievement to establish a 2015 target of 0.9% of kWh sales for electric IOUs and 0.5% of therm sales for natural gas IOUs. In deference to the concerns of the AG regarding rate impacts, these targets are slightly below the first year targets proposed in Order No 1. This slower ramp-up of comprehensive program offerings provides more time for the PWC to coordinate programs to reduce duplicative costs, and to implement other lessons learned and efficiencies of scale. The Commission reserves the right to revisit the 2015 target at the time that it establishes targets for 2016 and 2017, based upon the Potential Study or other data that may become available.

Issue 3: Utility EE Performance Incentive

The JCP agree with the Commission that the utility performance incentive should be reformed, but recommend alternatives to the Commission's proposed revision. JCP at 11. The JCP agree that the incentive should increase linearly along its range, rather than increasing step-wise from a cap of 5% of EE program budgets to a cap of 7% of EE program budgets at the transition from 99% to 100% of goal achievement. *Id.* The JCP further recommend that the cap on the performance incentive should range from 5% to 15.5% of program budgets, rather than the 4% to 8% proposed by the Commission. *Id.* at 12. The JCP state that this incentive cap conforms with national best practices, which average 12-13%. *Id.*, citing, *Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency*, American Council for an Energy Efficient Economy ("ACEEE"), 2011. The JCP further recommend that the amount of the capped incentive should be based on 15% of net TRC benefits, rather than 10%, as a means of motivating utilities to reach the higher anticipated performance goals. *Id.* The JCP recommend that performance should be awarded between 80% and 150% of goal achievement, rather than the current 80% to 110% of goal, or the 80% to 120% proposed by the Commission in Order No. 1. The JCP note ACEEE's finding that "when the available incentive falls within a range, most utilities have earned at the high end of the range;" the JCP supports a performance range and associated incentives that encourage utilities to continue to deliver more energy savings. *Id.* at 13. The JCP also agree with the Commission that the utility avoided cost portion of the net benefits calculation should be held constant during each 3-year EE program cycle. *Id.* at 14.

The JCP recommend that the Commission retain the practice of awarding incentives based on annual performance, rather than shifting to a cumulative, 3-year performance award. *Id.* at 14. The JCP indicate that a cumulative incentive will be complex and may eliminate a utility's ability to earn an incentive in year 3 if its performance is above goal in years 1 and 2, or conversely if its performance in years 1 and 2 is substantially below goal. *Id.* at 14-15. If the Commission adopts a cumulative incentive, the JCP oppose any "claw-back" provision requiring the utility to refund earlier incentives based on later under-performance because it would increase regulatory uncertainty. *Id.* at 15.

While EAI is included within the JCP, it does not agree with the PWC that avoided costs should be fixed for three years for purposes of calculating the EE performance incentive. EAI at 9. Rather, EAI favors annual adjustment of the avoided costs that are included in net benefits, to avoid hindering the integration of EE resources within the IRP process. *Id.*

AEEC/AGC does not favor the award of utility incentives, but to the extent they are awarded, favors modifying the existing structure to provide a linear relationship between performance and incentive awards, and limiting them to modest levels that are paid only for superior performance. AEEC/AGC at 5. For instance, AEEC/AGC suggests that incentives could be awarded only for achievement above 110% of goal, with the incentive capped at 5% of program budgets. *Id.* at 5-6. AEEC/AGC object that the JCP's proposal to allow incentives of up to 15% of program budgets, in combination with EAI's LCFC costs of 15% of 2013 program budgets, could lead to LCFC and incentives comprising almost a third of a utility's program budget. AEEC/AGC Reply at 17-18.

AEEC/AGC opposes any lowering of the threshold for allowing incentives and opposes the award of incentive payments for any program with a Ratepayer Impact Measure cost-effectiveness test (“RIM test”) score below one. AEEC/AGC at 6.

Audubon and Sierra Club support the Commission’s proposed revisions to the utility EE performance incentive, including the three-year cumulative goals. Audubon at 3; Sierra Club at 3. Audubon argues that it is appropriate to use the same, fixed avoided cost to determine net benefits that is used in establishing program savings targets, because this structure links financial rewards to factors that the EE program administrator can control—such as measure selection and program implementation—rather than uncontrollable market prices for energy. Audubon at 3-4. Audubon states that updated avoided cost projections at the end of the three-year period may be no more accurate than those initially forecast. *Id.* at 4. Audubon notes that the Commission’s proposal also fixes the total amount of available incentive based on the three-year program budget, eliminating further uncertainty, and that the three-year cumulative incentive will reward midcourse adjustments by program administrators to compensate for underperformance. *Id.* Sierra Club favors the increase of the maximum incentive cap to 8% of program budgets, but has concerns about raising the incentive any higher; Sierra Club seeks to maximize the amount of program funds spent on implementation and to ensure that incentives are no larger than necessary to motivate cost-effective program implementation. Sierra Club at 3.

The AG reviews the existing performance incentive structure, finding that it includes some incentive for utilities to overspend due to caps based on EE program budgets, and to benefit from higher avoided cost numbers. AG at 4-5. However, the AG

finds that, overall, most factors included in the shared savings calculation align utility interests with ratepayer interests. *Id.* The AG states that the Commission's establishment of an IEM and robust EM&V have "been critical in producing reasonably accurate estimates of the amount of energy savings and preventing a disconnect" between the reporting and reality of EE program benefits. *Id.* at 5-6.

The AG supports a modified version of the proposed cumulative 3-year goal, under which the goal for each year simply adds to a total cumulative goal, thereby rewarding early achievement of the total goal and eliminating any need for a clawback provision.⁶ *Id.* at 12. The AG also supports implementing a linear scale for incentive rewards over a broader achievement range—particularly with regard to expanding the high end of the range. *Id.* at 12-13. The AG contends that there is no need to increase the incentive caps or to increase the proportion of shared savings available for incentives because the current levels have been sufficient to incentivize significant program expansion. *Id.* at 13. The AG further states that, because LCFC in practice includes variable costs, it functions as an additional incentive. *Id.* at 13. AOG finds the AG's position favoring a higher range for rewarding utility performance, but opposing an increase in incentive caps or shared savings, to be inconsistent. AOG Reply at 7.

Ruling Regarding the Utility Performance Incentive

The Commission accepts the recommendations of the JCP to retain an annual goal and incentive structure in order to avoid unnecessary complexity.⁷ The Commission accepts the widespread agreement that the incentive should be awarded on

⁶ The AG does not specify how, or whether partial performance within each year would be rewarded.

⁷ The Commission notes that, in evaluating CenterPoint programs, Cadmus suggested that utilities currently have no incentive to over-perform in a single year, leading to mid-year shutdown of some programs and loss of program momentum. Cadmus recommended allowing over-performance in a single year to be credited to the subsequent program year goal. CenterPoint Annual Report, Appendix A at 3-5.

a linear rather than stepwise basis, and that the range for award should not reach below 80% of performance, and that the upper end of the range should be extended. The Commission retains its original proposal to set the upper end of the performance zone at 120%; to cap the incentive at the sliding scale between 4% and 8% of program budgets (such that the incentive is capped at 4% of budgets for 80% achievement; 5% for 90% achievement; 6% for 100% achievement; 7% for 110% achievement; and 8% for 120% achievement); and to limit shared savings to 10% of net benefits, in recognition of AEEC/AGC's argument that performance incentives themselves need not and should not become a major share of EE program budgets.

Issue 4: Utility Avoided Costs.

The JCP generally agree with the majority of the Commission's proposals related to the determination of utility avoided costs. JCP at 16. The JCP observe that the proposals leave sufficient opportunity for utilities to account for differences in their individual circumstances regarding utility-specific avoided generation capacity, energy, and transmission and distribution ("T&D") costs. *Id.*

Regarding avoided energy costs, the JCP agree that they should include the value of energy freed by EE programs and sold into the wholesale market or avoided market purchases. *Id.* at 17. The JCP also agree that utilities should differentiate avoided energy costs by time and season so as to facilitate the valuation of individual EE programs, or individual measures, if the measure forms a significant portion of portfolio energy savings. *Id.*

Regarding avoided capacity costs, the JCP agree that they may appropriately be based on the cost of a combustion turbine ("CT" or "peaking unit"), as modified to

account for market conditions, and as applied to years in which the utility or relevant market area is not in surplus for capacity. *Id.* at 18. The JCP note that it may be necessary and appropriate to use CT-based values as a proxy if market based values are not available. *Id.* The JCP support the avoided capacity calculations based either on actual prices that are escalated, or on modeling that is based on available market data, taking into account any significant, foreseeable changes to marginal capacity costs due to environmental controls. *Id.* The JCP note, however, that specific values may not be readily available in the latter case, and that the JCP do not expect that the cost of non-peaking resources will be brought to the margin or avoided during the planning horizon. *Id.*

Regarding the economic valuation of capacity costs over time, the JCP support adoption of a Real Economic Carrying Charge (“RECC,” described more fully below) to annualize the value of avoided capacity savings, to the extent that a utility uses a CT as a proxy for avoided capacity costs. *Id.* at 19. The JCP observe, however, that a utility using market prices will not have a levelized capacity price or a smooth escalation of costs. *Id.*

Regarding transmission and distribution (“T&D”) costs, the JCP support the proposal that each utility should develop avoided T&D costs, but question whether specific costs for these categories can be determined, and observe that the calculation may involve more utility-specific data than is appropriate for the purpose. *Id.* at 19. Regarding the value of line losses, the JCP support the proposal to require that EE avoided costs should reflect marginal, rather than average, avoided line losses, although in some cases specific avoided costs may be difficult to accurately estimate. *Id.* at 19-20.

Regarding carbon pricing, the JCP are not unified, with contention surrounding the Commission proposal to develop a common assumption (per unit) for CO₂ compliance costs. *Id.* at 20. The JCP state that agreement is possible only if the common CO₂ cost is used solely for evaluating EE programs, without implied endorsement by the utility, and not for broader planning purposes. The JCP seek further time to develop consensus on this subject. *Id.* The JCP seek further time to consider this issue, but observe that the U. S. Energy Information Agency's ("EIA's") *Annual Energy Assessment* includes a credible, readily-accessible, cost-free estimate that may be useful. The JCP note that market prices for energy and capacity may include implicit estimates for carbon prices, and that a distinction may be drawn between projected CO₂ compliance costs (i.e., EPA compliance) and broader CO₂ damage costs (i.e., health impacts). *Id.* at 21.

EAI expresses general support for many of the Commission's proposed avoided cost guidelines, but is concerned that some elements would require "wholesale revisions" to EAI's current process for calculating avoided costs. EAI at 10. EAI states that it currently relies on proxies for market based costs for avoided capacity, energy, and T&D which are consistent with the Commission's proposals to use time-differentiated costs, and to integrate avoided energy, capacity and T&D costs. *Id.* EAI uses a levelized avoided capacity cost, rather than a RECC, because it views EE as a long-term investment and assumes that a customer would install a measure as efficient as, or more efficient than, the EE program installed measure at the end of the measure's life. *Id.* at 10-11. EAI states that a RECC approach would count only the earliest, lowest-cost years of EAI's long-term avoided costs, and is thus inconsistent with a long-term

view of EE. *Id.* at 11. EAI references AG witness William Marcus's tabular representation of levelized vs. RECC avoided capacity values to argue that the RECC approach undervalues EE and takes a short-term view, because the value of measures would be calculated starting from the date of individual measure installation, which is always in the early, low-cost years of the cost curve. *Id.* at 14. EAI comments that this approach never realizes the full cost of avoided capacity because individual measures never have a life that equals that of the CT. *Id.* EAI also comments that the RECC's use of measure-specific lives is inconsistent with the Commission's focus on portfolio-based, rather than measure- or program-specific cost-benefit. *Id.* EAI warns that adoption of RECC methodology will drive the cost-effectiveness of comprehensive programs negative, eliminating whole-house or facility programs and leaving only a few commercially-available EE measures for delivery through standard-offer or measure-by-measure discount approaches. EAI Reply at 9. EAI warns that this decision will, in turn, affect target-setting. *Id.* EAI notes that no party provides an example of how the RECC has been applied elsewhere, and that it is thus not a demonstrated "best practice." *Id.* at 11-12.

EAI views the Commission's proposals to include non-peaking resources when they are brought to the margin, or transmission substation and line upgrade costs, as laudable goals if they increase accuracy, but cautions that such estimates are too granular, and potentially impossible to determine. *Id.* at 12.

EAI comments that avoided costs used for EE program screening and evaluation should be utility-specific and that using the same avoided costs across utilities would be inconsistent with the IRP Guidelines, and would lead to inconsistent assumptions

within a utility's IRP. *Id.* at 11 and 15. AEEC/AGC agree with this comment. AEEC/AGC Reply at 15. EAI also does not agree that the PWC could or should reach consensus on a single CO₂ compliance cost forecast. EAI at 15.

AEEC/AGC note that avoided cost determination is inherently uncertain and should be pursued conservatively by incorporating only costs that are known and measurable, or estimated with reasonable accuracy. AEEC/AGC at 6. AEEC/AGC support the use of market-based, hourly and seasonally differentiated avoided energy costs that are, to the extent possible, estimated using production cost models using the most up-to-date energy pricing data. *Id.* at 6-7. For capacity costs, AEEC/AGC support the use of the levelized cost of a CT, as adjusted for current market prices and need for capacity. *Id.* at 7. AEEC/AGC are concerned that T&D avoided costs are difficult to reasonably estimate, but agree that they are appropriately included to the extent they can be identified and estimated with reasonable certainty. *Id.* AEEC/AGC support the use of marginal line losses. *Id.* at 8. AEEC/AGC state that, until carbon prices and compliance costs for other future environmental regulations are known and measurable, their inclusion in determining avoided costs are purely speculative and would likely overstate market prices and EE program benefits, increasing cost risks for consumers. *Id.*

Sierra Club supports the Commission's proposed refinements of avoided costs. Sierra Club at 4. Sierra Club agrees with the Commission proposal that properly-conducted production modeling may incorporate environmental costs into energy costs, but cautions that such modeling must incorporate likely future environmental regulations such as strengthened wastewater discharge standards, disposal

requirements for coal combustion residuals, and more protective air quality standards, in order to avoid under-estimating EE benefits. *Id.* Sierra Club also suggests that agreement by the PWC on avoided carbon costs would be more likely with the involvement of an independent facilitator. *Id.* at 5. Sierra Club suggests that existing transmission planning documentation should provide a reasonable basis to develop avoided T&D costs, and notes that recent proceedings concerning the proposed retrofit of the Flint Creek power plant (Docket No. 12-008-U) demonstrate that very small increases in peak load may result in large utility investments. *Id.*

Audubon agrees that a market-based, time- and seasonally-differentiated approach to determining avoided energy costs is appropriate and environmental compliance costs should be included. Audubon at 5. Audubon supports the adoption of a reasonable third-party forecast of carbon compliance costs to be fixed for the three-year program cycle, and as developed through PWC review of the relevant literature. *Id.* at 5-6. Audubon supports market-based avoided capacity costs, or a proxy valued under the RECC method. *Id.* at 6. Audubon states that long-run marginal utility T&D can serve as a reasonable basis for the determination of avoided costs, and supports the use of marginal line losses. *Id.*

The AG generally agrees with the Commission's proposals to bring some standardization to the methods for estimating energy, capacity, T&D, marginal line loss, and carbon-related avoided costs, because better avoided cost estimates will lead to appropriate sizing of programs and will increase ratepayer benefits. AG at 14-17. The AG specifically agrees with the JCP that market prices, where available, are preferable to proxies and that either method should be adjusted if necessary to incorporate

foreseeable changes in price or cost. *Id.* at 15. The AG also agrees with the JCP that accurately estimating avoided T&D costs can be problematic because it is difficult draw a linkage between aggregate efficiency measures and specific avoided infrastructure. *Id.* Regarding avoided carbon regulatory costs, the AG notes that market prices, if used, may include avoided carbon costs that should not be duplicated. *Id.* at 16-17.

Regarding the RECC (which was originally proposed by the AG), the AG indicates that, in general, the lowest-available cost to supply capacity within a market will be less than the cost of market entry (i.e., building a new CT). AG at 5. Also, he states that, when the value of a CT is used as a proxy for avoided capacity costs, it is more appropriate to say that a short-lived EE measure defers that cost during the life of the measure rather than avoids it. AG at 5. Further, at the end of an EE measure's life, the efficiency of any replacement measure should be measured against the baseline for efficiency at that future time, according to the AG, and cannot be assumed to exceed the new baseline by an amount equivalent to the original measure. AG at 6. In accordance with these observations, the AG argues that a RECC method, which estimates the value of deferred capacity as an escalating annual carrying charge, more accurately annualizes the value of deferring capacity during the specific life of the EE measure in question, allocating less value to short-term deferral and more value to long-lived measures. *Id.* at 6-7. Regarding incorporation of TRC results within IRPs, the AG states that it is not unreasonable to use different, appropriate approaches and assumptions for comparisons between demand- and supply-side resources. AG Reply at 7.

The AG disagrees, however, with the proposal to freeze avoided costs during the three-year EE program cycle, and advances the following arguments: (1) while all future

estimates will be wrong, the accuracy of estimating avoided costs for the next year improves as the year gets nearer: avoided cost estimates for 2017 will be more accurate in 2016 than they were in 2014 (*Id.* at 17); (2) prudent utility operators must take into account changing market prices in managing generation, and ratepayers are similarly best served if EE program administrators are required to manage using the best and most current available information (*Id.* at 17-18); and (3) the increased accuracy sought by the Commission through standardizing components of avoided costs such as line losses and T&D will likely be outweighed by the inaccuracy generated by freezing avoided cost for three years (*Id.* at 18-19). AEEC/AGC concurs with the AG on this point, favoring annual updates to EE avoided costs. AEEC/AGC Reply at 15.

AOG responds, regarding freezing avoided costs, that the avoided cost for a natural gas utility is the commodity cost of gas, which is set by the market. AOG Reply at 9. AOG states that freezing avoided costs during an EE program cycle is reasonable because the utility cannot control the fact that an EE portfolio submitted in year 1 can result in dramatically different TRC test results in year 3, introducing significant risk to the utility that it will not earn an incentive. *Id.* at 9-10. AOG also notes that there are practical barriers to making changes to an EE portfolio because program changes take time to plan and implement. *Id.* at 10.

AAEA states that, while the PWC notes that market prices for capacity and energy may include implicit estimates for carbon prices, carbon price estimates should include both direct regulatory costs and indirect costs such as property damage and health

impacts. AAEA 3.⁸ AAEA performed modeling to estimate direct and indirect lifecycle emissions costs, which it offers for consideration by the PWC. *Id.* at 3-8. AAEA reports that 14 state utility commissions attempted to establish reliable avoided-cost metrics for carbon costs as early as 2008, and that six New England states have assigned avoided carbon costs for energy and capacity from 2005 through 2030 on a levelized basis. *Id.* at 9-10. AAEA points to the U. S. DOE Annual Energy Outlook as another potential source of carbon cost estimates. *Id.* at 11. AAEA notes that, in recent Massachusetts estimates, carbon costs comprised a sizeable part of total avoided costs. *Id.* at 12.

The AG replies to AAEA that the states cited by AAEA appear to have been very successful at saving energy, but that nearly all have seen prices for electricity rise since the year 2000 at a faster rate than Arkansas. AG Reply at 8. The AG does not assert a causal link between EE program success and higher prices, but does suggest that aggressive EE programs may not help to keep rates low. *Id.* at 8-9. AEEC/AGC similarly caution against modeling Arkansas EE program policies on jurisdictions with high rates. AEEC/AGC Reply at 4.

While Staff supports the PWC positions regarding avoided cost, Staff also agrees with EAI that a levelized cost of a proxy CT is a reasonable approach, and that the RECC approach may not be appropriate with determining long-term avoided capacity costs. Staff Reply at 5. Staff also agrees with EAI that each utility will have utility-specific avoided costs for planning purposes, including utility-specific carbon costs. *Id.*

⁸ While AAEA agrees with the Commission proposal and with the JCP that carbon regulatory costs should be included within utility avoided costs, the Commission notes that AAEA's comments regarding avoided indirect costs could be included in the discussion of NEBs, below. In order to preserve AAEA's integrated discussion, the Commission summarizes it here.

Ruling Regarding Utility Avoided Costs

The Commission accepts the JCP's recommendations (which were largely uncontroversial among parties) regarding the quantification of avoided energy and capacity costs. As recommended by the JCP, avoided energy costs should include the value of energy freed by EE programs and sold into the wholesale market or avoided market purchases, and avoided energy costs should be differentiated by time and season so as to facilitate the valuation of individual EE programs, or individual measures, if the measure forms a significant portion of portfolio energy savings. Avoided capacity costs may be based on the cost of a combustion turbine ("CT" or "peaking unit"), as modified to account for market conditions, and as applied to years in which the utility or relevant market area is not in surplus for capacity. Avoided capacity costs also may be based on available market data, taking into account any significant, foreseeable changes to marginal capacity costs, including any such foreseeable changes due to major investments such as environmental controls.

The JCP and the AG, argue persuasively that, when the cost of building a CT is used as a proxy for avoided capacity costs, the RECC is a more accurate reflection of the annual value of capacity deferral. One cannot assume that short-lived EE program measures will later be replaced by measures that equally exceed future efficiency baselines. Adoption of a RECC approach also is in alignment with the Commission's original intent to promote long-lived measures by adopting a shared savings mechanism.

The Commission adopts its proposed guidance, accepted by the JCP and others, regarding T&D avoidance, heeding the recommendation by Audubon that long-run

marginal utility T&D can serve as a reasonable basis for the determination of avoided costs, and the numerous cautionary comments that proving specific T&D avoidance may be unreasonably difficult. The Commission adopts the use of marginal, rather than average line losses, which is unopposed by any party, to quantify EE's incremental effects.

With regard to the estimated cost of compliance with carbon regulation, the Commission accepts the JCP's recommendation to allow time for and accept for consideration a collaboratively-considered, reasonable third-party estimate that would be used solely for evaluating EE programs, without implied endorsement by the utility, and not for broader planning purposes. The Commission directs utilities and Staff, and requests the PWC more generally, to recommend a price for carbon regulatory cost avoidance as part of the EE Potential Study RFP submission. If the PWC are unable to reach consensus at that time, parties may make joint or individual recommendations for the selection by the Commission. The Commission accepts EAI's argument that each utility will have individualized avoided costs, including individualized forecasts of carbon compliance costs. Establishing a common assumption for the unit cost of carbon, however, brings reasonable uniformity and cost-comparability to the evaluation of EE resources across utilities, while preserving the flexibility (as the JCP suggest) for potentially widely-ranging, individualized overall carbon cost impacts on each utility's resource portfolio. The Commission retains the flexibility to take into account credible evidence that market prices for energy and capacity include implicit estimates for carbon prices. The Commission also acknowledges the distinction between projected

CO₂ compliance costs (i.e., EPA compliance) and broader CO₂ damage costs (i.e., health impacts), which are more properly addressed as societal NEBs.

The Commission also accepts the JCP's recommendation to fix avoided costs during the three-year program implementation period. While EE program managers must frequently and rapidly adjust to market conditions, it is the changing markets for measure technologies, for consumer and contractor preferences and requirements, and for available delivery strategies, rather than fluctuating fuel and capacity prices (or forecasts of prices) that most require nimbleness in the pursuit of a long-term, incremental resource strategy. Given that nearly all portfolios submitted and approved to date remained cost effective through implementation under the TRC test, and even more so under the Program Administrator Cost ("PACT") test, allowing managers to focus on the factors they can most profitably control will create a better linkage between performance and reward.

Issue 5: Cost-Effectiveness Screening and Evaluation and Non-Energy Benefits ("NEBs")

The JCP support the Commission's proposal to include appropriate, reasonably quantifiable NEBs in program screening and evaluation because EE programs may provide NEBs in addition to currently-evaluated energy savings. *Id.* at 21-22. The JCP do not, however, completely agree on which NEBs should be included and what values they should be given, and seek further time to form agreement. *Id.* at 22 and 23.

The JCP also favor the continued primary reliance on the TRC test with the inclusion of collaboratively-developed NEBs, rather than a shift towards reliance on the PACT test. *Id.* at 22. The JCP recommend that the same test be used in planning and evaluation of individual measures, programs, and program portfolios, and that the

Commission continue to require the presentation of all four standard cost-effectiveness tests, considering each as appropriate. *Id.* at 23. Particularly, the JCP recommend that the Commission retain the flexibility to include individual education, training and marketing programs that may not pass TRC within overall program portfolios that are cost-effective. *Id.* at 23-24.

The JCP agree with the Commission that NEBs may fall into three categories: benefits to the utility, benefits to customers, and benefits to society not captured in utility or customer NEBs. *Id.* Noting the Commission's suggestion that parties could review the literature on the comfort and health benefits of weatherization and recommend reasonably quantifiable, significant NEBs for inclusion in program screening, the JCP agree and recommend that the parties should work to develop such recommendations. *Id.*

EAI generally agrees with the PWC regarding NEBs, but believes NEBs should only be included when they are quantifiable and material. *Id.* EAI believes that the statutory requirement that EE programs must be beneficial to both utility ratepayers and the utility itself may limit the Commission's authority to take NEBs into account. *Id.* EAI supports reliance on the TRC test without NEBs as the most appropriate approach, but notes that the current C&EE Rules are flexible enough to allow a utility to present the Commission with Societal Test or other cost benefit analysis that includes NEBs. *Id.* at 16. EAI agrees with the JCP that the same cost-benefit tests that are used for program screening and approval should be used throughout the EE evaluation and review process. *Id.*

AEEC/AGC urges the Commission to focus primarily upon the RIM test in screening EE programs. AEEC/AGC at 8. AEEC/AGC emphasizes that the majority of ratepayers are non-participants in EE programs, and that the RIM test is the only test that captures the shift in costs among ratepayers caused by EE program LCFC. *Id.* at 9. AEEC/AGC recommends that the Commission require EE programs to pass the RIM test. *Id.* at 10. AEEC/AGC states that utilities may in certain instances not include utility performance incentives within RIM test results, and urge the Commission to establish by rule the standard components of each test. *Id.* AEEC/AGC opposes inclusion of health and environmental externalities in EE program cost evaluation, noting that such benefits may not accrue to ratepayers who pay all EE program costs. *Id.* at 10-11. AEEC/AGC argues that Arkansas law requires that EE programs benefit ratepayers, while the law of other states such as California and Massachusetts is “in direct conflict” with this mandate, providing that EE is the highest-priority resource. AEEC/AGC Reply at 19.

As indicated above, AAEA favors inclusion of societal and customer NEBs, such as indirect environmental damage and health effects from air emissions. AAEA also indicates that its computer modeling has the ability to estimate dollar savings for certain NEBs related to societal issues and economic development amenities such as lower taxes and improved business competitiveness. AAEA at 23-24.

Sierra Club supports continued reliance on the TRC test for program screening rather than PACT, because only the former reflects customer impacts. Sierra at 7. However, at the portfolio level, Sierra Club supports use of the PACT test as the best

indication of potential customer bill impacts, and to provide consistency in comparing demand- and supply-side resources. *Id.* at 7-8.

Sierra Club supports inclusion of NEBs within the TRC on the basis that the test is distorted if it includes all costs, but not key benefits. *Id.* at 6. Sierra Club suggests that it is penny-wise and pound-foolish to forego quantifying the more complicated NEBs, since the ultimate benefit realized through program implementation may greatly outweigh administrative costs of estimation. *Id.* Sierra Club indicates that Arkansas can draw on the work of states that already quantify certain NEBs, or follow the example of other states that employ adders to account for hard-to-quantify NEBs. *Id.* at 6-7. (CenterPoint believes that Sierra's suggestion to use an "adder" to reduce NEB estimation costs may have merit. CenterPoint Reply at 4.) Sierra Club states that inclusion of NEBs within TRC does not conflict with resource planning guidelines, as the PACT is the proper test for comparing resources in that context. Sierra Club Reply at 4.

Audubon supports program screening through the TRC test, and not the PACT test, because TRC is designed to account for net impacts on all resource costs, and because PACT does not account for costs and benefits of program participation that do not impact utility revenue requirements. *Id.* at 9-10. Regarding NEBs, Audubon states that, because EE investments do not serve the public interest if they do not decrease the cost of end-use service, program administrators should include only those NEBs that can be quantified with a level of confidence commensurate with primary program benefits such as avoided energy costs. Audubon at 6-7. Audubon therefore recommends that any included NEB must (1) be well-defined in terms of measurably reducing scarce resources; (2) have a quantifiable economic value; and (3) be clearly

applicable to the specific program or measure at issue. *Id.* at 7. Audubon recommends that the use of generic “adders” should be avoided and that NEBs should be subject to the same EM&V standards and review as electric and gas energy savings. *Id.* Audubon offers the following examples of well-defined, quantifiable NEBs:

- a. avoided fuel costs (e.g., propane, oil, kerosene, wood, coal);
 - b. avoided water and sewer costs;
 - c. deferred equipment replacement costs for early-replacement measures;
 - d. avoided equipment replacement costs for measures with longer useful lives;
- and
- e. avoided equipment repair or refurbishment costs (e.g., motor rewinding).

Audubon at 7-8. Audubon also favors inclusion of the following NEBs if they are well-defined, quantifiable, and if their magnitude justifies the cost of assessment and verification via Arkansas EM&V impact evaluations:

- a. Avoided utility transaction costs associated with improved bill payment and reduced customer service calls;
- b. Secondary space-conditioning benefits resulting in resource savings (such as reduced space heater and fan use from infiltration reduction);
- c. Reduced labor or other inputs resulting from improved commercial space conditioning, lighting, and industrial processes; and
- d. Reduced waste disposal costs resulting from process improvements.

Id. at 8. Audubon recommends critical review of the literature regarding putative health benefits of weatherization and does not support exceptional treatment for NEBs associated with weatherization or other particular programs. *Id.* at 9. Audubon

cautions that NEBs do not lend themselves to generic treatment and can vary significantly among customers participating in the same or similar programs, so that NEB policy should remain flexible. *Id.* Audubon allows, however, that consistent treatment of NEBs within the TRM review process does provide for initial stipulation of documented values that are applicable to specific measures and programs, pending EM&V review, as warranted by the magnitude of the benefit and the cost of measurement and verification. Audubon Reply at 5.

ACAAA agrees with Audubon's recommendations regarding specification of NEBs where they can be readily quantified through EM&V, and opposes the use of generic adders. ACAA Reply at 4. ACAA, however, also recommends that, where values for other NEBs have been established through extensive research relied upon in jurisdictions that have implemented EE programs for many years, the PWC should review and adapt such research appropriately to Arkansas, for Commission approval. *Id.* at 4-5.

The AG submits the following views regarding the four standard cost-effectiveness tests, which utilities must apply under the current C&EE Rules: In practice the Participant Cost Test ("PCT") is nearly always the most positive and has little policy impact. AG at 6. The next-highest scoring test is usually the Program Administrator Cost Test ("PACT"), which includes avoided utility system supply costs and amounts paid to customers as EE measure incentives, but not LCFC, which the AG characterizes as a weakness. *Id.* at 6-7. PACT determines which system resources are cheapest from the utility's perspective, but it only addresses *aggregate* customer bill impacts, rather than impacts to specific customers, and thus fails to recognize potential non-participant

rate and bill increases. *Id.* TRC tends to be lower than PACT because it adds the total cost of EE measures to the avoided utility supply costs, and shares the same weakness of viewing LCFC as a transfer within system costs rather than an added cost. *Id.* at 8. The Ratepayer Impact Test ("RIM"), which alone includes LCFC, determines whether rates will increase and is often overlooked, in part because utility rates will increase even without EE programs. *Id.* RIM results below 1 indicate that both rates and bills for non-participants will rise, and that for these non-participants, EE resources are more costly than supply-side resources. *Id.* at 8-9.

The AG states that EE portfolios in Arkansas tend to pass PCT, PACT and TRC, indicating that participants and the system are benefitting and that utilities are choosing the cheapest supply options, but that lack of attention to RIM scores has given utilities little incentive to address rate impacts. *Id.* at 9. The AG notes that, when customers install alternative resources, such as solar panels, improved insulation, or load control devices, they contribute system resources and it is not necessarily unfair for the share of supply resources paid by other customers to increase. AG Reply at 3. The AG emphasizes, however, that over-reliance on EE programs that do not pass RIM can rapidly increase rates. *Id.* at 4. The AG provides the example that the revenue requirement for EAI's current EECR, at \$63,086,302, is comparable to the \$73,781,760 increase in base revenues approved in its last rate case, and has resulted in an increase from \$0.23 per month to \$3.55 per month for a typical customer since the inception of EE programs. *Id.* The AG estimates that EE programs have benefited some customers and probably produced aggregate benefits, but has not benefited *all* customers. *Id.* The AG concludes that the TRC test is a reasonable way to gauge EE program cost

effectiveness and to calculate performance incentives, but that the Commission should consider mitigating non-participant impacts by including RIM net benefits within the shared savings calculation (while still giving TRC greater weight) or by setting less aggressive goals, which should be based on a potential study. AG at 13; AG Reply at 4-5.

The AG contends that only quantifiable utility-perspective NEBs—such as avoided bad debt, avoided arrearages, and avoided customer service are appropriate for inclusion in a modified TRC test, because TRC is intended to estimate benefits to the system. AG at 19. According to the AG, any NEBs included within a cost-effectiveness test should be those that take the perspective of the particular test—*i.e.*, customer-perspective NEBs should be included in the Participant Test, and societal NEBs should be included in the Societal Test, but neither customer nor societal NEBs should be included within the TRC test. *Id.* at 19-20. Particularly, customer NEBs are a benefit to individual customers, and not the system as a whole. *Id.* at 20.

CenterPoint states that the AG's suggestion to include RIM net benefits within the shared savings calculation should be "summarily rejected" on the basis that few EE programs pass the RIM test and that it would thus reduce utility incentives for factors beyond their control. CenterPoint Reply at 3. Sierra Club states that it is sensitive to the non-participant rate impacts highlighted by the AG, but suggests that they can be minimized by requiring programs to pass the PACT test, or by giving preference to portfolios that include programs with better RIM test scores. Sierra Club Reply at 2.

Sierra Club and ACAA disagree with the AG's statement that TRC assesses "benefits to the system," encompassing "benefits to the utility," arguing instead that it addresses all costs and benefits to the utility and to customers. Sierra Club Reply at 3;

ACAAA Reply at 3. ACAAAA argues that the AG's concern that NEB inclusion may raise rates or exacerbate non-participant cost shifting is misplaced because inclusion of NEBS influences how EE budgets are allocated, but not the size of the budgets. ACAAAA Reply at 3. ACAAAA states instead that the Commission sets overall EE budgets. *Id.*

Audubon, in comments echoed by ACAAAA, rejects suggestions by the AG and Sierra Club that RIM test results should be incorporated into program screening or shared savings. Audubon Reply at 1-2. Audubon comments that the outcome of the RIM test is intrinsically determined by utility cost allocation and rate design, and that the same measure with identical cost, energy savings and avoided cost can pass or fail the RIM test depending on which utility administers the program or even on the participant rate class within the same utility. *Id.* at 2. Audubon adds that an energy saving measure with zero total resource implementation cost will fail the RIM test if the resulting reduced customer payment for energy is less than the avoided cost of supplying and delivering the energy (*i.e.*, if marginal rates exceed marginal costs). *Id.* AOG adds on this point that, for natural gas utilities, the retail rate will always be higher than the avoided cost for a gas utility. AOG Reply at 9.

Audubon further asserts that a negative RIM score indicates the amount that utility revenue must increase to maintain revenue requirements, but that it is independent of the mechanism for recovering the shortfall in fixed cost recovery, which might include ratepayers (including program participants), shareholders, or a combination of the two. *Id.* A program that fails RIM will do so regardless of the magnitude of any subsequent rate increase, according to Audubon. *Id.* Audubon further notes that a customer who implements their own efficiencies outside of utility

EE programs causes a similar revenue reduction and potential rate impact on other customers. *Id.* Audubon suggests that utilities should be encouraged to aggressively promote the broad distribution of such customer benefits, thereby transforming markets so that, over time, installation of efficient equipment becomes standard and even non-participants benefit. *Id.* at 3-4. Audubon argues that use of the RIM test for program screening will preclude or limit the attainment of such benefits, and states that the AG's concerns are best addressed through implementing a broad EE program portfolio that makes cost-reduction available to all ratepayers through broad participation. *Id.*

Audubon also takes issue with the AG's recommendation to include customer perspective NEBs within the PCT, but not within TRC. Audubon Reply at 5. According to Audubon, the *California Standard Practice Manual* adopted by the Commission provides for the inclusion of the same participant avoided costs for alternate fuel devices as a benefit in both the PCT and TRC tests. *Id.* Audubon sees no sound economic basis to exclude any quantifiable energy or non-energy cost savings from TRC. *Id.* at 6.

In response to the AG's recommendation to lower costs by including RIM test results within net benefits, AOG indicates that LCFC and incentives totaled less than 10% of program costs in 2012, and that the practical impact of relying on RIM would be to significantly decrease EE programs and energy savings in Arkansas. AOG at 8-9.

Staff responds to suggestions that the Commission give greater weight to the RIM test by recommending that the Commission continue to require submission of all tests, and continue to rely on TRC as the primary cost-effectiveness test. Staff Reply at 3.

Staff states that NEBs should be included only when they are quantifiable, material, and relevant to the specific program or portfolio. Staff Reply at 6.

Ruling Regarding Cost-Effectiveness Screening and Evaluation and NEBs

The Commission accepts JCP's recommendation to rely primarily on TRC with the inclusion of collaboratively-developed NEBs, for the screening of programs and portfolios rather than shift toward reliance on PACT. The Commission accepts the recommendation of JCP that the same test be used in planning and evaluation of individual measures, programs, and program portfolios, and that the Commission continue to require the presentation of all four standard cost-effectiveness tests, considering each as appropriate. The Commission thus retains the flexibility to include individual education, training and marketing programs that may not pass TRC within overall program portfolios that are cost effective.

The Commission declines to systematically increase the weight of the RIM test, or to insert it into utility performance incentive calculations for EE programs. The Commission declined to use the RIM test as the primary means of screening EE programs in Order No. 12 of Docket No. 06-004-R.⁹

Regarding the use of the RIM test for utility performance incentives, the Commission credits Audubon's careful reasoning regarding the precise information regarding theoretical rate impacts that is produced by the RIM test. Programs should not be developed and planned on a basis which is intrinsically determined by utility cost allocation and rate design, rather than by comparing the total costs and benefits of

⁹ The Commission there found that various beneficial supply-side investments, such as tree trimming, would fail the RIM test, and that, with proper program planning and over time, all ratepayers will benefit from programs approved after consideration of all of the standard tests. Order No. 12, Docket No. 06-004-R at 32.

alternative resources. Nor should programs that save natural gas be excluded whenever (as AOG claims) the retail rate is higher than the avoided cost for a gas utility. TRC has the primary purpose of comparing total resource costs, and is the better test to evaluate overall program cost-effectiveness and performance. Furthermore, as ACAA notes, while cost-effectiveness tests are used to screen programs, they do not dictate program budgets, which are instead proposed by program administrators and approved by the Commission.

The Commission, however, appreciates the concerns of the AG and of AEEC/AGC regarding RIM scores and rate impacts, which become more salient as EE portfolios reach scale. As in all ratemaking matters, the Commission seeks to maximize the value of ratepayer funds invested, and to minimize overall ratepayer impact. The evidence that the largest EE program portfolio—that of EAI—can achieve a neutral RIM score (0.98, as detailed above) in significant part through the first-year implementation of a residential load control program is one indication that portfolio composition can reasonably address RIM test cost-effectiveness. The IEM's recommendations for cross-fuel coordination and for program improvements also explicitly aim to yield cost-saving efficiencies. Improved data tracking also should enable Parties and the Commission to understand whether and to what degree EE programs, over time, are leading to lower bills not only for participating ratepayers and for ratepayers in the aggregate, but also for the majority of ratepayers. The one-year extension of current EE programs and the Potential Study provide an opportunity for all stakeholders to carefully consider and to develop strategies on ongoing practices that maximize the value of ratepayer investment and mitigate ratepayer impacts related to EE portfolios.

Further, with regard to AEEC/AGC's concerns regarding program cost and cost-effectiveness, the \$334/MWh average energy savings cost cited by AEEC/AGC may conflate first-year EE program savings with program lifecycle savings.¹⁰ The \$334/MWh average savings cost cited represents total program costs divided by first-year savings, and not savings over the lifecycle of the program; it thus greatly overstates the lifecycle cost of energy saved. Similarly, AEEC/AGC's summary of EAI's achievement (0.28% of retail sales over four years) appears to omit the persistence of any savings from year to year, greatly understating the impact of the ongoing program portfolio.

The Commission accepts JCP's proposal to review the literature on the comfort and health benefits of weatherization and to seek consensus on any recommended, reasonably quantifiable, significant NEBs for inclusion in program screening. The Commission also accepts Audubon's well-reasoned guidelines for NEB consideration and inclusion, with some modification: Audubon recommends the inclusion of only those NEBs that can be quantified with a level of confidence commensurate with primary program benefits such as avoided energy costs. Audubon also recommends that NEBs should be well-defined in terms of measurably reducing scarce resources; (2) have a quantifiable economic value; and (3) be clearly applicable to the specific program or measure at issue. The Commission's modification of the Audubon guidelines is that some NEBs should be quantified because they add value or reduce costs, rather than because they reduce the use of scarce resources. Also, while Audubon cautions that weatherization should not receive special treatment, the JCP's proposal to seek

¹⁰ The Commission accepts this number for purposes of discussion only, without exploring whether it is appropriately weighted for the different amounts of program savings in different years, whether it takes into account capacity avoided, or whether it is otherwise appropriately presented.

consensus on any reasonably quantifiable, significant NEBs specific to weatherization need not vary from Audubon's recommendation that NEBs should be well-defined, quantifiable, and specific to the program at issue.

To address concerns by AEEC/AGC, EAI, the AG and others that inclusion of NEBs may require ratepayers to fund non-utility service, the Commission clarifies that any inclusion of customer NEBs within the TRC is intended to make the primary program and portfolio screening tool accurately assess the available EE resource. The Commission intends that, at the measure incentive level, ratepayer incentives to customers, and thus the ratepayer resources spent to achieve EE savings, would remain constrained by utility system avoided costs (i.e., by PACT analysis, which might properly include utility NEBs, but not customer NEBs). A TRC test properly including NEBs will therefore give program administrators a broader range of EE measures and programs from which to select, theoretically enabling lower cost or more comprehensive services; but it will not entail customer incentive spending to subsidize individual customer NEBs. At the portfolio level, the concern can be met by ensuring that EE program portfolios pass both TRC and PACT tests. In this way, both programs and portfolios will remain cost effective as compared to alternative resources, while retaining the flexibility to include auxiliary programs such as training and education, or programs aimed at ensuring that all ratepayers have access to EE services.¹¹

The Commission does not specify, as mentioned by JCP, that individual measures should pass the TRC test, in order to allow for the possibility that combinations of measures might reasonably be part of a program that passes TRC. Regarding the

¹¹ OG&E's window air-conditioner program or EAI's mobile home efficiency program might be examples.

Societal Test (which includes societal NEBs), current C&EE rules allow, and the Commission continues to accept, voluntary utility submission of the Societal Test for the Commission's consideration in approving EE programs and portfolios.

Issue 6: Process and Tasks for Continuous Program Improvement

Order No. 1 proposed that utilities and other stakeholders should collaborate over the next program cycle to develop core EE programs for each rate class that, insofar as possible, have standardized, transparent features to promote comparability across utilities, better understanding and participation by customers, contractors, vendors, and trade allies across the state, and increased administrative efficiency and cost savings. Order No. 1 at 39. The Commission acknowledged the value of the PWC's collaborative development of proposed rules, ongoing management implementation issues, and role in creating and updating the deemed savings values, the TRM and its EM&V Protocols, and standards for administrative costs and Reporting Needs. *Id.* at 40. Order No. 1 proposed to build on these successes through an enhanced Continuous Program Improvement Collaborative ("CPI Collaborative") that, under the leadership of Staff, would select and engage a facilitator with extensive experience in the development of utility EE programs to manage collaborative resolution of issues. *Id.* The Collaborative would take advantage of expert technical assistance, facilitation and procedural reforms in order to facilitate stakeholder cooperation and Commission reliance on its results. The CPI Collaborative would include the utilities, Staff, the AG, all parties to this docket, and any other participants that the Commission might deem appropriate. Procedurally, it would aim to reach consensus on each issue addressed, make a record of its decisions

for reporting to the Commission, and provide for any dissenting reports to the Commission on issues not resolved by the parties. *Id.*

The Commission proposed that the CPI Collaborative would address ten substantive tasks, developing a core group of statewide EE programs.¹² *Id.* at 41. The CPI Collaborative's consultant(s) would help identify and capture opportunities for program improvement and increased statewide coordination and standardization. The Commission proposed that the consultants and the facilitator selected should be independent of the utilities and other stakeholders, *i.e.*, they should not have financial or business interests with any of the stakeholders, and that they should be paid for by using a small portion of the total annual energy efficiency budgets, with costs allocated to all utilities using the joint-utility cost allocation methods developed by the utilities for the AWP, EEA, and EM&V programs. *Id.* at 42-43. According to the Commission proposal, the consultants should have demonstrated technical expertise in the design, planning, implementation, and improvement of EE programs and strong familiarity with best practices in those areas. The Commission stated its view that the CPI Collaborative should be the client of the consultants, who are expressly intended to perform tasks separate from the consultants and vendors used by the utilities and EE program administrators to design, implement, and evaluate their programs and

¹² These tasks were (1) Standardizing and achieving efficiencies in the delivery of whole-house weatherization services; (2) Developing joint-utility EE services offerings to national accounts customers; (3) Exploring an expanded role in EE planning and implementation for Arkansas Manufacturing Solutions ("AMS") and the Arkansas Industrial Energy Clearinghouse ("AIEC"); (4) Increasing participation and achieving deeper energy and demand savings in the industrial sector; (5) Improving cost-effectiveness of commercial programs; (6) Making EE programs more consistent across the state; (7) Separating new construction EE programs from retrofit programs; (8) Strengthening EE program delivery methods in order to increase participation; (9) Improving planning assumptions so that EE plans better reflect likely savings, participation, and cost estimates and (10) Exploring creation of a statewide database.

separate from the EM&V responsibilities performed by the IEM. Order No. 1 indicated that the Commission would establish a procedural schedule for the work to be done by the CPI Collaborative following its review of comments received in response to the proposal. *Id.* at 41-42. Finally, Order No. 1 stated that the CPI Collaborative's mission should be ongoing, with annual reporting of its findings and recommendations. *Id.*

The JCP respond that a new collaborative with a third-party facilitator is not needed and that the existing framework, including the EM&V activities and input of the IEM, effectively address the development and improvement of EE programs and other issues. JCP at 24. The AG agrees with the JCP's comments. AG Initial at 21.

The JCP oppose creation of a duplicate process with additional unnecessary costs and activities. *Id.* at 25. The JCP recommend instead that the Commission direct the PWC to engage third-party consultants as needed, or the PWC may request such authorization, including for issues such as program planning, financing, cross-company program coordination, and others. *Id.* at 25 and 33. The JCP present, for example, the PWC's request to hire a consultant to conduct a Potential Study. *Id.* at 25.

The JPC note that EM&V activities and planning activities are interrelated and should not be separated, and that NAPEE has similarly endorsed the concept that EM&V should provide a feedback loop for timely program enhancement. *Id.* at 25-26. The JCP indicate that that the PWC process is already addressing program standardization; program cost and NEB issues; incorporation of lessons learned to increase consistency, transparency, and comparability among programs; resolving differences among stakeholders; strengthening EE program delivery options to increase participation; and improving EE program planning assumptions to better reflect likely

cost and energy savings per participant and expected participation. *Id.* at 30-31. The JCP state that the current EM&V activities already support program consistency, transparency, and comparability across the state, while preserving the ability of individual utilities to design, propose, and implement EE programs that best fit their respective customers. *Id.* at 34. The JCP add that the IOUs currently secure the services of experienced national and international consulting firms that develop, design and implement “best in class” EE efforts. *Id.* at 33.

While the JCP agree that consistency among IOU programs is desirable where possible, they indicate that program consistency is not achievable in all sectors of the Arkansas market and that it is not practical to offer completely uniform portfolios for each utility. *Id.* The JCP note that many states that began mandating statewide programs subsequently modified this stance after realizing that customers are not homogeneous from one utility to another. *Id.* The JCP note that the IOUs continue to share best practices to promote program consistency, particularly in the area of home weatherization and energy services. *Id.* at 34-35.

EAI supports the JCP’s comments and asserts that the utilities should continue to determine what programs they will offer to their customers, subject to the Commission’s approval, because the utilities are ultimately responsible for achieving the EE goals. EAI Initial Comments at 17. If utilities lose control over their programs, EAI states that they should be relieved of responsibility for achieving results. *Id.* at 19. EAI adds that a new, facilitated collaborative process may hamper the ability to adapt to real-time market changes, create market confusion by changing programs and requiring new training, conflict with the Commission’s Comprehensiveness Checklist (which requires, *inter alia*,

EE services for all major end-uses of electricity and natural gas), lower the cost-effectiveness of programs administered by individual utilities, and stifle innovation. *Id.* at 17-20. EAI notes that the program improvement proposals in Order No. 1 were issued at a time when only partial-year, PY 2011 results were available, and that in 2012 EAI exceeded EE targets using best practice programs that were planned in conjunction with world class consultants and expertly implemented. EAI at 5 and 21.

CenterPoint and Staff also agree that, while there is value to program consistency, a “one-size-fits-all” approach to program standardization is “unlikely to be a workable model in the State of Arkansas.” CenterPoint Reply at 5, Staff Reply at 7. CenterPoint states that the degree of standardization that is appropriate in a rural state bears further discussion, particularly considering the waiver from C&EE Rules granted to rural electric cooperatives. CenterPoint Reply at 5.

Sierra Club states that the proposed enhanced stakeholder collaborative is an excellent way to achieve increased standardization and transparency in order to create economies of scale in program delivery. Sierra Club at 8. Sierra Club indicates that independent, neutral facilitation is important and has worked in Arkansas and in other states. *Id.* Sierra Club cautions that, while it supports the creation of statewide, standardized programs, utilities need flexibility to meet unique service categories when their customers have very different needs. *Id.* at 9.

Audubon notes that the success of collaboration ultimately depends on effective communication, consultation, and decision processes that promote a focused effort to achieve consensus on major issues and to advance the collaborative planning agenda toward the fulfillment of its stated objectives. Audubon adds that an experienced

facilitator can render critical assistance to organize and run effective meetings, facilitate group decisions, and create a record of collaborative deliberations and decisions – all of which activities can constitute a continuous program improvement process in which the stakeholders and the Commission can place their confidence. Audubon Initial at 10-12. Audubon replies to the JCP's concern that time and expense would be needed for a facilitator to become familiar with the unique characteristics of Arkansas EE program experience, asserting that the requirement of neutrality does not rule out the employment of a facilitator that has direct experience with the Arkansas EE issues. Audubon Reply at 7. Audubon maintains, however, that neutrality does prohibit the assignment of such a role or responsibility to collaborative stakeholders, a party to these proceedings, or others who have interests with any of the parties or stakeholders. Audubon accordingly proposes that a neutral third party facilitator with previous experience in Arkansas be considered as a qualified candidate to assume this responsibility, but that such experience should not be a prerequisite for consideration. *Id.* See also Sierra Club Comments at 5, 8 and ACAAA Reply Comments at 1-2. ACAAA agrees with JCP that it is not necessary to fund a new collaborative to promote statewide consistency among EE programs and shares their concern regarding the cost and time needed to educate a facilitator unfamiliar with the Arkansas EE experience. ACAAA Reply at 1. ACAAA states that these views can be reconciled with Audubon's support for an independent facilitator and technical experts by relying on a member of Commission advisory staff to facilitate resolution of the issues proposed in Order No. 1. The advisory staff facilitator would propose agendas, organize meetings, facilitate consensus, and ultimately present a proposal on behalf of the collaborative to the Commission without

divulging party negotiations or supporting the proposal with testimony. *Id.* at 2. AEEC/AGC is concerned that the CPI Collaborative would increase costs and recommends that any decision to implement a new collaborative should be deferred until its need is further evaluated and cost-justified. AEEC/AGC at 11.

Ruling on Procedure for Continuous Program Improvement

The Commission generally agrees with the JCP that a duplicative CPI Collaborative is not necessary to promote increased consistency, coordination, and standardization of EE programs. Further, as noted by EAI, PY 2012 program performance generally exceeded targets, and program administrators and EM&V evaluators are focusing on cross-utility and cross-fuel coordination, achievement of deeper savings, standardization of processes, improvement of data collection and participant tracking, and a host of other program improvement recommendations that overlap with many of the objectives outlined in Order No. 1. The Commission also acknowledges the JCP's summary of areas of overlap between the current PWC's activities and the proposals in Order No. 1, and EAI's suggestion that a new Commission-ordered process could disrupt progress on resolving these issues.

The record does not indicate, however, how the collaborative is operating with respect to the PWC's schedule, agendas, or methods of building consensus and making and/or recording and reporting decisions. For example, it is unclear to the Commission whether the AWP and other weatherization issues discussed below are being addressed by the full PWC or by a subgroup of the PWC, and whether the collaborative process is currently facilitated by Staff, the IEM, the AWP program administrator (the Central Arkansas Development Council, "CADC") or program coordinator (ACAAA). Moreover,

no evidence was submitted regarding what procedures or practices guide the provision of notice for meetings, information gathering and sharing by parties, and issue discussion and resolution. The Commission is under the impression that the IEM currently serves as a convener for some purposes and that Staff and/or ACAA does for others.

The Commission also finds that certain issues such as cross-fuel coordination (particularly with regard to weatherization) and facilitation of uniform offerings for commercial customers—including national accounts customers—should be addressed to the fullest extent possible prior to the initiation of the next program cycle, which was delayed in part to allow resolution of these issues. The Commission agrees that each utility needs flexibility to address customer segments and utility circumstances unique to its territory. The Commission also does not wish to burden the detailed, vital ongoing work of the PWC with unnecessary bureaucracy.

Reasonable uniformity in core programs, however—particularly as they appear to and affect customers and trade allies—need not conflict with necessary variation in program offerings among utility territories. Also, the increased administrative duties of facilitation and increased transparency have value when parties with differing interests address a complex, time-sensitive task with significant resources at stake. The Commission is not persuaded that such facilitation must be an expensive and time-consuming undertaking. Further, while a facilitator with exhaustive experience with the Arkansas EE landscape would be a strength, a capable facilitator that lacks such familiarity might bring the benefit of neutrality, which is typically required in issue resolution among parties with different points of view and disparate resources for

collaborative participation. Moreover, a skilled facilitator with strong experience in energy utility issues should be able to study and prepare in relatively quick course. As the PWC embarks on its second three-year cycle, it is evident that it has reached a stage of maturity in which a more sophisticated process is necessary to match the objectives of providing Arkansas citizens with comprehensive, cost-effective energy efficiency programs.

The Commission agrees with the JCP that all PWC meetings do not require independent, outside facilitation, and that the PWC may request authorization to engage third-party consultants as needed, and that in some cases the Commission should direct the PWC to engage facilitation or technical expertise. To that end, the Commission herein directs that (1) general meetings of the PWC should, nevertheless, follow certain basic procedural guidelines led by a facilitator that may be chosen from within the PWC; and (2) that the specific task of developing a more unified approach to residential weatherization should be facilitated either by a member of the IEM's team who is expert in weatherization, or by an outside facilitator, with adequate technical expertise available to the PWC. These decisions acknowledge the progress of the PWC as reflected in advances in program achievement during 2012 and the indications that the PWC will address program coordination and improvement, as recommended by the IEM.

The Commission directs the PWC to propose for Commission approval on or before noon on January 10, 2014, procedural guidelines to govern meetings and deliberations of the PWC. The Commission requests that such guidelines address the designation of a facilitator for meetings, notice and development of agendas, the timely

provision of information and materials, and the manner in which decisions are made and recorded, including the recording of any dissenting opinions.

The Commission also accepts JCP's general recommendation that the collaborative may request authorization to hire, or may be directed to hire, facilitation or technical expertise as needed with respect to any issues being addressed by the collaborative. In the event that there is no consensus on this point, any party may petition the Commission at any time to seek technical assistance or facilitation for the collaborative.

With respect to weatherization, which includes services for not just severely energy inefficient homes, but for all residential customers, the Commission provides the following procedural directive: The PWC shall identify a facilitator to guide deliberations concerning the standardization of the existing models of weatherization approaches detailed below and coordination of weatherization programs in time for implementation during the next three-year EE program cycle, taking into account the discussion below regarding existing weatherization programs. The IEM, through a person on the IEM's team with specific expertise in weatherization may serve as the weatherization facilitator, or the PWC may identify a person independent of all the parties and with expertise in the coordination and delivery of utility-funded and/or federally-funded weatherization services. The PWC shall also ensure that any technical expertise necessary to establish best-practice program elements, to maximize the leveraging of the resources of the federal WAP program and other potential program partners, and to establish financing mechanism(s) that enable customers to implement comprehensive whole-house retrofits and to avoid lost opportunities for savings, is

made available to the members of the weatherization collaborative throughout its process for timely, in-depth consultation. To provide greater transparency to the existing and the enhanced PWC process, the weatherization facilitator shall follow the procedures enumerated above for all facilitation.

With respect to the utilities' respective C&I Prescriptive and Custom programs the PWC shall, as detailed further below, also develop uniform offerings that allow commercial customers—including particularly national accounts customers—to transparently access EE services through a single application process across fuels and utilities.

These two tasks (weatherization and enhanced C&I program standardization), along with a third area of exploration (continuing improvement of uniform data collection and reporting) — each of which is further outlined below — represent a prioritized, simplified consolidation of the ten collaborative agenda items originally proposed in Order No. 1. The Commission adopts this more focused agenda in consideration of the evidence in the record that utilities have made substantial progress toward, and that program evaluators and the IEM, through their program improvement recommendations are substantially advancing, the same goals that the Commission had in making its earlier proposals.

Given the need to ensure that the objectives of this Order are met with due consideration of all the stakeholder positions and with proper Commission oversight of the process and the budget that may be required for such purposes, the Commission directs utilities and Staff, and requests other members of the PWC, to submit on or before noon on November 1, 2013, a plan describing how the PWC would engage a

facilitator(s) and other consultants to assist the PWC in developing a unified weatherization approach and weatherization program coordination, and how the PWC will address standardization of core C&I programs across fuels and utilities. The plan shall describe the PWC collaborative process going forward, including the roles performed by Staff, the IEM, and other parties, and a proposed scope of work that addresses the enhanced responsibilities outlined above pertaining to the weatherization collaborative and that identifies the tasks to be performed by the collaborative for which a facilitator and/or consultant are sought.

Utility-Funded Weatherization Programs and Services in Arkansas

In Order No. 1, the Commission proposed that the PWC, or perhaps a subgroup of the PWC that has a particular interest in weatherization and building thermal envelope issues, should develop a standard approach to whole-house weatherization activities that would be followed by all utility programs, and ultimately by a single, statewide coordinated utility weatherization program. The Commission stated that this approach should allow trade allies, customers, and the Commission itself to understand one set of rules the eligibility and analysis of residential buildings; for the ranking, selection, and implementation of covered measures; for rebates and incentives to customers and trade allies; and for the training, and qualifications required of contractors, and for EM&V activities.

In addition, the Commission proposed that the PWC explore the development of appropriate financing mechanisms for statewide weatherization services for both residential and small commercial buildings, through exploration of state or federal revenue bond financing or otherwise leveraging non-utility program resources as a

complement to the ratepayer-funded AWP. The Commission also stated its belief that the PWC should convene the program administrators of the AWP program, the statewide federally-funded Weatherization Assistance Program for Low-Income Customers (“WAP”), the joint-utility dual-fuel weatherization program offered by OG&E and AOG, and the Home Energy Assistance Loan (“HEAL”) Program Partnership between CenterPoint and the William J. Clinton Foundation’s Clinton Climate Initiative (“CCI”), as well as the other utilities and the state’s electric cooperatives, to explore these issues. The Commission summarizes below testimony, comments, and other evidence in the record regarding these and other utility-funded programs providing weatherization services in Arkansas.

I. The Arkansas Weatherization Program (“AWP”)

The AWP is a utility-funded program administered by the Central Arkansas Development Council (“CADC”), a Community Action Program (“CAP”) agency, and coordinated by ACAAA. For a home to be eligible for AWP services, it must be built prior to 1997 and must be “Severely Energy Inefficient,” based on a checklist of features such as inadequate insulation, or a non-working heating system or heating system with less than 70% efficiency. AWP Annual Report at 42.

Since 2007, AWP has weatherized nearly 4,000 homes. ACAAA at 2. AWP weatherized 641 homes in 2012—a slight decrease from 2011. Annual Report at 3. WAP-eligible customers accounted for all but four of these homes. *Id.* at 4. AWP performed 1,047 projects at the 641 homes, which was 61% of its planned target. *Id.* AWP implemented nineteen different types of EE measures, including insulation, reduction of infiltration, tune-up or replacement of air conditioners, furnaces, and heat

pumps, lighting improvements, water heater insulation and replacements, window sealing and replacements, and storm windows. Ceiling insulation and infiltration reduction were among the top three sources of savings for both electricity and natural gas. Lighting improvements and refrigerator replacements contributed significantly to electricity savings, and window replacements contributed significantly to natural gas savings. AWP EM&V Report at 1-5. Because of its connection to the federal WAP, AWP provides non-cost-effective heating unit replacements and home repairs that save little to no energy.¹³

Utilities spent almost \$1.2 million on AWP, and federal funds (including American Recovery and Reinvestment Act ("ARRA") funds) contributed about \$3 million. *Id.* AWP produced over 1.1 million kWh in annual energy savings within IOU territories and almost 190,000 in annual therm savings. *Id.* at 3-5. AWP also produced an estimated 1.8 million kWh of lifecycle (not annual) savings in municipal and electric cooperative territories (although these utilities did not participate in program funding). *Id.* at 3-4. Accomplishment of targets within specific IOU territories ranged from a low of 30% for SWEPCO to a high of 78% for CenterPoint. *Id.* at 5. AWP cost effectiveness in 2012 ranged from a TRC score of 1.06 to 5.01 among natural gas utilities, and from 0.31 to 3.65 among electric utilities. Table B.2., Annual EE Report Workbooks.

The network of WAP/AWP providers received nearly 7,000 person-hours of training in 2012, resulting in 335 certificates awarded to trainees. Annual Report at 8. Taking into account non-AWP WAP homes, this network currently has the capacity to weatherize over 2,000 homes per year. *Id.* at 22.

¹³ AWP measures may include replacement of glass and/or windows, doors, ground cover, duct and plenum repair, return air cavity sealing, CO detectors, and smoke detectors, some of which may not be cost-effective for energy savings. OG&E PY 2012 Annual Report at 47.

ACAAA comments that, when AWP was established in 2007, it offered the promise of leveraging existing, trained personnel, infrastructure, and funding from the federal Weatherization Assistance Program (“WAP”), reaching severely energy-inefficient homes, and serving a long waiting list of hard-to-serve homes through a dual-fuel, comprehensive approach.¹⁴ ACAA at 1-2. ACAA indicates that AWP’s strengths include ongoing collaboration among the IOUs and their contractors, CAP agencies, and the Arkansas Department of Human Services (“ADHS”) (until July 1, 2013, the state administrator of the WAP), and the ability to provide one point of contact for customers across electric and gas utility services. Annual Report at 7.

ACAAA reports that three major challenges have become apparent. *Id.* at 2. First, AWP’s success has proven to be dependent on fluctuating federal funding: the number of AWP-weatherized homes fell in 2012 because CAP agencies were required to prioritize the spending of ARRA funds on the WAP program, and also because federal funding declined for the regular WAP funds that provide a match for utility funding for WAP-eligible AWP customers. *Id.*

Second, AWP has had difficulty in reaching non-WAP eligible customers (who might otherwise provide an independent source of program funding). *Id.* This is because their incomes exceed the WAP eligibility limit (200 percent of the Federal Poverty Level) and thus do not qualify for federal funds to pay the \$1500 co-pay to cover AWP weatherization services. Many of these customers are working-poor or near-poor and thus lack the resources to cover the co-pay costs. *Id.* Third, AWP has experienced

¹⁴ The current DOE WAP waiting list is over 3,000, many of which likely are eligible for AWP. AWP Annual Report at 22. Some CAP agencies report that they have stopped promoting the program or are no longer referring customers to WAP because customers become un-interested in the program when they learn about the wait time. AWP EM&V Report at 3-5.

geographic gaps in service delivery because, under the WAP program individual CAP agencies can opt not to provide services within their territories (and some have done so).

Id.

ACAAA notes that the Arkansas General Assembly in 2013 enacted Act 1111, which authorizes the transfer of the WAP program from ADHS to the Arkansas Energy Office ("AEO"). ACAAA reports that AEO is restructuring WAP to include the Clinton Climate Initiative's ("CCI") Home Energy Affordability Loan ("HEAL") program in an as-yet-to-be-determined role, and to involve the PWC in determining a new WAP program design. *Id.* ACAAA agrees with AEO that the existing AWP Collaborative should discuss restructuring of WAP and AWP. *Id.* at 3. ACAAA indicates that the transfer and restructuring of WAP should allow modifications that can enhance program delivery for both WAP and AWP. AWP Annual Report at 7. Given the uncertainty facing WAP and AWP, ACAAA recommends no specific changes for PY 2013 for AWP, but reports that CCI has recommended that HEAL should have access to AWP funding for the remainder of 2013 in order to offer services within under-subscribed parts of the state. *Id.*

ADM evaluated AWP's 2012 activities. ADM agrees that dependence on federal funding and the ability of individual CAP agencies to decide their level of involvement in WAP have been AWP program barriers, and that decreased federal funding could be a greater barrier in the future. AWP EM&V Report at 1-5 through 1-6. ADM also agrees that financing and marketing issues hamper AWP's ability to serve non-WAP eligible customers. ADM finds that AWP will likely be unable to attract many non-WAP-eligible customers without addressing the upfront cost barrier presented by the co-pay

requirement. *Id.* at 1-7. ADM adds that the WAP waiting list is a barrier to AWP performance, and that the association between AWP and WAP creates confusion requiring new marketing approaches if AWP is to reach out to non-WAP-eligible customers. *Id.* at 1-7 and 3-2. ADM notes further that, while measures are installed for WAP customers based on cost-effectiveness, AWP customers may choose which measures to install, creating the risk that customer choices will erode the cost-effectiveness enjoyed by WAP. *Id.* at 1-9. ADM cites the comprehensiveness of AWP whole-house offerings as a strength. *Id.* at 1-6 and 2-2 at Table 2-1. ADM's interviews with CAP agency staff suggest that, while the current collaborative structure is sufficient for operating the program as it is currently designed, it would be difficult for it to produce agreement in a timely fashion among all involved parties on specific program improvements. *Id.* at 3-7.

II. The Home Energy Assistance Loan ("HEAL") Program

The HEAL program is administered by the Clinton Climate Initiative and is a part of the CenterPoint Energy Arkansas's *Energy Efficiency Program Portfolio*. Large employers with a minimum number of low-to-moderate income employees receive a free audit and complete energy efficiency retrofits to their facilities. The employer then makes funds generated by energy efficiency savings available to its employees. Alternatively, an employer works with commercial partners such as credit unions to provide low- or no-interest loans to employees to retrofit their homes. CenterPoint Annual Report at 12 and Appendix A at 11-1. In some cases, HEAL may offer the program to non-employees living in neighborhoods adjacent to participating employers. *Id.* at 12. Employees receive a free home energy audit, including a blower-door test and

duct blaster. Loans to employees for EE measures are repaid through payroll deductions. *Id.*

CenterPoint's HEAL program began in mid-2011 and installed 217 measures at 75 homes in PY 2012. *Id.* While there is no income restriction on program participation, HEAL is largely limited to participating employers. *Id.* at 12 and 14. HEAL produced annual savings of 19,636 therms in PY 2012 and had a TRC cost effectiveness of 2.80. HEAL achieved these savings through three measures: air sealing, ceiling insulation, and duct repair. *Id.*, Appendix A, at 11-6.¹⁵

ADM evaluated the HEAL program and found that, although it is a very small portion of CenterPoint's overall EE portfolio, it could provide a model going forward for cross-fuel services and customer financing. CenterPoint Annual Report for PY 2012, Appendix A at 1-6. ADM notes that, while CCI frequently obtains both CenterPoint and EAI incentives for HEAL customers, there is little cross-utility coordination between CenterPoint and Entergy and as a result, some participants may be receiving retrofits at no cost when incentivized by both utilities. *Id.* at 11-5. ADM also indicates that, other than for that limited number of customers eligible for and served by HEAL, CenterPoint lacks residential building envelope rebates. *Id.* at 3-3. ADM recommends that CenterPoint make such rebates available more broadly, citing the successful example of the OG&E/AOG joint weatherization program. *Id.*

¹⁵ The Commission notes that electricity savings for those CenterPoint HEAL customers who also are IOU electric customers presumably are included in the reporting for electric utility EE residential programs, to the degree that HEAL assembled natural gas and electric rebates for the customer to achieve these savings.

III. The AOG/OG&E Weatherization Program

The AOG/OG&E Weatherization Program (“Joint Weatherization Program,” or “Program”) is a cooperative program funded by both utilities. To be eligible for weatherization, the structure must show that it has “substantial energy efficiency needs” by requiring three of seven listed weatherization measures in order to receive services. ADM Evaluation of Joint Weatherization Program (“Joint Evaluation”) at 1-1. The auditors for this program are certified by the Building Performance Institute or the Residential Energy Services Network (“RESNET”). OG&E Annual Report at 15. The total utility contribution (from both utilities combined) is limited to \$3,000 per eligible customer, with no out-of-pocket costs required of the customer. Joint Evaluation at 3-1.

The Program served a total of 1,631 OG&E homes (7% of the homes in OG&E’s Arkansas territory) and 1,360 AOG homes in 2012. OG&E Annual Report at 6 and Joint Evaluation at 1-4. It produced 3.6 million kWh in annual electricity savings and 0.2 million therms in annual natural gas savings. Joint Evaluation at 1-4. Three highly-cost-effective measures (air infiltration reductions, ceiling insulation, and CFLs) accounted for almost all of the program’s gross energy savings. Joint Evaluation at 2-3. The Program also covers water heater jackets and pipe wrap, and occasionally provides refrigerator replacement. *Id.* at 1-4. For instance, while 1,387 OG&E customers received ceiling insulation, only 158 received refrigerator replacements. *Id.* at 5-8.

ADM notes that despite limited marketing, the Program has high customer awareness, participation, and satisfaction, with several hundred customers per month seeking services. *Id.* at 3-3 and 3-5. ADM finds that word-of-mouth marketing, the

Program's short wait time, and its high incentive levels account for the high level of customer participation. ADM Evaluation at 3-3 through 3-5.

Program contractors indicated to ADM that the majority of participant homes would benefit from further energy efficiency improvements that are not covered by Program offerings. *Id.* at 3-6. However, the contractors expressed concern that the further improvements might not be adequately cost-effective. *Id.* Some customers expressed interest in paying for further improvements, but did not follow through due to the cost. *Id.* at 3-5. ADM recommends that OG&E and AOG explore offering further services such as wall insulation or heating system improvements and explore opening the program gradually to a larger pool of homes than those meeting the current criteria. *Id.* at 1-7.

IV. Other EE Programs Providing Weatherization Services.

Under EAI's Home Energy Solutions ("HES") program, customers may seek an energy audit through the program to learn about potential EE improvements, or may directly contact a contractor if they are aware of their needs. EAI Annual Report at 26. HES offers incentives for energy audits, direct-install measures such as faucet aerators and low-flow showerheads, ceiling and wall insulation, infiltration reduction, duct sealing, and replacement of HVAC equipment. *Id.* at 30. In order to promote comprehensive home EE improvements, EAI provides a bonus incentive to customers who choose to implement multiple measures. *Id.* at 26-27. Customers installing multiple measures increased from 9% in PY 2011 to 23% in PY 2012. For testing-intensive measures such as duct and air sealing and wall insulation, 14% of participants who had an energy assessment in PY 2012 adopted these measures, as opposed to 7% in

2011. *Id.* Implementation contractors also may receive a bonus for installing multiple measures. *Id.* at 27.

Just over 350 customers ordered an assessment in 2012. *Id.* This constitutes 0.64% of EAI's 584,559 residential customers. EAI FERC Form 1 Supplement Annual Report for 2012 at E-1. Of those, 38% (138) installed at least one measure and 72% of that subset (100) installed two or more measures. EAI Annual Report at 27. EAI notes that some HES customers were also CenterPoint HEAL customers. HEAL performed 157 assessments, of which 32% (50) installed at least one measure and 66% of those (33) installed two or more measures. *Id.* at 27-28.

HES achieved over 3.2 million kWh in net annual savings in PY 2012, which was 101% of its goal. *Id.* at 28. In 2013, EAI plans to require all participating contractors to have at least a BPI-Building Analyst or RESNET Home Energy Rater Certification (except that insulation-only contractors may have appropriate certifications from Pulaski Technical College or BPI), and to grow its contractor network to include out-of-state firms. EAI also plans to use more mass marketing to raise customer awareness, and to implement 25 recommendations by its independent evaluator, Cadmus. *Id.* at 29-30.

Cadmus found that HES served 1,970 homes with either direct install measures, rebated measures, or both. EAI EM&V Report at 70. (The Commission does not discern how many of the 1,970 homes were served only with direct install measures and how many received more comprehensive services.) Approximately 82% of kWh savings from rebated measures in PY 2012 derived from ceiling insulation. *Id.* at 62. Duct sealing, heat pump replacement, and air sealing accounted for 8%, 3%, and 3% of rebated kWh

savings, respectively; direct-install measures as a whole produced lower total kWh savings than these individual rebated measures. *Id.* at 62-63.

SWEPCO offers customers a Residential Standard Offer Program (“RSOP”) and a Home Performance with Energy Star (“HPwES”) Program. RESOP pays incentives to customers and to contractors for insulation, infiltration reduction, duct sealing, AC tune-up, ENERGY STAR windows, window film, and replacement of central air conditioners and heat pumps. SWEPCO Annual Report at 36. RSOP completed 545 projects (aside from direct install measures targeted through the same program to multi-family housing). *Id.* at 39. This constitutes 0.56% of SWEPCO’s 95,979 residential customers in 2012. SWEPCO FERC Form 1 Annual Report at E-1. Among non-direct-install customers and measures, ceiling insulation at 348 homes provided the vast majority of energy savings, followed by 39 heat pump replacements and 75 central air conditioner replacements. SWEPCO EM&V Report at 96.

HPwES, which SWEPCO launched in the Spring of 2012, is a US DOE and EPA-backed, whole-house program that begins with a comprehensive home energy audit. SWEPCO Annual Report at 40. The program covers similar measures to the RSOP, but also promotes the comprehensive energy audit, contingent upon installation of at least two major measures. *Id.* at 41. HPwES offers enhanced incentives compared to the RSOP for installation of major measures such as insulation and HVAC replacement. *Id.* at 41. After having only two HPwES participants in 2012, SWEPCO began in December 2012 to partner with HEAL to deliver HPwES services; 14 of 20 audited by HEAL homes installed measures in early 2013. *Id.* SWEPCO reports that, despite extensive marketing efforts, HPwES participation was constrained by low customer awareness,

challenging market conditions, and limited contractor engagement. *Id.* at 43. SWEPCO also reports that many contractors are unfamiliar with building-science-based efficiency. *Id.* SWEPCO is discussing joint implementation of HPwES with various gas utilities. *Id.* at 44.

According to SWEPCO's evaluator, Cadmus, a large percentage of SWEPCO customers cannot afford to make significant purchase or repairs to increase home energy efficiency, and approximately one third of these may be eligible for WAP. SWEPCO EM&V Report at 112. SWEPCO is reportedly considering offering home improvement loans as one way to remove financial barriers to participation. *Id.*

Ruling Regarding Weatherization Collaborative

Since 2007, weatherization program administrators in Arkansas have innovated to meet the considerable challenges inherent in seeking to provide comprehensive, whole-house EE services. These challenges have included creating an educated and trained contractor sector; educating consumers; keeping program offerings cost-effective and within budget; tracking projects, customers, and energy savings; delivering services in various overlapping or non-contiguous territories; accounting for administrative and marketing costs (whether for an individual utility or across utilities) and helping customers address the cost of home improvement. The Commission salutes the effort and accomplishment to date and finds that it is time to consolidate lessons learned so far.

AWP offers the longest track record of cross-fuel energy savings and the most comprehensive services, but its ability to deliver within any particular year is strongly influenced by federal rules and funding affecting WAP. While AWP has allowed WAP to

serve a larger number of WAP-eligible customers, AWP has been largely unable to reach beyond this core market, although service to other customers might reduce its dependence on federal funds. Also, a variety of constraints have limited AWP's ability to deliver services on behalf of utilities, thereby negatively affecting the expected performance of utility portfolios in some cases. The variation in AWP performance among utility territories demonstrates both the challenges involved in funding services through CAP agencies that may decide not to participate, and also the strong cost-effectiveness that can result when implementation runs more smoothly.

The original AWP goals of leveraging federal funding and trained personnel, providing comprehensive whole-house services across fuels, ensuring the participation of low-income customers in ratepayer-funded services, and targeting severely energy-inefficient structures remain valid. Experience has shown, however, that these goals cannot be fully realized without further collaboration and program development. While the Commission does not regulate WAP, ratepayers have a strong stake in WAP's improved operation because AWP cannot reach its goals so long as it merely "piggybacks" on the federal program. Rather, AWP stakeholders should take the opportunity of WAP reorganization to contribute to the coordination of WAP with AWP so that the state plan for WAP provides as much flexibility under federal regulation as possible in order to enable the achievement of joint WAP, utility, and AWP goals. Technical expertise regarding ways to achieve regulatory flexibility and to build a joint AWP-WAP structure that can address the WAP waiting list and reach out to non-WAP eligible customers must be a part of that collaborative effort.

The AOG/OG&E Joint Weatherization Program has demonstrated an ability to coordinate utility efforts across fuels, and to weatherize a significant percentage of customers' homes within a short period of time. It minimizes marketing costs and maintains a pipeline of projects, in part because it shares with WAP the characteristic that a certain level of highly-cost-effective, core services are free to the customer. As with AWP, it offers the largely unrealized opportunity to provide additional cost-effective measures. Its implementation contractors report customer interest in these further measures, but note that customers are unlikely to implement them so long as the initial cost is unmanageable for them.

The HEAL program is short in numbers (perhaps due to budgetary constraints), but by combining electric and gas rebates for some customers, it appears to achieve something similar to WAP and to the OG&E/AOG program: free, or near-free weatherization services for the most cost-effective measures. Early results in SWEPCO territory suggest that this approach increases the rate at which the administrative costs spent on comprehensive audits are converted to cost-effective, multi-measure projects. Furthermore, HEAL appears to offer a model for customer financing of more comprehensive projects, at least for that portion of customers who may have access to payroll deduction for loan re-payment. It is clear that HEAL has so far been made available only to a small portion of CenterPoint's (and EAI's) customer base.

By virtue of EAI's large customer base, the HES program has developed the essential market of auditors and implementation contractors in a way that no other utility could. It exceeded energy savings goals on only 75% of budget, and offers a rebate structure designed to incentivize more comprehensive projects, which may be

gaining traction, although not all of the evidence is clear on this at this stage of implementation. For instance, per-house annual savings appears to be significantly greater for the OG&E program than for HES (2231 kWh per home vs. 1629 kWh), although EAI obtains greater peak savings per home and similar energy lifetime savings. EAI may be less likely to capture infiltration savings (based on the fact that only 3% of HES program savings derive from infiltration, as opposed to 14% for OG&E), but HES achieves air-conditioner and heat pump replacement savings not covered by the OG&E program. While each program had similar TRC scores (1.57 and 1.47), the levelized cost of HES savings in 2012 was 9 cents per kWh and that for OG&E weatherization was just above 2 cents.

While these kinds of differences are subject to variation from year to year as programs develop, they provide evidence that lessons from each program can be consolidated to form a more optimal unified program. Also, the fact that the number of homes weatherized, the number and type of measures implemented at each home, the amount of electricity and the natural gas saved per home based on specific measures, and the ratepayer-funded cost per home and per measure cannot easily be compared among utility territories (except to some degree for AWP and the OG&E/AOG program) on the basis of the same metrics, is one strong indication that further standardization would benefit all ratepayers.

Based on this review, the Commission refines its original proposal and directs the utilities and Staff, and requests the PWC in general, to collaboratively develop uniform whole house program offerings for all residential customers, including those in severely

energy inefficient homes, for implementation by January, 2015 that include the following elements:

1. Joint funding between electric and natural gas utilities of whole house energy assessment and energy efficiency services that are available to customers, to the full extent that electric and natural gas utility territories overlap, and with uniform offerings to all-electric IOU customers in non-gas areas, and to natural gas customers within municipal and electric cooperative territories. The jointly-funded program should particularly address any first costs for comprehensive auditing and should provide unified incentives and services for measures that benefit both heating and cooling applications, thereby reducing the overall administrative cost for implementation of measures where the costs can be reasonably allocated between the gas and electric utilities. The PWC should carefully consider the value of an approach that offers major, cost-effective services such as insulation and infiltration reduction and potentially other services—up to some initial dollar amount, for little or no upfront cost to the customer.

2. A comprehensive technical standard that governs the qualification and energy assessment of homes, the recommendation and selection of measures, and the implementation of measures performed by all utility-sponsored and government-funded energy efficiency programs. This technical standard should ensure high-quality, best-practice work that maximizes available savings and avoids lost opportunities to improve

homes and equipment. It also should include a single set of standards for education, training, certification, and continuing education of implementation personnel delivering IOU-funded programs, and should be coordinated to the fullest extent possible with the standards that apply to federally-funded weatherization services.

3. A proposal by the PWC for the provision of a financing mechanism or mechanisms by utilities, or the facilitation of a financing mechanism or mechanisms through non-utility parties that allow customers to finance any measures with significant costs that go beyond initial no-cost measures and to thereby implement multiple cost-effective measures, in effect allowing the customer to implement a multiple-measure, cost-effective energy plan to substantially reduce whole-house energy use. Based on the apparent success of the HEAL model, the Commission favors financing options that feature automatic repayment through payroll or utility collection (regardless of whether the utility actually finances the measures). The Commission requests that the PWC assess the extent to which HEAL's financing mechanism could be extended to and would likely be implemented by employees of state agencies and other employers who may be willing to adopt its payroll collection method. The financing mechanism should, *inter alia*, enable non-low-income residential utility customers to obtain or afford the "good funds" required to participate in the AWP;

4. The elimination of duplication in programs that would prevent implementation contractors and trade allies from seamlessly providing services across participating utility territories, or that might engender confusion among customers.

5. Active participation in the reorganization of WAP to optimize its coordination with utility-funded weatherization services, and coordination of utility-funded whole house weatherization services with WAP so as to leverage available personnel and federal funding.

6. A plan to effectively market joint-utility weatherization services, as appropriate to the various sub-sectors of residential customers and markets, including exploration of the marketing aspects of the HEAL Program model.

The weatherization collaborative shall file in this docket a report on or before noon on April 1, 2014, which includes its recommendations for implementation by January 1, 2015, of the statewide weatherization program meeting these requirements.

Ruling Regarding Joint-Utility EE Services Offerings to Commercial and National Accounts Customers

During the 2012 hearing to review OG&E's EECR, OG&E witness Billy Dean Pollock testified that there is merit to working out a national chain program with the other utilities because all of the utilities confront the same barriers when they address big-box store managers who often lack decisional and budget authority to sign up for EE programs. Docket No. 07-075-TF, June 14, 2012, Tr. at 118. Only the JCP commented on the Commission's proposal that the PWC should focus on this task, in that it included "Focus on National Accounts" as a proposed new requirement for the collaborative.

However, the JCP did not comment on its importance or how it might be accomplished. Joint Comments at 27, Table 1.

Given the lack of objection to this task, the Commission directs the PWC to develop a joint, cross-utility and cross-fuel program to submit in time for implementation on or before January 1, 2015, that provides energy auditing, technical assistance, prescriptive measure (including lighting, HVAC, building thermal envelope, refrigeration, and other common end uses), custom measure, and marketing provisions that are appropriate for the end-uses represented by national accounts customers in Arkansas.¹⁶ Such offerings need not represent a separate national accounts program *per se*, but should give national accounts customers a single pathway for participation in the C&I programs of all Arkansas IOUs. Such offerings should thereby avoid program overlap and duplication, reduce confusion over program-type names, standardize elements offered measures, rebates and services, and facilitate marketing to these customers. The development of these uniform offerings shall be responsive to the many recommendations for C&I program improvement of the evaluators and of the IEM. Utilities need not and should not abandon cost-effective EE services appropriate to commercial sectors that are uniquely important in their individual territories, but rather, may and should provide such services additionally to the core offerings, as appropriate within their EE program portfolios. In order to develop these offerings, the PWC may hire facilitation and technical expertise as needed for this task, and shall

¹⁶ The Commission takes administrative notice that the U. S. Department of Energy's Building Technologies Office has, subsequent to the initiation of this proceeding, launched an Advanced Rooftop Unit ("RTU") Campaign to address the air conditioners used in 60% of commercial buildings nationally, which might provide a model or supporting technical information for one aspect of service to national accounts customers.

submit any request for budgetary resource needed to accomplish this task as an addition to the weatherization collaborative filing on or before noon on November 1, 2013.

Ruling Regarding exploring the Benefits and Challenges Involved in Establishing and Maintaining a Statewide EE Database with Enhanced Tracking of Program Participation

Order No. 1 requested comment on the development of a statewide database that would consolidate of all EE planning and achievement data, particularly including un-duplicated, cumulative data for customer participation and for program and measure impacts and costs. The proposed database would be publicly available on the internet, and would allow a user to aggregate and manipulate the data using standard data base queries and searches, and to produce a variety of reports in formats dictated by the user. The database would facilitate information sharing among utilities and comparison and review by all parties. Order at 63-64.

The JCP states that it does not support creation of such a database at this time. JCP at 31. No party comments on any of the specific parameters outlined above, and no party comments in direct support of the Commission proposal. The JCP, the utilities, and AEEC/AGC argue that it would be duplicative of ongoing efforts, costly, and time consuming. JCP Initial at 31-33; AEEC/AGC Initial at 12; EAI Initial at 20-21. The JCP detail a series of tasks that would be necessary to implement a statewide database and conclude that it would take 12 to 18 months. JCP at 32. AEEC/AGC comment regarding customer privacy that the only information that could be provided to the data base would be usage information in the aggregate by customer class. AEEC/AGC Reply at 12, 21.

The Commission clarifies that assembly of the database might start with information that is currently presented in the EE Plans, the Annual Reports and Workbooks, and the EM&V reports of the evaluators and the IEM, such as program implementation costs, broken out by categories of costs; energy and capacity savings; benefits; net benefits; benefit-cost ratios; customer participation and participation rates. With refinement, it might allow useful metrics such as energy savings, the cost to save a unit of energy, and costs per participant, to be calculated across programs, across utilities, and over time, and to be aggregated in a non-duplicative manner. The development of such capabilities could enhance program review and improvement and facilitate evaluation of how many ratepayers benefit directly from programs over time.

The Commission notes that much of this data is already collected, in utility-specific form, as part of the Energy Efficiency Standardized Annual Report Packet (“SARP”) approved by the Commission in Docket No. 10-010-U on September 14, 2012. On November 19, 2012, the PWC filed in that docket, and the Commission granted by Order No. 15, a motion requesting that the PWC be given until September 27, 2013, to file comments and/or testimony in support of any proposed changes to the SARP. Given that those comments may reasonably address some of the Commission’s concerns regarding program comparability, enhanced analytical value, and non-duplicated participant tracking, the Commission defers further ruling on this issue until after the imminent SARP filing.

Finally, AEEC/AGC requested that the Commission initiate a rulemaking to enact new rules consistent with the provisions of Act 253 of 2013 and encouraged the Commission to decrease the peak demand requirements for a non-residential business

consumer to opt-out of utility energy efficiency programs to an electrical demand of at least 200 kW at a single facility. AEEC/AGC Reply Comments at 9. Staff responded that the Self-Direct (SD) Rules are not part of the issues identified by the Commission in Order No. 1, noting that the SD Rules were developed in Docket No. 10-101-R and approved by Commission Order No. 10 and subsequently modified by Order No. 28. Staff asserts, and the Commission agrees, that this docket is not the appropriate proceeding in which to address modifications to the SD Rules. Staff Reply at 4. On July 8, 2013, by Order No. 29 in Docket No. 10-101-R, the Commission directed Staff to file proposed amendments to the Commission's C&EE Rules as they pertain to SD programs to comply with Act 253 of 2013.

Accordingly, based on the comments and evidence in this docket, the Commission directs and orders:

1. That the programs, portfolios; and tariffs of individual utilities will continue to be considered within individual utility tariff dockets; provided that cross-cutting issues may be addressed, as needed, in separate policy dockets; and that filings related to EE programs, portfolios and tariffs shall conform to the JCP's proposed schedule (as displayed on page 3 of this Order); provided that the Commission will strive to approve portfolios by September 1 of each year, but reserves the right to extend that deadline as necessary; and that Staff shall file, on or before noon of January 10, 2014, any proposed changes to the C&EE Rules necessary to effectuate this amended filing schedule.

2. That the PWC may and shall cause to be performed an EE Potential Study, jointly funded by the utilities; provided that an RFP and testimony describing the study and its purposes, in accordance with the more detailed directives outlined above, shall be filed in this Docket for Commission review and approval on or before noon on November 1, 2013; and that the energy savings goal for 2015 is established at 0.90% of 2014 retail kWh sales for electric utilities and 0.50% of 2014 retail natural gas sales for natural gas utilities, with the Commission reserving the right to revisit the 2015 target at the time that it establishes targets for 2016 and 2017, based upon the Potential Study or other data that may become available.

3. That the utility performance incentive shall be awarded in a linear, rather than stepwise basis, within a range from achievement of 80% to 120% of the Commission's established goals; annual performance incentive earnings shall be based on 10% of program net benefits, but shall be capped on a sliding scale between 4% and 8% of approved program budgets, as described in the ruling under Issue 3 in this Order.

4. That the development and application of utility avoided costs for the purposes of EE program and portfolio screening and approval and performance incentive calculation shall follow the guidance established in the ruling on Issue 4 in this Order; and that the PWC shall consider and recommend, as part of the testimony supporting the proposed EE Potential Study RFP, the adoption of a reasonable third-party estimate of

the cost of compliance with carbon regulation; and that, for the purpose of calculating any utility EE performance incentive, the approved avoided cost component of net benefits shall be fixed during the three-year 2015-2017 EE program cycle.

5. That utilities shall continue to submit the TRC, RIM, PACT, and PT tests for consideration, as currently provided in the C&EE Rules; and that the Commission will continue to evaluate approval of portfolios and programs primarily based upon the TRC test, retaining the flexibility to include measures and programs that individually do not pass the TRC test; and that the TRC test shall include well-defined NEBs which (a) measurably reduce scarce resources, add significant value or reduce costs; (b) have a quantifiable economic value; and (c) are clearly applicable to the specific program or measure at issue; provided that the PWC shall review the literature on the non-energy benefits of weatherization services and seek consensus on any reasonably quantifiable, significant NEBs for inclusion in program screening for the 2015-2017 EE program cycle; the Commission, however, constrains the amount of customer rebate or incentives provided at the level of a measure (or group of measures) to an amount equal to the utility's avoided cost.

6. That with respect to procedures for continuous EE program improvement:

a. the PWC may request authorization to engage third-party facilitation or technical consultants as needed to address issues;

- b. in some instances the Commission may direct the PWC to engage facilitation or technical expertise.
- c. meetings of the PWC, whether facilitated by a Party, the IEM, or an outside facilitator, shall follow procedural guidelines proposed by the PWC and approved by the Commission;
- d. the specific task of developing a more unified approach to residential weatherization shall be facilitated by either a member of the IEM's team who is expert in weatherization, or by an outside facilitator, with adequate technical expertise available to the PWC; and
- e. the cost of facilitation and technical consultants shall be allocated to all utilities using the joint-utility cost allocation methods developed by the utilities for other EE programs such as the AWP.

7. That, with respect to weatherization services for residential customers, the facilitator identified by the PWC shall guide deliberations concerning the standardization of existing weatherization approaches in Arkansas and the coordination of such programs in time for implementation during the next three-year EE program cycle.

8. That, with respect to the utilities' Commercial and Industrial Prescriptive and Custom programs, the PWC shall develop uniform offerings that allow commercial customers, including national accounts

customers, to transparently access EE services through a single application process across fuels and utilities.

9. That the utilities and Staff, with the participation of the other members of the PWC, shall submit on or before noon on November 1, 2013, a plan describing how the PWC would engage a facilitator(s) and other consultants to assist the PWC in developing a unified weatherization approach and weatherization program coordination as described in this Order, and how the PWC will address standardization of core C&I programs across fuels and utilities.

10. That the PWC shall file on or before noon of January 10, 2014, a proposed general collaborative process going forward, in accordance with the ruling in Issue 6 of this Order.

11. That the weatherization collaborative shall file in this docket a report on or before noon on April 1, 2014, which includes its recommendations for implementation by January 1, 2015, of the statewide weatherization programs meeting the requirements of this Order.

12. That, regarding the Commission's proposal to require development of a statewide database consolidating all EE planning and achievement data, the Commission defers a ruling pending the PWC filing on September 27, 2013, of the updated EE SARP.

BY ORDER OF THE COMMISSION,

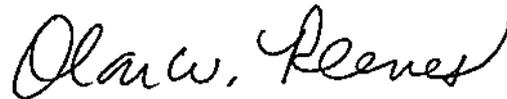
This 9th day of September, 2013.



Colette D. Honorable, Chairman

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

- U.S. mail with postage prepaid using the mailing address of each party as indicated in the official docket file, or
 Electronic mail using the email address of each party as indicated in the official docket file.



Olan W. Reeves, Commissioner



Elana C. Wills, Commissioner



Kristi Rhude, Secretary of the Commission