

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF A RULEMAKING TO)	
ADOPT AN EVALUATION, MEASUREMENT,)	
AND VERIFICATION PROTOCOL AND)	DOCKET NO. 10-100-R
PROPOSE EM&V AMENDMENTS TO THE)	ORDER NO. 31
COMMISSION’S RULES FOR CONSERVATION)	
AND ENERGY EFFICIENCY PROGRAMS)	

IN THE MATTER OF THE CONTINUATION,)	
EXPANSION, AND ENHANCEMENT OF)	DOCKET NO. 13-002-U
PUBLIC UTILITY ENERGY EFFICIENCY)	ORDER NO. 48
PROGRAMS IN ARKANSAS)	

ORDER

On October 26, 2018, the General Staff (Staff) of the Arkansas Public Service Commission (Commission) filed with the Commission the *National Standard Practice Manual Case Study: Arkansas’s Current Practices* (Case Study) pursuant to Order No. 27 in Docket No. 10-100-R and Order No. 40 in Docket No. 13-002-U. Staff also filed the Direct Testimony of Dr. Katherine Johnson and the Supporting Testimony and Exhibits of Robert Booth.

In her testimony, Dr. Johnson states that the Case Study documents some inconsistencies in the application by the six investor-owned utilities (IOUs)¹ of the Commission’s guidance on applying the Total Resource Cost (TRC) Test and several additional areas in which Arkansas’s cost-effectiveness analyses are inconsistent with

¹ The Commission notes that at the unanimous recommendation of the Parties Working Collaboratively (PWC), the Commission, on May 3, 2016, by Order No. 62 in Docket No. 07-076-TF, granted Empire District Electric Company waiver of certain of the *Rules for Conservation and Energy Efficiency Programs* by reason of its uniquely small and rural service territory. The same Order granted Empire a variance from compliance with the Commission’s Energy Efficiency (EE) program Comprehensiveness Checklist described in Order No. 17 in Docket No. 08-144-U in order to streamline its program offerings and best serve its customers with programs primarily aimed at cost-effectiveness under the TRC test. Accordingly, Empire is not included in the PWC recommendations regarding the NSPM principles.

the National Standard Practice Manual (NSPM) principles. Those areas of inconsistency are listed as follows:

- Some utilities are using different approaches to quantify utility system impacts (e.g., not accounting for avoided T&D [transmission and distribution] costs and using average rather than marginal line loss rates) than the Commission directed them to use;
- There are also inconsistencies in the treatment of incentives paid to free riders in the TRC [Total Resource Cost] Test, the choice of discount rates, and the incorporation of assumptions regarding carbon costs;
- Several categories of utility system impacts have not been addressed by Commission guidance on cost-effectiveness and are not being included in cost-effectiveness analyses by the six IOUs (e.g., avoided ancillary services costs, avoided credit and collection costs, and the risk-mitigating value of efficiency resources);
- Asymmetrical application of participant impacts – specifically inclusion of all participant costs, but exclusion of some participant non-energy benefits (NEBs); and
- Impacts associated with some state policy objectives for efficiency programs are not currently included in the current definition of the Arkansas cost-effectiveness tests. Specifically, environmental, economic development, and energy security impacts are not quantified as part of the cost-effectiveness testing. However, these NEBs were only noted in the initial energy conservation orders in 2007 and have not been addressed in subsequent orders.

Johnson Direct at 5-6.

As a result, Dr. Johnson recommends the following:

1) The Commission may want to review the areas of inconsistency identified in the Case Study and develop more clarity regarding the inputs and calculations for the cost-effectiveness calculations in Arkansas.

2) The Commission may want to seek additional guidance regarding carbon cost pricing, as the NSPM does not provide specific guidance on this topic. Appendix B

in the Case Study summarizes the additional resources and approaches for addressing the issue.

3) The Commission may want to consider expanding the current approved NEBs to include those specific to low-income programs that are consistent with the criteria set forth by the Commission in its order approving the inclusion of NEBs in the TRC Test of cost-effectiveness, if a Low-Income Pilot Program is launched.

4) The Commission may want to consider requiring the six Arkansas utilities to document which other utility system and non-utility impacts are being included in cost-effectiveness analysis in the Standardized Annual Reporting Packet (SARP) workbooks in order to reveal any areas of inconsistency.

5) The Commission may want to consider adding to the cost-effectiveness testing to address current asymmetry in the treatment of participant costs and benefits.

6) The Commission may want to consider whether previously stated policy considerations in the environmental, energy security, and economic development impacts of efficiency programs are of sufficient magnitude to warrant the future inclusion of these impacts in the state's cost-effectiveness tests and if so, provide appropriate guidance. *Id.* at 6-8.

Dr. Johnson also recommends that the Commission accept the NSPM Case Study and its supporting appendices that summarize Arkansas's Energy Efficiency (EE) Policies (Appendix A) and Carbon Pricing by state (Appendix B). *Id.* at 8.

Mr. Booth reiterates Dr. Johnson's findings and recommendations. Booth Supporting Testimony at 4-6.

Findings and Ruling

Based on the Case Study submitted by Staff, and the testimony, exhibits, and recommendations of Dr. Johnson and Mr. Booth, the Commission accepts the NSPM Case Study and supporting appendices and rules as follows:

1) For those inputs and calculations for the cost-effectiveness calculations in Arkansas which the Commission has not previously directed or provided guidance, and for which there remain inconsistencies among the utilities, the Commission directs the PWC to confer, identify such inconsistencies, and make recommendations as to how to consistently quantify across the utilities utility system impacts, such as avoided ancillary services costs, the value of risk mitigation and avoided credit and collection costs. The Commission further directs the PWC to identify instances in which one or more utilities are using average rather than marginal line losses to quantify the incremental benefits of EE measures and programs, as required by Order No. 7 in Docket No. 13-002-U, or are including incentives to free riders as costs, and to propose language providing that the proper metrics or approaches are to be utilized consistently among the utilities.

2) The utilities and the PWC are directed to document which other utility system and non-utility impacts are being included in cost-effectiveness analysis in the SARP workbooks in order to reveal any areas of inconsistency and to propose solutions that will eliminate such inconsistency across the utilities.

3) In calculating the Total Resource Cost Test, each utility shall use the weighted average cost of capital approved in that utility's last general rate case.

4) Each utility may use its individual discretion in determining the carbon cost pricing assumptions in its EE cost-effectiveness testing, subject to the approval of

the Commission in its process for approval of EE plans in each three-year planning cycle, but the Commission directs the PWC to propose a consistent mechanism for illustrating the rate and bill impacts of modeling low, medium, and high carbon cost scenarios on the cost effectiveness of its EE programs. The results of such scenarios should be included in future annual SARP reports, including the Annual Reports and Excel Workbooks.

5. The Commission directs the PWC to identify and propose solutions for specific instances among the utilities of asymmetrical application of participant impacts – including disparate treatment of inclusion of all participant costs, but exclusion of some participant NEBs.

6. Owing to the current uncertainty of means for quantifying NEBs, the utilities should not consider NEBs, such as environmental, economic development, and energy security impacts, in their cost-effectiveness testing.

7. The Commission at this time defers quantifying NEBs associated with Arkansas's low-income program pilot program, pending receipt of a PWC proposal for implementing such a program under current Arkansas law.

BY ORDER OF THE COMMISSION,
This 10th day of May, 2019.

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.



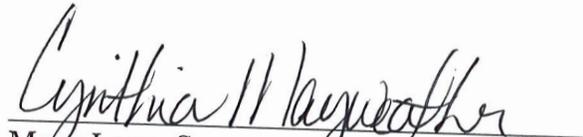
Ted J. Thomas, Chairman



Kimberly A. O'Guinn, Commissioner



Justin Tate, Commissioner



Mary Loos, Secretary of the Commission