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ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF A NOTICE OF INQUIRY)
REGARDING A RULEMAKING FOR)
DEVELOPING AND IMPLEMENTING)
ENERGY EFFICIENCY PROGRAMS)

DOCKET NO. 06-004-R
ORDER NO. 3

ORDER

This proceeding was initiated pursuant to Order No. 1 on January 12, 2006. In Order No. 1, the Commission generally outlined the issues that should be considered in the development of conservation and energy efficiency policies and program guidelines for electric and natural gas utilities in Arkansas. Order No. 1 also established a workshop for all interested parties on February 21, 2006 in order to explore how other states are engaging in cost-effective conservation and energy efficiency measures, which programs have yielded the greatest cost savings, and what might be the appropriate process to use in Arkansas in developing similar successful programs. Post-workshop comments were filed on March 24, 2006.

In light of the Commission's goal for this proceeding to culminate in the adoption of rules or guidelines for the implementation of utility-sponsored conservation and energy efficiency programs, the Commission believes that the use of a collaborative process at this stage would assist the Commission to further its guideline development process. Correspondingly, by this Order, the Commission directs the parties to initiate a collaborative process to begin on August 28, 2006, to address certain issues identified hereafter, and to then submit a report of its findings to the Commission not later than October 13, 2006.

While the workshop and comments in this docket have assisted the Commission in its efforts to consider topics related to energy efficiency and conservation, the Commission is convinced that the development of rules or guidelines governing the implementation of conservation and energy efficiency programs should be pursued in two phases. Although certain issues do not lend themselves, at this time, to resolution through a collaborative process, the Commission believes that the record to date is sufficient on certain of the issues to determine their outcome through a collaborative process. The Commission thereby directs the initiation of a collaborative process to address the issues presented below.

1. The nature and design of energy efficiency and conservation programs that can be started quickly and produce near-term benefits for Arkansans.

This topic includes the design and funding of common elements of a statewide communication program that focuses on creating consumer awareness and education. In addition, a review of the Comments and the Transcript of the workshop clearly indicates that many of the gas and electric utilities in Arkansas have experience offering specific energy efficiency and conservation programs that produce customer benefits in other states. This experience should provide benefits to Arkansas that may warrant the introduction of those same or similar programs in Arkansas on a fast track.

Furthermore, some of the comments indicate that some states have a package of statewide programs that all electric and/or gas utilities are required to offer.¹ A question that the collaborative should address is what are the advantages and disadvantages of importing either the set of programs available in other states into Arkansas or a similar

¹ For example, the Comments of CLEAResult Consulting, Inc., pgs. 10-14.

set of programs. Also, if such a set of standard programs are appropriate for Arkansas, should the standard programs provided by electric utilities be different from the standard set of programs provided by gas utilities, and if so, how? The Commission also seeks a recommendation through the collaborative process on the issue of incorporating utility-specific programs as additions to the standard set of statewide programs.

2. The appropriate incentives and standards for customers and utilities.

This topic includes what incentives, (financial, ratemaking or otherwise), are necessary and appropriate for utilities to implement efficiency and conservation programs and what incentives (i.e., special financing rates, rebates, or promotions) are appropriate and cost-effective to encourage consumers to embrace certain types of energy efficiency programs. Should there be certain uniform standards for customers and for utilities statewide, on a utility-specific basis, or with respect to certain types of programs?

3. The development of energy efficiency market structure principles and guidelines.

The principles and guidelines that should be considered may be both general and specific. For example, a general principle could be that all programs should be designed to deter cream-skimming. More specific principles could include a requirement to develop a common list of third-party energy efficiency contractors, the use of energy audits, the development of statewide energy and demand savings goals and targets, and consistency among utilities as to what such targets should be based on.

4. The advantages of fostering cooperative gas and electric energy efficiency program templates.

The Commission recognizes that there are steps for improving conservation and energy efficiency that would provide overall benefits regardless of whether the program is offered by either an electric or a gas utility. For example, weatherproofing is an action that, once taken, reduces consumption of both electricity and gas, such that a cooperative approach between the two utility sectors may be appropriate. How might such cooperation be effectively pursued?

5. Possible development of a “deemed savings approach” for Arkansas

Texas has adopted a “deemed savings approach” which uses a formulaic approach to estimate the savings to customers by taking certain energy efficiency steps. Is such an approach suitable for Arkansas? If so, can the approach from Texas be imported into Arkansas and what would such a process entail? If this approach is not appropriate for Arkansas, report to the Commission why not and whether there are alternative approaches that would be better suited for Arkansas.

6. The development of uniform standards and mechanisms for evaluating, measuring and validating energy efficiency programs.

In their comments, many of the parties underscore the importance of developing methods for evaluating, measuring and validating (“EMV”) the effectiveness of conservation and energy efficiency programs. The General Staff of the Commission (“Staff”) notes that evaluation methods “will likely vary depending on the type of program as well as the goals and objectives of the programs”. (Staff Comments at 8) However, Staff continues by providing a list of evaluation attributes that should be

common among all programs. The Attorney General of the State of Arkansas (“AG”) stresses that EMV “serves both as the quality control mechanism for ratepayer funded energy efficiency programs and as a data input for integrated resource planning. ... Rigorous, reliable EM&V is crucial to the Commission’s ability to attain its energy efficiency goals...”. (AG Comments at 39-40) Effective standards for EMV are an essential aspect of any conservation and energy efficiency guidelines or programs that will indicate whether a particular program has provided benefits to consumers. This is recognized by all the parties who commented on this topic. The Commission directs the parties to determine to what extent a standard set of minimum guidelines can be developed for Commission consideration and what such a standard set of EMV guidelines should minimally include.²

7. The proper economic tests to use in determining whether a program is in the public interest.

While the Commission has a long standing practice of utilizing the four economic cost/benefit tests as described in the *Commission’s Rules of Practice and Procedure*, primary reliance has been placed on the results of the Ratepayer Impact Measure (“RIM”) test. However, given that the RIM test is considered a stringent economic test that is most appropriate for a promotional offering (i.e., a service offering that will result in increasing sales), the Commission believes that exclusive reliance on this test for proposed conservation or efficiency programs could result in missed opportunities to

² The United States Environmental Protection Agency discusses EMV issues and approaches taken by other states in *Clean Energy-Environment Guide to Action: Policies, Best-Practices and Action Steps for States* (April 2006), pg. B-8 through B-14.

achieve net energy usage savings and energy efficiency gains, thereby reducing several different types of potential customer benefits.³

Correspondingly, rather than rely on any one specific test, the Commission believes that different combinations of tests may be appropriate for different circumstances and directs the participants in the collaborative process to recommend to the Commission which tests should be performed, and how they should be weighted, for different types of program objectives. For example, when a gas or electric utility files to offer a new service as a "P" offering, if the service is offered to increase sales of a specific commodity, the RIM test is generally considered to be the most highly predictive indicator of net economic benefit to ratepayers. However, if the program involves a conservation or energy efficiency offering, a combination approach utilizing the results of both the RIM and Total Resource Cost ("TRC") tests might be appropriate, along with the consideration of other public interest factors.

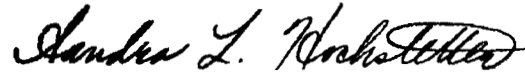
While many of the parties have addressed what they believe to be the appropriate test(s) that should be utilized, the Commission directs the collaborative participants to provide recommendations on the issue of which evaluative approaches should be utilized for the various types of program offerings.

The Commission also understands that parties are concerned with how the costs associated with the collaborative process may be recovered. For this reason, the Commission finds that the costs associated with the collaborative process will be considered as part of the future program implementation costs of utility-sponsored conservation and energy efficiency programs.

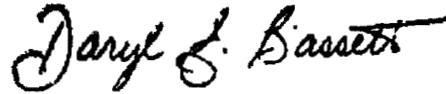
³ This becomes apparent in the Comments of the utilities. Gas utilities oppose continued reliance of the RIM test while the electric utilities largely support the continued use of this test rather than one of the other three economic tests.

BY ORDER OF THE COMMISSION.

This 30th day of June, 2006.



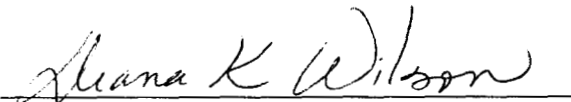
Sandra L. Hochstetter, Chairman



Daryl E. Bassett, Commissioner



Randy Bynum, Commissioner



Diana K. Wilson
Secretary of the Commission

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record this date by U.S. mail with postage prepaid, using the address of each party as indicated in the official docket file.



Secretary of the Commission

Date 6-30-06 