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ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF DEEMED SAVINGS)	
ESTIMATES APPLICABLE TO ENERGY)	
EFFICIENCY PROGRAMS PURSUANT TO THE)	DOCKET NO. 07-152-TF
COMMISSION'S RULES FOR CONSERVATION)	ORDER NO. 7
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OF RETURN RATEMAKING INCLUDING, BUT)	
NOT LIMITED TO, ANNUAL EARNINGS)	DOCKET NO. 08-137-U
REVIEWS, FORMULA RATES, AND INCENTIVE)	ORDER NO. 16
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AN EVALUATION, MEASUREMENT, AND)	
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PROGRAMS)	
IN THE MATTER OF THE INSTITUTION OF A)	
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**ORDER ESTABLISHING A COLLABORATIVE TO DEVELOP AN
EVALUATION, MEASUREMENT AND VERIFICATION PROTOCOL AND
PROPOSE EM&V AMENDMENTS TO THE COMMISSION'S RULES FOR
CONSERVATION AND ENERGY EFFICIENCY PROGRAMS**

By this Order (the “EM&V Order”) the Arkansas Public Service Commission (“Commission”) establishes a Rulemaking on Evaluation, Measurement, and Evaluation (“EM&V”) and directs the convening of a Collaborative on EM&V to develop an EM&V Protocol and propose amendments to the Commission’s *Rules on Conservation and Energy Efficiency* (“C&EE Rules”) adopt C&EE Rules adopting such Protocol as an addendum to the *Rules* for use by Arkansas’s investor-owned electric and natural gas utilities (“Utilities” or “IOUs”).¹ This Order establishing this rulemaking grows out of the following Orders issued in various Energy Efficiency (“EE”) Dockets pending before the Commission:

- Docket No. 08-137-U, Order No. 14 (the “LCFC Order”);
- Docket No. 08-137-U, Order No. 15 (the “Incentives Order”);
- Docket No. 08-144-U, Order No. 17 (the “Comprehensive Order”);
- Docket No. 10-010-U, Order No. 10 (the “Self-Directed Option Order”);
- Docket No. 10-101-R, Order No. 1 (the “Self-Directed Option Rulemaking Order”).

This Order also relates to the Commission’s consideration of proposed updates to deemed savings values as described in Order Nos. 5 & 6 in Docket No. 07-152-TF (the “Deemed Savings Docket”).

Furthermore, the Commission notes that this rulemaking will affect future filings by the Utilities in all of the EE Tariff Filing (“TF”) and Reporting (“RP”) Dockets concerning their energy efficiency programs and portfolios.

¹ The EE utilities, the Attorney General and the General Staff of the Commission are hereby made Parties to Docket No. 10-100-R; any existing Intervenor to Docket Nos. 08-137-U, 08-144-U, and/or 10-010-U will be approved upon the filing of a Petition to Intervene within thirty days from the date of this Order.

Relation of Rulemaking to LCFC Order.

As noted previously, this EM&V Order is issued contemporaneously with Order No. 14 in Docket No. 08-137-U (the “LCFC Order”), approving with modifications the joint proposal of Arkansas’s IOUs that the electric utilities be allowed to submit applications within the annual EE tariff filing process to collect Lost Contributions to Fixed Costs (“LCFC”) that result from the Utilities’ EE programs. The LCFC Order likewise allows the gas utilities to submit a combined LCFC and modified Billing Determinant Adjustment (“BDA”) tariff. The LCFC Order allows the Utilities to collect LCFC contemporaneously with program implementation.

In the LCFC Order modifies the joint utilities’ proposal on LCFC making utilities’ collection of LCFC contingent upon the program portfolios: (1) being comprehensive and designed to achieve energy savings targets²; and (2) being subject to an independent and robust EM&V true-up approved by the Commission in each year following a year in which LCFC is claimed. To this end, the Commission accepted the recommendations of various parties aimed at ensuring the accuracy of LCFC calculations, but noted that the LCFC calculation shall accurately reflect net energy savings caused by utility EE programs, and thus not sales reductions due to weather, changes in population, or background increases or decreases in customers’ self-funded energy efficiency. The LCFC order requires utilities to maintain and report adequate data to support accurate calculation of relevant revenues lost. The Commission stated that such data collection shall ensure that LCFC is not collected for measures for which the measure life has expired between rate cases and that EM&V reflecting standard protocols in the EM&V

² The meaning of the term “comprehensive” is determined by the Commission in another Order also issued today in Docket No 08-144-U (Order No. 17, the “Comprehensive Order”), which adopts energy savings targets for the electric and gas utilities.

industry shall be preferred over deemed savings where such EM&V is available. The order requires Utilities to base LCFC applications and calculations on the best information available at the time of the application.

The LCFC Order also provided that utilities shall rely on independent EM&V for the purpose of measuring energy savings caused by EE programs, for the true-up of 2011 program year savings and for LCFC calculations in program years 2012 and beyond. The Commission also ordered that projected LCFC collection shall be included in program cost-effectiveness calculations.

Relation of Rulemaking to the Incentives Order.

In yet another contemporaneous Order issued in Docket No. 08-137-U (Order No. 15, the “Incentives Order”), the Commission approved a general policy under which the Commission will allow utilities to earn incentives to reward achievement in the delivery of essential EE services. In the Incentives Order, the Commission finds that it “has the statutory authority to grant incentives to public utilities in exchange for performance of essential (and exemplary) energy efficiency services.” The Incentives Order also establishes energy savings targets for the electric and gas IOUs. The targets provide guidance regarding the scope of essential EE services during the next three program years.³ Separately, the targets provide a basis to award, or not award, utility shareholders with EE program incentives.

The Incentives Order noted that verification and measurement of EE achievement, for the purpose of calculating incentives, would be addressed in this separate EM&V Order and stated the Commission’s intent is to establish fair, but rising

³ Order No. 17 in Docket No. 08-144-U (“Comprehensive Order”) adopts the same targets as part of the definition of “comprehensive”.

goals, which move utility service in this state toward a high level of excellence and customer service, with fair rewards for that service. To make sure that ratepayers garner the benefits of those programs, and that utilities themselves can rely on calculations of LCFC recovered and resource needs avoided, the Commission declared that “achievement must be accurately assessed.” The Commission stated that it will approve LCFC true-up calculations based upon after-the-fact, net energy savings, as determined by independent EM&V, as compared to utility-estimated deemed savings and ordered the Utilities, the General Staff and Parties to develop a joint EM&V program, pursuant to Order No. 15 in Docket 08-137-U.

In short, as noted above, the Commission committed to approval of both LCFC recovery and incentives only in the context of and exchange for significant EE target-setting and the development of robust EM&V for EE programs and portfolios.

Relation of Rulemaking to the Comprehensive Order.

In Docket No. 08-144-U, Order No. 17 (December 10, 2010), the Comprehensive Order, the Commission established as an essential function of, and as the general standard of performance by, the EE Utilities the delivery to customers of the maximum level of achievable, cost-effective energy efficiency services through the implementation of comprehensive EE programs and portfolios, with that achievement being determined by the Commission on the basis of approved interim quantitative energy savings targets and qualitative processes evaluated by a checklist of factors, including in that Order. The Commission also included as one of several coordinated policies comprising comprehensiveness, “[t]he establishment of a broad and robust EM&V Protocol.”

Relationship of Rulemaking Docket to the Self-Directed Options Order and Self-Directed Options Rulemaking Docket.

In Order No. 10 in Docket No. 10-010-U (the “Self-Directed Option Order”) and identical Order No. 1 in Docket No. 10-101-R (the “Self-Directed Option Rulemaking Order”), the Commission opened a rulemaking docket in which a stakeholder collaborative will develop and propose to the Commission amendments to the C&EE Rules that establish a Self-Directed EE Option (“Self-Directed Option” or “S-D Option”) for large commercial and industrial (“C&I”) customers. Of particular relevance to this EM&V Order, the Commission stated in the identical S-D Option Order and S-D Option Rulemaking Order:

- The Collaborative must link the availability of the Self-Directed Option to Commission approval and implementation of the independent Evaluation, Measurement, and Verification (“EM&V”) Protocol that will be developed in a separate collaborative process established by a separate Order issued today creating a new rulemaking on EM&V (Docket No. 10-101-R), which will also be concluded by the Commission in 2011 for implementation in 2012;

And the Commission directed:

- [T]hat the S-D Option be fashioned so as to enable the EE Utilities to verify that C&I customers that exercise the S-D Option are held to a level of achievement of system energy and demand benefits that is equal to or greater than the goals to which the Utilities are held in implementing their EE programs. The goals and targets established for each utility in a separate Order issued today in the Innovative Ratemaking Notice of Inquiry (Docket No. 08-137-U) shall apply to this provision;

Relationship of Rulemaking Docket to the Deemed Savings Docket.

In Docket No. 07-152-TF (the “Deemed Savings Docket”), the EE Utilities on September 7, 2010, filed an Updated Deemed Savings Report, with revised and new values for energy efficiency measures and programs to be filed in 2011. Following filings

by the Attorney General (“AG”) and the National Audubon Society (“Audubon”), Order No. 6 postponed a public hearing on the deemed savings issues until January 20, 2010, stating that “[t]he Commission welcomes General Staff’s recommendation to establish an EM&V Collaborative and will provide further guidance for that effort,” stating

The Commission notes with approval the Utilities’ declared intention to remain on track to file their next round of energy efficiency programs on March 1, 2011. The Commission encourages any parties that take issue with the engineering assumptions and methods used to arrive at Deemed Savings values to explore those issues with the Utilities and their contractor via discussions and/or discovery during the interim between now and the January 20, 2011, hearing date, so that the Commission may quickly move to finalize the Deemed Savings Update for use in 2011 once the hearing has been concluded. The Commission distinguishes between the engineering assumptions and methods that underlie deemed savings estimates and the possible uses for and adjustments to such values as they might pertain to program evaluation, or to proceedings to approve programs or cost recovery.

Docket No. 07-152-TF, Order No. 6 at 6.

Having considered the extensive discussion of EM&V issues contained in the records of all of the foregoing Dockets, and the Commission’s recent Orders listed above, the Commission herein directs General Staff to initiate and coordinate, and Utilities to participate in, with the assistance of other parties and/or stakeholders, a collaborative process to develop and implement best-practice EM&V programs and activities.

Position of the Parties.

The Commission incorporates herein by reference the brief summary provided in Docket No. 08-137-U, Order No. 14 of the joint proposal of the IOUs to rely primarily on Commission-approved deemed savings but to provide industry-standard EM&V to verify EE program energy savings for purposes of calculating LCFC where deemed

savings are not available. The Utilities propose (in agreement with an earlier suggestion by General Staff) that “in future years” LCFC calculations would be trued-up after the fact for actual energy savings, program costs, and amounts of LCFC collected. (Joint Comments Regarding an Appropriate Mechanism for Recovery of Lost Contribution to Fixed Costs, Docket No. 08-137-U at 5 (October 6, 2010)).

While the IOUs generally agree that EE program achievement should be evaluated based on some mixture of reliance on deemed savings and other EM&V activities (with a general preference for deemed savings), they also caution that the costs of complex analysis and reporting can quickly outweigh the benefits, potentially even erasing the cost-effectiveness of some EE programs. (The Empire District Electric Company Comments to Questions Presented in Docket No. 08-137-U, Order No. 12, at 3; Arkansas Oklahoma Gas Corp.’s Comments in Response to Order No. 12, Docket No. 08-137-U at 4-5 (October 6, 2010)).

Arkansas Western Gas (“AWG”) notes that deemed savings are not only administratively efficient, but also predictable and clear, providing “no surprises.” (Docket No. 08-137-U, AWG’s Initial Comments at 3 (October 6, 2010)). AWG further comments that requiring EM&V in all cases, rather than only those where it is really needed, has resulted in EM&V costs amounting to 20% of EE program costs in the jurisdiction of an affiliate; therefore, some Commissions have accepted proxy values from other states for net-to-gross ratios, or have deemed a reasonable net-to-gross value. (Docket No. 08-137-U, AWG’s Reply Comments at 5 (October 20, 2010)).

Arkansas Oklahoma Gas (“AOG”) argues that, while net energy savings can be a tool for evaluating future changes to a utility’s program portfolio, gross energy savings is

the appropriate method for annual reporting and cost benefit analyses. (Docket No. 08-137-U, OG's Reply Comments in Response to Order Number 12 at 4 (October 20, 2010)). AOG agrees that the AG has some reasonable recommendations for future EM&V, but asserts that applying extensive EM&V to the current infant programs will be more costly than it is worth. (*Id.*).

CenterPoint Energy Arkansas Gas ("CenterPoint") argues that the Commission already has resolved the issue of the policy use of deemed savings in the EE Rulemaking collaborative, such that only the technical engineering estimates at issue in Docket No. 07-152-TF need resolution. (CenterPoint's Reply Comments in Response to Order No. 12, at 5 (October 20, 2010); *see also* Docket No. 08-137-U EAI's Reply Comments at 4-5 (October 20, 2010)). CenterPoint (and SWEPCO) notes that the Commission encouraged the utilities to hire Frontier as an independent contractor to develop the current deemed savings report. Southwestern Electric Power Company ("SWEPCO") further notes that the Working Group on Administrative Costs and EE Reporting Needs in Docket No. 10-010-U has "fully vetted" the net-to-gross issue in a report submitted to the Commission. (Docket No. 08-137-U SWEPCO's Reply Comments in Response to Questions Presented in Order No. 12 at 3-4 (October 20, 2010)).

Entergy Arkansas, Inc. ("EAI") states that it is open to the appropriate use of EM&V in conjunction with deemed savings, to validate deemed savings and to measure savings for larger, more complex energy efficiency projects. (Docket No. 08-137-U, EAI's Reply Comments at 5 (October 20, 2010)). EAI recommends that the Commission develop a set of broad EM&V guidelines applicable to all utilities for annual EE program review purposes. (*Id.*) EAI urges that, once the EM&V plans are approved as part of

the program filing, no retroactive changes will occur to adjust the energy (kWh) or demand (kW) targets, the process for estimating energy and demand savings, and any lost revenue or performance incentive calculations in effect during that program filing period. (*Id.* at 6).

The Commission also incorporates herein by reference the brief summary provided in Order No. 14 in Docket No. 08-137-U of the Attorney General's ("AG") opposition to basing LCFC and incentive calculations on pre-approved deemed savings. The AG responds to arguments that EM&V may not be cost effective by arguing that EM&V is the function that keeps EE programs cost effective, and that the 5% of program funds spent on EM&V by leading programs more than pays for itself in program effectiveness. (Docket No. 08-137-U, AG's Initial Comments Pursuant to Order No. 12 ("AG's Initial") at 3 (October 6, 2010)). The AG likens the award of financial rewards for meeting EE savings goals without rigorous EM&V to recovery of generation or T&D costs without independent auditing. (*Id.* at 4). The AG provides offered into evidence excerpts from the 152-page NAPEE "Model EE Program Impact Evaluation Guide," which show that deemed savings is one component in a broader recommended scheme of EM&V activities. (*Id.* at 5-7). The AG asserts that the calculation of the "net" energy savings impact of EE programs is often only 60%-80% (with 80% being a common default value for the "net-to-gross ratio") of the "gross" energy savings currently used for program evaluation in Arkansas. (*Id.* at 8:10-15). The AG comments that deemed savings (as adjusted for net program effects) are appropriate for some predictable measures, but not for more complex installations, and that a rough example imposition of estimated net-to-gross values would lower EAI's projected 2010 energy savings by

about a quarter. (*Id.* at 11, Table 1). The AG states that the first step in improving EM&V is to provide independent verifications of the costs and installations of EE program activities, and further recommends a 2011 EM&V collaborative with outside expert assistance, funded by utilities, to assist in developing best practices. (*Id.* at 11).

The AG notes that reliance on gross deemed savings, rather than values adjusted for net, instills a systemic financial bias against updating numbers that overstate savings. (Docket No. 08-137-U, AG's Reply Comments Pursuant to Order Nos. 12 and 13 at 7 (October 20, 2010)). The AG renews Audubon's assertion during the recent EAI rate case that accuracy is much more important for calculation of LCFC, than for EE program planning purposes. (*Id.* at 8). The AG prefers that rigorous EM&V be established "on the ground" prior to the award of any incentives, but could support incentives in the range of 5-7% of total EE program plan costs if utilities "work with Staff and other interested parties as part of an EM&V collaborative to design and implement an M&V process in 2011 that comports with NAPEE best practices." (*Id.* at 5:24—6:3).

The Commission incorporates herein by reference the brief summary provided in Order No. 14 in Docket No. 08-137-U of Audubon's suggestions for EE measure data tracking, customer data tracking, and development of net-to-gross ratios. Audubon opposes granting any LCFC or incentives until deemed savings estimates have been independently developed or independently reviewed. (Docket No. 08-137-U, Audubon's Supplemental Direct Testimony of Paul Chernick at 12:20-22 and FN 5 (October 6, 2010)). Audubon notes that "[T]here are many situations in which deemed savings values are appropriate" but that NAPEE documents indicate that this approach "is only valid for projects with fixed operating conditions and well-known, documented

stipulation values.” (*Id.* at 14). Audubon opposes the use of gross savings for LCFC or incentives and states that EE program measures must be subject to verification that they were installed. (*Id.* at 13). Audubon urges the Commission to ensure that avoided costs used for EE program calculations reflect seasonal and time-of-use variation and capacity costs at peak times, with variation among climate zones for weather-related uses. (*Id.*)

Audubon asserts that there are specific deficiencies in the update to the current Arkansas deemed savings report, recently filed in Docket No. 07-152-TF. Also, in reply to EAI rate case testimony that that LCFC calculations (which were offered in their original form by EAI in that case) cannot be refined to account for seasonal effects because the current deemed savings values are provided only on an annual basis, Audubon replies that an interim adjustment may be made to allocated cooling, heating, and lighting savings based on well-known weather and seasonal daylight data. (Docket No. 08-137-U, Audubon’s Reply Testimony of Paul Chernick at 12-13 (October 20, 2010)). Chernick also cites EAI testimony that “EAI is planning to use independent third parties in future program years to conduct both process and impact evaluations” that verify the number of measures actually installed, the amount of energy saved through the program and the level of savings attributable to the program in order to validate or refine deemed savings. (*Id.* at Pg. 14).

Staff comments that the measurement of EE program goal achievement should be based on the actual program results, and that EM&V activities should be fed into a “transparent process” to validate results and update future goals. (Docket No. 08-137-U, Staff’s Comments at 2 (October 6, 2010)). Staff recommends reversing the order of preference suggested by Joint Utilities in their LCFC proposal, so that, if the

Commission adopts specific evaluation, measurement, and verification protocols to verify energy savings for a program or measure, those will be used to determine the energy savings values. (*Id.* at 3).

Discussion and Decisions:

The Commission agrees with numerous parties that there is an appropriate place for deemed savings, but only within a broader scheme of EM&V that needs further development in Arkansas. The Commission accepts the AG's view that robust EM&V is not an extravagance, but rather an expense that keeps programs cost-effective. The Commission favors immediate development of best practices in EM&V to ensure the verification of achievement during the next three years, given that the past four years of Quick Start and comprehensive EE program implementation has already provided basic program implementation experience for utilities and stakeholders. However, the Commission takes seriously the caution, raised particularly by smaller IOUs, that the cost of EM&V can swallow up program cost-effectiveness. Because more comprehensive EE programs are overdue, and because robust EM&V has been determined in companion orders to be essential in the context of the LCFC and incentives awards, the Commission directs IOUs to participate in an EM&V stakeholder collaborative during 2011 to recommend EM&V amendments to the C&EE Rules. Once finalized by the Commission, the resulting EM&V protocols shall be used to evaluate EE program portfolio goal achievement, to calculate LCFC, and to calculate any incentive award amounts, except to the extent such results may be affected by default values approved in this order.

The Commission directs that Staff oversee the engagement of an independent EM&V expert as quickly as possible to assist in the development of EM&V protocols for collaborative refinement and for adoption by the Commission during 2011. The Commission directs that IOUs pay for the EM&V expert and that the one-time costs incurred by the IOU's for the collaborative development of EM&V protocols shall be recovered in EECR tariffs, but not charged against the cost-effectiveness of 2011 EE programs.

The Commission directs that an EM&V expert be engaged to complete the following tasks, unless parties file good cause why these tasks should be modified:

- (1) Advise an EM&V Collaborative directed by Staff, which shall file with the Commission on or before June 1, 2011, suggested EM&V rule changes requiring the implementation of EM&V in accordance with NAPEE best practices;
- (2) Such best practices shall include:
 - a. Guidance regarding the data elements that must be tracked, including, without limitation, elements describing measure installations, and elements describing customer rate and usage characteristics that will allow robust verification, measurement, and evaluation of the impact of EE programs on energy and demand usage and on LCFC; also, making any needed related modifications to EE program filing templates;
 - b. protocols for the post-implementation verification of EE program measure installations;

- c. protocols for measuring and evaluating EE program energy and demand savings impacts and for providing guidance on program process evaluations; such impact and process evaluation protocols shall address the accurate establishment and periodic update of baseline conditions against which program impacts are measured;
- d. protocols to determine which measures and programs should rely primarily on deemed savings and which should rely on either simplified EM&V or full EM&V meeting broadly-accepted standards such as the International Performance Measurement and Verification Protocol (“IPMVP”);
- e. protocols for verification and ongoing modification of deemed savings values;
- f. protocols for the determination of accurate net program impacts (including net-to-gross ratios);
- g. provision that large industrial and commercial customer self-direction projects conform to an equivalent verification, measurement and evaluation of the energy and demand savings attributable to self-directed EE projects or measures;
- h. consolidation of the above protocols and any other necessary material regarding deemed savings and calculated savings values or guidance regarding the calculation of custom measure savings, into an Arkansas Technical Reference Manual (“TRM”) governing EM&V practice, as it applies to utility-funded EE programs in

Arkansas. Such manual shall be made available in electronic form on the Commission's webpage; in furtherance of transparency, inputs to, and the calculation of, program and portfolio cost-benefit analyses shall be included as an electronic file attachment to annual EE program portfolio applications;

- i. establishment of an ongoing, annual process for a single, independent EM&V Monitor, jointly funded by EE utilities, to report to the Commission regarding the validity of utility EM&V programs and annual filings and to suggest ongoing improvements to EM&V activities.
3. The EM&V Collaborative is encouraged to pursue all opportunities to obtain grants and in-kind professional services from state and federal sources and non-profit experts and consultants on energy efficiency and EM&V issues, such as national laboratories, the National Association of Regulatory Utility Commissioners ("NARUC"), and not-for-profit organizations such as the Regulatory Assistance Project.

The determination that the IOUs will jointly support an EM&V monitor will assist all IOUs, and IOUs utilities particularly, in funding robust EM&V programs. It will provide a measure of independence in validating program results that is essential to protect ratepayers, and will assist the Commission in decisions that require technical specialty.

For program year 2011, the Commission provides a default net-to-gross value of 80%, as applied to Commission-approved gross deemed savings values or to custom

EM&V, for all EE program measures. This value can be corrected at the time of LCFC and incentive true-up, based on Commission-approved EM&V protocols. This value is based on AWG's suggestion that deeming a net-to-gross value might be reasonable, on the upper end of the AG's reported ranges of net-to-gross values, and on the comments of parties that pursuit of an exact number to apply to small programs might be more costly than it is worth. As programs grow for program years 2011 and 2012, verifying net savings will become more cost-effective and full EM&V protocols will be in place with independent verification.

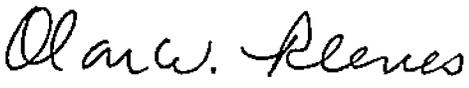
The Commission is aware of the argument that gross savings are a more appropriate measure of program performance for the purpose of awarding incentives. However, at this time, the Commission supports the award of LCFC. For both that purpose (in accordance with testimony that accuracy is particularly important in LCFC and incentive calculation), and to promote program effectiveness throughout the design, implementation, and evaluation processes, the Commission intends to determine net program energy savings using best practice EM&V procedures. The Commission notes that gross savings may prove valuable as feedback for program improvement. Also, later, after the Commission, IOUs, and stakeholders have a solid estimation of and experience with robustly-established net EE program impacts, and in the context of evidence of potential coordination between utility-funded EE programs and broader state EE efforts, the Commission can then determine whether gross program impacts that achieve public interest purposes should be further recognized in some manner.

BY ORDER OF THE COMMISSION.

This 10th day of December 2010.


Paul Suskie, Chairman


Colette D. Honorable, Commissioner


Olan W. Reeves, Commissioner

Karen Shook (acting)
Jan Sanders
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 electronic
mail, using the email address of each
party as indicated in the official docket file.

KS
Secretary of the Commission
Date 12-10-2010