

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

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

**ARKANSAS ADVANCED ENERGY ASSOCIATION, INC.'S
RECOMMENDATIONS IN RESPONSE TO COMMISSION ORDER NO. 7
REGARDING REQUEST FOR PROPOSAL FOR THE ARKANSAS ENERGY
EFFICIENCY POTENTIAL STUDY, PROPOSAL NO.: 2014-101; AND A PROXY
VALUE FOR AVOIDED CARBON COSTS FOR USE IN EVALUATING ENERGY
EFFICIENCY PROGRAMS AND IN THE POTENTIAL STUDY**

Response To RFP for the Energy Efficiency Potential Study

The Arkansas Advanced Energy Association, Inc. (AAEA) supports the Request for Proposal (RFP) as attached to the Arkansas Public Service Commission (APSC) General Staff's testimony. AAEA participated in each meeting and on every conference call involving the development and scope of the RFP. The RFP reflects the work of the entire Parties Working Collaboratively (PWC) and to the best of our combined abilities captures the purpose and conditions that the RFP is intended.

Proxy Value For Avoided Carbon Costs

The AAEA supports Mr. Gregg Eisenberg's (a) and (b) recommendations on behalf of the General Staff on page 7 of his testimony regarding the use of the Synapse mid-range forecasts for carbon costs expressed in 2012 dollars per short ton from year 2020 to year 2040 and for utilities and evaluators to use the Synapse mid-range forecasts in the 2015-2017 program cycle in EE cost-effectiveness tests and in the EE market potential study. These mid-range costs

are reasonable for several reasons. First, the forecast for 2020 is below other official, national trends reported by EPA and EIA (the latter's costs are in 2007 dollars and would be adjusted upwards for 2015 or 2020). Second, we note that the Synapse forecast is validated by remaining within the middle of other forecasts shown on page 4 of Synapse's *2012 Carbon Dioxide Price Forecast* when it is "back casted" to 2015 using the 5-percent escalator.

Third and most importantly, independent studies performed by the Arkansas Advanced Energy Foundation's researchers indicate that none of these forecasts includes an accounting for the indirect CO₂ emissions that electricity generation produces elsewhere in the economy.¹ Depending on the fuel source considered (e.g., coal or natural gas), the indirect emissions add about 11 to 15 percent to the direct figure for avoided costs of CO₂. Using the low end, that would raise the 2020 target cost to \$22.20 per ton, and the 2015 cost to \$17.39 per ton. These costs support the reasonableness of the mid-range numbers.

Also, using a lower cost than \$15 per ton of CO₂ for the 2015-2017 planning period would ignore the other related emissions that should be included in a correct total for EERS avoided costs. We know that NO_x, SO_x, PM₁₀, H_g, and methane must still be counted in any comprehensive effort to accurately measure avoided costs. In addition, when fully understood the benefits of non-

¹ Utility Avoided Costs in Arkansas: "Present and Future Implications For Developing Renewable Energy," HISTECON Associates, Inc., May 2012

energy impacts from EE will clearly increase the amount of avoided costs in the future.

AAEA does not agree, however, with Mr. Eisenberg's c(i) recommendation to assign a "zero" value for years 2015-2019. We believe the \$20 per ton target in 2020 should be used to calculate avoided costs for 2015-2017. Based on an annual 5-percent escalator as suggested by both the federal EIA and California's PUC, the figure for 2015 would be \$15.67 per ton. AAEA believes that incorporating a carbon price for EE programs starting in 2015 and increasing at 5 percent annually correctly interprets Order 7, page 39, whereas the PWC are "to submit a reasonable carbon price estimate for evaluating EE programs." While Order 7 does not stipulate a start date, it is the position of AAEA that the year 2015 is most appropriate because it coincides with the next set of three-year targets. As proposed by Mr. Eisenberg, the annual 5-percent escalator would end in 2020 when the Synapse forecast of \$20 per ton would be used, containing different annual escalators until 2040.

Additionally, the EE Potential Study estimates will be over a ten-year timeframe, from 2015 through 2024, and are to include "carbon regulatory cost avoidance." Furthermore, by evaluating EE programs with even a minimal carbon price sooner rather than later, the PWC utilities and other parties gain practical experience while the state benefits from a more realistic value for energy efficiency. Finally, we believe that the adoption of CO₂ standards by the federal EPA by mid-2015 and subsequent requirements from the states for implementation plans by mid-2016 will present carbon-compliance costs for the utilities before 2020.

This will likely occur whether or not legislation is approved that creates an actual carbon-trading platform.

Therefore, we recommend that the APSC adopt Synapse's mid-range table forecast for CO₂, from 2020 to 2040, starting at \$20 per short ton for 2020, and apply it to the next EERS targets for 2015-2017 at an avoided cost of \$15 per ton of CO₂ in 2015.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on November 4, 2013 I electronically filed the foregoing with the Clerk of the Arkansas Public Service Commission through the electronic filing system and will provide the foregoing to all parties of record.

/s/ Nate Coulter
Nate Coulter