

ARKANSAS PUBLIC SERVICE COMMISSION

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

DOCKET NO. 13-002-U
ORDER NO. 22

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. 30

ORDER

On September 30, 2014, *Joint Comments to Request the Commission’s Review and Approval of the Estimated Cost for the 2014 Energy Efficiency Collaborative Working Groups* (Joint Comments) were submitted to the Arkansas Public Service Commission (Commission) by the following parties to this docket: the General Staff (“Staff”) of the Commission, the Arkansas Attorney General (AG), 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, formerly Arkansas Western Gas Company), Arkansas Oklahoma Gas Corporation (AOG), Arkansas Community Action Agencies Association (ACAAA), Arkansas Advanced Energy Association, Inc. (AAEA), the National Audubon Society, and the Sierra Club. These parties are known as the Parties Working Collaboratively (PWC).¹

On October 1, 2014, the PWC submitted a *Joint Motion to Approve PWC’s Recommended Weatherization Approach to Provide Consistent Weatherization Programs across All Utilities in Arkansas* (Joint Motion). Also on October 1, Staff

¹ The PWC periodically meet formally to jointly develop proposed solutions to policy issues, for consideration by the Commission.

submitted the Supporting Testimony and Exhibits of Matthew S. Klucher and the Testimony of Dr. Katherine Johnson, the Independent Evaluation Monitor (IEM) for Evaluation, Measurement, and Verification (EM&V), who served as the Facilitator for the PWC Weatherization Working Group and who prepared for the Parties Working Collaboratively, on Behalf of the Arkansas Public Service Commission, the report entitled *A Proposal to Develop a Consistent Approach for Weatherization Programs Across all Utilities in Arkansas* (Proposal).

Positions of the Parties

The Joint Comments provide an update on the current status of the Weatherization Collaborative Working Group, the Commercial and Industrial (C&I) Collaborative Working Group, the Arkansas EE Potential Study, and the Proposal, as directed by the Commission in Order No. 12 of this Docket. The Joint Comments request Commission review and approval of the cost of the two working groups and the Potential Study, as well as approval of the PWC's Recommended Weatherization Approach. The Commission notes that the un-redacted version of the Joint Comments filed under protective seal pursuant to Order No. 9 in this docket contains commercially sensitive budget and financial data that, if disclosed, would impair the competitive bidding process.

1. PWC Weatherization Collaborative

With respect to the Weatherization Collaborative, the PWC states that owing to additional time that was devoted to this project, the Facilitator, Dr. Johnson, has submitted a status report memorandum (Attachment A) and a table detailing the need for a budget increase (Attachment B) to the Joint Comments. The PWC states that this

cost, in addition to those already approved by the Commission, should be the final cost for the weatherization recommendation as directed by the Commission in Order No. 12.

2. PWC C&I Collaborative

The PWC states that the Commission approved the Request for Qualifications (RFQ) process for the selection of the PWC C&I Collaborative Working Group facilitator on December 16, 2013. The PWC issued the RFQ on January 17, 2014, with a deadline for response from potential bidders of January 31, 2014. According to the PWC, four bids were received. The PWC reviewed the bids and, based on a consensus, selected Morgan Marketing Partners, LLC (MMP) as the Facilitator. The Utilities entered into a contract with MMP on May 6, 2014. The cost of the contract with MMP was within the approved budget range approved by the Commission in Order No. 12. The total contract amount is shown in Attachment B to the Joint Comments, and is submitted by the PWC to the Commission for its review and approval. According to the PWC, if any additional costs are expected, the C&I Working Group will file an estimate of those costs for the Commission's review and approval. Since May 6, 2014, the C&I Working Group has been working on the C&I plan through one in-person meeting and multiple conference calls. Currently the C&I Working Group is working on completing the C&I plan by mid-to late-November 2014.

3. Arkansas EE Potential Study

The Joint Comments state that the Commission approved the PWC's recommendation for an Arkansas EE Potential Study Request for Proposal (RFP) in Order No. 16 in this docket on February 20, 2014. The PWC issued the RFP on March 10, 2014, with a deadline response from potential bidders by March 24, 2014. Seven

bids were received. PWC participants volunteered to assist in the Potential Study selection subcommittee to review the seven bids. The selection subcommittee held multiple teleconferences to discuss the bids. The PWC reviewed the bids and, based on a consensus, selected Navigant Consulting, Inc. (Navigant). Navigant hosted an in-person kick-off meeting in Little Rock, Arkansas on June 11, 2014. However, according to the PWC, owing to the amount of time required to specify the appropriate treatment of confidential utility and customer information used in performing the potential study, the Utilities and Navigant did not enter into an official contract until August 8, 2014. Based on the timing of the contract, Navigant anticipates that the Potential Study will be completed late in first quarter of 2015. The cost of the contract was within the approved budget range approved by the Commission. The total contract amount is provided in Attachment B, and is submitted by the PWC to the Commission for review and approval. The PWC do not expect any additional costs for the potential study; however, if any additional costs arise, the PWC will file an estimate of those costs for the Commission's review and approval.

4. Recommended Weatherization Approach

Mr. Klucher testifies that the PWC has reached consensus on the Recommended Weatherization Approach, through a lengthy, in-depth collaborative process, and that he is aware of no remaining contested issues. Klucher Direct at 4. He recommends that the Commission approve the weatherization approach, which is included as Attachment A to his testimony. *Id.* at 5.

In her testimony, Dr. Johnson explains the IEM's role in presenting for the PWC a summary for stakeholder feedback of weatherization programs currently offered by

Arkansas utilities, an analysis of gaps in services among the programs, and a summary of weatherization best practices nationally. Johnson at 3-4. She reports that the PWC reached three major conclusions: (1) that Arkansas utilities have a history of successful cooperation in delivering weatherization services; (2) that the program elements that are essential for deploying a consistent approach across all utilities are already in place; and (3) that contractor-delivered programs have been critical to the success of Arkansas weatherization programs. *Id.* at 5.

According to Dr. Johnson, a Weatherization Working Group of the PWC developed a Core Program approach that is consistent across all investor-owned electric and natural gas utilities (IOUs)² and not only addresses but also exceeds all of the requirements specified by the Commission in Order No. 7 of this Docket. *Id.* at 6-8. She states that this approach will also enable utility customers to install additional measures on their own, obtain financing if they qualify, and learn about additional ways to reduce energy usage in their homes. *Id.* at 8.

In the Proposal she prepared for the PWC, Dr. Johnson provides in Table E-1 a Comparison of the Commission's Objectives with the Core Program's Features, showing how the Core Program's features meet and enhance the Commission's six objectives set forth in Order No. 7. Proposal at 2. In addition, the Proposal notes that the Core Program incorporates the following best practices for delivering an approach that is

² Dr. Johnson states in the Proposal that staff from the Arkansas rural electric cooperatives participated in the Weatherization Technical Conference sponsored by the PWC and that the Arkansas Electric Cooperative Corporation was included on all communications of the PWC Weatherization Working Group. Materials related to the Weatherization Technical Conference are available at the following link: <http://www.johnsonconsults.com/weatherization%20agenda%203-6.htm> Proposal at 1, 19.

consistent across all utilities as identified in other successful weatherization programs identified in the Literature Review conducted by the IEM:

- Delivers measures using an electric and gas utility-coordinated approach;
- Based on proven and successful program designs;
- Ensures consistent contractor training and guidelines, ongoing training, and provides opportunities to enlist contractors from the Community Action Program (CAP) Agencies to participate in this new consistent approach; and
- Has a flexible platform to accommodate market changes, Technical Reference Manual (TRM) and Evaluation, Measurement and Verification (EM&V) changes in a timely manner.

Proposal at 3.

Dr. Johnson notes that the recommended approach leverages the current success of Arkansas' programs and retains a decentralized delivery of a consistent weatherization program by the IOUs. Core program consistency would substantially reduce confusion by customers and contractors and make cross-utility coordination simpler and more transparent. Each utility, however, could incorporate additional elements to address utility-specific needs. Dr. Johnson adds that core elements and core measures will be offered by each utility based upon final program cost effectiveness. *Id.* at 5.

According to Dr. Johnson, the key program elements of this consistent approach across all utilities are as follows:

- A comprehensive assessment of the customer's home;
- Direct installation of immediate energy saving measures;
- Installation of a set of weatherization measures, including insulation and air sealing, based on the funding levels provided by the utilities;
- Core measures are offered at no cost to the customer; and
- Management of the contractors that deliver the home assessments and installations, requiring standardized protocols, energy assessment tools and quality control.

Each utility will be responsible for the following:

- Delivery of a cost effective Core Program;
- Including the Core Program in its energy efficiency (EE) program plan portfolio filed with the Commission;
- Establishing its budget for the Core Program;
- Developing appropriate marketing and outreach for the program, as part of its overall marketing strategies for weatherization programs;
- Offering consistent requirements regarding contractor enrollment, training, and management; and
- Coordination with other utilities such as electric utilities coordinating with gas utilities to make it easy for the customer to participate and eliminate multiple outreach and service delivery.

Each IOU will have flexibility to provide additional services, including but not limited to:

- Rebates for measures that are not addressed in this Core Program offering (e.g., measures from the complementary programs; Other Utility Offerings (OUOs); and
- Financing options which may include the Clinton Foundation's Home Energy Assistance Loan (HEAL) program model for OUO measures.

The unifying elements of this proposed approach are:

- A consistent approach across all utilities to providing a comprehensive audit for eligible customers;
- Consistent contractor requirements across all utilities such as the Building Performance Institute (BPI) or the Residential Energy Services Network (RESNET); and
- Ongoing coordination by utilities and key stakeholders to monitor implementation, trouble-shoot problems and develop consistent solutions, review and recommend additional or substitute measures as technologies develop to ensure a consistent approach across all utilities.

Johnson at 6-7.

Dr. Johnson states that the Core Program would also preserve much of the existing weatherization program infrastructure, facilitating an easy transition, which minimizes costs. The Core Program would replace the existing Arkansas Weatherization Program (AWP) funding beginning in Program Year (PY) 2015. Johnson at 6.

The Core Program relies on a proven model of program delivery in a small market, through certified weatherization contractors, who are both motivated and capable of meeting each utility's participation objectives. This model does not exclude

CAP agencies that delivered AWP services from participating in the program, but rather opens up participation in the new Core Program to a broader range of qualified contractors. This approach has been successfully demonstrated in Arkansas in the joint dual-fuel AOG-OG&E Program, as well as in other jurisdictions as highlighted in the Literature Review. Proposal at 20.

The PWC Weatherization Working Group recommends in the Proposal that the AWP be discontinued at the end of PY 2014 because it falls short of its participation goals each year and therefore is not effectively serving qualifying residential customers, including those with severely energy-inefficient homes. *Id.* at 17. The Working Group recommends that the IOUs instead administer individual utility programs that are coordinated between electric and gas-utilities and include the Core Program elements. The Proposal notes that the Arkansas Energy Office (AEO), would still be actively involved in providing information and promoting the Core Program by acting as a centralized point of information. *Id.*

With respect to the Commission's Order No. 7 objective of facilitating the provision by utilities or non-utilities of a financing mechanism or mechanisms, the Proposal notes that, within the PWC Weatherization Working Group, the IOUs have expressed their preference to avoid an on-bill financing model. The Proposal points out that no financing mechanism is required to implement the Core Program since the utilities will offer all Core Program measures at no cost to qualifying customers with severely energy-inefficient homes. *Id.* at 29.

The Proposal states, however, that an EE financing mechanism would provide supplemental financing options in instances where OUs are to be implemented, or

Core Program funds are insufficient to install all cost-effective energy savings measures. During the August 2014 PWC meeting the CCI, AAEA and AEO, facilitated by the Southeast Energy Efficiency Alliance (SEEA), (“Project Team”) offered to conduct further study into a statewide EE financing mechanism that would be responsive to the Commission’s Order, the PWC Weatherization Working Group’s preferences, and the design of the consistent weatherization approach across all utilities. During that meeting and again in the September PWC meeting, members of the PWC Weatherization Working Group affirmed their support for the study. *Id.* at 30.

The Proposal states that the Project Team will be informed by the HEAL program’s experience facilitating third-party financing for customers of electric and gas IOUs via its employer-based delivery model. Furthermore, HEAL has coordinated a consistent financing program for members of an Arkansas electric cooperative. The Project Team will incorporate the lessons learned from these models with best practices from the industry into a proposed approach. The Project Team will prepare a proposal for the PWC Weatherization Working Group’s consideration during 2015 with one or more financing models. Consequently, the PWC Weatherization Working Group recommends that the Commission not incorporate any financing requirements for weatherization programs at this time. The PWC Weatherization Working Group requests that the Commission enable the group to continue examining the issue during 2015 and report on its findings and provide a recommendation to the Commission by September 30, 2015. *Id.*

In summary, the Proposal concludes, the PWC Weatherization Working Group requests that the Commission approve this Proposed Weatherization Approach to be implemented by the seven IOUs beginning in January 2015. *Id.* at 32.

Findings and Rulings

Having reviewed the Joint Comments of the PWC, the Joint Motion of the PWC, the Supporting Testimony and recommendations of Staff witness Klucher, the Testimony of the IEM -- Dr. Johnson, and the PWC's *Proposal to Develop a Consistent Approach for Weatherization Programs Across all Utilities in Arkansas*, the Commission approves as reasonable and in the public interest the Joint Comments' requests for budget increases and cost recovery for the Weatherization Collaborative, the C&I Collaborative, and the Arkansas EE Potential Study. The Commission also accepts the Joint Motion's Recommended Weatherization Approach and approves the PWC Weatherization Working Group's recommendation and request to implement the Core Program approach beginning in Program Year 2015. The Commission congratulates the PWC for its continued excellence in achieving the benefits offered by collaboration and commends the active participants in the PWC Weatherization Working Group and the Independent Evaluation Monitor for their work and service in the public interest of Arkansas.

With respect to the recommendations of the PWC Weatherization Working Group regarding the discontinuation of the AWP at the end of 2014, the Commission directs the parties to submit recommendations regarding the timing and manner in which the funding, implementation, and reporting responsibilities of the AWP program coordinator (ACAAA), AWP program manager (Central Arkansas Development

Council), and the implementing CAP Agencies, can be efficiently wound down and the funds made available to the IOUs to support their Core Programs in PY 2015.

Finally, the Commission looks forward to receiving the report of the supplemental financing Project Team on or before September 30, 2015, including recommendations for building on the reported progress being made by the Clinton Foundation's HEAL program and the state's electric cooperatives of Arkansas in developing third-party financing mechanisms.³ The Commission observes that supplemental financing for both Core and non-Core measures could serve both customer and public interest purposes: Additional financial resources would enable customers to install more measures, up to the limit of cost-effectiveness.

The Commission directs the utility parties and Staff, and requests that other PWC members include within the Project Team's financing proposals an assessment of (a) the potential for financing to improve program cost-effectiveness by increasing participation and (b) its potential effects on program cost-effectiveness test scores. Regarding (b), the Commission is interested in whether and to what degree financing offered to customers might reasonably reduce the transfer of ratepayer dollars between non-participants and participants, without harming overall program participation and cost-effectiveness. The Commission requests comment on whether program Total Resource Cost (TRC) cost-effectiveness might remain roughly the same (or decline due to financing costs) and whether participant-financing might reduce the necessary level of ratepayer incentive funding, thereby improving Program Administrator Cost Test

³ The Commission directs the filing of this Order in Docket No. 06-004-R (the Energy Efficiency Rulemaking proceeding), so as to ensure that Arkansas Electric Cooperative Corporation and its member electric cooperatives will be provided notice of the Commission's interest in following developments related to on-bill financing of EE measures.

(PACT) scores. Likewise, the Commission requests comment on whether participant-financing could be used, perhaps through phasing-in over time, to mitigate EECR rate impacts, again, without harming program participation and overall cost-effectiveness.

BY ORDER OF THE COMMISSION,

This 9th day of December, 2014.

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.



Colette D. Honorable, Chairman



Olan W. Reeves, Commissioner



Elana C. Wills, Commissioner



Michael Sappington, Secretary of the Commission