

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE CONTINUATION,)	
EXPANSION, AND ENHANCEMENT OF)	DOCKET NO. 13-002-U
PUBLIC UTILITY ENERGY EFFICIENCY)	ORDER NO. 43
PROGRAMS IN ARKANSAS)	

ORDER

On May 18, 2018, the Parties Working Collaboratively (PWC)¹ filed with the Arkansas Public Service Commission (Commission) in this Docket, the *PWC's Recommendations for 2020-2022 Energy Saving Targets* (Recommendations) pursuant to Order No. 41, filed on March 9, 2018. In the Recommendations, the PWC describes how the "Average Achievable 2020-2022" savings were derived from the Potential Study and includes illustrative tables indicating the savings and percent of sales.

Parties' Positions

The PWC states that it is unable to reach a consensus regarding the appropriate targets for gas and electric utilities; therefore it submits two different recommendations. Parties supporting Recommendation 1 are Staff, CURAD, EAI, SWEPCO, OG&E, Empire, CenterPoint, BHEA, and AOG (Recommendation 1 Parties). Parties supporting Recommendation 2 are, by process of elimination, assumed to include AAEEA, Audubon, and Sierra Club (Recommendation 2 Parties).

¹ The PWC consists of The General Staff (Staff) of the Arkansas Public Service Commission (Commission), the Consumer Utilities Rate Advocacy Division of the Arkansas Attorney General's Office (CURAD), Arkansas Advanced Energy Association, Inc. (AAEEA), the National Audubon Society, Inc. (Audubon), the Sierra Club, Arkansas Oklahoma Gas Corporation (AOG), Black Hills Energy Arkansas, Inc. (f/k/a SourceGas Arkansas Inc.) (BHEA), CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas (CenterPoint), The Empire District Electric Company (Empire), Oklahoma Gas & Electric Company (OG&E), Southwestern Electric Power Company (SWEPCO), and Entergy Arkansas, Inc. (EAI).



Recommendation 1 proposes a flat net savings goal for the natural gas and electric utilities utilizing actual 2018 sales as a baseline, as adjusted for approved Self-Direct customers for the Plan Years (PYs) 2020-2022 period.² Recommendation 1 Parties agree that a flat 0.50% net savings goal for the natural gas utilities in PY 2020-2022 is appropriate.³ Recommendation 1 Parties recommend that the natural gas utilities propose in their 2020-2022 portfolio filings, annual budgets necessary to deliver a cost-effective portfolio and reach the proposed savings target. Recommendation 1 Parties state that the recommended savings target of 0.50% along with the 80% - 120% of target for each gas utility is set forth in Table 3. Recommendation 1 Parties support a level savings goal for the gas utilities in recognition of the challenges faced relating to the declining customer base, usage, and cost of gas. Recommendations at 3-4.

Recommendation 1 Parties propose a flat 1.00% net savings goal for the electric utilities in PYs 2020-2022 and recommend that the electric utilities propose in their 2020-2022 portfolio filing, annual budgets necessary to deliver a cost-effective comprehensive portfolio and reach the proposed savings target. Recommendation 1 Parties state that recommended savings target of 1.00%, which is the same savings target as was previously ordered by the Commission, along with the shareholder incentive mechanism range of 80% - 120% of target savings for each electric utility is set forth in Table 4. Recommendation 1 Parties submit that increasing the savings goal will result in higher portfolio budgets for electric customers and that the recommendation is driven by the uncertainty associated with the impacts surrounding the Energy

² A flat 0.50% net savings goal is the savings target previously set by the Commission in Order No. 7.

³ Recommendation 2 Parties also support Recommendation 1 for gas utilities.

Independence and Security Act of 2007 (EISA) 2.0⁴ and the lighting baselines. Recommendation 1 Parties allege that changes to codes and standards will have a similar impact of increasing the baseline, thereby decreasing savings. Recommendation 1 Parties anticipate that in order to achieve the same or increased level of savings, the cost to achieve the equivalent first year savings will be higher than has historically been the case with lighting. *Id.* at 4-5.

Recommendation 1 Parties, with the exception of CURAD, support the current utility performance incentive structure approved by this Commission in Order No. 7 in this Docket.⁵ CURAD proposes that the current shareholder incentive mechanism be modified to the structure set forth in Table 5.⁶ CURAD reasons that as the programs appear to be reaching or have reached maturity, the incentive mechanism should continue to encourage electric and gas utilities to exceed expectations instead of rewarding them for falling short of goals as the current 80% threshold does. *Id.* at 5-6. CURAD argues that the savings achieved from the 2017 programs indicate that utilities are in a position to achieve at least 100% of savings goals. CURAD illustrates its point by utilizing Table 6 and states that under this proposed scenario and the 2017 performance, three of six utilities will receive the full incentive payout, two would receive the target payout, and only one would receive the threshold payout. CURAD states that if 2017 achieved savings were applied to 2018 goals, two utilities would

⁴ Pub.L. 110-140 (110 Congress, H.R. 6), 121 Stat. 1492.

⁵ The current utility structure is awarded in a linear, rather than stepwise basis, within a range from achievement of 80% to 120% of the Commission's established goals; annual performance incentive earnings shall be based on 10% of program net benefits, but shall be capped on a sliding scale between 4% and 8% of approved program budgets, Order No. 7 at 29.

⁶ CURAD supports an award within a range of 100% to 140% of the Commission's established goals with an incentive payout range of 4% to 8% of approved budget programs, *PWC Recommendations for 2020-2022 Energy Savings Targets* at 6.

Recommendation 2 Parties conclude that the statewide estimates of savings potential in the Arkansas Potential Study does not serve as a reasonable proxy for establishing utility savings targets for the PYs 2020-2022. They support this conclusion by pointing to the marked divergence between the study projection of potential savings and the actual savings achieved by the programs in the past two years. Recommendation 2 Parties assert that the achieved savings have consistently exceeded the projections of the Potential Study by a large margin and that the Potential Study does not account for non-energy benefits (NEBs), as the NEBs had not yet been adopted by the Commission during those years. *Id.* at 9-10.

Recommendation 2 Parties state that the four-year-old Arkansas Potential Study has been demonstrated to significantly underestimate the progress that could be achieved and that targets for the future years should be adjusted upward accordingly. They propose that the 2020-2022 savings targets be calibrated to reflect actual savings achieved in 2016 and 2017 and set high enough to motivate the development of program plans and budgets adequate to realize the full economic potential of efficiency improvements in Arkansas. *Id.* at 10. Recommendation 2 Parties assert that as indicated in Table 8, the large disparity between the magnitude of actual evaluated savings at current funding levels and the projections of potential savings is a strong indication that the estimated potential is overly conservative and does not constitute a reasonable benchmark for maximum achievable cost-effective potential now or in future years. *Id.* at 11. Recommendation 2 Parties note that the Independent Evaluation Monitor's (IEM) forecasted impact on achievable savings was not confirmed by the actual achieved 2016 and 2017 levels of evaluated savings as reported in Table 8. They

assert that the Potential Study and IEM savings projections significantly underestimated actual, achieved levels in those years. *Id.* at 11-12.

Recommendation 2 Parties further assert that even if the EISA 2.0 standards are implemented, a savings target of 1.20% during PYs 2020-2022 remains readily achievable. Recommendation 2 Parties attribute the decrease from 2019 to 2020 of the savings potential to the impact of the EISA 2.0 efficiency standard for general service lamps. Recommendation 2 Parties break down achievable potential into residential and commercial end-use and explain that residential lighting is the only end-use category that reaches a savings plateau in 2020. They state that incremental commercial lighting savings increase each year from 2019-2022 and that these trends are consistent with the expectation that EISA 2.0 will drastically reduce claimable savings for screw base LED lamps which account for the large majority of residential lighting savings. They state that commercial lighting savings opportunities are projected to be sustained by the availability of linear LED lighting products with increasing efficacy. In other words, they state, while savings from residential lighting may be on the decline, savings potential in other categories remains strong. *Id.* at 13.

Recommendation 2 Parties describe how reallocation of EAI's and SWEPCO's Residential Lighting and Appliance program marketing delivery and incentives/direct-install expenditures would replace approximately 25% of the lighting savings. *Id.* at 13. Recommendation 2 Parties indicate that the data shows that even with the complete elimination of residential lighting measures and a budget reallocation that keeps residential expenditures at the actual 2017 amount, a reduction in savings to 84% of what is currently being achieved would amount to 1.20% of base sales, which represents

a realistic achievable level of savings while allowing for the projected impact of federal efficiency standards on “claimable” residential lighting savings. Recommendation 2 Parties note that by contrast, a target of only 1.0% applied to the same achieved savings scenario would enable the utilities to earn the maximum shareholder incentive for a level of savings that is below what is currently being achieved and would allow the utilities to earn this full performance incentive for achieving only 70% of 2017 savings. *Id.* at 14.

Recommendation 2 Parties posit that the development of a new three-year plan to be filed in 2019 for PYs 2020-2022 presents the utilities with an opportunity to propose the addition or elimination of programs and measures, as well as the revision of existing program design elements such as measure incentive levels, financing options, program market, and delivery channels. They note that in their 2017 Annual Reports to the Commission, the utilities are exploring new measures, technologies, marketing, and delivery mechanisms to increase customer awareness, expand customer and trade ally participation, and improve program cost-effectiveness. Of particular importance, the Recommendation 2 Parties cite the opportunity to make the necessary revisions to fully exploit the cost-effective potential of non-lighting measures in anticipation of the new federal lighting standards coming into force in 2020 and beyond. *Id.* at 15.

Recommendation 2 Parties acknowledge that market evolution and increasing standards of efficiency are expected to increase the average cost of program savings. They note that fulfillment of the objective to deliver all achievable, cost-effective energy efficiency that maximizes net economic benefits to utility customers will therefore entail some increase in program spending. They explain that development of the new three-

year program enables the utilities to propose new budgets that are adequate to support the demand for participation so that all eligible customers who have not opted out have an opportunity to reduce their energy bills and thus receive a direct return of their investment in program implementation. *Id.* at 15-16. They further note that some programs are experiencing strong demand but are being constrained to remain within approved budgets, and thus the benefits of participation by customers and trade allies are effectively being rationed.⁷ The Recommendation 2 Parties note the considerable uncertainty at this time regarding enforcement of compliance with the standards by the Department of Energy. They state that the explicit assumption in their analysis that federal lighting standards will be fully implemented as of January 1, 2020, injects a further element of conservatism in the development of the 1.20% recommendation. *Id.* at 16.

The Recommendation 2 Parties point out that the 2017 reported Total Resource Cost test results demonstrate a very high margin of cost-effectiveness for the current programs. They state that the portfolio level benefit-cost ratios (BCRs) in the 2017 reports are: EAI = 2.52, SWEPCO = 3.13 and OG&E = 3.04. They indicate that the individual BCRs of all SWEPCO and OG&E programs are greater than 2.30 and the EAI program BCRs, with the exception of the Residential Benchmarking program (BCR = 0.87), are all above 1.40. The Recommendation 2 Parties note that while a decrease in avoided costs reduces the level of cost-effective potential savings to the extent of the contribution to program savings by measures that are on the margin of cost-effectiveness, given the magnitude of the individual program BCRs, the reduction in

⁷ Recommendation 2 Parties cite to EAI's 2017 Annual Report to the Commission at 28.

avoided costs would have to be considerable to have any substantial effect on achieved savings. They further assert that the absence of consideration of the now codified NEBs from the Potential Study analysis is another factor contributing to the underestimation of achievable savings. They state that the inclusion of NEBs in cost-effectiveness testing, as provided for by Protocol L of the Arkansas Technical Reference Manual, will partially offset any impacts related to declining avoided costs on the savings potential associated with marginal measures. *Id.* at 17.

Recommendation 2 Parties agree with CURAD's position that 2017 utility savings performance is vital to consider when determining how to reward utilities for future savings performance, as depicted in Table 10. They are also concerned about the use of ratepayer monies to reward utilities for under-performing. They feel that making an upward adjustment to the savings targets is the most appropriate remedy for these concerns and note that the resulting incentive thresholds of adopting Recommendation 2's proposed savings target for electric utilities align closely with the CURAD's proposal. However, should the Commission choose to adopt the 1.0% electric utility savings target supported by Recommendation 1 Parties, Recommendation 2 Parties do not object to CURAD's Utility Performance Incentive Structure Proposal. *Id.* at 17-18.

Findings and Conclusions

While acknowledging valid points made by Recommendation 1 Parties and Recommendation 2 Parties, as well as CURAD's proposal to change the incentive structure, the Commission adopts savings targets for PYs 2020-2022 of 1.20% of 2018 baseline sales for electric utilities and 0.50% of baseline sales for natural gas utilities while retaining the incentive structure as it currently exists.

The Commission, in choosing Recommendation 2 Parties' position for the electric utilities, gives credence to the actual savings achieved by the utilities in the past two years rather than the four-year old Arkansas Potential Study forecasts, as noted by Recommendation 2 Parties. Furthermore, it appears that the actual achieved savings have consistently exceeded the projections of the Potential Study by a large margin and that the Potential Study does not account for NEBs. The Commission further notes that, according to the utilities' 2017 Annual Reports, these overachievements of energy savings against targets have taken place while the utilities are underspending their energy efficiency budgets. Thus, it is apparent from Recommendation 2 Parties' discussion that even with the EISO 2.0 implementation, the electric utilities should be able to meet their savings target. The Commission agrees that Recommendation 2 is consistent with the policy goal of capturing all cost-effective, achievable savings; promotes the policy objective of program comprehensiveness; provides ratepayers with increased opportunity to achieve substantial economic benefits that will be forgone if targets are set to maintain lower levels of savings; and provides for the payment of shareholder incentives that are commensurate with the level of achievement of potential economic benefits returned to ratepayers. The Commission believes that Recommendation 2 will encourage the electric utilities to continue to improve and expand the scope of Energy Efficiency program activity so that all customers have the opportunity to realize direct economic benefits of end-use energy efficiency. The Commission agrees that there is a level of uncertainty surrounding the implementation of EISA 2.0, but finds that there is substantial evidence presented by Recommendation 2 Parties outweighing the reasons asserted by Recommendation 1 Parties for the adoption

of a 1.0% savings target for the electric utilities. For these reasons and other reasons set forth in Recommendation 2 Parties' Comments, the Commission finds that a savings target for electric utilities of 1.20% of 2018 baseline sales for PY 2020-2022 is reasonable and in the public interest.

The Commission recognizes the challenges faced by the gas utilities relating to the declining customer base, usage, and cost of gas and thus considers a target for PY 2020-2022 of 0.50% of 2018 baseline sales to be reasonable and in the public interest.

The Commission finds it reasonable and in the public interest, for now, to maintain the performance incentive structure as it currently exists for both electric and gas utilities for the reasons it initially adopted the current structure and in consideration of its past successful implementation. Given that all of the utilities are already meeting or exceeding 100% of their energy savings goals⁸ and are earning incentives under the current incentive mechanism, the Commission does not believe that the current incentive structure is rewarding them for falling short of goal. The Commission reserves the right to revisit the incentive structure at a later time based on a change in circumstances and additional data that may become available at the next three-year program cycle.

The Commission therefore orders and directs as follows:

1. For PY 2020-2022, the utility energy savings targets shall be 1.20% of 2018 baseline sales as adjusted for Self-Direct customers for electric utilities and 0.50% of 2018 baseline sales as adjusted for Self-Direct customers for natural gas utilities.

⁸ According to the discussion of CURAD's utility performance incentive proposal, the savings achieved from the 2017 programs indicate that all the utilities are in a position to achieve at least 100% of savings. Recommendations at 6-7 and Table 6.

2. The incentive structure shall remain as it currently exists for the next three-year program cycle.

BY ORDER OF THE COMMISSION.

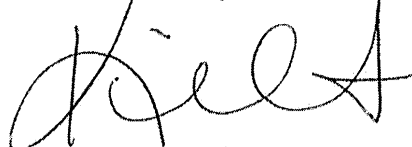
This 13th day of July, 2018.



Ted J. Thomas, Chairman



Elana C. Wills, Commissioner



Kimberly A. O'Guinn, Commissioner



Mary Loos, Secretary of the Commission

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.