



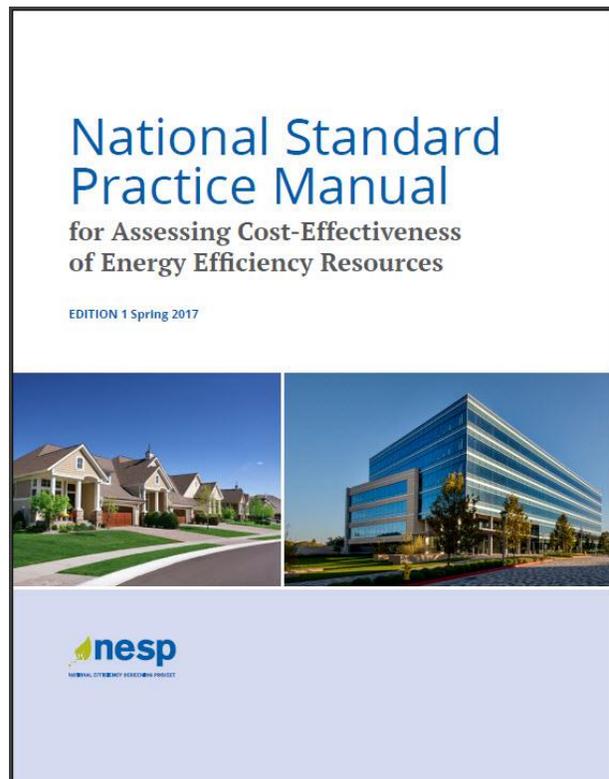
The National Standard Practice Manual in Practice: Arkansas Review of its Cost-Effectiveness Policies

Since 2006, when the Arkansas PSC passed rules requiring the state’s regulated electric and natural gas utilities to offer “quick-start” energy efficiency programs to their customers, the state has been a leader in energy efficiency in the Southeast. The state’s utilities are now required to offer comprehensive energy efficiency programs and meet energy efficiency savings targets that are approved by the Commission every three years. The Commission is currently in the process of developing savings targets for the next three-year cycle for program years 2019-2022.

Part of the reason for the state’s success is its energy efficiency working group, the [Parties Working Collaboratively \(PWC\)](#) stakeholder group, which consists of representatives from utilities, energy efficiency advocates, Commission staff, and others that are involved in energy efficiency in the state. The Commission created the PWC in 2006 to make recommendations to the Commission on an Evaluation, Measurement, and Verification (EM&V) process, and the Commission has since expanded its role to make recommendations on a number of other energy efficiency issues.

Most recently, the Commission issued an [order](#) directing the PWC to explore the viability of the [National Standard Practice Manual](#) cost-effectiveness screening guidance in recommending savings targets in this next cycle. In response, the PWC has convened a working group (‘the group’) to test how the state’s current cost-effectiveness framework aligns with the NSPM principles and framework, with a goal of reporting back to the Commission by October 2018. The working group consists of representatives from the Johnson Consulting Group, which acts as the Independent Evaluation Monitor for the PWC, Commission staff, each of the state’s large electric and natural gas utilities, and a number of energy and environmental nonprofits, including E4theFuture, Energy Futures Group, Audubon Society, and SEEA.

The NSPM lays out six universal principles that cost-effectiveness testing should follow, and sets out seven steps, called the Resource Value Framework, that a jurisdiction can follow in order to develop its



primary EE cost effectiveness test in accordance with those principles. The first main step undertaken by the group was to assess Arkansas' alignment with the principles was to document relevant regulations, laws, and policies in place in Arkansas that affect cost-effectiveness testing and then mapping those policies to their respective cost and benefit impacts. The Commission Staff developed an initial list for PWC review that included policies from the state's Energy Conservation Act, which gives the Commission broad authority to promote utility EE programs to reduce energy waste, and the Commission's Rules for Conservation and Energy Efficiency Programs, which lay out the specific objectives and requirements for utility energy efficiency programs in the state, such as those related to cost-effectiveness testing and EM&V.

Next, to determine the extent that relevant costs and benefits are accounted for cost-effectiveness testing (relevant to the applicable policy goals identified in step 1) the group conducted a gap analysis. This involved identifying which impacts (costs and benefits) are already being considered in Arkansas' primary cost-effectiveness test (the Total Resource Cost test), which impacts are partially included, and which are not currently included in the analysis. The group generally found that the utilities consistently account for energy efficiency savings, utility system costs, and water impacts, but identified some areas where there appear to be asymmetry of certain costs and benefits. For instance, there seems to be some asymmetry between participant costs and benefits, and some utility system benefits (such as system reliability) are not currently included in the TRC. Currently, the group is working through a number of issues based on the initial findings from this gap analysis, including consideration of past efforts to address various impacts such as various non-energy benefits (NEBs).

First, a key NSPM principle is that a state's test should align with its applicable policies. But while Commission policy states that participant impacts (both costs and benefits) are to be included as part of the TRC, the working group's inventory of impacts indicates that some participant NEBs, such as improved health and safety, increased productivity, or property improvements, are not currently included. As a result, the working group has had to confront how (or if) these impacts should be addressed as part of the NSPM case study. Due to other recent efforts by the PWC, this has proved somewhat of a challenge. The PWC recently underwent a lengthy collaborative process to determine what NEBs should be included in the TRC, and the values associated with each. The PWC was able to reach consensus on several NEBs—including water impacts and other fuels—but was unable to reach consensus on others, such as environmental impacts, energy security impacts, or reliability. As a result of this process, there has been some hesitancy on the part of the working group to reopen discussion around NEBs.

The working group also found that there were some impacts that are handled differently between utilities in the state. While some utilities in the state include free ridership as an administrative cost under the TRC, others do not. Additionally, while carbon impacts are embedded in each utility's avoided cost assumptions, avoided costs are not public information in Arkansas, and because there is no statewide number for the cost of carbon, the cost of carbon used varies by utility. Because the Commission specifically directed the PWC to address the cost of carbon as part of the NSPM Working Group process, this will be a priority for the group moving forward.

As a next step, the working group will begin discussions about how to address the possible asymmetries and inconsistencies identified in the gap analysis. For instance, where some participant or utility system benefits are not fully considered, the group could recommend that some costs not be included. Or,

because many of the impacts not included in the current TRC test were recently addressed through the NEBs process (though they were not incorporated into the test as a result), the recommendation could be to maintain the status quo at least for the time being and consider a plan/options for more fully addressing symmetry of costs and benefits going forward. For the impacts that are handled differently by each utility, such as the cost of carbon, the group could make recommendations to the Commission about which, if any, of these impacts should be standardized.

In any event, as a PWC member, SEEA believes going through the NSPM process is a useful exercise for Arkansas to evaluate where and to what extent that the state's cost-effectiveness testing framework does or does not align with the economically sound principles and framework of the NSPM. Ultimately, the NSPM Working Group will report back to the Commission with a case study that discusses (1) the background and history of Arkansas' energy efficiency policy and the PWC; (2) the process the Working Group used to develop the NSPM case study and the findings; and (3) a list of options for the Commission to consider going forward and possible next steps.

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