ASU ENERGY POLICY INNOVATION COUNCIL

# The ACC's Draft Amendment to change the Arizona Energy Efficiency Resource Standard to a Goal

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***The essentials***

- The Arizona Energy Efficiency Resource Standard (EERS) requires regulated electric utilities with an annual revenue of more than $5 million to achieve a cumulative energy savings of 22 percent by 2020, based on historical customer demand. The incremental savings began in 2011 at 1.25% of the previous year's retail sales. Regulated gas utilities have a similar requirement of 6 percent cumulative energy savings by 2020, also based on historical consumer demand.
- On November 4th, 2014, the Arizona Corporation Commission (ACC) staff filed a draft amendment to the state EERS that would have the effect of rescinding the mandatory Standard. Instead, the electric utilities would be allowed to determine their own custom energy efficiency goals each year, on the basis of cost-effectiveness, during their bi-annual integrated resource planning (IRP) process. The IRP is non-binding. The gas utilities do not have an IRP process so the standard would no longer apply to them.
- The public has until Tuesday, November 18th, 2014 to submit comments to the ACC regarding the proposal. (Comment submission information can be found at the end of this document).
- Currently, the Societal Cost Test is used to verify all energy efficiency programs under the EERS. The amended goal would allow the Commission to use three other tests to determine cost effectiveness:
  - The Participant Cost Test
  - The Ratepayer Impact Cost Test
  - The Utility Cost Test

## Current Energy Efficiency Standard

In 2010, the Arizona Corporation Commission (ACC) approved the landmark Arizona Energy Efficiency Resource Standard (EERS). The EERS required the state's largest regulated utilities (with revenues of over $5 million) to start benchmarking their energy efficiency savings. In 2011, the energy savings target was 1.25% of the previous year's retail sales, with an incremental increase each year. By 2020, each utility is expected to achieve a cumulative energy savings of 22 percent. Regulated gas utilities have a similar requirement of energy savings that was implemented in 2011. By 2020, they are expected to save 6 percent of the energy they would have sold, based on the previous year's retail sales. Electric and gas utilities can achieve their savings through a variety of options: Demand-Side Management (DSM) programs, peak demand reductions, up to one-third of savings via energy efficient building codes, combined heat and power (CHP) installations.

**Accountability**

Under the EERS, regulated utilities must submit a proposed implementation plan on June 1st of every other year describing goals and mechanisms for meeting the energy efficiency standard for the next two calendar years. The ACC reviews and approves the plans before implementation. The ACC requires utilities to file progress reports on their DSM programs (which includes energy efficiency programs) by March 1st of each year.

**Compliance and savings**

In 2013, APS and TEP (the relevant utilities) saved customers a net $110 million from saved power through the energy efficiency programs implemented due to the EERS. However, compliance has been uneven. APS had an energy efficiency goal of 5 percent of the utility's 2012 retail kWh sales for 2013 and a budget of $77 million to achieve the goal. APS achieved compliance and spent only $58.5 million to do so. TEP had an energy efficiency goal of 5 percent of the utility's 2012 retail kWh sales for 2013 with a budget of $19 million. TEP only achieved about 3.92 percent energy efficiency of 2012 retail kWh sales for 2013. TEP expected a similar shortfall in 2014 and requested a waiver from the 7.25 percent goal. However, TEP's energy efficiency savings did increase 165 percent from 2012 to 2013.[1]

**Procedural history**

On June 21, 2013, at the behest of Commissioner Gary Pierce, the ACC staff opened a "generic docket to address energy efficiency and integrated resource planning," No. E-00000XX-13-0214. This resulted from a letter Commissioner Pierce had issued in March of 2013 requesting a reevaluation of the state Energy Efficiency Resource Standard.

Throughout the spring of 2014, Commissioner Pierce held a series of three workshops on energy efficiency: the first focused on the cost-effectiveness tests, and the second workshop focused on cost recovery mechanisms. The third workshop, held on April 17th, included a discussion of the modification or suspension of the Energy Efficiency standards and the incorporation of energy efficiency into the Integrated Resource Process.[2]

## Proposed amendment

[1] **SWEEP. APS & TEP Report Strong Energy Savings in 2013**
http://www.swenergy.org/news/news/default.aspx?Year=2014#458

[2] Document number: 0000152873

On November 4, 2014, the ACC staff filed a proposed amendment to the EERS. The proposed amendment eliminates the energy efficiency standard for both electric and gas utilities. In its place, it would create a goal, wherein regulated electric utilities would "pursu[e] cost-effective energy efficiency measures to achieve the Commission-approved energy efficiency goal based on the affected utility's resource plan." In other words, rather than an across-the-board standard, each utility would determine its own custom energy efficiency goals each year, on the basis of cost-effectiveness, during its integrated resource planning (IRP) process. The IRP process is a nonbinding process with no accountability mechanism in the event that the utility does not comply with the standards that were set during the previous iteration of the process. Gas utilities do not undergo an IRP process.

**A question of cost-effectiveness, and for whom**

Regulators use cost-effectiveness tests to ensure that mandated energy efficiency programs achieve "compliance with energy efficiency obligations" while providing value to consumers, to the economy, to society, and to evaluate risk to utilities.[3] Five common tests evaluate energy efficiency program cost effectiveness. Arizona primarily relies on the Societal Cost Test to determine whether the utility's program is cost effective from a larger societal perspective. The Societal Cost Test quantifies the benefits such as avoided emissions and pollutions as well as non-energy benefits such as improved health and improved sales for businesses against the costs of the implementation and administration of the energy efficiency program.

The proposed amendment would add three other tests for the Corporation Commission to use:

- *Amendment Line 38:* The Participant Cost Test (PCT) asks whether a utility customer who participates in a utility's DSM program or measure is getting a benefit from bill savings, incentives, and tax credits, or if those benefits are outweighed by the costs of the equipment and installation needed for the DSM program or measure. To wit: *Looks at cost-effectiveness from a customer participant perspective.*

[3] Woolf, T., Steinhurst, W., Malone, E., Takahashi, K. Oct. 2012. *Energy Efficiency Cost-Effectiveness Screening: How to Properly Account for 'Other Program Impacts' and Environmental Compliance Costs.* Prepared by Synapse Energy Economics for the Regulatory Assistance Project. http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CC8QFjAB&url=http%3A%2F%2Fwww.raponline.org%2Fdocument%2Fdownload%2Fid%2F6149&ei=lX1mVNDrI8vkoAS3qoKQAw&usg=AFQjCNEvjF52OP9mu4OBlpWItXjwgHT6RQ&sig2=tDf5WQRiPmdD5CMB2qtwaQ&bvm=bv.79142246,d.cGU&cad=rja

- *Amendment Line 40:* The Ratepayer Impact Measure Test (RIM) focuses on whether a utility is losing more revenue than it can recover through its avoided energy and capacity cost recovery mechanism on ratepayer electric bills. To wit: *Looks at cost-effectiveness from an administering utility's perspective.*

- *Amendment Line 51:* Utility Cost Test, also known as Program Administrator Cost Test, asks whether a DSM program or measure is cost effective for the utility, by weighing costs of implementation against the utility's benefit of avoided energy and capacity costs. To wit: *Looks at cost-effectiveness from an administering utility's perspective.*

However, the proposal is unclear on how the ACC would decide which test or which blend of tests it would use. R14-2-2407 Commission Review and Approval of DSM Programs and Measures deletes the current requirement that a utility's program proposal include societal benefits, savings, and costs of a proposed DSM measure. It also requires a utility's proposal to include both a Utility Cost Test and Ratepayer Impact Measure Test analysis, but does not require a utility's proposal to include a Participant Cost Test analysis.

**Potential impacts**

The potential impact of the proposed amendment is still an open question. Among the positive responses to the establishment of the 22 percent EERS, the American Council on Energy Efficiency Economies (ACEEE) has ranked Arizona 15th in the nation.[4] In monetary terms, the EERS has produced an economic gain to Arizona of more than $540 million over the past three years, and has saved the equivalent in electricity to power 133,000 homes during that time. This estimate comes from the Southwest Energy Efficient Project (SWEEP).[5]

Should the amendment be approved, it could significantly affect Arizona's ability to comply with the EPA Clean Power Plan by allowing less flexibility in developing Arizona's State Implementation Plan. For more information on the Clean Power Plan's potential impacts to Arizona, see our Clean Energy Online Forum.

**Criticism of the Energy Efficiency Resource Standard**

[4] http://database.aceee.org/state/arizona

[5] SWEEP Fact Sheet. Arizona Corporation Commission Issues Proposal to Eliminate State's Energy Efficiency Standards. http://www.swenergy.org/news/news/documents/file/SWEEP_EEStandardElimination_Factsheet.pdf

A recent article by Arizona Republic columnist Robert Robb posits that energy efficiency programs should not be administered by utilities, because of the fundamental conflict of interest in their principal business of making money by selling kWhs, not saving them. Instead, Robb argues conservation should be dealt with through increased rates, especially during times of peak use, to send signals to the market. Another recommendation to resolve this conflict of interest is to decouple electricity rates from sales volume, coupling rates with service instead. The ACC implemented decoupling for Southwest Gas in 2012, which underlines the value of energy efficiency services provided by the company.

***Learn more***

***http://www.azcc.gov//Divisions/Administration/Meetings/Agendas/2014/11-4-14%20Rules%2013-0214.pdf***

***If you wish to Comment***

If you would like to comment on the proposed amendment, the Arizona Corporation Commission is accepting informal comments until 5:00 pm, November 18th.

**You can file a comment at this link:**
**http://www.azcc.gov/Divisions/Utilities/forms/CommentForm.htm**
**Make sure to reference Docket Number E-00000XX-13-0214**

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