

G-011/M-88-258 APPROVING CONSERVATION IMPROVEMENT PROGRAM, REQUIRING
ADDITIONAL FILINGS, AND REQUIRING ADDITIONAL PROJECT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Implementation of an Energy Conservation Program for Peoples Natural Gas Company, a Division of UtiliCorp United, Inc.

ISSUE DATE: SEPTEMBER 28, 1988

DOCKET NO. G-011/M-88-258

ORDER APPROVING CONSERVATION IMPROVEMENT PROGRAM, REQUIRING ADDITIONAL FILINGS, AND REQUIRING ADDITIONAL PROJECT

PROCEDURAL HISTORY

On April 29, 1988 Peoples Natural Gas Company (Peoples or the Company) made its 1988 Conservation Improvement Program (CIP) filing under Minn. Stat. 216B.241 (1986) and Minn. Rules, part 7840.0200 *et seq.* On May 20, 1988 the Commission issued its Order Conditionally Accepting Peoples Natural Gas Company's 1988 Annual CIP Filing. That Order required the correction of certain deficiencies in the filing and requested additional information. On June 2, 1988 the Company made a supplementary filing meeting the requirements of that Order.

The Department of Public Service (the Department) examined the filing and submitted detailed comments on July 5, 1988. The Department recommended approval of all proposed projects. The Department also suggested several modifications to the Company's proposal, recommended that the Commission require additional explanatory filings, and asked the Commission to require the Company to implement at least one of the sample projects cited in its November 5, 1987 CIP Order.

The matter came before the Commission on September 19, 1988. Having reviewed the entire record herein and having considered the comments of all parties, the Commission makes the following findings and conclusions.

FINDINGS AND CONCLUSIONS

SUMMARY OF COMPANY'S PROPOSED PROGRAM

The Company's proposed program consists of eight projects, which are described below.

CANNON FALLS ENERGY EFFICIENCY PROJECT

This project will be conducted in conjunction with the Cannon Falls Energy Council and will offer free Home Energy Check-ups and House Doctor services to Cannon Falls residents. The Home Energy Check-up portion of the project consists of a home energy audit; the House Doctor portion consists of the installation of air filtration reduction materials and water heater blankets.

The Company anticipates that 125 households will receive both the Home Energy Check-up and House Doctor services and that another 50 will receive the Home Energy Check-up only. Approximately 25% to 30% of project participants will be low income customers, renters, senior citizens, or disabled persons. Households participating in both components of the project should save approximately 15% of their heating costs. Households participating in only the Home Energy Check-up should realize savings of 10%. The Company proposed a project budget of \$8,750.

MAHUBE COMMUNITY COUNCIL PROJECT

This project will be conducted in conjunction with a local energy assistance delivery agency, the MAHUBE Community Council. The project will provide free furnace inspections, cleanings, tune-ups, and efficiency modifications to low income customers in Becker County.

The Company estimates that 57 households will participate in the project and that savings will average 10% of the customer's heating bill. The proposed budget is \$15,000.

ROCHESTER ENERGY WELLNESS PROJECT

This project is sponsored by the Company, the City of Rochester, and the local Energy Action Committee. The project will offer home energy audits to all customers in the city of Rochester for a \$10 fee. It will also offer free energy audits and free weatherization kits to senior citizens and disabled customers. The Company anticipates 75 participants in the audit portion of the project and 75 in the weatherization portion. Average savings are estimated at 4% per household, and the total budget for the project is \$6,000.

SEMCAC FURNACE CHECK PROJECT

This project will be conducted in conjunction with SEMCAC, Inc., a local energy assistance delivery agency. The project will offer free furnace services -- inspection, cleaning, tune-ups, and efficiency modifications -- to low income customers in Dodge, Fillmore, Freeborn, Houston, Mower, Olmstead, Steel, and Winona Counties. SEMCAC is the designated administrator of several energy programs and can coordinate this project with other energy programs to provide comprehensive energy services to low income households.

The Company has budgeted \$10,100 for services to 70 households. Energy savings per household are estimated at 8-10% of total heating usage.

WEST CONCORD PROJECT

This project is sponsored by the Company and the West Concord Energy Commission. It will offer free Home Energy Check-ups to all customers in West Concord and free weatherization kits to senior citizens and disabled persons.

The Company expects 54 participants in the Home Energy Check-up portion of the project and 54 participants in the weatherization portion. Approximately 10% to 20% of Home Energy Check-up participants are expected to be low income persons, renters, senior citizens, or disabled persons. Energy savings are projected at 5% to 10% of heating usage, and the amount budgeted is \$3,240.

COMMERCIAL NON-PROFIT PROJECT

This project is designed to provide free comprehensive conservation services to non-profit organizations in the communities Peoples serves. Services will include furnace cleanings, tune-ups, and efficiency modifications, weatherization services, and replacement of furnaces and water heaters which fail to meet minimum efficiency standards. Total expenditures per participant will be limited to \$1,500, with matching funds available for projects exceeding \$1,700 on a 50/50 basis.

The Company has budgeted \$15,000 for the project and estimates that energy savings will range from 4% to 20% per participant.

LA CRESCENT PROJECT

This project will be conducted in conjunction with the LaCrescent Community Energy Council and will offer free home energy audits and weatherization kits to all customers in LaCrescent. The project will also offer an additional \$100 worth of weatherization materials to customers who are low income, senior citizens, or disabled.

The Company estimates that 28% of the project participants will be low income customers and that 15% will be renters. Participation is estimated at 75 households in the main portion of the project and 25 in the portion where eligibility is limited. Energy savings of 2% to 7% are expected from the main portion of the project and 3% to 15% for households participating in both portions.

LAKEFIELD HOME ENERGY AWARENESS TRAINING PROJECT

This project will be conducted in conjunction with the Lakefield Energy Council and will offer free Home Energy Check-ups and weatherization materials to all customers in Lakefield. The Council intends to make special efforts to market the project among low income customers, renters, senior citizens, and disabled persons, and anticipates that 40-45% of the participants will be members of these groups. The Company has budgeted \$6,000 and intends to provide services to 100 households.

COMMISSION ACTION ON PROPOSED PROGRAM

THE PROGRAM'S GENERAL ADEQUACY

The projects proposed by the Company are sound ones, and the program as a whole has many strengths. Its emphasis on increasing public awareness of conservation issues, for example, is admirable, and its commercial non-profit proposal is both innovative and promising. The program is not, however, sufficiently comprehensive or cohesive to be approved as filed, particularly in light of the fact that its budget is \$4,000 lower than last year's. To the Commission's knowledge, there has been no corresponding drop in the Company's annual revenues, and \$4,000 is a significant sum in relation to the size of Peoples' CIP budget.

The Commission does not believe the adequacy of CIP budgets can be determined mechanically, and does not suggest that a reduction in annual CIP spending is always inappropriate. Proposed spending levels must be evaluated in light of the programs they are intended to fund, the needs of the service areas they are intended to serve, the availability of other conservation programs in those service areas, and similar factors. In this case, however, there is no evidence that conservation programs have reached the saturation point in Peoples' service area, that the proposed program is so tightly focused that adding projects would jeopardize efficient administration, or that similar considerations apply. In short, there is no obvious justification for the \$4,000 reduction.

Furthermore, the proposed program would reduce the Company's CIP efforts without addressing the Commission's repeated admonitions to expand the program to commercial and industrial customers and without including or explaining the decision not to include any of the projects the Commission recommended for consideration in its last CIP Order.

The Commission concludes that the program should be expanded and will require the Company to include two more projects. One is to be developed in cooperation with a local college or university and the other is to be developed in conjunction with the Department.

ADDITIONAL PROJECTS REQUIRED

College or University Project -- The Commission recognizes that Peoples is not a large company and that the Company has limited resources to devote to developing and evaluating CIP projects. Peoples' service area does include several educational institutions whose faculty and students may have interests and abilities in these areas, however. The Commission will direct that the Company contact one or more of these institutions and secure their cooperation in developing either an additional cost effective conservation project or a research plan for predicting and determining actual energy savings from Peoples' existing CIP projects.

The Commission will initially budget \$2,000 for this project, but that amount can be increased if the Company finds that more is required.

Project to be Developed in Cooperation with DPS -- The Department is also a valuable resource for utilities planning CIP projects, and the Commission will require Peoples to work with the Department, too, to develop an additional project. The Commission again commends for consideration the following projects: Commercial Energy Audit Project, Gas Furnace/Boiler Project, Water Heater Conservation Project, Construction Conservation Project, Rating of Multifamily Housing Project, and Appliance Rebate Project. They are described in the last year's CIP Order, Order Approving Peoples Natural Gas Company's Conservation Improvement Program

and Requiring New Project and Informational Filings, G-011/M-87-236, November 5, 1987.

The Commission will initially budget \$10,000 for this project, but that amount, too, can be increased if the Company finds that more is required.

OTHER MODIFICATIONS TO THE COMPANY'S PROPOSED PROGRAM

Limitation on Furnace and Water Heater Replacement -- To avoid any confusion, the Commission clarifies that only gas furnaces and water heaters may be replaced under the Commercial Non-Profit Project approved in this Order. The Company has informally stated that this was its intent, and the Commission agrees with this limitation. Although fuel switching may sometimes be a sound conservation practice, CIP programs are not currently an appropriate means of accomplishing this.

Conservation Activities to be Integrated With Overall Planning --The Department noted, and the Commission agrees, that the Company needs to continue to integrate its conservation activities with its planning activities, particularly those related to future demand and supply. The Commission will therefore require a special filing detailing its efforts in this regard, including the Company's quantitative conservation goals and estimates of energy savings resulting from CIP expenditures to date. This information should be helpful in evaluating the Company's new project filings.

Budget Increase for Non-Profit Commercial Project -- The Company believes that there may be more demand for the services offered in the Non-Profit Commercial Project than the proposed budget can supply. The Commission will increase that budget by an additional \$2,000, to increase the project's visibility and effectiveness and to help ensure it a good start.

Budget Increase for SEMCAC Furnace Check Project -- The Company believes this project may have more applicants than its budget will allow it to serve. Since the project serves eight counties, and since there is room for expansion in the Company's total CIP budget, the Commission will increase the budget by \$2,900. This should increase the number of households served to 100.

Administrative Costs to Be Identified by Project -- The Company's proposed budget contained only one entry for administrative expenses. The Commission will require that future filings identify the administrative costs for each project, to facilitate meaningful monitoring of those costs.

Cost Effectiveness Studies to Continue -- The Commission continues to encourage and require the Company to work with the Department and other interested parties in developing and refining analytical techniques for measuring the cost effectiveness of CIP projects and programs.

COST EFFECTIVENESS

The statute requires that, to the extent possible, the conservation improvements funded by the Company be cost effective. The statute speaks of cost effectiveness in terms of the cost of conservation improvements not exceeding the cost of producing or purchasing the amount of energy saved. Nevertheless, the statute requires the Commission to ensure that utilities with annual revenues exceeding \$50,000,000 make significant investments in and expenditures for conservation

improvements, even if the level of cost effectiveness discussed above cannot be attained.

Cost effectiveness analysis for demand-side programs is an evolving area of utility regulation. The Commission, the Department of Public Service, the CIP utilities, and other parties have been engaged in studies and discussions on the issue since the CIP program began. It would be premature at this point to attempt a definitive analysis of the cost effectiveness of this year's program.

The Commission is convinced, however, that the program as modified herein is cost effective under existing standards. No party challenged the cost effectiveness of the program taken as a whole. Furthermore, the Commission agrees with parties who have pointed out in the past that CIP projects produce many benefits which are not factored into traditional cost effectiveness analyses. These include more comfortable living and working environments, ecological benefits, infusion into the local economy of dollars which would otherwise have been spent on energy, potential for long term price stability resulting from limited need for new supplies, and data on usage patterns and conservation potential derived from conservation projects.

Considering both traditional cost effectiveness measures and the considerations set forth above, the Commission concludes that the Company's program complies with appropriate and prevailing cost effectiveness standards.

CONSIDERATION FOR NEEDS OF RENTERS AND LOW INCOME PEOPLE

The program fulfills the statutory requirement of showing special consideration for the needs of renters and low income people. Two projects, the MAHUBE Community Council Project and the SEMCAC Furnace Check Project, limit participation to low income people. Data submitted by the Company suggests that the other residential projects will also attract and serve low income and rental households, and that the Company will make special efforts to promote the projects among these customers.

FILING REQUIREMENTS OF LAST YEAR'S CIP ORDER

Last year's CIP Order required the Company to include in this year's annual filing a report on its collaboration with the DPS regarding a new project, interim evaluations of its MAHUBE and SEMCAC projects, a report on its project evaluation process, and a report on its work with DPS regarding cost benefit analyses. This year's filing did include the required information, and the Company is found to be in compliance with the November 5, 1987 Order.

ORDER

1. The Commission approves the Company's CIP proposal, as modified herein. The approved plan consists of the following projects funded at the levels indicated:

Cannon Falls Energy Efficiency Project	\$ 8,750
MAHUBE Community Council Project	\$15,000

Rochester Energy Wellness Project	\$ 6,000
SEMCAC Furnace Check Project	\$13,000
West Concord Project	\$ 3,240
Commercial Non-Profit Project	\$17,000
LaCrescent Project	\$13,000
Lakefield Home Energy Awareness Training Project	\$ 6,000
Pilot Project Developed in Conjunction With College or University	\$ 2,000
Additional Project Developed in Conjunction With DPS	\$10,000
TOTAL BUDGET	\$101,900

2. The Company shall limit the replacement of furnaces and water heaters in the Non-Profit Commercial Project to the replacement of existing gas furnaces and water heaters.
3. Within 60 days of the date of this Order the Company shall file a report detailing its progress in locating a college or university willing to work with the Company in developing a pilot CIP project or a research plan for predicting and determining actual energy savings from the Company's CIP projects.
4. Within 60 days of the date of this Order the Company shall file a detailed proposal for an additional CIP project, to be developed in conjunction with the Department.
5. Within 30 days of the date of this Order the Company shall file a report containing the following information, which shall be developed in conjunction with DPS: overall energy savings from Company CIP projects to date, stated in numerical terms; the Company's conservation goals, stated in numerical terms; a description of how the Company proposes to incorporate its conservation goals and activities into its overall planning processes.
6. On or before January 2, 1989 the Company shall file interim status reports for all CIP projects approved herein. Those reports shall include at least the following information: number of participants compared to projected participation levels, expenditures to date compared to the total approved budget, total number of conservation improvements completed to date, identification of barriers to participation and proposed strategies for dealing with them, identification of any unforeseen difficulties and proposed strategies for dealing with them, an interim evaluation of each project which has been in effect for more than one year.
7. The Commission finds the Company's filing to be in compliance with all requirements set forth in last year's CIP Order, dated November 5, 1987.
8. In future CIP filings the Company shall separately identify the administrative costs for each project.
9. To the maximum extent practicable the Company shall ensure that all CIP participants have free

choice of the devices, methods, materials, sellers, installers, and contractors used in making conservation improvements to their property.

10. The Company shall continue to work with the Department in the development of cost effectiveness analyses for gas utilities. Both parties shall continue to submit cost effectiveness analyses and accompanying explanatory notes for proposed CIP projects.
11. Parties shall have 15 days from the date of filing to comment on all filing required hereunder.
12. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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