

G-002/M-88-254 APPROVING AND REVISING CIP 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 Improvement Program for Northern States Power Company Gas Utility

ISSUE DATE: December 13, 1988

DOCKET NO. G-002/M-88-254

ORDER APPROVING AND REVISING CIP PROJECT

PROCEDURAL HISTORY

On October 3, 1988, the Minnesota Public Utilities Commission (Commission) issued its ORDER APPROVING CONSERVATION IMPROVEMENT PROGRAM REQUIRING ADDITIONAL FILINGS, AND REQUIRING ADDITIONAL PROJECTS in this matter. In that Order the Commission approved Northern States Power Company Gas Utility's (NSP or the Company) proposal for Furnace Replacement Deferred Loan Projects to be delivered by both Ramsey Action Programs (RAP) and the St. Paul Energy Resource Center (ERC).

RAP proposed to replace unsafe furnaces at an average cost of \$2,000, while ERC proposed to administer the same project at a cost of \$1,500 per furnace. Because the Commission did not have adequate justification for the cost disparities, it authorized both projects at the lower funding level and ordered NSP to submit detailed information to justify the proposed higher funding level for RAP.

NSP submitted the required information on October 18, 1988.

On November 2, 1988, the Department of Public Service (DPS or the Department) filed comments on NSP's October 18, 1988 filing. The Department asked that the Commission require the Company to furnish additional information and clarification on the furnace replacement deferred loan project and related issues.

The Commission met on November 15, 1988 to consider this matter.

FINDINGS AND CONCLUSIONS

The furnace replacement projects proposed by NSP are done in conjunction with its Low Income House Doctor project. The House Doctor project is intended to provide a free package of comprehensive weatherization services and basic furnace tune-up and safety services to low income households. The Commission recognized that in some circumstances furnace replacement must precede House Doctor services. Furnaces with cracked heat exchangers are hazardous because combustion products (e.g. carbon monoxide) are released into the room air. When a house with a defective furnace is air-tightened under the House Doctor project, the hazard increases because combustion products have fewer ways to escape the home. Therefore, a home with a furnace which fails safety checks cannot participate in the House Doctor projects until the unsafe furnace is replaced or repaired.

After examining NSP's November 18 filing, the Commission finds that the \$1500 figure put forward by ERC was erroneous. That amount is ERC's estimate of the lowest cost possible for this project, not an average figure and, by ERC's own admission, would not replace anything beyond a simple warm air furnace changeout. Further, the \$1500 figure does not include administrative costs.

RAP requested \$2,000 per furnace for replacement. During the 1987-1988 CIP year, RAP's furnace replacement project showed an average replacement cost of \$1989 per furnace. This amount includes a \$150-per-furnace administration fee which the Commission authorized in the 1987-1988 CIP proceeding.

NSP also submitted RAP's contractor list and the number of replacements done by each contractor. All furnace replacements are put out for competitive bids, and RAP is confident that the lowest responsible market price is paid for each replacement. Based on this information, the Commission believes that \$1989 per furnace is a reasonable amount for funding the furnace replacement project. The Commission will authorize RAP to conduct the project. ERC's participation in NSP's 1988-1988 CIP will be considered at a later date.

Because the furnace replacement project is necessary to perform safe House Doctors, the Commission must re-examine the adequacy of NSP's proposal to fund the furnace project. RAP and the Clay-Wilkin Opportunity Council, which delivers NSP's outstate project, have found that 30% and 25% respectively of the furnaces tested in the House Doctor need to be replaced.

In its October 3, 1988 Order, the Commission approved funding for 217 RAP House Doctors. At a 30% failure rate, RAP will replace approximately 65 furnaces. The Company has proposed funding for 42 furnaces. The Commission finds that this is inadequate to support the entire House Doctor project. The Commission believes that approved projects must receive adequate funding to meet their proposed conservation goals. The Commission will require NSP to provide funding for up to 65 furnace replacements to ensure that the House Doctor project can be delivered effectively.

The Commission will approve RAP's Furnace Replacement Deferred Loan Project at \$1989 per

furnace for up to 65 furnaces as needed to support the House Doctor Project.

Also the Commission has approved a \$110 Furnace Clean and Tune and Safety Check as a component of RAP's House Doctor Project. The Commission has learned that the full \$110 clean and tune is done only on those furnaces which pass the safety check. For those which fail, RAP pays \$48 and refers participants to the replacement project. With a 30% furnace failure rate, RAP is actually paying a weighted average of \$91.40 per furnace for this component. In its October 3 Order, the Commission authorized \$479/house for this project and urged the Company to work with project administrators to reduce the furnace services component of the project's cost. The Commission finds that it is reasonable to redistribute approved funds between components of the project. The Commission will change the House Doctor project to reflect the average cost of \$91 per furnace for the furnace component and increase the weatherization part from \$369 to \$388. Further, the Commission will require NSP to file a status report detailing the distribution of these funds.

In its November 2, 1988 comments, the Department asked the Commission to require NSP to file a report on volume furnace purchase options and an explanation of why the Company has not chosen to use them.

The Company is currently using a bidding process to purchase furnaces for the furnace replacement project. At this time, the Commission is satisfied that the bidding process has allowed the Company to purchase furnaces at a reasonable price. While the Commission will not require NSP to file the information immediately, the Commission finds that a summary report on the matter may be helpful for evaluating future proposals and can easily be included in the Company's next annual CIP filing. The Commission will so order.

The Department also asked that the Commission order NSP to either include a repair option in the furnace replacement project, or at a minimum require that participants be referred to other projects or sources which provide repair services when a furnace can be repaired rather than replaced.

Following Commission staff discussions with RAP, the Commission finds that NSP funds are not used to repair furnaces. If a furnace can be repaired, RAP repairs rather than replaces the furnace, and uses funds from other sources to do the repairs.

The Commission believes that the DPS request on referrals is the current practice. Nevertheless, the Commission will order the Company to require that program participants be referred to appropriate sources when furnace repair would be more cost effective than replacement. The Commission finds that this will eliminate any confusion or possible inconsistency with the process and ensure that repair referrals are made in the future. Also the Commission finds that the idea of requiring NSP to fund repairs when warranted may save money and provide quality standards for the repairs done. Therefore, the Commission will order NSP to investigate adding a repair option to this project and report on it in its next annual CIP filing.

Finally, the Department voiced concern that the Furnace Project is not a conservation project. The DPS asked that the Commission require NSP to submit a clarification which states how the Furnace Project is primarily intended to reduce energy consumption.

The Commission finds that the Furnace Project qualifies as a CIP because it is necessary to support the House Doctor which is an approved project. Further, it can achieve significant energy savings as older, inefficient furnaces are replaced with more efficient models. The Commission, however is interested in how much energy savings do in fact result from this furnace project. Therefore the Commission will require NSP to include a statement in its next annual filing which quantifies the energy savings resulting from this project.

ORDER

1. The Commission hereby authorizes that the Furnace Deferred Loan Replacement Project, delivered by Ramsey Action Programs receive funding of \$1989 per furnace for up to 65 furnaces as needed to support the House Doctor Project.
2. The House Doctor Project described above shall have a budget of \$479 per house with \$91 for the furnace component and \$388 for the weatherization component. On March 1, 1989, NSP shall file a status report detailing the distribution of House Doctor funds between the weatherization and furnace components of the program.

3. NSP shall file a report on the feasibility of volume furnace purchasing in its next annual CIP filing.
4. NSP shall require that program participants be referred to appropriate sources when furnace repair is more cost effective than replacement.
5. NSP shall investigate and file a report on adding a repair option to the furnace replacement project in its next annual CIP filing.
6. NSP shall file a report quantifying the energy savings which result from the furnace replacement project in its next annual CIP filing.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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