

E-002/M-90-1159 ORDER GRANTING TIME EXTENSION AND DECLINING TO  
GRANT 1991 DSM INCENTIVE WITHOUT PERFORMANCE-BASED REVIEW OF 1991  
DSM EXPENDITURES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner
Patrice M. Vick	Commissioner

In the Matter of the Proposal of Northern States Power Company's Electric Utility for a Demand-Side Management Incentive Mechanism

ISSUE DATE: October 15, 1991

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ORDER GRANTING TIME EXTENSION AND DECLINING TO GRANT 1991 DSM INCENTIVE WITHOUT PERFORMANCE-BASED REVIEW OF 1991 DSM EXPENDITURES

**PROCEDURAL HISTORY**

On December 18, 1990, Northern States Power Company (NSP or the Company) filed a proposal for an experimental demand-side management (DSM) incentive mechanism. The proposal combined a bonus return on rate base concept with a strategy for compensating the Company for lost margins due to load management.

On March 19, 1991, the Commission issued its ORDER APPROVING PROPOSAL AND REQUIRING FURTHER FILINGS. In that Order the Commission approved the Company's proposal to capitalize certain conservation (DSM) expenditures and earn a return on them, with a 5% bonus rate of return on equity applied to the unamortized portion. The Commission further required the Company to develop and file a performance-based mechanism that would link the Company's receipt of the incentive to the reduction in energy use or deferral or avoidance of capacity addition.

On June 23, 1991, NSP filed its performance-based mechanism and its evaluation plan.

On August 6, 1991, the Commission issued its ORDER DEFERRING CONSIDERATION OF PROPOSAL AND REQUIRING FURTHER FILINGS. In the Order the Commission required Northern States Power Company (NSP) to file additional information and a revised proposal for integrating cost-effectiveness measures into its performance-based mechanism for its 1991 DSM incentive plan within 60 days.

On September 16, 1991, NSP requested a time extension to November 1, 1991 to file the revised proposal. The Company also proposed that for 1991 it receive the incentive approved by the Commission in its March 19, 1991 Order and that its revised performance-based mechanism apply prospectively to its 1992 Conservation Improvement Plan (CIP).

On September 24, 1991, the Commission met regarding this matter and decided to hold the matter over for further consideration.

On October 1, 1991, the Commission met to consider this matter.

### FINDINGS AND CONCLUSIONS

#### Waiver of Performance Review for 1991 DSM Incentive Plan

In its September 16, 1991 filing, NSP proposed to receive the incentive discussed in the March 19, 1991 without demonstrating that its DSM expenditures actually resulted in any reduction in energy use or deferral or avoidance of capacity addition. The Commission finds no justification for this proposal.

In its March 19, 1991 Order, the Commission approved NSP's DSM incentive proposal with the specific understanding that a performance mechanism, to be drafted by the Department and NSP, would be would become an integral part of the plan.<sup>1</sup> The performance-based mechanism was to link Company reward to a reduction in energy use or deferral or avoidance of capacity addition. The reward or incentive established in the March 19, 1991 Order was that the NSP would earn its rate of return, plus a bonus of 5%, on the unamortized DSM expenditures.

The Commission has consistently indicated that a performance-based mechanism was to be an integral part of NSP's incentive mechanism that the incentive was to be a reward for cost-effective performance. The fact that NSP has not yet filed the performance-based mechanism required in the March 19, 1991 Order is no reason to waive a performance-based review of NSP's DSM activities for 1991 and the notion that NSP should receive the incentive only for DSM expenditures that are shown to have been cost-effective.

#### Time Extension

In its September 16, 1991 filing, NSP also requested a further extension of time, to November 1, 1991, for filing its proposal for integrating cost-effective measures into the performance-based mechanism for its DSM incentive plan. The Company

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<sup>1</sup> In its March 19, 1991 Order, the Commission stated: "The Commission will, . . . , require that the parties work together and submit a proposed performance mechanism within 90 days, as they agreed. In light of this upcoming contribution, the Commission will approve the Company's DSM incentives proposal." ORDER at page 6. See also Ordering Paragraph 2 of the Order: "Within 90 days of the date of this Order, NSP shall file a performance-basis mechanism to be integrated with the incentive mechanism approved herein. . . . ." ORDER at page 7.

explained that the due date for its revised proposal set by the August 6, 1991 Order coincided with the dates that the Company must file its Integrated Resource Plan (IRP) and Conservation Resource Plan (CIP) for 1992.

The Commission finds that NSP's request for a time extension is reasonable and will grant it. An extension to November 1, 1991 delays the filing of the revised plan less than 30 days and will relieve the Company of significant time pressures. An extension to November 1, 1991 should result in a better revised proposal.

#### Additional Filing Requirement

In its September 16, 1991 filing, NSP requested incentive treatment for expenditures made on 1991 CIP projects that it had filed long before the Commission established the incentive for DSM projects in its March 19, 1991 Order. As indicated previously in this Order, incentive treatment in general will follow a performance review of DSM expenditures and depend upon findings of cost-effectiveness. In addition, however, the Commission has not decided whether expenditures made for CIP projects filed before DSM incentives were established should receive DSM incentive treatment. In its November 1, 1991 filing, NSP will address that issue.

#### ORDER

1. The proposal of Northern States Power Company (NSP) that it receive the demand side management (DSM) incentives established in the March 19, 1991 Order without performance review and without regard to the cost-effectiveness of its 1991 DSM expenditures is denied.
2. NSP's request for an extension of time is granted. NSP shall file its proposal for integrating cost-effectiveness measures into the performance-based mechanism for its 1991 DSM incentive plan on or before November 1, 1991.
3. In its November 1, 1991 filing, NSP shall also address the issue of whether expenditures made for CIP projects filed before DSM incentives were established should receive DSM incentive treatment.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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