

E-015/M-91-458 ORDER APPROVING EVALUATION PLAN AND METHOD TO
CALCULATE LOST MARGINS AND BONUS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of Minnesota
Power's Demand Side Management
Financial Incentive Pilot
Program Compliance Filing

ISSUE DATE: August 21, 1992

DOCKET NO. E-015/M-91-458

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AND METHOD TO CALCULATE LOST
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PROCEDURAL HISTORY

On March 12, 1992, the Commission issued its ORDER ESTABLISHING DEMAND SIDE MANAGEMENT INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS. In this Order, the Commission approved Minnesota Power's (MP's) demand side management (DSM) incentive pilot plan, as modified, and required the Company to file 1) a plan for measuring lost margins attributable to conservation and 2) a plan for evaluating the financial incentives pilot project within 45 days of the date of the Order.

On April 28, 1992, MP filed the requested plans.

On May 27, 1992, the Minnesota Department of Public Service (the Department) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments on the Company's April 28, 1992 filing.

On June 10, 1992, MP filed response comments.

On August 6, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In this Order the Commission considers 1) a plan for measuring MP's lost margins attributable to conservation and 2) a plan for evaluating MP's financial incentives pilot project.

A. Measuring Lost Margins

In its March 25, 1992 Order in this matter, the Commission decided that it would serve the interests of administrative to

examine lost margin calculations and bonuses in conjunction with the Company's annual Conservation Improvement Plan (CIP) evaluation filing. With that purpose in mind, the Commission, established April 1 as the annual date for the Company to file its calculations of lost margins and applicable bonuses or penalties. Further, to avoid conflicts over how lost margins and bonuses would be calculated during that annual review the Commission began a process to clarify in advance how those calculations would be made. The Commission directed MP to file a proposed method for calculating those items within 45 days of the Order. ORDER ESTABLISHING DEMAND SIDE MANAGEMENT FINANCIAL INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS (March 12, 1992).

1. Calculating the Bonus

MP proposed to calculate the net savings from large cost-effective conservation projects by subtracting the project costs from energy savings and then share those net savings equally between ratepayers and shareholders. MP termed its bonus a double shared savings incentive bonus.

2. Calculating the Lost Margins

MP filed a summary of how it would measure the energy savings achieved by each of its five direct impact projects. For its three residential CIP projects, MP proposed measurement techniques including status/participation reports with pre/post kWh usage analysis. For its C&I and Large Power projects, MP proposed using customer interviews and engineering studies supplemented by company, customer and manufacturer's data. MP stated that it would file evaluation plans for additional projects that are part of its 1992-93 CIP once those projects are approved by the Department.

B. Evaluating MP's DSM Financial Incentive Plan

MP indicated that its evaluation proposals were based on the criteria listed in Minn. Stat. § 216 B.16, subd. 6c (1990). MP proposed to compare 1990-91 CIP expenditures, 1992-93 required CIP expenditures (per mandated levels) and 1992-93 actual CIP expenditures to measure increased utility investment in cost effective energy conservation. To assess the compatibility of its conservation plan with the interests of utility ratepayers and other interested parties, MP stated that it would compare six factors over two time periods. Finally, to assess whether the incentive is linked to the utility's performance in achieving cost-effective conservation, MP proposed to compare 1991 proposed versus actual expenditures and kW/kWh savings to 1992-93 proposed versus actual expenditures and kW/kWh savings. For the 1992-93 period, MP proposed to compare the proposed versus the actual lost margins recovered. To improve the overall effectiveness of

its evaluation efforts, MP stated that it would assess basic components of its administrative process, including its accounting, recordkeeping and evaluation functions.

C. Commission Action

The Commission has reviewed MP's proposals in conjunction with the several modifications proposed by the Department and RUD-OAG. The Commission finds that the Company's plans will be improved by all those modifications except the Department's recommendation that MP perform additional end-use metering for its C&I motor evaluations. The Commission, therefore, will approve MP's plans, as modified in this Order.

ORDER

1. The plans proposed by Minnesota Power (MP) for calculating lost margins and the bonus and for evaluating its demand side management (DSM) financial incentive plan are hereby approved with the following modifications:
 - a. MP shall perform additional control group studies for two of its residential projects: Electric Energy Services and Community Energy Council projects; and
 - b. MP shall use partially weather-normalized data to compute lost margins and use completely weather-normalized data to compute bonuses with respect to all its projects that use weather-sensitive data.
2. MP shall file expanded commercial and industrial impact evaluations on or before December 1, 1992, based on the results of its work with the DSM Consortium and the 1992 PowerGrant and ICPII projects.
3. MP shall file evaluation plans for any additional 1992-93 projects upon approval of the projects by the Department.
4. MP shall file the results of any large scale evaluations completed before April 1, 1993 or any changes to the evaluation plans currently on file in this docket.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)