

E-017/M-91-457 ORDER ACCEPTING REPORTS WITH MODIFICATIONS

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 the Proposal of  
Otter Tail Power Company for a  
Demand-Side Management Financial  
Incentive

ISSUE DATE: July 6, 1993

DOCKET NO. E-017/M-91-457

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MODIFICATIONS

**PROCEDURAL HISTORY**

In the 1987 general rate case filed by Otter Tail Power Company (Otter Tail or the Company), the Commission allowed the Company to establish a tracker account for the recovery of prudently incurred Conservation Improvement Program (CIP) expenses. The Commission ordered the Company to make annual filings regarding the status of its CIP tracker account; the Company has duly filed its annual CIP tracker filing since 1988.

On March 12, 1992, the Commission issued its ORDER ESTABLISHING DEMAND SIDE MANAGEMENT INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS in the above-captioned docket. In that Order the Commission approved, with modifications, the Company's demand side management (DSM) pilot project. The basic plan consisted of a carrying charge applied to the CIP tracker balance, full recovery of lost margins due to conservation efforts, and a one-time bonus for each kWh saved. The Commission required the Company to file a plan for measuring lost margins attributable to conservation, and a plan for evaluating the financial incentives pilot project.

On August 21, 1992, the Commission issued its ORDER APPROVING EVALUATION PLAN AND METHOD TO CALCULATE LOST MARGINS AND BONUS. In that Order the Commission approved, with modifications, the Company's proposals for calculating lost margins, for evaluating its DSM incentive plan, and for calculating a DSM incentive bonus.

On April 1, 1993, the Company filed its first DSM financial incentive pilot project report.

On April 9, 1993, the Company filed its CIP report for the conservation year extending from July 1, 1991 through June 30, 1992.<sup>1</sup>

On May 17, 1993, the Department of Public Service (the Department) filed comments regarding the Company's annual CIP tracker filing and the Company's DSM pilot project report.

On May 17, 1993, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments regarding the Company's DSM report.

On June 1, 1993, the Company filed reply comments.

On June 3, 1993, the Company's CIP tracker report and its DSM report came before the Commission for consideration.

## FINDINGS AND CONCLUSIONS

### **I. The CIP Tracker Report**

#### **A. The Company Filing**

The Company's CIP tracker report included the conservation costs incurred by the Company and the amounts collected from customers through the conservation cost recovery charge (CCRC) for the CIP year ending June 30, 1992. In the report Otter Tail noted that the conservation expenses for the CIP year are greater than the credit for the revenues allowed for the CIP programs. The Company therefore proposed adding \$410,739 in project expenses and \$36,507 in carrying charges to the existing tracker balance of \$443,373. With these additions, the overall balance in the tracker account as of June 30, 1992 would be \$890,619.

#### **B. Comments of the Parties**

The Department recommended acceptance of the Company's CIP tracker report, with three modifications. First, the Department stated that costs for the Power Stat and Heat Pump projects should be deducted from the Company's 1992 CIP costs, since those proposals were denied by the Commissioner of the Department in her March 27, 1992, Decision. Second, the Department recommended that costs of the Industrial Research Project be removed from the Company's CIP proposal, because that project was under consideration by the Commissioner of the Department at the time

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<sup>1</sup> The Company also included reports on CIP years ending 1987, 1988, 1989, 1990, and 1991 in its filing.

of the CIP filing. Third, the Department recommended that the Commission no longer require the Company to file separate CIP tracker and DSM reports. According to the Department, these reports should be combined into an annual filing to be submitted each April 1. Both reports should be based on data from the previous calendar year.

Based upon unrelated grounds, the Company accepted the Department's recommendation regarding the removal of costs for the Power Stat proposal. The Company did not, however, agree with the Department's recommendations regarding the Heat Pump or Industrial Research projects. The Company argued that development costs (and in the case of the Heat Pump project, wind-up costs) for these projects had occurred during the past CIP year. Although the Heat Pump plan was ultimately rejected and the Industrial Research project had not been approved at the time of the CIP filing, the development costs were necessary and prudent. According to the Company, all costs incurred in the development and research phase of conservation projects, to the point of project approval or disapproval, should be includable in the CIP tracker. From the point of disapproval of a project, only wind-up costs should be includable in the tracker.

The Company agreed with the Department that the CIP reports and DSM reports should be combined into one filing to be submitted each April 1. The Company also agreed that the reports should reflect the previous calendar year.

The Company and the Department agreed that in future CIP tracker filings the Company would apply its current rate of return, rather than the FERC AFUDC rate, to calculate carrying charges. This change would bring Otter Tail into conformity with the carrying charge calculations used by other utilities.

### **C. Commission Analysis**

The Commission finds that an annual CIP/DSM filing will be the most administratively efficient method of reporting on the CIP tracker and DSM projects. Bringing both reports onto a calendar year basis will better facilitate Commission and Department review. The Commission also finds that the calculation of carrying charges at the Company's current approved rate of return is logical and appropriate.

Analysis of the Company's proposed development and wind-up costs must begin with an analysis of the annual CIP review process. The annual tracker review is meant to focus on the process of tracking expenses and revenues associated with approved CIP projects. In the annual proceeding the Commission reviews a company's tracker reports to ensure that expenditures are properly included and that any under- or over-collected balance does not become burdensome to ratepayers. Anything beyond this

scope of review is more properly taken up in a general rate case proceeding, in which the Commission is free to review the actual tracker balance, including the prudence of expenditures.

Otter Tail has included in the tracker the development expenses for the Industrial Research project, which was not approved at the time of the Company's filing, and development and wind-up costs for the Heat Pump project, which was rejected by the Commissioner of the Department prior to the Commission's annual CIP tracker review. The Commission finds that these costs are not within the scope of the Commission's annual tracker review of approved CIP projects, as explained above. The Commission will therefore remove these costs from the Company's 1992 CIP tracker account. The Commission notes that exclusion of these costs from the Company's 1992 CIP tracker will not preclude the Company from submitting these expenses for possible recovery in its next general rate case. The general rate proceeding, not the annual CIP tracker review, is the proper context for final determinations regarding the prudence and recovery of CIP expenses.

The Commission notes finally that utilities such as Northern States Power Company and Minnesota Power are currently including research and development costs in a separate CIP budget within their CIP programs. Creation of such an account could enable Otter Tail to bring future project research and development expenses into the scope of the annual CIP tracker review process.

## **II. The DSM Report**

### **A. The Company Filing**

Otter Tail's DSM filing contained a discussion of each financial incentive segment, an evaluation of the DSM financial incentive pilot project, and an evaluation of individual direct impact projects, including documentation of 1992 savings.

In order to calculate lost margins and a bonus per kWh, the Company determined actual 1992 kWh savings. Otter Tail used engineering estimates, survey information and limited end-use metering to arrive at direct impact savings. Lost margins per kWh were developed by customer class. The Company applied two tests to its 1992 savings figures to determine any DSM bonus. After applying the kWh Performance Test and the Net Avoided Revenue Requirements test, the Company calculated a bonus of \$23,721 for kWh conserved in 1992. Otter Tail proposed adding this amount to its CIP tracker account.

Otter Tail applied two tests to evaluate its DSM financial incentive pilot project. Under the Net Benefit Test, the 1992 annualized net benefits (total avoided revenue requirements less

total project costs) were divided by 1992 kWh conserved on an annual basis. The resulting calculation, 16.8 cents per kWh, is a basis of comparison for future evaluations.

The second test applied to the DSM financial incentive pilot project was the Efficiency Test. Under this test, total project costs were divided by the total number of kWh conserved during 1992. The end product of the calculation is 14.8 cents per kWh, another useful basis for future comparisons. The Company also included an analysis of actual expenditures to budget and an analysis of project mix and customer satisfaction as part of its financial incentive program evaluation.

#### **B. Comments of the Parties**

The Department recommended acceptance of the Company's DSM filing, with two modifications. The Department stated that the Company had erred in its calculations of direct savings from the "Efficient Motor Project." The Department also noted that the Company exceeded its CIP budget for the "Lights 2000" project by \$8,763, or 26%. The Department therefore recommended that any amount over 110% of the Lights 2000 budget be excluded from the CIP tracker. The Department also recommended that the lost margins and bonus calculations be modified to reflect the adjustments in the Efficient Motor and Lights 2000 projects.

The RUD-OAG expressed its overall approval of Otter Tail's use of DSM to encourage energy savings. The RUD-OAG stated its belief that improved measurements of energy savings will enable Otter Tail to implement its DSM program more effectively. According to the RUD-OAG, measurable linkage between the implementation of the program and actual energy savings is vital. The RUD-OAG therefore recommended that the Commission require the Company to explore the connection between its DSM activities and energy savings in its next annual DSM report.

The Company did not object to the Department's recommended recalculation of the Efficient Motor Project energy savings. Otter Tail did not agree, however, with the Department's recommendation regarding the Lights 2000 project. According to the Company, the amount which the Department considered in excess of the 1992 CIP budget was actually attributable to 1993 project development expenses. The Company requested that these expenses be included in the 1992 tracker account but designated for the 1993 project.

Otter Tail agreed with the RUD-OAG that greater accuracy in energy savings calculations would lead to more efficient DSM projects. The Company did not agree that a study of the impact of DSM activity on customer energy use would be cost beneficial at this time. The Company stated that its resources could be better used in the promotion of conservation projects.

### C. Commission Analysis

The Commission finds that the Company's DSM filing fulfills the requirements of the March 12, 1992, and August 21, 1992 Orders. The Commission agrees with the Department's recommendations regarding adjustments to the Efficient Motor project calculations.

The Commission finds that the Company's alleged overspending on the Lights 2000 project is not subject to review at this time. As previously stated, annual CIP tracker reviews are focused on the tracker process itself, not on the amounts included in the tracker. The prudence of the Company's expenditures on Lights 2000 will be examined in the Company's next rate case. At that time, the Department and the Company can state their positions regarding the Company's level of spending on this project.

Although the RUD-OAG's comments were pertinent and well-considered, the Commission will not follow the agency's recommendation to require a Company investigation of the effects of DSM. The Commission is not evaluating the Company's DSM projects at this time. When the Company is required to refile its DSM proposal in late 1993, the merits of the program will be properly before the Commission. At that time, the Commission will examine the effects of the projects on customer energy use, as well as other aspects of the Company's DSM plan.

### ORDER

1. Otter Tail's April 9, 1993 CIP tracker report is accepted, with the following modifications:
  - a. Otter Tail shall subtract the costs (and associated carrying costs) for the Industrial Research, Power Stat and Heat Pump projects from its 1992 CIP tracker account. Otter Tail shall submit a compliance filing reflecting this modification within 30 days of the date of this Order;
  - b. In all future CIP tracker reports, Otter Tail shall use its currently approved rate of return as the carrying charge on the tracker balance.
2. Otter Tail's April 1, 1993 DSM financial incentive pilot project report is accepted, with the following modification:

Otter Tail shall correct an error in actual kWh savings for the Efficient Motor project and shall recalculate

its lost margin and bonus for 1992 based on this change. Otter Tail shall be allowed to book \$32,069 to the tracker to reflect its lost margin and \$23,714 to the tracker to reflect the bonus earned in 1992.

3. For future filings, Otter Tail shall combine its CIP tracker report and its DSM financial incentive pilot project report as one report, to be submitted on April 1 of each year. The information in the CIP tracker report and the annual DSM incentive report shall be filed on a calendar-year basis.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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