E-015/M-91-458 ORDER ACCEPTING FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

In the Matter of the Proposal of Minnesota Power for a Demand-Side Management Financial Incentive

ISSUE DATE: August 4, 1993

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

ORDER ACCEPTING FILINGS

PROCEDURAL HISTORY

On March 12, 1992, the Commission issued its ORDER ESTABLISHING DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE PILOT PROJECT AND REQUIRING FURTHER FILINGS in the above-captioned docket. In that Order the Commission required Minnesota Power to file calculations of lost margins and Double Shared Savings Incentive amounts on April 1 of each year. The Commission also required the Company to file a plan for measuring margins lost due to conservation efforts and a plan for evaluating the Company's financial incentive. The Company's evaluation plan and measurement plan were subsequently approved by the Commission on August 21, 1992.

On February 13, 1993, Minnesota Power filed its Conservation Cost Recovery and Carrying Charge Report (the CIP tracker report) in Docket No. E-015/M-91-90.

On April 30, 1993, Minnesota Power filed its first demand-side management (DSM) financial incentives pilot program report in the current docket.

On June 1, 1993, the Department of Public Service (the Department) and the Residential Utilities Division of the Office of the Attorney General (the RUD-OAG) filed comments on the Company's CIP tracker report and DSM financial incentives report.

On June 12, 1993, Minnesota Power responded to the comments of the RUD-OAG.

The matter came before the Commission for consideration on July 14, 1993.

FINDINGS AND CONCLUSIONS

I. The Company's DSM Financial Incentive Amount/Tracker Report

Minnesota Power's DSM financial incentives report contained three parts: an evaluation of its DSM financial incentive; a discussion of the Double Shared Savings incentive mechanism; and an analysis of lost margins due to conservation resulting from approved DSM projects.

A. Analysis of lost margins

The Company's analysis of lost margins starts with its April 1, 1993 DSM evaluation report and adds additional information to arrive at the amount of conservation that occurred during 1992 as a result of approved direct impact DSM programs.

During 1992 Minnesota Power accrued $86,603 in estimated lost margins and booked this sum to its CIP tracker account on a per-month basis. Based on the April 1 filing, the Company's actual lost margin amount for 1992 was $92,509.54. The Company therefore requested an adjustment of $5,906.54 to the tracker account, to equal a lost margin total of $92,509.54 for calendar year 1992.

B. Double Shared Savings Incentive Project

Under this plan, the Company proposed sharing the net benefits caused by large conservation projects between the Company's shareholders and ratepayers. Although the Company has attempted to find possible projects to qualify for this plan, no project has been found to qualify as yet. Minnesota Power is currently reevaluating its cost/benefit test (the Ratepayer Impact, or RIM test) to determine if a different test could enable the Company to find projects which would qualify for Double Shared Savings.

C. Evaluation of incentive mechanism

According to the Company, the evaluation process can determine the impact of the lost margin and Double Shared Savings incentives on the quality and effectiveness of the Company's 1992 DSM efforts. The Company proposed a number of benchmarks which, taken together, could measure the impact of the DSM financial incentives. The Company considered its first year evaluation an interim effort, which would become more meaningful in future years.

The Company noted the following benchmarks in its incentive evaluation:

1. Annual CIP expenditures are increasing;

2. Energy savings increased between 1991 and 1992, even though participant numbers declined;

3. Increased energy savings produced emission reductions;

4. The number of formal CIP advisory groups involved in the development of new CIP projects increased;

5. Although costs per kWH and kW increased from 1991 to 1992, the Company noted that residential projects in 1991 were predominantly educational, with no direct energy savings;

6. Low income participation and expenditures were declining. The Company stated that this phenomenon did not reflect a long term trend. The change might reflect an increased focus on purchasing real electrical savings and a move away from educational programs.

II. Comments of the Parties

A. The Department

The Department reviewed the Company's February 13, 1993 CIP tracker report and its April 30, 1993 DSM financial incentives report and found that each was in compliance with governing Commission Orders.

The Department stated that it supports the Company's conservation efforts. In the Department's opinion, another year or two will be necessary to determine the effectiveness of the Company's financial incentive.

The Department recommended that the Commission approve the Company's CIP and DSM filings. The Department also recommended approval of the Company's proposed adjusting entry of $5,907 in the CIP tracker account. According to the Department, the Company's future CIP tracker reports should be filed annually on April 30, along with the DSM financial incentive reports.

B. The RUD-OAG

The RUD-OAG raised two main issues in its comments regarding the Company's DSM filings.

First, the RUD-OAG questioned the level of effectiveness of the DSM incentive in promoting customer investment in energy efficient technology. The RUD-OAG argued that incentives themselves should be cost-effective, as well as supportive of energy savings. The agency suggested a net benefits approach for evaluating financial incentives.

The RUD-OAG noted the possibility of "free riders," parties who reap the financial incentives for conservation efforts which they would have made without incentives. The RUD-OAG recommended that Minnesota Power be required to investigate the incremental contribution made by its DSM programs to the spontaneous adoption of energy efficient devices. The Company should include this evaluation, as well as an evaluation of the PowerGrant program, in its April 1994 DSM compliance filing.

The RUD-OAG expressed concern regarding the nonuse of the Double Shared Savings incentive. The agency suggested that the Company explore the Societal Cost test or the Total Resource Cost test as a replacement for the RIM evaluation test.

The second issue raised by the RUD-OAG was Minnesota Power's method of accounting for energy savings from three DSM programs, Electric Energy Services (EES), Community Energy Councils (CEC), and Triple E. The RUD-OAG noted that the Company had not used a calculation method which was previously approved by the Commission. Although the RUD-OAG calculated that the Company's method only added an additional $1183.39 of lost revenues, the agency expressed concern regarding the use of non-approved measurement methods.

C. Minnesota Power

Minnesota Power replied that additional evaluations of its financial incentives were unnecessary; the Company had already evaluated its lost margin incentive from eight different perspectives. The Company argued that any possible free riders were offset by "free drivers," parties who take the conservation action, but do not participate directly in the utility conservation program.

The Company stated that it did use a non-approved method for calculating energy savings from the three DSM programs cited by the RUD-OAG. The Company explained that a lack of data had caused it to revise its methods, and that it would review its evaluation methods in its 1994 DSM filing.

III. Commission Action

A. Timing of future filings

The Commission agrees with the Department that annual filings of the CIP tracker report and the DSM financial incentives report are interrelated and should be concurrent. In the future, the Commission will require the two filings to be submitted each April 30.

B. Evaluation issues

The RUD-OAG raised questions regarding spontaneous adoption of conservation methods and the PowerGrant program. The Commission agrees that the RUD-OAG has focused on some important issues regarding cost/benefit analysis and incentive effectiveness. The issues, however, are beyond the Commission's present review, which is properly focused on the amount of lost margin to book to the tracker account for 1992. Minnesota Power will be required to file for a continuation of its DSM financial incentive program when it expires at the end of 1993. At that time, the evaluation issues raised by the RUD-OAG should be explored by the Company. The Commission will require the Company to address these issues in any future filing regarding the continuation, modification or replacement of the Company's incentive plan. The issues could also be addressed in the Company's biennial CIP filings, which include evaluation plans for each project.

C. Double Shared Savings

The Commission shares the RUD-OAG's concern regarding the nonuse of the Double Shared Savings incentive project. The Commission notes, however, that this project, like the rest of the Company's DSM financial incentive program and evaluation methods, is relatively new. The Commission's expectation is that the Company's program and methods of measurement will undergo refinement and improvement in the upcoming years. The Commission encourages Minnesota Power to pursue aggressively a Double Shared Savings project which will be available to qualified customers. To this end, the Commission encourages the Company to complete and propose suitable modifications to the project. Any filing requesting continuation or modification of the Shared Savings project must explore the use of the Total Resource Cost and Societal Cost tests in project screening programs.

D. The three direct impact energy programs

The Commission is satisfied with the Company's explanation of its deviation from approved evaluation methods for the EES and CEC projects in its 1992 report. The Company should use Commission-approved evaluation methods in future evaluations, however.

The Triple E project merits a closer look by the Commission. This program focuses on electricity use in larger, newer, all-electric homes. Although the project has resulted in a reduction in per foot electricity for heating usage, the electricity usage for non-heating usage compared to a control group has increased by 22%. The RUD-OAG suggested a different lost margin calculation method, which would have reduced the program's lost margin amount by approximately $510.00.

As noted previously, the Company's DSM program and methods of measurement are relatively new and are in a process of refinement. The difference between the results of the Company's evaluation and the RUD-OAG's suggested evaluation is small. The Commission will not require a change in the Company's evaluation methods at this time, nor will it require an adjustment to the Company's lost margins for the Triple E program. The Commission observes that future evaluations should probably use all household electricity consumption, not just space heating, for comparison with the control group.

E. Amount booked to the tracker

The Commission finds that Minnesota Power has appropriately applied its DSM financial incentive for 1992. Minnesota Power will be allowed to book a total of $92,509.54 to its tracker account for 1992. The Commission notes that any amounts from the tracker which are proposed for recovery in the Company's next general rate case will be subject to Commission review for prudence and reasonableness.

ORDER

1. Future Minnesota Power CIP tracker reports and DSM financial incentives reports shall be filed annually on April 30.

2. In any filing to continue, modify or replace the Company's current incentive plan, Minnesota Power shall address the issues raised by the RUD-OAG regarding the spontaneous adoption of energy efficient technology.

3. In any filing that proposes modifications to the Company's Double Shared Savings incentive project, Minnesota Power shall explore the use of the Total Resource Cost and Societal Cost tests in screening programs.

4. Minnesota Power will be allowed to book $92,509.54 to its tracker account to reflect lost margins that occurred in calendar year 1992.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)