G-002/M-92-516 ORDER REQUIRING REVISED REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

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

ISSUE DATE: August 5, 1994

DOCKET NO. G-002/M-92-516

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PROCEDURAL HISTORY

On January 7, 1993, the Commission issued its ORDER APPROVING DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE PLAN WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS in the above-captioned matter. The Commission approved Northern States Power Company's (NSP's or the Company's) proposed demand-side management (DSM) financial incentive plan, as modified, as a two year **pilot project**. Among other things, the Order required NSP Gas to file, on or before May 1 of each year, a report detailing collections and expenditures in the demand-side management (DSM) tracker account, a calculation of actual energy savings and lost margins, carrying charges, bonuses and penalties for the previous year.

On May 2, 1994, NSP gas filed its first DSM incentive report with the Commission.

On June 13, 1994, NSP filed corrections to its incentive calculation.

On June 30, 1994, the Department filed comments on NSP's report.
On July 8, 1994, NSP submitted reply comments to the Department.

On July 21, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. NSP's DSM Incentive Report

NSP reported that for 1993 it had estimated an energy savings goal of 225,157 MCF and achieved 59 percent of that goal, with energy savings of 132,646 MCF. As a result, the Company stated that it lost margins of $162,924 and earned a 10 percent bonus according to its incentive.

NSP requested lost margin recovery for 1993 in spite of the fact that 1993 was a rate case test year. NSP argued that unlike its electric utility test year forecast, its gas utility test year forecast did not include expected impacts of conservation due to its Conservation Improvement Program (CIP) projects.

NSP also noted that its approved incentive called for a detailed energy savings analysis to determine energy savings and lost margins. In its report, NSP described numerous problems it had with the approved evaluation methodology, including the lack of sufficient evaluation data and the attainment of meaningless results. As a result of these difficulties, NSP used engineering estimates and participation rates to determine lost margins. NSP proposed to use engineering estimates on an ongoing basis to evaluate its incentive.

In its corrections filed June 13, 1994, NSP corrected its incentive calculation. Specifically, the Company corrected an error that it had discovered in the calculated energy savings for its Project Insulate project. Correction of that error reduced energy savings from 6.84% to 4.87%, MCF savings by 6814 Mcf, and lost margins by $10,738. NSP, therefore, revised its request for lost margins to $152,186 and its 10 percent bonus payment to $15,218.

B. The Department's Comments and NSP's Response

The Department criticized the Company's filing on several points and recommended that the Commission require the Company to revise and refile its report.

First, the Department objected to the Company determining lost margins using engineering estimates and participation rates other than those approved by the Commissioner of Public Service in the Conservation Improvement Program (CIP) process. The Department recommended that the Company be required to use the approved CIP estimates.

NSP responded that its revised estimates were based on more accurate information obtained from the CIP program.

Second, the Department criticized the Company's calculation of lost margins failed to account for savings impacts of customers who became participants during the year. The Department noted that NSP's calculation assumed that it incurred lost margins as though those customers have achieved a full years' savings. The Department recommended that the Company report the month in which participation began, and only credit lost margins from that date.

NSP responded that it would not be cost-effective to track participation dates, energy usage and monthly savings. The current engineering estimates account for averages and take into considerations ranges of energy use patterns. NSP also argued that the calculation proposed by the Department could be so burdensome as to create a disincentive for the Company.

Third, the Department noted that NSP filed for lost margins based on the 1993 calendar year, whereas its CIP year runs from October 1, 1992 to September 30, 1993. The Department recommended that the Commission find that the lost margin report should be for a CIP year rather than a calendar year.

NSP responded that it submitted the data on a calendar year basis based on its interpretation of the Commission's January 7, 1994 Order requiring that the May 1 report contain information from the "previous year."

Fourth, the Department stated that NSP should calculate the bonus using the approved engineering estimates and the CIP year calculations. In addition, the Department argued that NSP's bonus calculation is mismatched because the Company compared its 1993 calendar year data with the Commissioner's goals for the 1992-93 CIP year.

C. Commission Analysis

The Commission visited several of these issues recently in considering the report of Interstate Power Company's financial incentive in Docket G-001/M-92-517, which was filed at the same time as NSP's incentive. In that docket, the Commission determined that the Company should use the impacts established in the CIP process to calculate lost margins, and that for most utilities, the financial incentive began in the CIP year following the utility's filing of an incentive mechanism. Both of those findings are consistent with the Department's recommendations in this case.

Use of engineering estimates: the estimates approved in the CIP process are subject to rigorous examination and are the best record available to the Commission for the determination of lost margin. Though it is true that evaluation of savings changes and improves over time, it is also true that nothing precludes either the Company or the Department from petitioning the Commission for a revision of the lost margin calculation should approved savings in the CIP process demonstrate a change in impacts which is applicable to the evaluation period. In these circumstances, it appears preferable to use the estimates approved in the CIP process until they are replaced following equally rigorous examination.

Calculation of lost margin: the Company should take into account customers with only a partial year of savings. Such a calculation is not unduly is burdensome and is required of all companies involved in this process. All of the electric utilities and a number of the gas utilities currently evaluate participation on a monthly basis. The methods used are considerably less complex than suggested by the Company. Frequently, utilities assume that impacts are achieved evenly over the CIP year or the heating season, and multiply monthly impacts by the number of months the customer had the installed measure in the CIP year (or heating season). This appears to be what the Department is recommending in this case, and is consistent with the Commission's application of financial incentives to other utilities.

Starting and Ending Dates for the Incentive: Ordering Paragraph 4 of the Commission's January 7, 1994 Order in this matter requires the May 1 report to detail the lost margins of the previous year. However, when read in the context of the Company's proposal and the Order, it is clear that the Company's financial incentive was designed and approved to operate on a CIP year basis.

This interpretation is wholly consistent with the Commission's application of financial incentives to other gas utilities (electric utilities operate their CIP years on a calendar year basis). It is necessary to follow the CIP year for gas utilities because the CIP goals and impacts used to calculate lost margins and, in some cases, bonuses are established on a CIP year basis. It is not accurate for the Company to compare its 1993 calendar year performance with the Commissioner's 1992-93 CIP year goals in order to determine whether the Company is eligible for a bonus.

D. Commission Action

Based on its review of the Company's filings, the Commission will require the Company to make the modifications recommended by the Department and refile its 1992-93 lost margin report.

ORDER

1. By December 1, 1994, Northern States Power Company (NSP or the Company) shall refile the report it filed May 2, 1994 regarding the first year of the Company's two-year demand-side management (DSM) financial incentive plan pilot project. In revising this

report, NSP shall use the approved engineering estimates, partial customer participation data and the CIP year for its calculations.

2. Also by December 1, 1994, NSP shall file a separate report on its CIP tracker and financial incentive covering the duration of the pilot project and including any required revised information.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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