E-015/M-94-406 ORDER ACCEPTING FINANCIAL INCENTIVE 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 Minnesota Power's Demand-Side Management Financial Incentive Mechanism

ISSUE DATE: August 24, 1994

DOCKET NO. E-015/M-94-406

ORDER ACCEPTING FINANCIAL INCENTIVE REPORT

PROCEDURAL HISTORY

On May 3, 1994, Minnesota Power filed its second annual demand-side management (DSM) financial incentive report.

On June 3, 1994, the Department of Public Service (the Department) filed comments recommending approval of the Company's DSM report.

No other party filed comments.

The matter came before the Commission for consideration on August 18, 1994.

FINDINGS AND CONCLUSIONS

I. The Company's Report

The Company's May 3 filing contains three major sections: a 1993 conservation improvement program (CIP) cost recovery report; a 1993 report on lost margins; and an evaluation of its DSM financial incentive mechanism.

The report does not include a study of the free rider issue, as required by the Commission in its February 4, 1994 Order[1] extending the pilot financial incentive program. The Company explained that its study of the free rider issue is not complete at this time. In calculating lost margins for 1993, therefore, the Company assumed free riders to be equal to free drivers and made no adjustment to reflect either factor.

A. CIP Tracker Account Activity Report

In 1993 Minnesota Power booked $3,433,821 in CIP costs, $392,698 in carrying charges, and $464,576 in lost margins to the CIP tracker. The cumulative tracker balance as of December 31, 1993, was $8,274,430.

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[1] In the Matter of the Proposal of Minnesota Power for Approval to Continue Its Demand Side Management Financial Incentive and Approval of a New Financial Incentive, Docket No. E-015/M-93-1051, ORDER EXTENDING PILOT PROJECT, REQUIRING FURTHER FILINGS, AND AUTHORIZING WORKING GROUP.

B. Report on Lost Margins

The Company reduced the lost margin tracker amount by $12,513.88 to reflect two errors it found in 1992 lost margin calculations. The reduction was included in the current tracker because lost margin balances are cumulative.

During 1993, Minnesota Power accrued $464,576.06 in estimated lost margins and booked this amount to its CIP tracker on a per-month basis. Based on project evaluations, the Company calculated the actual 1993 lost margin amount to be $698,375.33. The Company is therefore requesting approval of an adjusting entry of $239,705.81.

Minnesota Power used the following evaluation methodologies to calculate energy and demand savings for its CIP projects: engineering estimates with control group analysis; billing analysis; participant surveys; and site-specific engineering studies.

The Company filed proposed changes to its 1993 evaluation plans for specific CIP projects. It also filed evaluations for three new direct impact CIP projects previously approved by the Department.

C. Evaluation of DSM Financial Incentive Mechanism

Minnesota Power's filing also included an evaluation of its DSM financial incentive mechanism.

II. Commission Analysis

The Commission agrees with the Department that the Company correctly calculated its lost margins and carrying charges. The Commission will allow the Company to book $392,698 in carrying charges, $698,375.33 in 1993 lost margins (after adjustment), and $12,513.88 in net reduction of 1992 lost margins to its CIP tracker account for 1993.

The Commission will take no action on the CIP tracker account activity report included in this filing. This docket reaches only the booking of lost margins and carrying costs to the CIP tracker, not the actual approval or recovery of those costs.

The Commission will not analyze the Company's evaluation of its DSM financial incentive mechanism at this time. The working group called by the Commission is currently exploring the financial incentive issues for all Minnesota electric utilities. The Commission will examine the group's report (expected in late September, 1994) before evaluating Minnesota Power's financial incentive mechanism.

ORDER

1. The Commission approves Minnesota Power's request to book lost margins of $698,375.33 and carrying charges of $392,698 to the Company's CIP tracker account for 1993.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar

Executive Secretary

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