

**ISSUE DATE: September 25, 2000**

**DOCKET NO. G-002/M-00-536**

**ORDER APPROVING NEW CIP ADJUSTMENT FACTORS AND 1999 DSM  
FINANCIAL INCENTIVES**

**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Gregory Scott  
Edward A. Garvey  
Joel Jacobs  
Marshall Johnson  
LeRoy Koppendrayner**

**Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner**

**In the Matter of a Request by NSP Gas for  
Approval of New CIP Adjustment Factors  
and Approval of 1999 DSM Financial  
Incentives**

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**PROCEDURAL HISTORY**

**On May 1, 2000, Northern States Power Company - Gas Utility (NSP Gas or the Company) filed a request for approval of conservation-cost recovery amounts contained in its Conservation Improvement Program (CIP) tracker account and the approval of its 1999 Demand-Side Management (DSM) financial incentive. In addition, the Company requested approval of revised CIP adjustment factors as well as a proposal for removing exempt customers from CIP cost recovery, pursuant to Minnesota Statute § 216B.241.**

**On June 27, 2000, the Company filed revised schedules.**

**On June 30, 2000, the Department of Commerce (DOC) filed comments recommending approval of the Company's 1999 CIP expenditures, the Company's revised CIP adjustment factors and the 1999 DSM financial incentive. The DOC disagreed with the Company's proposal for recovering the 1999 DSM financial incentive attributable to the exempt customers in a single payment. The DOC proposed an alternative method of collecting the 1999 incentive from exempt customers.**

**On July 10, 2000, NSP Gas filed reply comments disagreeing with the DOC's recommendation for recovering the 1999 incentive from the exempt customers.**

**On July 10, 2000, Marathon Ashland Petroleum filed comments supporting NSP Gas' proposal for settling all costs with exempt customers.**

**On August 9, 2000, NSP Gas submitted revised schedules.**

**On August 31, 2000, this matter came before the Commission.**

## FINDINGS AND CONCLUSIONS

### I. NSP Gas' Request

**On May 1, 2000 NSP filed a request for approval of NSP Gas 1999 CIP expenditures and 1999 DSM financial incentives and approval of a revised CIP adjustment factor for non-exempt customers. The Company also requested approval of a one-time refund of CIP costs collected from exempt customers after December 31, 1999 and the collection of the portion of the 1999 DSM financial incentive owed by the exempt customers as a single charge. Each of these will be discussed in turn.**

### II. CIP Expenditures, 1999 DSM Financial Incentives and the CIP Adjustment Factor

#### A. 1999 CIP Expenditures

**NSP Gas requested recovery of \$3,176,443 for CIP expenditures in 1999 and \$24,269 for 1999 carrying charges in the CIP tracker account.**

**The DOC recommended that the amounts requested by NSP Gas for CIP expenditures and carrying charges on the CIP tracker account for 1999 be approved.**

#### B. 1999 DSM Financial Incentives

**Under the shared-savings DSM financial incentive plan approved by the Commission,<sup>1</sup> NSP Gas is to receive a performance bonus based on the percent of net benefits that the Company achieved. The incentive for NSP Gas is triggered when the Company achieves 91 percent of its planned net benefits. The incentive is capped at 30 percent of the Company's approved budget or actual spending, whichever is less.**

**NSP Gas achieved 1999 energy and demand savings of 214 percent of its savings goal. NSP Gas requested recovery of \$931,630 for the 1999 DSM financial incentive, which is the cap based on the Company's actual spending.**

**The DOC reviewed NSP Gas' energy-savings claims and determined that the Company's energy-savings claims were reasonable. The DOC recommended approval of the 1999 DSM financial incentive of \$931,630.**

#### C. The CIP Adjustment Factor

**The CIP adjustment factor is designed to do two things: (1) recover amounts spent under CIP in excess of amounts built into base rates; and (2) recover amounts earned under the Commission's program of financial incentives to encourage conservation.**

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<sup>1</sup> See the Commission's ORDER APPROVING DEMAND SIDE MANAGEMENT FINANCIAL INCENTIVE PLANS in Docket Nos. E,G-999/CI-98-1759 and G-002/M-99-550.

**The two programs are closely related. Under the CIP program, utilities are required to spend specified percentages of their gross revenues on conservation services for their customers. All amounts spent are fully recoverable from ratepayers.<sup>2</sup> Under the financial incentives program, utilities are permitted to recover bonuses or other financial rewards for successful conservation initiatives.<sup>3</sup>**

**Both programs are established by statute. The CIP program, however, is mandatory, while the financial incentives program is authorized at the discretion of the Commission.**

**The Commission permits NSP and other utilities to record CIP costs incurred and financial incentives earned in a single CIP tracker account. The Commission also permits NSP and other utilities to recover earned financial incentives through the rate adjustment permitted for CIP costs under Minn. Stat. § 216B.16, subd. 6b.**

**The Company makes an annual filing reporting its CIP costs, truing up past discrepancies between forecasted and approved expenses, detailing its eligibility for conservation financial incentives, and setting forth the CIP adjustment factor it proposes to apply to customers' bills to recover both amounts.**

**NSP Gas proposed a CIP adjustment factor for non-exempt customers of \$0.00092 per therm for all customer classes.<sup>4</sup> This is in contrast to current factors that range from (\$0.00050) to (\$0.00067) depending on customer class. The proposed change in the CIP adjustment factors would result in an annual increase in a typical residential gas customer's bill of approximately \$1.78. The calculation of the CIP Adjustment Factors was based on the current sales forecast as ordered by the Commission.<sup>5</sup>**

**The DOC recommended approval of a CIP Adjustment factor of \$0.00092 per therm per customer class.**

### **III. The Exempt Customers**

**Minnesota Statutes<sup>6</sup> provide that a large electric customer may petition the Commissioner of the Minnesota Department of Commerce (DOC) to exempt the electric and natural gas utilities serving the large electric customer from the CIP minimum spending requirements. Effective January 1, 2000, three customers were granted a petition for exemption from NSP Gas' CIP. These customers remain responsible for CIP costs related to periods prior to**

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<sup>2</sup> Minn. Stat. §§ 216B.241, 216B.16, subd. 6b.

<sup>3</sup> Minn. Stat. §216B.16, subd. 6c.

<sup>4</sup> See August 9, 2000 revised schedules submitted by NSP Gas.

<sup>5</sup> See ORDER APPROVING LOST MARGIN REPORT WITH MODIFICATIONS, September 29, 1999, Docket No. G-002/M-99-61.

<sup>6</sup> Minn. Stat.216B.241, as amended in the 1999 legislative session.

**January 1, 2000, the effective date of the exemption.**

**The exempt customers are also responsible for their proportionate share of the 1999 DSM financial incentive. In this case NSP Gas indicated that amount was \$51,686.59.**

**The three customers that were granted an exemption from the CIP minimum spending requirements are not required to pay for NSP Gas' CIP spending after January 1, 2000. The exempt customers are, however, continuing to pay for CIP expenses via the CIP adjustment factors and the Conservation Cost Recovery Charge (CCRC)<sup>7</sup> after January 1, 2000, until the Commission orders otherwise. NSP Gas estimated that the refund amount for these expenses due to the exempt customers for the period from January 1, 2000 through June 2000 would be \$74,365; however, the final amount would be determined by the date of this Order.**

#### **IV. The Position of the Parties on the Distribution of Refunds for the Exempt Customers**

##### **A. NSP Gas' Proposal For Revenue Collected After January 1, 2000**

**NSP Gas proposed that it provide a one-time refund to exempt customers for revenue collected by the Company for conservation spending for the period after January 1, 2000 through the date of the Commission order in this docket. NSP estimated that the refund amount would be \$74,365 for exempt customers, for the period ending June 30, 2000.**

**NSP notes the final refund amount will depend on the timing of the Commission order.**

**NSP indicated it would net the exact 1999 DSM financial incentive obligation of each exempt customer with the refund due each customer. The refund the exempt customers would receive for revenue collected by the Company for the period after January 1, 2000 would be larger than the charge for the incentive; therefore, the exempt customers would receive a one time net refund.**

**After the net refunds have been issued, NSP would credit the Resource Adjustment, which appears on customer bills, to reflect each exempt customer's monthly therm use times the CCRC. This adjustment would continue as long as the customer continues to be exempt and, in effect, removes the CCRC from the exempt customer's base rates on a going forward basis.**

##### **B. DOC Proposal**

**The DOC did not agree with NSP Gas' refund proposal. The DOC believed that NSP Gas' proposal was discriminatory in that it provided for varying refund periods for customers with a common cost owed or refund due. The exempt customers would receive a one time charge for their share of the DSM 1999 financial incentive while the non-exempt customers would pay the amount that they owed over a period of time. The DOC argued that the exempt and non-exempt customers should be treated similarly regarding the charge for the**

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<sup>7</sup> Overall conservation costs are recovered through CIP Adjustment Factors and the CCRC, which is recovered in base rates.

**1999 DSM incentive.**

The DOC agreed that the granting of an exemption could result in different treatment for customers in the same customer class, but that such different treatment should not occur until after the exemption date, in this case January 1, 2000. For these reasons, the DOC proposed that CIP Adjustment Factors be used to collect the 1999 obligation from both the exempt and non-exempt customers. The DOC proposed varying CIP adjustment factors for different classes of customers to be in effect until the exempt portion of the 1999 obligation was recovered by the Company.

The DOC agreed with the Company's proposal regarding a one-time refund to exempt customers of revenue collected after January 1, 2000 by the Company via the CIP Adjustment Factor and the CCRC. The DOC saw it as reasonable to treat exempt and non-exempt customers differently after January 1, 2000, the date the exemptions were effective.

The DOC also agreed with NSP Gas' proposal to credit the Resource Adjustment to reflect the customer's monthly therm use times the CCRC. This proposal effectively removes the CCRC from exempt customers' base rates on a going forward basis.

### C. The Position of Marathon Ashland Petroleum

Marathon Ashland Petroleum (MAP) was exempted from the CIP minimum spending requirements effective January 1, 2000. MAP supported NSP Gas' proposal to make a lump sum refund to exempt customers of all CIP related collections made subsequent to January 1, 2000 and offsetting the exempt customers' share of under collections for 1999.

MAP indicated that the DOC approach was unnecessarily complicated.

## V. Commission Action

### A. 1999 CIP Expenditures and 1999 DSM Financial Incentive and CIP Adjustment Factor

The Commission agrees with the DOC that the Company has correctly calculated and recorded its 1999 CIP costs in the amounts of \$3,176,443 for CIP activities and \$24,269 for CIP carrying charges. Further the Commission agrees that the Company has correctly calculated its 1999 DSM financial incentive in the amount of \$931,630. These amounts will be approved for immediate inclusion in the Company's CIP tracker account.

The Commission agrees with the DOC that the Company has correctly calculated the CIP adjustment factor of \$0.00092 per therm to be applied to the bills of all non-exempt customers. This CIP adjustment factor will be approved.

### B. Refund to exempt customers of CIP Revenue Collected after December 31, 1999

The Commission recognizes and agrees that after December 31, 1999, exempt customers are not required to pay for NSP Gas' CIP spending. For this reason it is appropriate to refund to the exempt customers the amount of CIP costs that they have paid from January 1, 2000 through the date of this Order. This one-time refund will include the revenue collected by the Company via the CIP adjustment factors and the CCRC after December 31, 1999.

Further, in order to effectively remove the CCRC from the exempt customers base rate on a going-forward basis, the Commission will approve a credit to the Resource Adjustment to reflect the customer's monthly therm use times the CCRC on a going-forward basis.

**C. Recovery of the Exempt Customers' Share of the 1999 DSM Financial Incentive**

The Commission will approve the collection of the exempt customers' share of the 1999 DSM financial incentive as a one time charge netted against the refund of the December 31, 1999 CIP tracker balance<sup>8</sup> and the refund described in paragraph B, above. The Commission recognizes the DOC's argument that the collection of the 1999 DSM financial incentive from both the exempt customers and the non-exempt customers should be carried out in the same manner. The Commission, however, in this specific case, does not agree.

The Commission recognizes that the CIP costs are recovered over an extended period of time rather than a one time annual charge to prevent rate shock. In this situation, when there is a relatively small charge to the exempt customers (approximately \$51,686.59), rate shock is not a factor. The one time charge is cleaner and less burdensome and results in immediate closure. In the current docket, where there is a net refund, it would be more burdensome to make an immediate refund for the charges after December 31, 1999 (pursuant to paragraph B, above) followed by a charge for the 1999 DSM incentive spread out over several months.

**ORDER**

1. The Commission approves the inclusion in the CIP tracker account of \$3,176,443 spent on CIP activities and of \$24,269 in carrying charges.
2. The Commission approves recovery of a 1999 DSM financial incentive of \$931,630. NSP Gas shall record this amount in the Company's CIP tracker account as of the date of this Order.
3. The Commission approves the implementation of a CIP adjustment factor of \$0.00092 per therm for all customer classes effective with the earliest billing cycle available after the date of this Order.
4. NSP Gas shall provide a one-time refund to exempt customers of revenue collected by the Company via the CIP adjustment factors and the CCRC after December 31, 1999. NSP Gas shall credit the Resource Adjustment to reflect the customer's monthly therm use times the CCRC on a going-forward basis.
5. NSP shall collect the 1999 DSM financial incentive from exempt customers as a one time charge netted against the refund of the December 31, 1999 CIP tracker balance

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<sup>8</sup> The CIP tracker balance as of December 31, 1999 was a negative \$285,911. This represents an overpayment of costs paid by customers, including the exempt customers.

- and the refund in Ordering paragraph 4, above.
6. The Commission approves NSP's proposed tariff language changes to its CIP Adjustment Rider (Section 5, Sheet No. 43 of the Company's tariff). NSP shall file a revised CIP Adjustment Rider consistent with this Order within 10 days of the date of this Order. This revised tariff sheet shall reflect the allocation of the forecasted tracker balance to the customer classes based on the current sales forecast.
  7. This Order shall become effective immediately.

**BY ORDER OF THE COMMISSION**

**Burl W. Haar**  
**Executive Secretary**

**(S E A L)**

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