

March 25, 2002

Dear Utility Manager:

The Department of Commerce is sending this letter to provide a brief review of the impact of the new Minnesota energy law on your Conservation Improvement Program (CIP) reporting requirements, to provide new reporting forms, and to offer you any assistance necessary to complete your reporting obligations.

THE NEW ENERGY STATUTE

Year 2002 is the first year for the new procedure for implementing energy conservation practices for all Minnesota municipal electric and gas utilities and rural electric cooperative distribution co-ops. Minnesota Senate File 722, passed into law in 2001, specifically addresses the need for further energy conservation and directs your utility to implement various procedures to conserve energy generation and delay the building of additional generation facilities. I have included for your reference the sections of the new law that apply to your utility and the Department's responsibility to review the programs and energy- and demand-savings from those programs. Areas of particular importance in the new energy law are as follows:

- Energy conservation improvement means a project that results in energy conservation.
- To the extent that cost-effective projects are available in the service territory of a utility or association providing conservation services under Minnesota Statutes, section 216B.241, the utility or association shall use five percent of the total amount to be spent on energy conservation improvements on: (1) projects to construct an electric generating facility that utilizes renewable fuels as defined in Minnesota Statutes, section 216B.2422, subdivision 1, such as methane or other combustible gases derived from the process of plant or animal wastes, biomass fuels such as short-rotation woody or fibrous agricultural crops, or other renewable fuels as primary fuel source; or (2) projects to install a distributed generation facility of ten megawatts or less of interconnected capacity that is fueled by natural gas, renewable, fuels, or another similarly clean fuel.

For cooperative electric association and municipal utilities, projects under this section must be considered load management activities described in Minnesota Statutes, section 216B.241, subdivision 1, paragraph (i).

- A municipal gas utility must spend 0.5 percent of its gross operating revenues (GOR) from the sale of gas for energy conservation improvements. A municipal electric utility must spend 1.5 percent of its GOR from the sale of electricity on energy conservation improvements. A cooperative electric association must spend 1.5 percent of its GOR from service provided in the state on conservation improvements.

- Each municipality and cooperative electric association subject to this subdivision may spend and invest annually up to ten percent of the total amount required to be spent and invested on energy conservation improvements on research and development projects that meet the definition of energy conservation improvement and that are funded directly by the municipality or cooperative electric association.
- Load management activities that do not reduce energy use but that increase the efficiency of the electric system may be used to meet 90 percent in 2002 and 80 percent in 2003 of the conservation investment and spending requirements.
- By June 1, 2002, and every two years thereafter, each municipality or cooperative shall file an overview of its conservation improvement plan with the Commissioner. (For the first year, this would be for 2002 and 2003.) With this overview, the municipality or cooperative shall also provide an evaluation detailing its energy conservation improvement spending and investments for the previous period. (For the first year, this would be for 2001.) The evaluation must briefly describe each conservation program and must specify the energy savings or increased efficiency in the use of energy within the service territory of the utility or association that is the result of the spending and investments. The evaluation must analyze the cost-effectiveness of the utility's or association's conservation programs, using a list of baseline energy and capacity savings assumptions developed in consultation with the Department. Included in this packet is a timeline directing the reporting of actual spending and estimating spending for your use in providing the conservation spending information to the Department.
- The Commissioner shall review each evaluation and make recommendations, where appropriate, to the municipality or association to increase the effectiveness of conservation improvement activities. Up to three percent of a utility's conservation spending obligation under this section may be used for program pre-evaluation, testing, and monitoring and program evaluation.
- The Commissioner shall also review each evaluation for whether a portion of the money spent on residential conservation improvement programs is devoted to programs that directly address the needs of renters and low-income persons unless an insufficient number of appropriate programs are available. Low-income means at or below 50 percent of the state median income.
- As part of its spending for conservation improvement, a municipality or association may contribute to the energy and conservation account. A municipality or association may propose to the Commissioner to designate that all or a portion of the funds contributed to the account be used for research and development projects that can best be implemented on a statewide basis.

The statute also says the Commissioner may establish a list of programs that may be offered as energy conservation improvements. The list may include rebates for high-efficiency appliances, rebates or subsidies for high-efficiency lamps, small business energy audits, and building recommissioning. I have included a booklet with suggestions, energy-and demand-savings numbers, and web sites that will provide additional information in this packet.

Please note that I have only high-lighted a few points of the new energy law that I felt particularly important in completing the CIP forms. I urge you to read the complete statute. A complete version of the CIP statute is available through either the Minnesota Municipal Utilities Association, the Minnesota Rural Electric Association, or the G&T that provides your electricity.

THE REPORTING FORMS AND DEPARTMENT ASSISTANCE

I have enclosed the reporting forms and directions for completing those forms for your CIP report. The new statute requires your utility to report the actual figures for spending for 2001. I have enclosed a copy of your report filed in 2000 that included your 2001 estimate for conservation programs. This will help you in providing the Department with actual numbers. Please note that the enclosed reporting form has a column headed 2001 for the total amount spent as well as a form for individual programs and the money spent to implement them. Please make additional copies of the form for individual programs should you need them. If you are aggregating your program with other utilities, please list them on your report form and indicate who will be filing the aggregate report.

I understand there will be questions about this new process. The Department will do its very best to assist you in complying with the new statute. Please direct questions or requests for assistance to Lois Mack at 651-296-8900 or Lois.Mack@state.mn.us. The Department also asked your associations for their assistance and recommendations in implementing the new requirements. They are able to respond to your questions and help you with programs and reporting too.

Again, the Department is available to assist you in providing programs to your customers that save energy through energy conservation. To implement the programs will take a commitment from you and your utility, but the results are well worth the effort. Thank you for your help in making our state a leader in energy conservation.

Sincerely,



JAMES C. BERNSTEIN
Commissioner