

## **Information from Department of Commerce Staff Regarding Municipal CIP Filings**

The following summarizes answers we received from Department of Commerce staff (primarily Lois Mack) relative to a number of questions we had about Conservation Improvement Programs for municipal utilities under the statute as modified last year.

### **Large electric customer facilities: 216B.241 Subd. 1b(b)(1), Subd. 1h, Subd. 1a(b)**

A large electric customer must petition the Commissioner if they wish to be exempted from CIP. This is true whether the utility serving the large electric customer is a municipal, cooperative or investor-owned utility. The petition must be submitted by October 1 to be reviewed for possible exemption beginning no earlier than January 1 of the following year. The minimum contents of the petition and decision-making criteria are stated in 216B.241 Subd. 1a(b)

A large electric customer facility is one “that imposes a peak electrical demand on an electric utility's system of not less than 20,000 kilowatts, measured in the same way as the utility that serves the customer facility measures electrical demand for billing purposes, and for which electric services are provided at retail on a single bill by a utility operating in the state. The 20 mW must be at a single location or meter or billing statement. Separate buildings will not be allowed to aggregate to the 20 mW.”

Department staff said that “**on a single bill**” meant, basically, at the same facility and on the same meter. Two facilities belonging to the same customer that are across the road from each other could not be combined to reach the 20 MW level. A large facility (e.g., the MSP airport) with multiple meters cannot aggregate the meters to reach 20 MW. The demand only has to reach 20 MW in one month for the customer to be eligible for consideration of exemption.

According to the statute, if a customer is granted exemption based on the 20 MW criterion, the exemption covers both their electric and gas use. There is no separate basis, though, for exempting large gas customers who might not meet the electric threshold.

Until a municipal utility is informed by the Commissioner that a large electric customer is exempt the utility must include the revenues from that customer in calculating 1.5% of its gross operating revenues as the electric CIP spending requirement and 0.5% of its gross operating revenues as the gas CIP spending requirement, and must collect CIP funds from that customer.

It makes political sense to me to make sure that Customers who are close to reaching 20 MW demand in any one month are informed of the option they may have to be exempted (as well as the reasons why conservation is important to their business and they may not want to seek exemption).

### **Load control programs**

Department staff intend to treat the costs of marketing, administration, equipment and so on for load control programs (e.g., AC, water heaters) as conservation expenditures, and to treat the costs of customer incentives (e.g., reduction of the summer bill by \$10/month, or reduction of the cost/kWh of

energy during certain months, etc.), as load management. The load management expenditures count toward the load management spending cap (90% for 2002 and declining thereafter) (216B.241 Subd. 1b(e)). This is consistent with the way that investor-owned utilities have treated load control over the years. Their CIP filings for load control include the costs of marketing, administration, equipment and so on as CIP expenditures, but not the incentives. This in essence treats the incentives as a reduced rate that reflects the lower cost of service of these customers.

In order to be able to count the costs of marketing, administration, equipment and so on for load control as conservation expenditures, you must track these expenditures in your accounting system separately from the customer incentives. If you do not, the entire load control program budget will be treated by the Department as a load management expenditure.

### **Project descriptions for utilities moving toward aggregation in 2002-2003**

If several utilities are developing an aggregated CIP in which they will have a unified program, but do not currently have a unified program in place (because the filing date is in the middle of the first year of the biennium covered), they do not have to submit separate CIP filings for the 2002-2003 period. They can and should submit an aggregated filing. In discussion of a specific project, they should indicate in the project description what they intend the aggregated project to be and the target date on which they expect to phase it in. Within the write-up, they should describe what each utility currently is doing, which will continue until and then be superseded by the unified program. Example: If each of the utilities currently has some combination of a high efficiency central AC rebate, a high efficiency clothes washer rebate, and a compact florescent lamp rebate for residential customers, and they plan to roll all of these into an expanded Energy Star appliance/equipment rebate by, say, February of 2003, they would describe the Energy Star program they intend to have and when it will be phased in, and then describe what each utility is currently offering for residential appliance and lamp rebates, and state that these projects will be continued until the combined Energy Star project is phased in.

### **Reporting on 2001 activities**

Utilities that are aggregating their CIP for 2002-2003 but have not yet aggregated their CIPs should file their reports on 2001 activities as individual utility reports (and their CIP plans for 2002-2003 as an aggregate filing).

The Commissioner's letter of March 25, 2002 seemed to imply that all of the items in the "2001 Actual" column of the Conservation Improvement Program Report Template had to be filled out. This is not correct. They can be, but they don't have to be. The reporting on 2001 activities is governed by the old statute. At least for RPU, APU and OPU, I was advised that the summary page sent out with the letter, combined with the individual project report format they have used in the past, are ok for 2001. However, staff did note that these three utilities have provided more detail than some others, so I'm not positive that this last statement would apply for everyone. Individual municipals may want to check with the Department what they need to submit for 2001.

### **Aggregate filing and actual distribution of CIP benefits**

If two or more municipal utilities submit an aggregate filing, they must each put 1.5% (for electric) of gross operating revenues (GOR) into the joint CIP fund, but if it happens that one utility has more activity than another (e.g., gives out relatively more rebates) so that somewhat more than 1.5% of its

GOR actually gets applied to their customers, while another utility has slightly less activity, that's ok as long as they each put 1.5% into the pot that was spent. Obviously the utilities are going to want their own customers to get the benefits of their 1.5%, but undoubtedly it will not work out exactly that way.

### **Benefit/cost analysis**

Municipal utilities are not required to conduct benefit/cost analysis of their proposed or completed CIP projects at this time. (The March 25 letter from the Commissioner said that the evaluation of programs from the previous period must analyze their cost-effectiveness, but this does not mean that B/C analysis is required, at least for this filing). However, the projects still must be cost-effective (net present value of benefits to Society greater than net present value of costs). In reviewing projects to assess their cost-effectiveness, the Department will look at whether the costs and the claimed savings are reasonable, and may conduct its own benefit/cost analysis in selected cases. In general, Department staff assume that projects drawing from the Project Suggestions booklet mailed out by the Commissioner in March 2002 are cost-effective if reasonably implemented. I believe that projects not in the booklet but that the Department has approved before in other contexts (e.g., direct installation lighting projects for small business customers) are also likely to be favorably evaluated by the Department. For totally new project ideas, the Department would be looking at whether you have well documented and reasonable savings and cost estimates.

### **Renewables**

The new statute, under section 216B.2411 Distributed energy resources, states that:

(a) To the extent that cost-effective projects are available in the service territory of a utility or association providing conservation services under section 216B.241, the utility or association shall use five percent of the total amount to be spent on energy conservation improvements under section 216B.241, on:

(1) projects to construct an electric generating facility that utilizes renewable fuels as defined in section 216B.2422, subdivision 1, such as methane or other combustible gases derived from the processing of plant or animal wastes, biomass fuels such as short-rotation woody or fibrous agricultural crops, or other renewable fuel, as its 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.

(b) For public utilities, as defined under section 216B.02, subdivision 4, projects under this section must be considered energy conservation improvements as defined in section 216B.241. For cooperative electric associations and municipal utilities, projects under this section must be considered load-management activities described in section 216B.241, subdivision 1, paragraph (i).

Note that if cost-effective projects are available in the service territory, utilities shall use 5% of their CIP dollars on them. Also, municipals must count these costs under their declining load-management cap.

The statute says that the projects must be in the utility's service territory and must be cost-effective. Department staff said that they want to encourage utilities to get into renewables, and have encouraged things like allowing customers to buy a certain number of kWh from a wind tower in the past. They feel the Commissioner is a strong supporter of wind, and that even though the tower may not be in the service territory, the program is likely to be ok'ed. Note that only costs not covered by revenues received from customers (e.g., from higher rates for the renewable energy) count as CIP expenditures.

Photovoltaics can be treated as renewables or also can be treated as R&D (or some combination, e.g. a rebate counted under a renewable budget and detailed metering for analysis purposes counted as R&D).

We didn't discuss the Department's anticipated treatment of other DG options.

### **Revenues from services provided to customers**

If a utility operates demand-side programs that receive some revenues from customers (e.g., for consulting fees, audit fees, green pricing premiums), the costs that are reimbursed by customer revenues do not count toward the CIP spending requirement. Other costs do count, though. For example, if a large customer paid for an engineering study (or paid part of the cost), the costs they paid would not count toward the CIP spending requirement, but if they went on to implement conservation or load management or renewable measures that received incentives from the utility through CIP, the incentive costs would count toward the CIP spending requirement.

### **Energy Star**

The Department encourages Energy Star rebates even though they may not be cost-effective on an individual customer basis. The Department views Energy Star as a way to transform the market for high efficiency appliances. (This implies that the program has additional benefits beyond the specific units rebated, because in the long run it induces additional people to buy high efficiency appliances who wouldn't have otherwise).

Department staff said they would be receptive to rebates to trade allies (retailers, contractors) instead of or in addition to customer rebates.

### **Newsletters, educational presentations, advertisements, etc.**

Expenditures on these activities are only CIP-eligible to the extent that the content is energy-efficiency or energy-conservation related. If ¼ of the content in regular customer bill inserts is on these topics, ¼ of the cost is eligible, for example. These are "indirect impact" activities. CIP is direct-impact oriented and the Commissioner wants to see as much of the CIP budget as possible spent on direct-impact activities, with indirect impact activities keep to a minimum portion of the budget.