3 Program Operation

SUMMARY

The Department of Commerce's process for reviewing the utilities' Conservation Improvement Programs should be improved. The Legislature should give the department the authority to review utility plans for the Conservation Improvement Program (CIP) every four years, rather than every two years. With fewer plans being filed each year, the department would have more time and resources to review each plan and to address the deficiencies in the current review process that we identified. In addition, we recommend that the department eliminate its policy that restricts communication between the department's policy staff and analysts about CIP plans. This restriction makes the review process inefficient and creates confusion.

For the most part, Minnesota's statutes, rules, and procedures for CIP facilitate the selection and execution of cost-effective conservation projects. However, the program includes some provisions that reduce its cost-effectiveness. For example, state law requires utilities to devote a share of their CIP funding to projects that assist low-income households. But, in many cases, the utilities have reported that these projects are not cost-effective. We recommend that the Department of Commerce work with the utilities and other stakeholders to develop and implement a plan to improve the performance, evaluation, and oversight of low-income conservation projects.

Although we found in Chapter 2 that the Conservation Improvement Program (CIP) is a cost-effective program, we also wanted to assess whether the program could be made more effective and administered more efficiently. Consequently, in this chapter, we address the following research questions:

- **How well does the Department of Commerce oversee CIP?**
- **Do state statutes, rules, and procedures facilitate or hinder the selection and execution of cost-effective conservation activities?**

To answer these questions, we reviewed (1) CIP's statutes, rules, and procedures; (2) the investor-owned utilities' CIP plans and status reports; and (3) relevant national literature. We also interviewed Department of Commerce staff, officials from all 8 investor-owned utilities, and representatives from 11 other stakeholder groups. Table 3.1 lists the organizations that we interviewed and divides them by

Table 3.1: Organizations Interviewed by OLA

Investor-Owned Utilities
- Aquila (which owns both Northern Minnesota Utilities and Peoples Natural Gas)
- CenterPoint Energy Minnegasco
- Great Plains Natural Gas
- Interstate Power and Light
- Minnesota Power
- Otter Tail Power
- Xcel Energy

Statewide Associations for Municipal and Cooperative Utilities
- Minnesota Municipal Utility Association
- Minnesota Rural Electric Association (which represents electric cooperative utilities)

Conservation / Environmental Advocates
- Center for Energy and Environment
- Izaak Walton League
- Minnesotans for an Energy Efficient Economy
- St. Paul Neighborhood Energy Consortium

Low-Income Advocates
- Community Action Programs (including Minnesota Community Action Association, Community Action of Minneapolis, and Ramsey Action Program)
- Energy Cents Coalition
- Legal Services Advocacy Project

Business Advocates
- Minnesota Chamber of Commerce
- William Glahn (from Dahlen, Berg, and Co.)

SOURCE: Office of the Legislative Auditor

the type of organization. With respect to Northern Minnesota Utilities and Peoples Natural Gas, we only interviewed Aquila, which owns both utilities.[1]

National organizations have recognized Minnesota for having an effective, well-run conservation program.

In our review, we found that:

- **Minnesota has a good system and process for carrying out energy conservation, but the state's conservation program needs to be improved.**

As we discussed in Chapter 2, CIP is a cost effective program. Furthermore, national organizations have recognized Minnesota for having an effective, well-run program. According to a scorecard developed by the American Council for an Energy-Efficient Economy (ACEEE), Minnesota had the 5th best conservation program in the country in 2000.[2] When ACEEE updated the scorecard in 2002, it did not provide an overall ranking but ranked states on three

1 We selected the non-utility organizations by identifying Minnesota organizations that have submitted comments or alternative projects for more than one utility's CIP plan in the last six years. We also interviewed four other organizations (Minnesota Municipal Utility Association, Minnesota Rural Electric Association, Community Action Programs, and Minnesota Chamber of Commerce) because they were identified as representing a key interest in the CIP program.

2 Dan York, Ph.D., and Marty Kushler, Ph.D., *State Scorecard on Utility and Public Benefits Energy Efficiency Programs: An Update* (Washington, DC: American Council for an Energy-Efficient Economy, December 2002), 5.

separate measures. On this scorecard, Minnesota ranked 12th in conservation spending per capita, 11th in conservation spending as a percentage of utility revenues, and 3rd in electricity savings as a percentage of electricity sales.[3] Finally, a study sponsored by the Regulatory Assistance Project found that:

> [Conservation] efforts have dwindled in [some] states through the failure of regulators to pay attention. Minnesota is the exception. The strong role of MNDOC oversight in Minnesota is similar to the strengthened role assigned to DOER in Massachusetts. Giving greater direct responsibility for oversight to an adequately staffed state energy office appears to have improved program functioning in both states though both were working on an already solid foundation.[4]

However, state oversight of the program could be streamlined.

However, as we will discuss in this chapter, Minnesota's statutes, rules, and procedures need to be revised to make CIP even better. The Department of Commerce's process for reviewing the conservation activities of the investor-owned utilities can be unnecessarily burdensome. In addition, the state is not maximizing the cost-effectiveness of the program.

The first section of this chapter addresses the Department of Commerce's oversight and review of CIP, and the second section examines program requirements that reduce the cost-effectiveness of CIP. In the third section, we discuss CIP's low-income program. While the first three sections of the chapter address aspects of CIP for investor-owned utilities, the fourth and final section discusses the Department of Commerce's oversight of municipal and cooperative utilities.

OVERSIGHT OF INVESTOR-OWNED UTILITIES

As we discussed in Chapter 1, the state has structured CIP to be a utility administered program; however, the investor-owned utilities have an incentive to minimize conservation because it reduces their sales and profits. Consequently, there is a need for the Department of Commerce to closely monitor the utilities' activities to ensure they are carrying out CIP in the public's best interest. While the state needs to monitor utility activities, it does not want the review process to be overly burdensome. Preparing and reviewing paperwork runs the risk of becoming the focus of the program, rather than carrying out effective conservation projects. In this section, we examine the level of oversight that the department provides and whether the process could be improved or streamlined.

---

3 *Ibid.,* 19-20.

4 Cheryl Harrington and Catherine Murray, *Who Should Deliver Ratepayer Funded Energy Efficiency: A Survey and Discussion Paper* (Gardiner, ME and Montpelier, VT: Regulatory Assistance Project, May 2003), 19.

The Review Process

To assess the review process, we examined the amount of documentation the department reviewed in the summers of 2002 and 2003 and how thoroughly the department reviewed it. We found that:

- **Investor-owned utilities provide a large amount of documentation so that the Department of Commerce can verify that the utilities are meeting program requirements and expectations.**

Although CIP plans are lengthy, the Department of Commerce often requires additional data from utilities.

As we discussed in Chapter 1, the review process starts with the investor-owned utilities submitting biennial CIP plans, which range in length from about 100 to over 500 pages. These plans provide descriptions of the utilities' conservation projects, information about how the utilities expect to meet each CIP requirement, and program data (including expected spending, participation, energy savings, and capacity savings levels). The plans also provide information on four benefit-cost calculations (societal, utility, participant, and ratepayer) for each conservation project and on the engineering and economic assumptions used in these calculations. In addition, this is often not enough information for the department's analysts to fully assess the conservation programs. For the plans that the department reviewed in the summers of 2001 and 2002, the department asked each utility to formally respond to between 1 and 22 additional information requests. Every utility except one had to respond to at least eight additional information requests. Furthermore, this count of information requests does not include all the informal telephone and email exchanges between the utilities and the department's analysts.

Furthermore, each investor-owned utility must submit an annual status report to the department, which provides information about the utility's activities and achievements during the previous year. These reports generally range in length from 100 to 200 pages.

With respect to how thoroughly the department reviews all this documentation, we found that that:

- **The Department of Commerce reviews the investor-owned utilities' CIP plans and status reports relatively thoroughly.**

For each biennial plan submitted by the investor-owned utilities, the department carries out a three-part review. First, the department's economic analysts verify that the plans comply with the program requirements listed in Table 1.1 and that the utilities plan to maintain their historical level of performance. Specifically, they check that the utilities' proposed energy savings per dollar of CIP spending are consistent with their historical levels. This assessment helps ensure that the Commissioner sets the utilities' conservation goals sufficiently high to warrant a bonus payment for the utilities. As discussed earlier, utilities receive a bonus payment for meeting or exceeding the conservation goals set by the Commissioner. In the second part of the department's review, the engineering staff examine each utility's engineering assumptions used to estimate the effectiveness of the program. For example, they check whether the energy savings claimed by the utilities are reasonable. After the economic analysts and

engineers have completed their reviews of each plan, they develop recommendations and a proposed decision for the Commissioner. In the third and final part of the review, the department's policy staff (including the Commissioner or Deputy Commissioner) examine (1) the utilities' plans to ensure that they are consistent with the administration's policy goals, (2) the recommendations from the department's analysts and engineers, and (3) comments from the public. When this last review is completed the Commissioner (or Deputy Commissioner) working with the other policy staff issues a final decision concerning each plan, which includes spending, participation, energy savings, and capacity savings goals.

While the Commissioner of Commerce has the authority to approve and order changes in the CIP plans of the investor-owned utilities, the current Commissioner has delegated this authority to the Deputy Commissioner. In this chapter, we will refer to the authorities and responsibilities of the Commissioner, but in many cases, it is the Deputy Commissioner who is carrying them out in the current administration.

The department also reviews the investor-owned utilities' annual status reports. Specifically, the department determines whether each utility (1) met its CIP spending requirements, (2) carried out projects that were cost effective, and (3) met its goals for participation and energy conservation. In addition, the department reviews the engineering assumptions for the utilities' custom projects. As we discussed in Chapter 1, the custom projects involve rebates for commercial and industrial customers who have unique equipment or operations that do not fall within the utilities' standard conservation projects. The department reviews the custom projects after they have been carried out (rather than before hand when they review the CIP plans) because, at the time the CIP plans are prepared, the utilities and department do not know what types of equipment will receive rebates. Finally, the department reviews any results in the status reports that appear abnormal or inconsistent.

The department annually spends roughly $300,000 to review the CIP activities of the investor-owned utilities.

These reviews cost the department roughly $300,000 per year and require the equivalent of about three full-time employees. The department spent $369,000 administering CIP in 2002, while it spent $206,000 in 2003.[5] The department charges these costs back to the investor-owned utilities who pay for them with their CIP funds. While $300,000 is a considerable amount of money, it represents less than 1 percent of CIP's overall program costs. As Table 3.2 shows, over half of the department's staff time for CIP came from the economic and engineering staff. The policy staff and attorneys accounted for the rest.

The department's review of CIP plans leads to several types of changes. First, the department will change inappropriate assumptions or calculations used for assessing a project's effectiveness. For example, in Northern Minnesota Utilities' 2003-04 CIP plan, the department reduced the energy savings for a 92 percent efficient furnace from 16.66 to 14.12 Mcf (thousand cubic fee) of natural gas

5 Office of the Legislative Auditor analysis of unpublished data from the Department of Commerce, received by the Office of the Legislative Auditor on September 22, 2004. According to the department, the figures for 2002 are artificially high because the department did not finish reviewing all the plans from 2001 until 2002. Thus, the 2002 staff costs include time for finishing the 2001 review.

The department devotes the equivalent of three full time employees to the investor-owned utilities' CIP activities.

Table 3.2: Department of Commerce's FTEs for CIP, by Type of Staff

Type of Staff	2002	2003
Economic Analysts	2.0	1.4
Technical Staff/Engineers	0.2	0.1
Policy Staff	1.5	1.0
Attorneys	0.1	0.0
Total	3.8	2.5

SOURCE: Office of the Legislative Auditor analysis of unpublished data from the Department of Commerce, received by the Office of the Legislative Auditor on September 22, 2004.

because the utility made a simple calculation error.[6] The department also rejects proposed conservation projects if they do not meet CIP's requirements or are inappropriate. For example, in its 2003-04 plan, Xcel proposed using CIP funds to study the effect that charging different electric rates at different times of the day will have on how much electricity is consumed and when it is consumed.[7] The department rejected the study for two reasons. First, the proposed evaluation would have put Xcel's evaluation budget over the 3 percent cap that is discussed in Chapter 1. Second, the department's analysts reasoned that Xcel would likely carry out this study even if CIP did not finance it.[8]

When reviewing the investor-owned utilities' CIP plans, the department also assesses alternative conservation projects proposed by outside stakeholders, such as environmental advocates. For example, in 2002, the Green Institute and the Phillips Community Energy Cooperative proposed a two-year project to market energy conservation projects in the Phillips neighborhood of Minneapolis. The Commissioner approved the two organizations' request for $260,000 of funding from Xcel's CIP.[9] Finally, if a utility's CIP plan does not show that the utility intends to maintain its historical level of energy-savings per dollar of CIP spending, the department's analysts generally recommend that the Commissioner of Commerce increase the utility's overall energy savings goal. For example, the

6 Aquila Networks (formerly Northern Minnesota Utilities), *2003-2004 Biennial Conservation Improvement Program* (Kansas City, MO, June 2002), table after page 33; and Department of Commerce, *Decision in the Matter of the Implementation of the 2003-04 Conservation Improvement Program for Aquila Networks-NMU* (St. Paul, October 11, 2002), 10.

7 Xcel Energy, *Biennial Plan for 2003 and 2004 Minnesota Natural Gas and Electric Conservation Improvement Program* (Minneapolis, June 2002), 418.

8 Department of Commerce, *Analysis, Recommendations, and Proposed Decision of the Advocacy Staff of the Energy Division of the Minnesota Department of Commerce Regarding Northern States Power Company D/B/A Xcel Energy's Conservation Improvement Program, 2003*-2004 (St. Paul, October 2002), 17-18 and 78-80; and Department of Commerce, *Decision in the Matter of the Implementation of the 2003-2004 Conservation Improvement Program for Xcel Energy* (St. Paul, November 25, 2002), 13.

9 Department of Commerce, *Analysis, Recommendations, and Proposed Decision Regarding Xcel Energy's Conservation Improvement Program 2003-2004*, 62 and 84; and Department of Commerce, *Decision in the Matter of the Implementation of the 2003-2004 Conservation Improvement Program for Xcel*, 12.

department raised Interstate Power and Light's 2004 energy savings goal from 18,484 to 19,989 megawatt-hours for this reason.[10]

As we have already discussed, outside stakeholder groups assist the department in scrutinizing the plans. In the 2002-2003 period, several outside stakeholder groups commented on the utilities' plans or proposed alternative conservation projects. Table 3.3 summarizes the number of organizations that submitted comments or alternative projects.

Outside stakeholder groups assist the department in scrutinizing CIP plans.

Table 3.3: Number of Organizations Submitting Comments or Alternatives Concerning Each Utility's CIP Plan, 2003-04 or 2004-05

Utility	Number of Organizations
CenterPoint Energy Minnegasco	4
Great Plains Natural Gas	0
Interstate Power & Light	2
Minnesota Power	4
Northern Minnesota Utilities	0
Otter Tail Power	2
Peoples Natural Gas	0
Xcel Energy	7

SOURCE: Office of the Legislative Auditor compilation of information from the Department of Commerce's proposed and final decisions regarding the investor-owned utilities' 2003-04 or 2004-05 CIP plans.

All this scrutiny typically does not lead to a lot of changes in the utilities' CIP plans. Table 3.4 shows the percentage changes in each utility's proposed conservation goals that (1) the department's analysts recommended and (2) the Commissioner of Commerce actually ordered. The Commissioner increased or decreased the goals by up to 16 percent from the level originally proposed by the utilities. While a 16 percent change in CIP goals is substantial, a 0 to 5 percent change is more typical. The department's analysts generally recommended a bigger change to the proposed goals than the Commissioner ended up ordering.

In addition, the department did not make significant changes to the utilities' conservation programs after reviewing their 2003 status reports. However, the department did encourage the utilities to strengthen poor-performing projects. For example, the department ordered two utilities that fell far below their goals for their low-income projects to submit progress reports and/or work with department staff to improve the project's performance. The department also reduced the energy savings claimed by utilities for some of their custom projects. After reviewing 40 out of 314 custom electric projects and 69 out of 212 custom gas projects, the department reduced the energy or capacity savings for 10 of these projects.

10 Department of Commerce, *Analysis, Recommendations, and Proposed Decision of the Advocacy Staff of the Energy Division of the Minnesota Department of Commerce Regarding Interstate Power and Light Company's Conservation Improvement Program, 2004-2005* (St. Paul, October 2003), 18-19; and Department of Commerce, *Decision in the Matter of the Implementation of Interstate Power and Light's 2004-2005 Biennial Conservation Improvement Program* (St. Paul, December 11, 2003), 8.

Table 3.4: The Department of Commerce's Percentage Changes to Utilities' Proposed Conservation Goals, 2003-04 or 2004-05 CIP Plans

	Analysts' Recommended Change in:			Commissioner's Ordered Change in:		
Utility	Spending Goal	Energy Savings Goal	Capacity Savings Goal	Spending Goal	Energy Savings Goal	Capacity Savings Goal
CenterPoint Energy Minnegasco	2.66%	0.23%	N/A	0.00%	0.00%	N/A
Great Plains Natural Gas	0.00	-3.41	N/A	0.00	-3.28	N/A
Interstate Power (electric)	0.00	7.09	16.23%	0.00	7.09	16.23%
Interstate Power (natural gas)	0.00	0.00	N/A	0.00	0.00	N/A
Minnesota Power	15.13	10.81	30.82	-1.35	0.00	0.00
Northern Minnesota Utilities	0.35	-2.67	N/A	0.35	-2.67	N/A
Otter Tail Power	-4.37	0.00	0.00	-4.21	0.00	0.00
Peoples Natural Gas	5.60	4.81	N/A	5.60	4.81	N/A
Xcel (electric)	4.03	5.28	3.29	1.91	4.92	1.89
Xcel (natural gas)	4.30	3.32	N/A	4.30	3.32	N/A

SOURCE: Office the Legislative Auditor review of conservation goals in the Department of Commerce's proposed and final decisions concerning the gas utilities' 2003-2004 CIP plans and the electric utilities' 2004-2005 CIP plans.

The department's changes to the utilities' conservation programs after reviewing their CIP plans and status reports may only be modest because the utilities believe that they need to submit good conservation programs and supporting documentation to get through the department's scrutiny. A utility official who administers CIP told us that the department's analysts know the utilities' conservation activities as well as anyone after the analysts have reviewed the plans. An official with another utility told us that the department provides a high level of scrutiny for the custom projects that this utility sponsors. According to this official, the utility is much more careful in documenting its assumptions and calculations knowing that a sample of these projects will be audited by the department's engineers. However, this admiration is not universal. Some utility officials think that the department's analysts are too involved and micromanage CIP by examining the assumptions and details so closely. Another utility official felt that the level of the department's scrutiny varies with each analyst and that the utilities' engineers are more qualified than the department's engineers. Thus, it is hard for the department to really dispute the utility's assumptions.

While we found that the department monitors the investor-owned utility's CIP activities relatively closely, we also found that:

- **In some areas, the Department of Commerce does not provide enough scrutiny.**

The department's review of engineering assumptions is less formal for the electric utilities than it is for the natural gas utilities.

The department's review process has several weaknesses. First, the department's review of engineering assumptions is less formal for the electric utilities than it is for the natural gas utilities. On the natural gas side, the department collects a more consistent set of engineering assumptions from each utility, which allows the department to compare and contrast each utility's assumptions to ensure they are reasonable and consistent. On the electric side, the department allows utilities to determine the form of the assumptions and level of detail that they submit to the department for review. Consequently, the department's assessment of the

electric assumptions is much more ad hoc and less systematic. Furthermore, the engineers spent about 20 percent less time in 2002 and 2003 reviewing the CIP activities of the electric utilities than the natural gas utilities. These discrepancies are noteworthy since the electric conservation program is about four times bigger than the natural gas program in terms of investor-owned utility expenditures.

Part of the difference in the department's review of the natural gas and electric CIP plans may be caused by the fact that the department collaborated with the utilities to develop the natural gas model (called "BENCOST") used to measure program effectiveness. In contrast, all four electric utilities have purchased a proprietary model (called DSManager) to measure program effectiveness. The department does not have access to this model or have a staff person trained in its use. Consequently, the department is unable to directly examine how the DSManager model uses the utilities' assumptions to measure effectiveness.

The department does not review the marketing efforts of the utilities.

Another potential area of weakness is that the department does not review the utilities' marketing efforts. While advertising and promotions account for only 6.5 percent of the utilities' CIP budgets, marketing is an important part of CIP. If people do not know about CIP and the rebates that it offers, they will not participate in the program. If people do not know about energy-efficient products and processes, they will never choose them. In its oversight role, the department should take steps to ensure that the utilities have successful marketing strategies. For example, during our interviews with the utilities, we learned that they rely heavily on "bill stuffers" to promote CIP because it is an inexpensive strategy. If the utility is mailing a bill to a customer, it is relatively easy and inexpensive to include promotional material with the mailing. However, some outside stakeholders question the effectiveness of this approach because they think that the vast majority of customers just throw the promotional material away without reading it.

Finally, and probably most importantly, Chapter 2 discusses several problems in the utilities' benefit-cost calculations that the department should be catching or addressing. These problems include out-of-date assumptions, inconsistent assumptions and methods, structural problems in the benefit-cost formulas, and assumptions that distort the relative effectiveness of individual conservation projects. As we discussed, some of these problems can have significant impacts on the estimated effectiveness of CIP projects.

The department needs to address these deficiencies in its review process. In Chapter 2, we already recommended that the department and utilities should correct the problems in the benefit-cost estimates. But CIP needs a more systematic change. Specifically, the department needs more time and resources to review the utilities' conservation programs more closely without making the review process overly burdensome.

RECOMMENDATION

The Legislature should give the Department of Commerce the authority to switch CIP from a two-year to a four-year program, and the department should increase the level of scrutiny that each plan receives.

With a four-year program, the utilities would have the option of filing their CIP plans with the department every four years, rather than every two years. This longer filing cycle would have two primary benefits. First, it would reduce the volume of material that the utilities would have to file each year, which would free time and resources for the utilities to make sure that they are designing and running the best possible conservation programs. Second, the department would have the time and resources to examine the CIP plans in greater detail and address the oversight problems that we have raised. If all eight investor-owned utilities filed four-year plans, the department would only have to review two plans per year, rather than its current average of four plans per year.[11] Under this new system, the utilities should still be required to file annual status reports.

Having the utilities file CIP plans less frequently should give the department more time to review each plan.

With more time and resources to review each plan, the department could collect a more detailed and consistent set of engineering assumptions from the electric utilities (as it does for the natural gas utilities). The department could also examine the possibility of purchasing or gaining access to DSManager. Alternatively, the department could examine the possibility of requiring the utilities to use another model that would be more accessible to the department.

In addition, the department could examine other utility assumptions and methodologies in greater detail—for example, how the utilities estimate their avoided costs of energy, capacity, and environmental damage. As we discussed in Chapter 2, one of our consultants found some substantial inconsistencies in how the utilities estimate their avoided costs of capacity. Consequently, differences in the benefit-cost ratios reported by the utilities reflect not only differences in program performance but also differences in the methodologies and assumptions used by the utilities.

Finally, the department would potentially have the time and resources to (1) look more closely at the marketing efforts of each utility, (2) send department analysts to national conferences and training sessions that address emerging trends in conservation, and (3) be more proactive in directing utilities to emerging cost-effective strategies. Currently, the department takes a passive approach to guiding utilities' conservation strategies. As we discussed earlier in this chapter, the department has relied on outside stakeholder groups and the utilities themselves to identify new approaches to conservation. In the Commissioner's decisions concerning the gas utilities' 2003-2004 plans and the electric utilities' 2004-2005 plans, the department did not require the utilities to carry out any alternative conservation project unless it was proposed by an outside stakeholder group.

However, moving from a two-year to four-year program creates several risks for the state and CIP. First, the utilities may not implement new and improved conservation strategies as quickly with a longer time between plans. Second, the engineering and economic assumptions used to develop the plans may be inappropriate by the fourth year. Likewise, the utilities' conservation goals set by the Commissioner of Commerce may be unrealistic or inappropriate by the fourth

---

11 In even numbered years, the department currently reviews five plans (Great Plains Natural Gas, CenterPoint Energy Minnegasco, Northern Minnesota Utilities, Peoples Natural Gas, and Xcel), while in odd numbered years, the department reviews three plans (Interstate Power and Light, Minnesota Power, and Otter Tail Power).

year. Third, the CIP plans may become inconsistent with the electric utilities' integrated resource plans. Electric utilities prepare these plans to identify the least-costly path for meeting the electricity needs of their customers. The plans involve a combination of generation and conservation. While the plans cover a fifteen-year period, the utilities are supposed to revise them every two years. Having CIP on a four-year cycle and the resource plans on a two-year cycle may create inconsistencies.

With a four-year filing cycle, the department will need to ensure that the utilities keep their CIP activities up to date.

The Department of Commerce can take steps to mitigate and manage these risks. The department should encourage the investor-owned utilities to submit plan modifications in the four years between the full plan filings. This would help ensure that the plans are up to date. (Under the current two-year filing cycle, utilities already file plan modifications between plans.) These modifications could be quite small—for example, changing one underlying assumption for one conservation project. Alternatively, they could be more sweeping—for example, replacing a less effective project with an emerging and more effective project. In addition, the department should have the authority to require the utilities to file plan modifications. For example, if the federal government increased the minimum efficiency standard for furnaces in the middle of the four-year cycle, the department should require the utilities to re-evaluate the effectiveness of their furnace projects and make any necessary program modifications.[12] As another example, natural gas prices may change dramatically, which would affect the benefit-cost ratios of all the gas projects. In this situation, the department should require the utilities to re-calculate their benefit-cost ratios with the up-to-date gas prices but not change the other assumptions in the calculations. Finally, the department should allow outside stakeholders to submit their own proposed plan modifications just like they can currently submit alternative projects. The department would review these modifications and decide if they should require the utilities to carry them out.

The four-year planning cycle with intervening modifications should reduce the amount of paper and information that the utilities need to submit to the department. The modifications would focus on just those areas of the program or calculations that need to be revised without having to address the areas that have not changed. This should save time and resources for both the department and utilities. If the overall circumstances surrounding a utilities' CIP program changes dramatically, the utilities would still have the option of submitting a plan every two years.

To keep each investor-owned utility's conservation goals up-to-date (for the purpose of determining each utility's bonus payment), the department should revise the goals at least once in the middle of the four-year cycle. For example, a utility would submit its 2007-2010 CIP plan to the department in 2006. At which time, the department would review the plan and set conservation goals for 2007 through 2010. However, in 2008, the department could then examine the utility's CIP plan modifications and program performance up to that point and set revised conservation goals for 2009 and 2010.

---

12 By increasing the minimum efficiency standard for furnaces, the federal government would prohibit the sale of less efficient furnaces. Consequently, with only higher-efficiency furnaces in the market, a CIP rebate may not be necessary to encourage the sale of the most-efficient furnaces.

Because the switch from a two-year to a four-year program would substantially change the way the department administers CIP and the benefits and risks of this change will be unknown until it is carried out, the state should not automatically switch to the four-year cycle. The Department of Commerce should allow one or two investor-owned utilities to file a four-year plan and see how well the new review process works. If the new process improves the operation and performance of CIP, the department should then convert the other utilities to the four-year cycle. However, the department should always give the utilities the option of filing a plan every two years. Some utilities may find that the shorter cycle serves their purposes better. Finally, while the department is testing the four-year filing cycle, it should formally solicit comments from the utilities and other stakeholders.

The Review Structure

The Department of Commerce's structure for reviewing the CIP plans of the investor-owned utilities dates back to when the Public Utilities Commission (PUC) oversaw CIP. Prior to July 1989, the PUC had the authority to approve utilities' CIP plans and order changes. Because the PUC makes its decisions in a quasi-judicial fashion, the Commission prohibits "*ex parte"* communication between the PUC Commissioners and the people who advocate for positions that they think the PUC should take. (*Ex parte* communication refers to cases where one of the advocates communicates with a PUC Commissioner without the other advocates being present or given notice of the communication.) Prior to 1989, one of the "advocates" presenting information to the PUC was the Department of Public Service whose analysts advocated for running CIP to maximize society's overall benefit. Consequently, these analysts were prohibited from communicating with the PUC other than through public documents or hearings.

On July 1, 1989, the Legislature transferred authority over CIP from the PUC to the Department of Public Service, where the advocacy analysts were already working.[13] To maintain the same decision-making structure used at the PUC, the Department of Public Service prohibited the Commissioner and his or her policy staff, who made the final decisions about the CIP plans, from communicating with their own analysts while the department reviewed the CIP plans. Department staff referred to this barrier between the policy staff and analysts as the "Chinese Wall." The purpose of the wall was to keep the policy staff at an arms-length distance from the analysts who were making recommendations to them. On July 1, 2001, the Legislature merged the Department of Public Service into the Department of Commerce.[14] As part of the merger, the Department of Public Service brought CIP and its separation of policy staff and analysts to the Department of Commerce.

While the department reviews CIP plans, the department restricts communication between its policy staff and analysts.

As we discussed earlier, the Department of Commerce has a three-part process for reviewing the CIP plans of the investor-owned utilities. In parts one and two, the department's economic analysts and engineers (the advocacy staff) review the plans and develop a recommended decision. After the analysts have developed their recommendations, the policy staff (including the Commissioner or Deputy

13 *Laws of Minnesota* (1989), ch. 338, sec. 3.

14 *Laws of Minnesota* (1Sp2001), ch. 4, art. 6, sec. 44.

Commissioner) review the plans and the analysts' recommendations before issuing a final decision about the plan. During this entire process, the analysts and policy staff have traditionally not been allowed to communicate with each other about the plans other than through formal information requests, which are public documents.[15] For example, if the Deputy Commissioner wants a clarification on a recommendation from the analysts, he or she cannot walk into the analyst's office to get the information. He has had to submit a formal information request. In the last year, the department has relaxed these rules. The department has designated a third set of staff (department managers) to convey information between the policy staff and analysts.

In assessing this process, we found that:

- **The Department of Commerce's restriction on communication between its analysts and policy staff makes the review process for CIP confusing and inefficient.**

A majority of both utility officials and other stakeholders expressed frustration with the department's decision-making structure.

During our interviews, several utility officials and other stakeholders expressed frustration with the department's decision-making structure. The current review structure limits the information and expertise available to the Commissioner (or Deputy Commissioner) of Commerce when he or she makes a final decision about a CIP activity. The process also takes a long time to carry out and has unnecessary duplication.

According to an environmental advocate, the problem with the current structure is that the Commissioner (or Deputy Commissioner) is isolated from the analysts who really understand conservation issues and the utilities' plans. This opinion is shared by some of the utilities. One utility official stated that the level of sophistication drops off when a CIP plan goes from the analysts to the policy staff. According to this official, the utilities generally have a good understanding how and why the analysts make their recommendations, but then the policy staff come in and change the recommendations without much reasoning. Another utility official stated, "It's hard to figure out what you're going to end up with (when the Commissioner makes his or her final decision)." Although some stakeholders and utilities have questioned the expertise of the policy staff, other utilities felt that the policy staff play an important role in the review process. These officials stated that the policy staff have a more balanced approach than the analysts have and are more willing to look at the utilities' perspective than the analysts are.

The communication restriction and separation of the analysts from the policy staff also adds unnecessary duplication. As some utility officials and other stakeholders told us, this arrangement has essentially created two agencies within the department, which makes the staff go through the discovery process of evaluating the CIP plans twice. First, the analysts assess and evaluate the plans, and then the policy staff go through their own discovery process. This adds excess work. As shown in Table 3.2, the policy staff devote more than one full-time employee equivalent to evaluate the CIP plans of the investor-owned utilities. While policy staff play an important role and need to be involved in CIP,

15 The analysts and policy staff can communicate informally about due dates, extensions, and other procedural issues.

they would not need to go through a separate discovery process if the communication restriction did not exist.

RECOMMENDATION

The Department of Commerce should eliminate the restriction on communication between its analysts and policy staff.

Legislative action is not required to eliminate the communication restriction within the Department of Commerce.

During our interviews, many of the utility officials and other stakeholders expressed support for allowing more communication about CIP plans within the department and streamlining the decision-making process. Furthermore, during an interview, the Deputy Commissioner of Commerce, who has been delegated authority over CIP by the Commissioner, expressed support for eliminating the communication restriction. He noted that staff from the department and the Office of the Attorney General could not find any statute preventing the Department of Commerce from eliminating the communication restriction on its own. Legislative action is not required.

Finally, while some utilities and stakeholders have expressed concern about eliminating the communication restriction and allowing the analysts to have direct access to the Commissioner, there is not a strong need to keep the restriction to protect the public interest. The analysts assess the utilities' CIP activities to ensure that the utilities comply with program requirements and use CIP to serve society as a whole. They assist the Commissioner in making sure the program is administered appropriately. Furthermore, if utilities or certain stakeholders do not like a decision made by the Commissioner, they can appeal it to the Public Utilities Commission.[16]

However, there are other risks in eliminating the communication restriction. When we asked the department's chief CIP analysts whom the restrictions protect, they said it protects them from political pressures and allows them to provide objective and impartial assessments of each utilities' plan. The analysts are insulated from the policy/political staff of the department while developing their recommendations. Furthermore, during our interviews, some utilities and stakeholders stated that they liked the department having a two-step approval process with the department's analysts first developing recommendations for public comment, and the Commissioner then making a final decision about each CIP plan. This gives the utilities and other stakeholders an opportunity to comment on the recommendations and proposed decisions before they become official.

The department could eliminate the communication restriction and keep a two-step process. With the analysts and policy staff working together, the department could still issue a proposed decision for public comment before the Commissioner issued the final decision. Alternatively, to ensure that the analysts are developing objective impartial analyses, the department could keep some communication restrictions while analysts review the CIP plans. For example, the department could have a policy that the Commissioner and other policy staff cannot communicate with the analysts while the analysts develop their

16 Minn. Stat. (2004) §216B.241, subd. 2(g).

recommendations. However, after the analysts issue their recommendations, all communication restrictions would be lifted so that the analysts could work directly with the Commissioner in making the final decision. The key is to (1) have the department go through only one discovery process and (2) provide the Commissioner with direct access to the expertise and knowledge of the analysts when making his or her final decisions.

PROGRAM REQUIREMENTS THAT REDUCE COST EFFECTIVENESS

When we reviewed the criteria that the Department of Commerce uses to assess and approve investor-owned utilities' CIP plans and activities, we found that:

- **While cost-effectiveness is a primary goal of CIP, Minnesota has statutes, rules, and procedures that reduce the cost-effectiveness of the program to achieve a desired distribution of program benefits.**

State law and the department's procedures direct CIP funds to less cost-effective projects.

The department has several procedures for ensuring that CIP projects and programs are cost-effective. First, the department will generally only approve CIP projects that pass the societal test, with the only exception being projects that specifically target low-income households or have an indirect impact on energy savings (such as energy audits and research & development). Second, in developing their recommendations to the Commissioner of Commerce concerning each utility's CIP plan, the department's analysts determine if the utilities intend to maintain their historical level of energy savings per dollar of CIP spending. If the utilities do not plan to achieve this benchmark, the analysts generally recommend that the Commissioner increase the energy savings goals being proposed by these utilities. Third, electric utilities are supposed to meet the conservation goals outlined in their 15-year integrated resource plans.

However, state statutes, rules, and procedures also address the distribution of CIP's costs and benefits. These requirements and expectations reduce the cost-effectiveness of CIP by directing CIP funding toward less effective conservation activities. For example, state law requires each investor-owned utility to allocate CIP funding to its low-income customers in the same proportion as the utility allocated CIP funding to these customers during the previous three years.[17] However, as shown in Table 3.5, conservation projects that utilities carry out exclusively for low-income customers (such as home weatherization) are generally not cost effective (as measured by the utilities in 2003.) The Department of Commerce also expects each utility to serve a broad range of customers by allocating its CIP funding to both residential and commercial/industrial customers.[18] Yet, as shown in Table 3.5, conservation projects for residential customers are generally less cost-effective than projects for commercial/industrial customers. While these two provisions reduce the cost-effectiveness of CIP by restricting how much funding the utilities may

17 *Minn. Stat.* (2004), §216B.241, subd. 2(f).

18 Department of Commerce, unpublished document titled "Criteria the Minnesota Department of Commerce Uses for Evaluating CIP Projects For Investor-Owned Utilities (Utility)," (undated), received by the Office of the Legislative Auditor on April 6, 2004.

Table 3.5: Societal Benefit-Cost Ratios by Customer Class, 2003

Customer Class	Electric Projects	Natural Gas Projects
Commercial/Industrial	3.2	2.8
Residential	2.5	1.5
Low-Income	0.6	0.7

NOTE: These figures are based on the benefit-cost ratios as reported by the investor-owned utilities.

SOURCE: The investor-owned utilities' benefit-cost data from their 2003 status reports.

allocate to commercial and industrial projects, they do ensure that residential and low-income customers have access to these funds when the utilities distribute them through conservation projects.

Furthermore, as we discussed in Chapter 1, the Department of Commerce allows Minnesota Power to allocate CIP funds to each of its remaining large industrial customers (those that are not large enough to opt out) in the exact amount that these customers paid into CIP through their billing adjustment.[19] Unlike other utility customers, these large companies are entitled to the funds they contribute to CIP and use the funds for their own conservation projects. Ideally, from a cost-effectiveness perspective, Minnesota Power should pool all its CIP funds and allocate them to the most cost-effective projects regardless of who contributed the funding. However, some of these large industrial companies do not have a large supply of cost-effective conservation opportunities. For example, pipeline companies do not have a lot of opportunities for conservation because they are a relatively simple operation, with a series of pumping stations along the pipeline. Once energy-efficient motors are installed to run these pumps, a pipeline company has no other substantial opportunity for conservation. Yet, Minnesota Power has entitled two pipeline companies in its service territory to CIP funding even if they do not have many conservation opportunities. In fact, in 2003, Minnesota Power proposed that the department allow these companies to sell their CIP funding at 50 cents on the dollar to companies that have better conservation opportunities, but the department rejected this proposal.[20]

Statewide, ten large industrial facilities have opted out of CIP, which has lowered the program's funding pool by 6 percent.

Besides laws and policies that direct CIP funding to less-effective conservation projects, CIP also has a provision that reduces program funding. As mentioned in Chapter 1, state law allows very large utility customers (facilities with 20 or more megawatts of peak electricity demand) to opt out of CIP and not pay the adjustment in their energy bills if they can demonstrate that they have made reasonable efforts to identify and carry out conservation. If the companies had stayed in CIP, the Department of Commerce could have ensured that these funds

19 Minnesota Power, *2004-2005 Conservation Improvement Program*, (Duluth, May 2003), 35.

20 Minnesota Power, *2004-2005 Conservation Improvement Program*, 37; Department of Commerce, *Analysis and Recommendations of the Advocacy Staff of the Energy Division of the Minnesota Department of Commerce Regarding Minnesota Power, Inc.'s Conservation Improvement Program 2004-2005* (St. Paul, September 2003), 23; and Department of Commerce, *Decision In the Matter of the Implementation of the 2004-2005 Conservation Improvement Program for Minnesota* Power (St. Paul, December 1, 2003), 6.

were spent cost-effectively from a societal perspective, rather than at the companies' discretion. Currently ten facilities have opted out, which has reduced CIP's funding pool by 6 percent. However, the loss of funding is heavily concentrated in Minnesota Power's CIP program, which has lost 52 percent of its funding pool.[21]

The Legislature has the option of eliminating all these provisions, which would potentially increase the cost effectiveness of CIP. However, the Legislature needs to weigh the positive aspects of adopting such a policy against the negatives. Specifically, if such a policy were adopted, some customers (such as large industrial facilities and households, particularly low-income) would have limited access to CIP funding even though these customers helped pay for the program.

LOW-INCOME PROGRAMS

CIP's low-income projects are a hotly debated topic in Minnesota's energy community. The debate is broader than the concern that these projects reduce the cost-effectiveness of CIP. During our interviews, we found that:

- **Stakeholders have raised many concerns about the design of CIP's low-income program and how utilities are implementing it.**

CIP's low-income projects are controversial.

We heard about a wide range of concerns. For example, both utility officials and low-income advocates told us that the requirement that utilities allocate CIP funds to projects for low-income customers in the same proportion that they did during the previous three years is actually a disincentive to fund low-income programs. If a utility increases its funding for low-income projects, the increase is incorporated into the utility's three-year spending base for determining future low-income spending requirements. Thus, the utilities will need to maintain this higher level of spending indefinitely, which makes them reluctant to increase spending in the first place. Furthermore, because each utility's low-income funding requirement is based on past spending levels and not on a measure of need, there is wide variation in the required level of spending. As shown in Table 3.6, CIP requires electric utilities to devote between 0.3 and 13.3 percent of their funding to low-income projects and natural gas utilities to devote between 10.5 and 33.7 percent of their funding.

During our interviews, stakeholders also raised concerns about CIP's low-income home weatherization program "piggybacking" off the U.S. Department of Energy's (DOE's) weatherization program, which is a similar program and administered by Community Action Program (CAP) agencies. Through the DOE weatherization program, CAP agencies already have a system for marketing weatherization services, determining income eligibility, and determining which weatherization measures to carry out. Consequently, the utilities have contracted with the CAP agencies to carry out their CIP weatherization programs. While this arrangement provides logistical and administrative benefits, it also raises

---

21 Office of the Legislative Auditor analysis of data from the Department of Commerce's assessment of gas utilities' 2003-04 CIP plans and the electric utilities' 2004-05 CIP plans. The data came from the table in the department's analysis of each plan that showed the utility's gross operating revenue coming from the opt-out facilities.

Table 3.6: 2003-04 or 2004-05 Low-Income Funding Requirements, By Utility

Utility	Proportion of CIP Funds Required to be Allocated to Low-Income Projects
Electric Utilities	
Interstate Power and Light	0.3%
Minnesota Power	13.3
Otter Tail Power	11.9
Xcel Energy	1.5
Natural Gas Utilities	
Great Plains Natural Gas	33.7%
Interstate Power and Light	10.5
CenterPoint Energy Minnegasco	24.2
Northern Minnesota Utilities	14.6
Peoples Natural Gas	16.7
Xcel Energy	16.6

SOURCE: Office of the Legislative Auditor compilation of information from the Department of Commerce's recommendations and proposed decision for the 2003-04 and 2004-05 utility CIP plans.

concerns. First, the utilities are dependent on the CAP agencies to meet the low-income spending goals that the Commissioner of Commerce sets for each utility. Second, there is supposedly not much oversight of the CAP agencies by the utilities. Third, the CAP agencies could do a better job of selecting houses and projects to carry out. Fourth, CAP agencies often combine DOE and CIP funds to weatherize a home, and it can be difficult to separate the impacts of the two programs from each other and accurately measure the effectiveness of CIP. A stakeholder pointed out that, when computing benefits and costs for CIP, CenterPoint Energy Minnegasco (and probably other utilities) includes the full energy savings achieved by these jointly funded weatherization projects but only includes the CIP costs. By including the benefits of the DOE program but not the DOE costs in the benefit-cost calculations for these jointly funded projects, the utility is overstating the cost-effectiveness of weatherization activities.[22]

Under CIP, there is a tension between serving low-income households and funding cost-effective energy conservation projects.

Another concern about the low-income program is the tension between supporting low-income households and carrying out cost-effective conservation projects. CIP is based on an energy-planning model that is predicated on cost-effectiveness. However, as discussed, CIP's low-income projects are not always cost effective. In addition, the low-income projects could be considered more of a social service program than a strategy to minimize the cost of meeting the state's energy needs. An interview that we had with a CAP agency highlighted this tension. An official from this CAP agency indicated that the agency's goal is to help low-income households and not worry about system-wide energy and capacity savings that come with conservation. Another low-income advocate stated that the current low-income program is like sticking a "square peg in a round hole" because it does not fit well with the rest of the CIP program.

22 Department of Commerce, *Analysis, Recommendations, and Proposed Decision of the Advocacy Staff of the Energy Division of the Minnesota Department of Commerce, Regarding Reliant Energy Minnegasco's Conservation Improvement Program, 2003-04* (St. Paul, August 2002), 30-31.

Some low-income advocates counter that low-income projects appear not to be cost-effective because the current tests do not capture all the benefits of lowering the energy bills of low-income customers. For example, these tests do not include the benefits to the utilities of reducing bill collection costs, payment arrears, and service disconnections. The tests also do not include the societal benefit of reducing homelessness and other negative consequences of unstable housing.[23] In theory, if people have trouble paying their utility bills, they are more likely to become homeless and face other problems. Low-income advocates argue that these benefits should be included in the cost-effectiveness tests just like environmental benefits are included.

Finally, some stakeholders contend that it is harder to find good opportunities for low-income conservation on the electric side of CIP than on the natural gas side. These stakeholders wish that the CIP funding that electric utilities have set aside for low-income electric projects could be used for natural gas conservation. In their opinion, if the goal is to find the best projects to help low-income households, it should not matter what type of utility provided the funding.

RECOMMENDATION

The Department of Commerce should submit to the 2006 Legislature a plan for improving the performance, evaluation, and oversight of low-income CIP projects.

A task force of department staff, utility officials, and other stakeholders should develop a plan to improve the cost-effectiveness of low-income projects.

To develop this plan, the department should create a task force of department staff, utility officials, and other interested stakeholders. In fact, the department's analysts recommended this type of task force in 2003, but the Commissioner of Commerce did not adopt the recommendation. In their recommendation, the analysts stated, "To help improve the delivery of energy conservation services to low-income customers, Advocacy staff will convene a meeting of investor-owned utilities and Department Staff in the fall of 2003. The purpose of the meeting would be to develop a cost-effective low-income energy conservation protocol."[24]

MUNICIPAL AND COOPERATIVE UTILITIES

As we discussed in Chapter 1, the Department of Commerce has only an advisory role with respect to the conservation programs of municipal and cooperative utilities. The department can make suggestions but cannot order these utilities to

23 John Howart and Jerrold Oppenheim, *Analysis of Low-Income Benefits in Determining Cost-Effectiveness of Energy Efficiency Programs* (National Consumer Law Center, April 1999). Staff from both the Energy Cents Coalition and the Legal Services Advocacy Project indicated that this study provides good examples of the additional benefits of reducing low-income families' energy costs.

24 Department of Commerce, *Analysis and Recommendations Regarding Minnesota Power, Inc.'s Conservation Improvement Program 2004-2005, 8. The other electric utilities that submitted CIP plans in 2003 had a similar recommendation.*

change their programs. Because the department has a diminished role, we found that:

- **The Department of Commerce carries out only a cursory review of the conservation activities of municipal and cooperative utilities.**

Some municipal and cooperative utilities have submitted energy savings estimates that are suspect.

As we discussed in Chapter 1, the municipal and cooperative utilities only need to report basic programmatic information to the department—including a brief program description, spending levels, a budget breakdown, and energy savings estimates. Furthermore, a department policy person (not an analyst) carries out the department's review of these plans. While this person checks that the utilities' reported spending levels comply with the levels required in state law, the person does not verify the accuracy of the reported spending or energy savings levels. Consequently, some of these numbers are suspect, especially with respect to energy savings. While the success of municipal and cooperative utilities' conservation efforts will vary, they should not vary by orders of magnitude. Yet, for the municipal and cooperative electric utilities, the 2003 energy savings per dollar of CIP spending ranged from 0.06 to 26.19 kilowatt-hours per dollar of CIP spending.[25] For comparison, the range for investor-owned utilities is 5.81 to 10.24 kilowatt-hours per dollar of CIP spending.[26]

Although the department has only an advisory role with respect to the conservation programs of the municipal and cooperative utilities, the department has the option of commenting on the quality of these programs after reviewing their CIP plans. Yet, with respect to the plans that these utilities submitted in 2002, the department's reviewer did not issue any formal comments to any of the utilities.

RECOMMENDATIONS

The Department of Commerce should move the responsibility of reviewing CIP plans for municipal and cooperative utilities from its policy staff to its analysts.

This recommendation should improve the department's operations for a couple reasons. First, the analysts often have a better understanding of many conservation issues than the policy staff. Specifically, they have a thorough understanding of the CIP projects that the investor-owned utilities carry out, which are a good basis for evaluating the conservation programs of municipal and cooperative utilities. Second, the department's lead electric analyst indicated that reviewing the CIP activities of the municipal and cooperative utilities should not place a large burden on the department's analysts. They could fit the reviews into the periodic lulls in their workload. Unlike the CIP plans for the investor-owned

25 Office of the Legislative Auditor analysis of unpublished tables from the Department of Commerce, received by the Office of the Legislative Auditor on January 11, 2005. The estimates apply to the energy conserved in the first year that the energy-efficient products are in place. The products will typically provide this level of savings for another 10 to 20 years.

26 Office of the Legislative Auditor analysis of the Department of Commerce's databases of CIP outcomes, *Electric dbase 5-04.xls,* received by the Office of the Legislative Auditor on July 1, 2004.

utilities, there is no deadline for the department completing its review of the CIP plans of the municipal and cooperative utilities.

The department currently requires some municipal and cooperative utilities to report a significant amount of information that receives only a limited review.[27] The state should either stop requiring this information or give it more attention. Collecting information for the sake of collecting it is not productive. However, we believe this information is important if it is actually used. Although the department has only an advisory role with respect to municipal and cooperative utilities, it is important for the state to monitor and track the conservation efforts of these utilities. As shown in Figures 1.1 and 1.2, in aggregate, the municipal and cooperative utilities provide a significant portion of the electricity and natural gas consumed in Minnesota. In addition, some of these utilities are growing rapidly. For example, in the next few years, the Department of Commerce expects electricity consumption to grow annually by 1.5 percent statewide,[28] while Great River Energy (the state's largest cooperative utility) expects its sales to grow by about 3 percent annually in the next couple years.[29]

In the long run, the Department of Commerce should determine how much information it needs to adequately monitor the conservation efforts of the municipal and cooperative utilities. In addition, the department should determine when and how this information should be collected. As we described in Chapter 1, the department has traditionally collected CIP plans/reports from the municipal and cooperative utilities every two years; however, starting in 2005, the department intends to have the municipal and cooperative utilities submit annual status reports in addition to their biennial CIP plans.[30] The department should determine if all this reporting is necessary and may want to switch the municipal and cooperative utilities to four-year CIP plans, just like the investor-owned utilities. With four-year plans, it would be particularly important for the municipal and cooperative utilities to submit annual status reports. Before making the switch to the four-year plans, the department should determine how well its new reporting procedures (biennial plans with annual status reports) are working.

---

27 As discussed in Chapter 1, small municipal electric utilities (those with less than 60 million kilowatt-hours of electricity sales) are not required to file a full CIP plan but only required a letter identifying the utility's minimum spending requirement and certifying that the utility has complied with the requirement.

28 Department of Commerce, *Energy Policy and Conservation Report (Draft)* (St. Paul, July 2004), 13.

29 Great River Energy, table titled "Net System Forecast Energy Requirements," received by the Office of the Legislative Auditor on November 22, 2004.

30 Under the Department of Commerce's new policy of annual status reports for municipal and cooperative utilities, the small municipal utilities will not need to file annual status reports.