
Introduction

Some legislators have questioned the effectiveness of the Conservation Improvement Program (CIP).

Under the Conservation Improvement Program (CIP), state law requires energy utilities to devote a portion of their operating revenues to fund projects that reduce the consumption of electricity and natural gas.¹ The utilities use these funds to provide rebates and other financial incentives to their customers who buy energy-efficient products, such as furnaces and motors. CIP is intended to help the state and utilities meet Minnesota's energy needs cost-effectively.

During the 2003 session, the Legislature debated whether to reallocate some CIP funding from conservation to renewable energy projects. As part of this debate, the Department of Commerce, which oversees CIP, indicated that the program's benefits were seven times greater than its costs. However, some legislators questioned these figures and wanted an independent assessment of the program. Consequently, the Legislature required the Department of Commerce to contract with the Office of the Legislative Auditor or another third party to review the program.² In response, Commerce Commissioner Glenn Wilson asked the Legislative Audit Commission to direct our office to evaluate CIP. In April 2004, the Commission approved the request.

To address the concerns raised by legislators about CIP, our evaluation answers the following questions:

- **How cost effective is CIP?**
- **Is CIP experiencing diminishing returns because the most cost-effective conservation activities have already been carried out?**
- **Do state statutes, rules, and procedures facilitate or hinder the selection and execution of cost-effective conservation activities?**
- **How well does the Department of Commerce oversee CIP?**

To answer these questions, we examined the cost effectiveness of CIP in calendar year 2003, the most recent year for which actual program results were available. We obtained not only the benefit-cost figures that the utilities computed but also the underlying inputs and assumptions that went into these calculations. We used this information to report the cost-effectiveness of CIP and assess the accuracy and reasonableness of the utilities' calculations. Because assessing the accuracy and reasonableness of the more technical assumptions is outside the expertise of our staff, we hired two consulting firms to assist in our review.

¹ *Minn. Stat.* (2004), §216B.241.

² *Laws of Minnesota* (1Sp2003), ch. 11, art. 3, sec. 13.

**The
Commissioner of
Commerce
requested that
the Legislative
Auditor evaluate
CIP.**

In addition, we examined the effectiveness of CIP over the last decade and reviewed Minnesota studies that have estimated the potential for cost-effective conservation in the future. We also reviewed (1) other energy-conservation literature; (2) CIP's statutes, rules, and procedures; and (3) the utilities' CIP plans and status reports. Finally, we interviewed Department of Commerce staff, officials from all 8 of Minnesota's investor-owned utilities, and representatives from 11 other stakeholder groups.

In this report, we summarize our consultants' findings and conclusion but do not include their complete reports. Because they reviewed the most technical aspects of estimating the cost-effectiveness of CIP, their reports are detailed and technical. Furthermore, they often contain information that the utilities have labeled "proprietary" or "trade secret." As a result, they are not available for public review. However, these reports contain very useful critiques of the utilities' methodologies and assumptions. Consequently, we have given the Department of Commerce the consultants' full reports, so that the department can ensure that the problems identified by the consultants are addressed. In addition, we gave each utility an opportunity to review and comment on the consultant's findings and conclusions. In order to protect trade secret information, we gave each utility only the portions of the consultants' reports that applied to that utility.

Chapter 1 of this report provides a brief overview of CIP. In Chapter 2, we examine the cost-effectiveness of the program. Finally, Chapter 3 assesses how well the state's process for reviewing and overseeing the utilities' conservation efforts is working. Most of the report focuses on the conservation efforts of investor-owned utilities, but we provide some information about conservation carried out by municipal and cooperative utilities. We focused on the investor-owned utilities because they account for a majority of the conservation carried out in Minnesota and generally provide more detailed information about the benefits and costs of their conservation programs.