

Energy Conservation Improvement Program

Update to 2005 Evaluation Report

Problems Identified

- **Unreasonable Communication Restrictions.** The Department of Commerce prohibited its policy staff from discussing conservation projects with its analysts, who have the greatest understanding of conservation project issues. This restriction required the department to go through two discovery processes to obtain information from utilities and limited department policy makers' access to the expertise gained by its analysts.
- **Problems Estimating Costs and Benefits.** The methods and assumptions used by utilities to estimate the benefits and costs of conservation activities had several problems, including out-of-date natural gas prices and inconsistent assumptions. As a result, the cost effectiveness of 2003 conservation programs tended to be understated.
- **Burdensome Review Process.** The statutory requirement that the department review conservation programs every two years imposed burdens on utilities and may have limited the thoroughness of the department's reviews.
- **Low-income Conservation Projects Need Review.** Conservation projects for low-income households have not been cost effective, according to program measures. Some critics contend that the low-income projects do not select the most cost-effective projects; others maintain that cost-benefit measures are inadequate.

Changes Implemented

- **Communication Restrictions Eliminated.** The department eliminated the restriction on communication between analysts and policy staff. The department reported that this change has made its review of conservation projects more efficient and more thorough.
- **Cost-Benefit Methods Corrected.** The department corrected most of the problems with the cost-benefit methods, including inconsistent assumptions among utilities and out-of-date natural gas prices. In addition, it updated the model it uses to estimate costs and benefits for natural gas projects to make the model consistent with national standards.
- **Review Period Lengthened.** The 2005 Legislature changed the requirement to file conservation plans from once every two years to at least once every four years. To date, the only utility to change its filing period is Xcel Energy, which filed a three-year plan. It is too early to judge whether the change has made the process more efficient.
- **Low-income Pilot Project Established.** The department held a series of taskforce meetings to improve conservation projects for low-income households. Together with eight utilities and Minnesota Housing, the department started a pilot project to identify cost-effective energy conservation measures for low-income households.