

TO: COMMISSIONERS AND ADVISORS
FROM: BRIAN ROUNDS, DARREN KEARNEY, AND KAREN CREMER (STAFF)
SUBJECT: EL13-016 STAFF RECOMMENDATION
DATE: OCTOBER 30, 2013

STAFF MEMORANDUM

OVERVIEW

With this filing, Otter Tail Power (OTP) is requesting approval of its Energy Efficiency Plan (EEP) for the 2014 and 2015 calendar years. The EEP is essentially an expansion of the current programs with the addition of a residential lighting program, a specific variable frequency drive program and a modified commercial lighting program. The proposed budget is approximately 26 percent larger than that approved for the last two years, or 14 percent larger than OTP's actual expenses approved for 2012. Staff believes the EEP will result in net benefits for OTP's ratepayers but would like to take this opportunity to get some general policy direction from the Commission on energy efficiency programs.

COMMISSION DIRECTION

As the Commission is aware, over the last several years, Staff had settled on a basic set of principles in evaluating utility energy efficiency filings. However, given some concerns the Commission voiced earlier this year, Staff hosted a workshop focusing on best practices for evaluating the cost effectiveness of a utility's portfolio of programs. The result of the workshop is a change in how Staff intends to evaluate portfolios going forward. Staff seeks the Commission's feedback on the new proposal.

Previously, Staff evaluated each program individually on its ability to pass the Total Resource Cost (TRC) test alone. Any programs unable to pass the TRC test were not allowed into the program (with few exceptions), and any programs that passed the TRC test were. The Commission pointed out this spring that such a policy can have unintended consequences, mainly with the potential to create cross-subsidization, wherein benefits that were averaged across a customer class only makes it to a small subset of those customers.

The workshop was successful in exploring the Commission's concerns and offered a few ways to mitigate them. Staff came away with the following set of principles:

1. An effective portfolio cannot be easily determined by a single test. Each proposed program must be evaluated in a way that balances the following three factors:
 - a. Overall Cost Effectiveness: The portfolio as a whole must provide net economic benefits to ratepayers as a whole, as defined by the TRC test.
 - b. Participation: The portfolio must maximize participation, attempting to make net benefits *available* to all ratepayers.
 - c. Rate Impact: Despite the fact that a well-designed program will realize net benefits for all ratepayers, the upfront cost must be reasonable and incentives should not be higher than necessary to achieve the indicated goals. Thus, some effective programs that are economical in the long run may be excluded from a portfolio if their immediate rate impact is expected to be excessive.
2. Any programs that pass the Ratepayer Impact Measure (RIM) test should be included, although not passing the RIM test should not result in excluding a program for that reason alone.
3. Programs that do not pass the TRC test should be excluded unless they meet well-defined needs such as allowing participation by hard to reach customer segments or testing approaches that may result in new cost-effective programs.

OTP's proposal for the next two years is showing high RIM and TRC scores and attempts to make benefits available to all participants. As a result, Staff believes the application of the principles above is less controversial in this filing. However, given that this is the first public forum we have had to discuss energy efficiency since the workshop was held, Staff seeks the Commission's feedback on the above principles.

STAFF RECOMMENDATION

Staff recommends the Commission approve OTP's 2014-2015 Energy Efficiency Plan.