

**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** DARREN KEARNEY AND ADAM DE HUECK (STAFF)  
**SUBJECT:** EL16-019 STAFF RECOMMENDATION  
**DATE:** JUNE 17, 2016

STAFF MEMORANDUM

**OVERVIEW**

With this filing, Otter Tail Power (OTP) submitted its Energy Efficiency Plan (EEP) results for the 2015 calendar year. Further, the company requests approval of a \$105,900 financial incentive for 2015 and supports this request with its 2015 EEP status report and other supporting documentation and tables. Otter Tail does not seek to change its EEP with this filing;<sup>1</sup> however, the company requests the commission approve the updated Energy Efficiency Adjustment Factor of \$0.00114/kWh.

**DISCUSSION**

2015 Budget vs. Actuals

Results for the 2015 EEP budgets to actuals are provided in the tables below. Table 1 shows the results for the residential programs, which came in under budget for the year (at 62% of budget).

Program	B	A	V
AC Control	\$ 14,000	\$ 7,772	56%
Air Source Heat Pumps	\$ 19,000	\$ 9,102	48%
Geothermal Heat Pumps	\$ 23,000	\$ 11,580	
Lighting	\$ 4,000	\$ 8,603	215%
<b>Total Residential</b>	<b>\$ 60,000</b>	<b>\$ 37,057</b>	<b>62%</b>

Table 2 shows the results for the commercial program, which came in slightly over budget for the year (at 116% of budget).

Program	B	A	V
Air Source Heat Pumps	\$ 13,000	\$ 11,417	88%
Custom Efficiency Projects	\$ 71,000	\$ 8,794	12%
Drive Power	\$ 63,000	\$ 173,902	276%
Geothermal Heat Pumps	\$ 57,000	\$ 44,482	78%
Lighting	\$ 54,000	\$ 61,099	113%
<b>Total Commercial</b>	<b>\$ 258,000</b>	<b>\$ 299,694</b>	<b>116%</b>

<sup>1</sup> Otter Tail's 2017-2019 Energy Efficiency Plan will be brought before the Commission in docket EL16-020

Finally, Table 3 shows the results for the entire EEP. Overall, the EEP came in slightly over budget; however, it should be noted that actual expenses remained within the maximum spending cap set at 110% of budget.<sup>2</sup> The overspending in the Commercial programs and Advertising and Education were mainly offset by an underspending in the Residential Programs.

<b>Program</b>	<b>B</b>	<b>A</b>	<b>V</b>
Total Residential	\$ 60,000	\$ 37,057	62%
Total Commercial	\$ 258,000	\$ 299,694	116%
Advertising and Education	\$ 10,000	\$ 12,843	128%
EEP Development	\$ 25,000	\$ 22,307	89%
<b>Total EEP</b>	<b>\$ 353,000</b>	<b>\$ 371,901</b>	<b>105%</b>

### 2015 Energy Savings

Table 4 provides the energy savings OTP's EEP produced in 2015. Overall, the EEP achieved actual energy savings of 4,239,371 kWh for the year. This was 151% of the energy savings planned to be achieved for 2015. Driving the large amount of energy savings achieved in 2015 were the Residential Lighting and Commercial Drive Power programs. Increased participation, a CFL giveaway, and three LED lighting retrofits resulted in higher energy savings than expected for the Residential Lighting program. Regarding the Commercial Drive Power program, increased participation and a large project carried over from 2014 resulted in higher energy savings than expected.

<b>Program</b>	<b>B</b>	<b>A</b>	<b>V</b>
Res - AC Control	1,448	1,399	97%
Res - Air Source Heat Pumps	222,277	154,705	70%
Res - Geothermal Heat Pumps	206,583	128,540	62%
Res - Lighting	24,098	96,292	400%
<b>Total Residential</b>	<b>454,406</b>	<b>380,936</b>	<b>84%</b>
Com - Air Source Heat Pumps	134,044	194,811	145%
Com - Custom Efficiency Projects	968,760	0	0%
Com - Drive Power	482,713	2,779,026	576%
Com - Geothermal Heat Pumps	523,938	512,295	98%
Com - Lighting	244,790	372,303	152%
<b>Total Commercial</b>	<b>2,354,245</b>	<b>3,858,435</b>	<b>164%</b>
Advertising and Education	-	-	-
EEP Development	-	-	-
<b>Total EEP</b>	<b>2,808,651</b>	<b>4,239,371</b>	<b>151%</b>

### 2015 Benefit/Cost Tests

Within its original filing, OTP provided the benefit-cost test results for the 2015 program year and identified all programs passed the Total Resource Cost test. The company supported the test results by providing the Benefit-Cost model summaries in response

<sup>2</sup> See Order on Reconsideration Approving Energy Efficiency Plan for 2014 and 2015: Docket EL13-016

to Staff’s Data Request 1-6. However, after discussing the model summaries with Staff, OTP identified that there was an error in the avoided cost calculations for a few of the programs. Otter Tail plans to file the amended benefit-cost test results and model summaries once completed. Staff will review the amended benefit-cost test results when analyzing OTP’s proposed EEP for 2017-19 as found in docket EL16-020.

2015 Financial Incentive

Otter Tail is awarded a financial incentive in order to compensate the company for lost revenues associated with energy savings derived from the EEP. The financial incentive is the lesser of: 1) 30% of the approved budget, or, 2) 30% of the actual spending. For 2015, 30% of the approved budget equaled \$105,900 and 30% of actual spending equaled \$111,571. Given this, OTP is requesting approval of \$105,900, which is the lesser amount.

Energy Efficiency Adjustment Factor

Otter Tail requests that the Commission approve a reduction to the Energy Efficiency Adjustment Factor from the current rate of \$0.00152/kWh to a new rate of \$0.00114/kWh. Table 5 provides the breakdown of the proposed rate.

<b>Description</b>	<b>Amount</b>	<b>Rate Impact</b>
Past Program Over Recovery <sup>1</sup>	\$ (55,546)	\$ (0.00013)
2015 Financial Incentive	\$ 105,900	\$ 0.00026
Remainder of 2016 EEP Budget <sup>2</sup>	\$ 156,424	\$ 0.00038
Proposed EEP Budget Through June 2017 <sup>3</sup>	\$ 267,808	\$ 0.00065
<b>Total</b>	<b>\$ 474,586</b>	<b>\$ 0.00114</b>

1) Forecasted at end of June 30, 2016

2) 2016 budget was approved by the Commission in Docket EL15-016. The dollars reflected here are OTP’s forecasted spending for the remainder of the 2016 budget.

3) OTP proposes a 2017 budget of \$449,000 to be approved by the Commission in Docket EL16-020. The dollars reflected here represent OTP’s forecasted EEP spending through June 30, 2017 based on the proposed 2017 budget.

As shown in the table, imbedded within the proposed rate is the 2017 EEP budget. Otter Tail proposes a total budget of \$449,000 for the 2017 program year in docket EL16-020. The proposed budget is an increase from the currently approved budget for 2016, which was set at \$353,000. Even though the 2017 EEP has not yet been brought before the Commission for approval, Staff is comfortable with inclusion of OTP’s forecasted EEP spending for January 1, 2017 through June 30, 2017 (based on the proposed budget) in the Energy Efficiency Adjustment Factor. This is due to the fact that should the Commission decide at a future meeting OTP’s proposed budget for 2017 is set too high, then an over recovery of EEP expenses would occur. The over recovery would then be credited back to the customers, with carrying charges, when OTP adjusts the Energy Efficiency Adjustment factor in July of 2017.

## STAFF RECOMMENDATION

Staff makes the following recommendations:

- 1) Staff agrees with Otter Tail's calculation of the financial incentive and recommends that the commission approve a 2015 financial incentive of \$105,900;
- 2) Staff recommends the Commission approve the 2015 Energy Efficiency Plan Status Report, subject to Otter Tail filing amended benefit-cost test results and models supporting those test results; and
- 3) Staff recommends the Commission approve the proposed Energy Efficiency Adjustment Factor of \$0.00114/kWh with an effective date of July 1, 2016.<sup>3</sup>

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<sup>3</sup> By including the 2017 proposed budget in the rate does not mean that the Commission is approving the budget (which will be brought before the Commission in docket EL16-020).