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June 30, 2010

Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
523 E. Capitol
Pierre, SD 57501

RE: RM09-002 - In the Matter of the Adoption of Rules Regarding Renewable, Recycled and Conserved Energy

Dear Ms. Van Gerpen:

NorthWestern Corporation, d.b.a. NorthWestern Energy (NorthWestern), appreciates this opportunity to provide input regarding Staff's proposed rules referenced in the above docket proceeding.

Specifically, NorthWestern's comments relate to Sections 20:10:38:01, 20:10:38:02, 20:10:38:05, and 20:10:38:06 of the proposed rules. Below are our comments and proposed revisions. Please note, underlined sections are proposed new language and ~~over-strikes~~ note proposed deletions of rule language drafted by Staff.

I. **20:10:38:01. Definitions.** Terms defined in SDCL 49-34A-1 have the same meaning when used in this chapter. In addition, terms used in this chapter mean:

(1) "Conserved energy," the reduction of energy usage achieved through energy efficiency measures and the reduction of demand achieved through demand response measures;

(2) "Cost-effective" means having a benefit-cost ratio equal to or greater than one.

(a) In calculating the benefit-cost ratio, the benefits must include, but are not limited to:

(i) the utility's or natural gas utility's avoided generation, transmission, distribution, capacity, and energy costs; and

(ii) non-energy benefits.

(b) In calculating the benefit-cost ratio, the costs must include, but are not limited to, applicable utility or natural gas utility expenditures for the following:

(i) labor, program design, administration, evaluation, advertising, and promotion;

(ii) customer education programs;

(iii) incentives and discounts;

(iv) capital costs;

(v) customer costs; and

(vi) operation and maintenance expenses.

3) "Demand response baseline energy use," an estimate of the electricity that would have been consumed in the absence of the implementation of a demand response measure;

(4) "Demand response impact evaluation," the performance of studies and activities intended to determine demand response reduction;

(5) "Demand response measure," any measure designed, intended, or used to implement demand response;

(6) "Demand response reduction," the reduction of electrical consumption achieved during the time a demand response measure was implemented as compared to the demand response baseline energy use;

(7) "Energy efficiency," reducing the consumption of energy while maintaining or improving the end-use customer's existing level of functionality;

(8) "Energy efficiency baseline energy use," the energy consumption estimated to have occurred before the energy efficiency measure was implemented and is representative of normal operations;

(9) "Energy efficiency impact evaluation," the performance of studies and activities intended to determine the actual savings and other effects from energy efficiency measures;

(10) "Energy efficiency measure," any measure designed, intended, or used to improve energy efficiency;

(11) "Post-installation energy use," energy consumption that occurs after an energy efficiency measure is implemented;

(12) "Reported Energy Savings," the capability of installed conservation and efficiency measures to produce energy savings for a full year. Reported energy savings means estimates of electricity savings from either individual projects where engineering calculations were submitted with project proposals for specific energy conservation projects or, in those cases where engineering calculations are not required for program participation average energy savings per DSM measure (also referred to as "deemed savings"; refer to section 20:10:38:03 below) are used. Reported energy savings represent the annual energy savings that would occur if all energy savings measures were in place for a full twelve (12) months.

2. 20:10:38:02. Measurement and verification of cost-effective reported energy savings. The amount of conserved energy achieved through cost-effective energy efficiency measures shall be validated by the use of an energy efficiency impact evaluation performed at appropriate periodic intervals. A retail

provider of electricity shall use either a deemed savings approach or a measured savings approach, as appropriate, when conducting an energy efficiency impact evaluation. An energy efficiency impact evaluation shall be consistent with generally accepted measurement and verification guidelines in use and practice across the U.S. utility industry. As necessary, an energy efficiency impact evaluation shall include adjustments to account for factors that are beyond the control of the retail provider of electricity or energy consumer in order to bring baseline energy use and post-installation energy use subject to the same or similar conditions. Adjustments may include weather corrections, occupancy levels and hours, change of building/facility use, and production levels.

Comment: Northwestern believes this proposed change is particularly important as impact evaluations are costly to perform and as such, reduces the net benefit of DSM to the customers. It is not necessary to do them every year. They should be performed at an interval of every fourth year, so that three full years of DSM program activity can be evaluated.

3. 20:10:38:05. Measurement and verification of reported energy savings from demand response measures. The amount of reported energy savings ~~conserved energy~~ achieved through demand response measures shall be validated by the use of a demand response impact evaluation. A retail provider of electricity shall use metering data collection and analyses, statistical estimations, engineering analyses, or a combination of these methods when conducting a demand response impact evaluation. A demand response impact evaluation shall be consistent with generally accepted measurement and verification guidelines.

4. 20:10:38:06. Annual report requirements. In addition to the requirements of SDCL 49-34A-105, a retail provider of electricity shall include the following information in its annual report:

- (1) The total megawatt hours of retail sales in South Dakota and system-wide;
- (2) The total generation capacity owned by the retail provider and the location of each generation facility;
- (3) The amount of total generation capacity contracted for in purchase power agreements and the location of each generation facility;
- (4) The amount of renewable generation capacity and recycled energy system capacity owned by the retail provider and the location of each renewable generation facility;
- (5) The amount of renewable generation capacity contracted for in purchase power agreements and the location of each renewable generation facility;
- (6) The amount of renewable energy credits that the retail provider retired to meet the South Dakota's renewable energy objective and the location of the facility that produced the retired renewable energy credits;
- (7) The amount of renewable energy credits that the retail provider retired to meet a renewable energy objective or renewable energy standard in each of the other states it provides electricity services and the location of the facility that produced the retired renewable energy credits;
- (8) The amount of energy and capacity the retail provider conserved (e.g., the Reported Energy Savings) through energy efficiency measures;
- (9) The amount of the reduction of energy and capacity the retail provider achieved (e.g., the

Reported Energy Savings) through demand response measures;

(10) The amount of capital spent on energy efficiency measures;

(11) The amount of capital spent on demand response measures;

(12) ~~A notation of which method (deemed savings, measured savings, or other method) was used to develop reported energy savings for cost-effective conserved energy. An explanation of each energy efficiency impact evaluation used to measure cost-effective conserved energy and the rationale for using each energy efficiency impact evaluation; and~~

(13) ~~A notation of which method (deemed savings, measured savings, or other method) was used to develop reported energy savings for cost-effective demand response measures. An explanation of each demand response impact evaluation used to measure conserved energy and the rationale for using each demand response impact evaluation.~~

Comment: NorthWestern offers that an Impact Evaluation, in the context that is normally used in the DSM industry, is an in-depth research and analysis project conducted by an independent third party. Impact Evaluations should not have to be done every year as they are far too expensive and they require up to a full year to complete. NorthWestern suggests that a full Impact Evaluation be performed every fourth year using an independent 3rd party firm.

NorthWestern looks forward to the opportunity to work with Staff, the Commission and other interested parties in completing this proposed rule-making procedure.

Sincerely,



Pamela A. Bonrud
Director – SD/NE Government and Regulatory Affairs

CC: Rolayne Wiest, Commission Counsel
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