

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Northern States Power Company
Demand Side Management & Cost Recovery Rider
Tariff**

Case No. PU-08-171

ORDER

November 5, 2008

On April 17, 2008 Northern States Power Company (NSP) filed a petition for demand side management (DSM) programs and tariff changes for an associated cost recovery rider that would appear as a line item charge (the "Energy Efficiency Charge") on customer bills. The charge would recover direct and administrative program costs, plus an offset for the resulting electric margin loss from decreased electric sales. The Commission suspended NSP's tariff filing on May 13, 2008.

On October 23, 2008 the Commission discussed the matter at an informal hearing with representatives from NSP and from Commission staff.

NSP stated in its filing that around 1995 it terminated many electric DSM programs in part because there was no mechanism to recover program costs or the adverse impact of reduced electric sales and revenues. NSP further explained that many programs had lost effectiveness due to higher federal efficiency standards. NSP now cites increased customer focus on conservation, the environment, and desire to manage increasing energy costs as among its reasons for requesting to implement DSM programs it deems cost effective (see Appendix A to the filing) from a Total Resource Cost (TRC) perspective. TRC is a common cost/benefit test used to assess the effectiveness of energy conservation programs. The TRC test compares NSP's avoided costs due to implementing the programs to the total cost of the programs.

NSP's DSM proposal includes expansion and promotion of its existing Peak and Energy Control Service and Savers Switch (air conditioner cycling) load management services aimed at reducing peak system kW demand as well as several new energy efficiency programs aimed towards reducing kWh energy consumption. NSP presently has a general rate case pending before the Commission, Case No. PU-07-776, but excluded DSM program costs from test period revenue requirements in anticipation of its proposed cost recovery tariff rider to recover future DSM program costs.

Commission staff contended at the informal hearing that the TRC test relied upon by NSP is not the best measure of cost effectiveness because it does not account for reduced system kWh energy consumption, which can leave less system sales volumes over which to spread fixed costs and results in higher kWh rates for customers. Staff expressed concern that reliance on the TRC can result in DSM programs that are subsidized by non-participating customers. Staff proposed instead that more weight be given to the Rate Impact (RIM) test, which measures what happens to rates due to changes in utility revenues and operating costs caused by DSM programs. Rates go down if the program's avoided generation, transmission, distribution and energy costs exceed the program costs and any lost revenue from reduced energy sales. Staff

Pages: 2

Filed: 11/5/2008

PU-08-171
Order

7

recommended that the RIM test indicates more clearly than the TRC test those DSM programs that will lead to lower rates.

Staff compared TRC and RIM test results for the DSM programs proposed by NSP and concluded that the energy efficiency programs (as opposed to the load management programs) generally do not pass or are questionable under the RIM test. Therefore, staff recommended NSP's proposed energy efficiency programs not be implemented.

Staff concluded that the only proposed programs that provide clear benefit under both TRC and RIM tests are the Peak & Energy Control Service and Savers Switch load management programs. Staff supported NSP's proposal to increase promotion of these existing load management programs, but opposed NSP's tariff proposal for funding through a separate line-item on customers' bills. Instead, Staff and NSP agreed to record actual expenditures for the two load management programs in a deferred account for amortization in NSP's next general rate case. Staff recommended capping annual deferral amounts at \$266,904, which was NSP's proposed level of expected annual expenditures for these two programs.

The Commission finds NSP's proposal to promote the expansion of its existing Savers Switch and Peak & Energy Control Service load management programs residential and commercial customers should be implemented and expenditures for these programs should be recorded in a deferred account for amortization in NSP's next general rate case. The Commission finds further proceedings are needed before implementing other programs and will open a rulemaking to investigate and determine parameters for evaluating and implementing DSM programs for regulated electric utilities.

Order

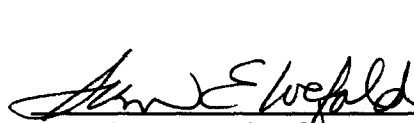
The Commission Orders:

1. NSP's proposed cost recovery tariff rider is denied.
2. NSP is authorized to record expenditures to further promote its existing Savers Switch and Peak & Energy Control Service load management programs in a deferred account for amortization in NSP's next general rate case. The amount deferred may not exceed \$266,904 per year.

PUBLIC SERVICE COMMISSION



Tony Clark
Commissioner



Susan E. Wefald
President



Kevin Cramer
Commissioner