HOUSE RESEARCH
Bill Summary

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Article 1: Conservation

1 **Notice.** Requires a cooperative electric association filing a rate change with the commission to reference the conservation improvement plan (CIP) of the generation and transmission cooperative that provides CIP to members of the cooperative.

2 **Energy conservation improvement.** Provides that a utility's expenses associated with conservation investments under CIP, including the difference between market-rate and utility-subsidized loan rates, may be treated by the commission as if they were directly incurred by the utility in providing service. Current law allows such treatment only for demand-side management and load management activities, which is discontinued under this provision.

Provides that CIP expenses are excluded by the commission in its determination of just and reasonable gas rates for large energy facilities. Allows a public utility to reduce the gas rate of a large energy facility to reflect that exclusion outside of a general rate case.

"Large energy facilities" affected by this section include:

- an electric generating plant with a capacity of 50 megawatts or more;
- coal or oil pipelines greater than six inches in diameter and having more than 50 miles of length in Minnesota;
- certain natural gas pipelines having more than 50 miles of length in Minnesota;

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- a nuclear fuel processing and waste storage facility; and
- a facility that converts material into a combustible fuel at a rate greater than 75 tons per hour.

3 **Recovery of electric utility infrastructure costs.**

Subd. 1. Definitions. Defines "electric utility" as a public utility selling electricity at retail.

Defines "electric utility infrastructure projects" as those that replace or modify existing infrastructure and conserve energy or use it more efficiently, including as a result of waste heat recovery.

Subd. 2. Filing. Specifies what must be contained in a filing to the commission to allow recovery of electric utility infrastructure costs outside of a general rate case. A utility may recover a rate of return, income taxes thereon, incremental property taxes, and incremental depreciation associated with the project.

Subd. 3. Commission authority; orders. Authorizes the commission to issue orders to implement this section.

4 **Energy policy conservation goal.** [216B.2401] Specifies that state energy policy is to achieve annual energy savings equal to 1.5 percent of retail electricity and natural gas sales through energy conservation programs, rate design and other methods.

5 **Energy conservation improvement.** [216B.241]

Subd. 1. Definitions. Defines "energy efficiency " to include measures that target consumer behavior, equipment or processes that result in either an absolute decrease in energy use or a decrease in energy per unit of production while maintaining service quality.

Excludes gas sales to a large energy facility (see subd. 2 above) from "gross annual retail energy sales, "which is the base from which required energy savings are measured. Also excluded are gas and electric sales to a large electric customer, if exempted by the commissioner under subdivision 1a.

Subd. 1a. Investment, expenditure, and contribution; public utility. Provides that the commissioner of commerce may rescind an exemption from contributing revenues towards a utility's CIP program granted to a large electric customer facility (defined as a facility with a peak demand of at least 20 megawatts) if the commissioner finds that the customer is not continuing to make reasonable efforts to identify, evaluate, and implement energy conservation improvements. (The current criterion for rescinding such an exemption is that cost-effective improvements are not available.)

Subd. 1b. Conservation improvement by cooperative association or municipality. Amends the criterion for a municipality providing natural gas service to be subject to this provision from those with gross operating revenues exceeding $5 million to those selling more than 1 billion cubic feet of gas annually.

Strikes language requiring the commissioner of commerce to review electric

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cooperatives' and municipal utilities' evaluations of their CIP programs with regard to spending on programs that address renters and low-income persons. (See subdivision 7.)

Strikes language requiring a cooperative or municipality to file an overview of its CIP plan at least every four years, and requires submission of a CIP plan itself at least every three years, and more often if required by the commissioner of commerce.

Strikes language allowing a cooperative or municipality to spend up to 3 percent of its required CIP spending for program pre-evaluation, monitoring and evaluation, and allowing smaller cooperatives to report only the amount spent on CIP.

Strikes language allowing a cooperative or municipality to contribute funds to the energy conservation account (see subdivision 2a) as part of its CIP spending.

Subd. 1c. Energy-saving goals. Requires each utility and association to have an annual energy-savings goal of 1.5 percent of gross retail energy sales, calculated on the most recent three-year weather-normalized average. The commissioner may, at a utility's request, reduce the goal to no lower than 1 percent. Electric utility infrastructure projects that increase energy efficiency and would not have occurred through normal maintenance may be counted towards the goal. A utility is not required to make an investment that is not cost-effective, i.e., where the cost savings to the utility exceed the cost of producing or purchasing an equivalent supply of new energy.

The commissioner must report annually, in aggregate and for each utility, on annual energy savings and corresponding carbon dioxide reductions realized through CIP activities during the most recent two-year period for which data is available.

By January 15, 2010, the commissioner is to report to the legislature whether the annual spending requirements in subdivisions 1a and 1b are necessary to achieve the energy savings goals.

Subd. 1d. Technical assistance. Strikes language applying to 2002-2005. Requires the commissioner to, by order, establish and update energy savings assumptions and an inventory of the most effective conservation programs and technologies to guide utilities in implementing them. The commissioner may assess up to $800,000 annually through June 30, 2009, and $450,000 annually thereafter for the purposes of this subdivision.

Subd. 1e. Applied research and development grants. Allows the commissioner of commerce to approve and award grants for applied R&D projects that identify new energy conservation technologies and strategies. Up to $3.6 million annually may be assessed for these purposes.

Subd. 1f. Facilities energy efficiency. Requires the Departments of Administration and Commerce to maintain and, if necessary, revise the sustainable building guidelines, and to update the benchmarking tool developed in 2001 so that all public buildings may use it to track building performance. The commissioner must require utilities to include in their CIP plan programs to facilitate professional engineering verification to qualify a building as Energy Star or Leadership in Energy and Environmental Design (LEED) qualified. This subdivision sets a state goal of 1,000

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commercial buildings to be Energy Star certified and 100 to be LEED certified by the end of 2010. The commissioner may assess utilities up to $500,000 annually for the purposes of this subdivision.

Subd. 2. Programs. Requires that public utilities' CIP programs be filed every three years, in contrast to the current four years. Prohibits a public utility from making energy conservation investments that directly benefit a large energy facility. (See section 2 above.) Strikes language requiring the commissioner to insure that a portion of residential CIP expenditures are targeted to renters and low-income persons, (see subdivision 7) and allowing up to 3 percent of CIP spending for pre-evaluation, testing, monitoring, and evaluating programs.

Subd. 2a. Energy and conservation account. Requires the commissioner to deposit funds assessed from utilities in the energy and conservation account in the special revenue fund.

Strikes language requiring the account to be used exclusively for programs targeting low-income persons and underserved areas and specifies that funds may be spent for the purposes of subdivisions 1d, 1e, 1f, and 7.

Subd. 2b. Recovery of expenses. Authorizes the commission to allow a cooperative electric association subject to rate regulation to recover CIP expenditures, load management expenses, and contributions to the energy and conservation account, unless recovery is inconsistent with a financial incentive proposal approved by the commission.

Subd. 2c. Performance incentives. Requires the commission to review, by the end of 2008, any incentive plan for energy conservation improvement under section 216B.16 and to adjust the performance incentives in light of the energy savings goals of subdivision 1c.

Subd. 7. Low-income programs. Requires the commissioner to insure that each utility and association provide low-income programs, and establishes a floor for those expenditures: 0.2 percent of gross operating revenue from Minnesota residential customers for gas utilities; 0.1 percent for electric utilities and associations until 2010, 0.2 percent afterward. In lieu of implementing programs targeting these customers, funds may be contributed to the energy and conservation account, to be spent on low-income programs established by the commissioner, which may be implemented by a utility, nonprofit or community organization.

Subd. 8. Assessment. Authorizes the commissioner or department to assess utilities subject to this section to carry out the purposes of subdivisions 1d, 1e, and 1f.

6 **Decoupling of energy sales from revenues.** [216B.2412]

Subd. 1. Definition and purpose. "Decoupling" means separating a utility's revenues from its fluctuations in sales in order to remove utility disincentives to promote energy efficiency.

Subd. 2. Decoupling criteria. Requires the Public Utilities Commission to establish, by order, criteria and standards for decoupling that mitigate the impact on public

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utilities of meeting the energy savings goals while not adversely affecting ratepayers.

Subd. 3. Pilot programs. Authorizes the commission to allow one or more utilities to file a decoupling pilot plan for commission review and to implement it on a pilot basis for up to three years. The commission must report program results to the legislature.

7 **Effective date.** This article is effective July 1, 2007.

Article 2: Miscellaneous

1 **Energy efficiency contract.** Requires a school board entering into a guaranteed shared savings contract to provide a copy to the commissioner of education within 30 days of the contract's effective date.

2 **Energy audit programs.** Strikes language requiring the commissioner of commerce to administer certain energy audits required under an expired federal law. Requires the commissioner to develop programs to train energy auditors for residential and commercial buildings under section 216B.2412.

3 **Energy efficiency projects.** Requires a municipality entering into a guaranteed shared savings contract to provide a copy to the commissioner of commerce within 30 days of the contract's effective date.

4 **Requirements.** Requires the landlord to provide in a rental contract that the landlord will make the premises reasonably energy efficient, through installation of caulking, weather-stripping, storm windows, and storm doors.

5 **Repealer.** Repeals Minnesota Statutes, sections 216B.165 (governing residential energy audits performed under an expired federal law); 216C.27 (requiring the commissioner to adopt rules containing energy efficient standards for existing residences; and inspection and enforcement of those standards), and 216C.30, subdivision 5 (regarding enforcement against violations of chapter 216C and a provision of chapter 325F regarding specifications for the manufacture, labeling, and installation of insulation); and Minnesota Rules, chapter 7635 (pertaining to the Department of Commerce's residential energy conservation program) and chapter 7655 (pertaining to the qualification and certification of energy auditors, rules regarding energy audits, and minimum efficiency standards for rental buildings.

6 **Effective date.** This article is effective July 1, 2007.