

June 1, 2017

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-17-258

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

A *Petition* submitted by Northern States Power Company, a Minnesota corporation (Xcel or the Company), requesting approval of the following:

- a proposed 2016 gas Demand Side Management financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its 2016 natural gas (gas) CIP; and
- a proposed 2017/2018 gas CIP Adjustment Factor.

The *Petition* was filed on April 3, 2017 by:

Shawn White
Manager, DSM Regulatory Strategy and Planning
Northern States Power Company, a Minnesota corporation
414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

As discussed in greater detail in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** Xcel's *Petition*. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

**COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

DOCKET No. G002/M-17-258

I. A SUMMARY OF THE UTILITY'S PROPOSAL

On April 3, 2017, Northern States Power Company, a Minnesota corporation (Xcel or the Company), submitted a filing in the present docket entitled *In the Matter of the Petition of Northern States Power Company for Approval of 2017-2018 Natural Gas Conservation Improvement Program Adjustment Factor (Petition)*. Xcel's *Petition* requested that the Minnesota Public Utilities Commission (Commission) approve the following:

- a proposed gas Demand Side Management (DSM) financial incentive of \$6,245,743 for 2016;
- a report of proposed recoveries and expenditures in Xcel's natural gas (gas) Conservation Improvement Program (CIP) tracker account in 2016; and
- a proposed change to Xcel's CIP Adjustment Factor (CAF), adjusting the CAF to \$0.026624 per therm.

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis and recommendations below.

II. THE COMMISSION'S 2016 ORDER

On July 19, 2016, the Commission issued its Order in Docket No. G002/M-16-283 approving Xcel's 2015 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved Xcel's proposed 2015 gas DSM financial incentive of \$5,763,443 and allowed Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of this Order;
2. Approved Xcel's 2015 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 of the Department's comments, resulting in a December 31, 2015 tracker balance of \$488,314;
3. Approved Xcel's proposed bill message language; and

4. Allowed Xcel to implement its proposed gas CIP Adjustment Factor of \$0.024195 per therm beginning October 1, 2016, conditional on the Company submitting, within 10 days of the issue date of this Order, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

On July 29, 2016, Xcel filed its compliance filing pursuant to Order Point 4. Given the October 1, 2016 implementation date, Xcel filed an updated compliance filing on September 9, 2016. On September 19, 2016, Xcel filed a corrected compliance filing, recalculating the CAF and proposing to implement the resultant new factor (\$0.25473 per dekatherm) on October 1, 2016. The Department filed a compliance sign-off form on September 29, 2016. Xcel's proposed rate went into effect October 1, 2016.

III. THE DEPARTMENT'S ANALYSIS

The Department's analysis of Xcel's *Petition* is provided below in the following sections.

- in Section II.A, Xcel's proposed 2016 gas DSM financial incentive;
- in Section II.B, Xcel's proposed 2016 gas CIP tracker account;
- in Section II.C, Xcel's proposed change to the currently approved gas CIP Adjustment Factor; and
- in Section II.D, a review of Xcel's gas DSM and CIP activities for the period 2010 through 2016.

A. XCEL'S PROPOSED 2016 GAS DSM FINANCIAL INCENTIVE

1. *Background and Summary of Xcel's Proposed 2016 Gas DSM Financial Incentive*

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels after the threshold. Specifically, each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to \$0.07 per kWh saved and gas utilities will earn \$9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

2. *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
 - A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest.
 - B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) \$9.00 per Mcf for natural gas utilities, and (2) \$0.07 per kWh for electric utilities.
 - C. A utility may not modify its incentive to correct for non-linear benefits.
 - D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
 - E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities (\$0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities (\$6.875) per Mcf are continued.
 - F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
 - G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
 - H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
 - I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
 - J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
 - K. The costs of any mandated, non-third-party projects (e.g., Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded

- L. from the calculation of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.
- M. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
- N. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
- O. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission-approved decoupling mechanisms.
- P. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

Under the Shared Savings DSM financial incentive plan approved by the Commission, Xcel may request Commission approval of a performance incentive based on the percent of net benefits that the Company achieves under its approved gas CIP. The plan links the incentive to the Company's performance in achieving cost effective conservation.

According to the Company, this test results in \$42,565,945 of net benefits from its gas CIP activities in 2016. Xcel also stated that its gas CIP activities achieved energy savings in 2016 of 908,472 dekatherms (Dth); this savings is equal to 1.31 percent of the Company's retail sales to non-CIP exempt customers. Based on the terms and conditions of its approved DSM incentive plan, Xcel requested recovery of a gas DSM financial incentive of \$6,245,743 for its 2016 CIP achievements.

On August 5, 2016 the Commission's *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan* in Docket No. E,G-999/CI-08-133 changed the way DSM Financial Incentives would be calculated in the future, beginning with the next Triennial plan, which for Xcel would go into effect starting with the 2017 DSM Financial Incentive.

3. *The Department's Review of Xcel's Proposed 2016 Gas DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2016 DSM financial incentive of \$6,245,743 is ongoing. In all likelihood, it will not be completed before the fall of 2017. The existence of this lag between the

Company's request for recovery of the incentive and the completion of the Department's engineering review is a recurring phenomenon.

The Department typically compensates for this lag by simply assuming that Xcel's claimed energy savings for the most recent year are correct as filed, with the intent of making any adjustments approved by the Deputy Commissioner of the Department in the utility's next DSM financial incentive request proceeding. The Department notes that in the 2015 CIP status report, the Deputy Commissioner of the Department approved the Company's proposed energy savings level,¹ and thus no adjustment needs to be made this year.

As was done last year, the Department's analysis assumes that Xcel's claimed 2016 energy savings are correct as filed. If the Deputy Commissioner of the Department subsequently approves changes to Xcel's energy savings claims that impact either recovery of CIP budgets or levels of Shared Savings DSM financial incentives, those changes can be incorporated in the Company's 2017 filing that will be made April 1, 2018.

Xcel's reported gas energy savings level is 908,472 Dth, in the Company's 2016 *Status Report*. The Department used the 908,472 Dth energy savings in its review in this docket.

The Department recommends that the Commission approve Xcel's proposed 2016 gas DSM financial incentive of \$6,245,743 to be included in the Company's gas CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

B. XCEL'S 2016 GAS CIP TRACKER ACCOUNT

In its *Petition*, Xcel requested approval of its report on recoveries and expenditures in the Company's gas CIP tracker account during 2016. Table 1 below provides a summary of activities in Xcel's gas CIP tracker account during 2016.

Table 1: A summary of Xcel's Gas CIP Tracker Account in 2016²

Description	Time Period	Amount
Beginning Balance	January 1, 2016	\$488,314
CIP Expenses	January 1 through December 31, 2016	\$13,805,805
Carrying Charges	January 1 through December 31, 2016	(\$11,880)
CIP Recoveries in base rates	January 1 through December 31, 2016	(\$3,454,668)
CIP Recoveries from CCRA	January 1 through December 31, 2016	(\$14,844,129)
Performance Incentives	2015	5,763,443
Ending Balance	December 31, 2016	\$1,746,885

¹ Docket No. E,G002/CIP-12-447.08 - In the Matter of Xcel Energy's 2016 Electric and Gas Conservation Improvement Program Status Report, filed July 7, 2015

² See: 2016 Natural Gas CIP Tracker (DSM Cost Recovery) on page 24 of 40 of Attachment A of the *Petition*.

The *Petition* indicates that the 2015 financial incentive, which was approved on July 19, 2016, was booked during October of 2016.

The Department recommends that the Commission approve Xcel's 2016 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2016 tracker balance of \$1,746,885.

C. XCEL'S PROPOSED GAS CIP ADJUSTMENT FACTOR

Minnesota law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."³ Xcel refers to its approved annual gas CIP recovery mechanism as the CIP Adjustment Factor.

In its *Petition*, Xcel proposed a gas CIP Adjustment Factor of \$0.026624 per therm for each customer class, effective on October 1, 2017. Table 2 below compares the Company's proposed gas CIP Adjustment Factor with the Company's currently approved CIP Adjustment Factor of \$0.025473 per therm.

Table 2: Xcel's Current and Proposed CIP Adjustment Factor

Current Factor (\$/Therm)	Proposed Factor (\$/Therm)	Change (\$/Therm)	Percent Change
\$0.025473	\$0.026624	\$0.001151	4.5%

To develop the proposed CIP Adjustment Factor identified above in Table 2, Xcel developed a forecasted gas CIP tracker account balance of \$4.01 million as of September 30, 2017. Table 3 below provides Xcel's calculation of its CIP Adjustment Factor.

Table 3: Xcel's Calculation of its CIP Adjustment Factor

Item	Amount
Forecasted Beginning Balance as of October 1, 2017	\$4,015,291
CIP Budget (October 2017 - September 2018)	\$16,717,976
Forecasted 2017 Gas DSM Financial Incentive	\$2,115,511
Less Forecasted CCRC Recovery (October 2015 - September 2016)	(\$3,755,392)
Forecasted October 1, 2017 Balance	\$19,093,386
Forecasted Non-exempt Customer Dth Gas Sales (October 2015 - September 2016)	71,667,794
Calculated CIP Adjustment Factor (per Dth)	\$0.26624
Calculated CIP Adjustment Factor (per therm)	\$0.026624
Proposed CIP Adjust Factor (per therm)	\$0.026624

Xcel's forecasted balance does not include carrying charges. To get as close as possible to a \$0 balance by Sept 30, 2017, Xcel adjusted the calculated rate of \$0.026624 per therm to account for the effect of carrying charges, which are projected to be negative for several months. This resulted in no change to the proposed rate as carrying charges were too low to

³ See Minn. Stat. §216B.16, subd. 6b(c).

result in any change in the CIP Adjustment Factor. Xcel estimated that this CIP adjustment rate will result in a forecasted September 30, 2018 Tracker balance of \$650.⁴

Xcel followed the same calculation approach in calculating past CIP Adjustment Factors. The Department concludes that Xcel's calculation of its proposed gas CIP Adjustment Factor of \$0.026624 per therm is reasonable. The proposed factor would allow Xcel to recover CIP costs, financial incentives and the projected unrecovered tracker balance.

In the past, the Company has included a message on customer bills referencing its changed CIP adjustment rate after the change has been approved; Xcel proposed to do so again in this proceeding. Below is Xcel's proposed bill message language:

Effective Oct. 1, 2017, the Resource Adjustment line item on your bill has increased due to a change in the Conservation Improvement Program (CIP) factor. The natural gas CIP portion of the Resource Adjustment is \$0.026624 per therm.

The Department recommends approval of the proposed bill message language.

In the event that the timing of Commission approval of the proposed factor suggests that the implementation date of the 2017/2018 CIP Adjustment Factor will occur after October 1, 2017, the Company proposed to continue to apply the current CIP Adjustment Factor up to the first cycle of the first full billing period following Commission approval of a revised factor.

D. A REVIEW OF XCEL'S GAS CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2010-2016)

In Attachment A, Table 1, the Department presents a historical comparison of Xcel's gas DSM and CIP activities during the period 2010 through 2016. Attachment A, Table 1 provides an indication of how the Company's gas DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and reported energy savings changed during the period.

An analysis of Attachment A, Table 1 indicates that, between 2010 and 2016, the Company's energy savings grew 30.3 percent, the Company's expenditures grew 21.4 percent, and the Company's incentives grew 175.81 percent. Xcel's tracker balance was \$1,746,885 at the end of 2016. Xcel projected that by the end of September 2018 its tracker balance will be close to zero again. In the last six years Xcel's carrying charges have ranged from \$472,522 to (\$692,481), but have been reduced the last two years as the Commission changed how the carrying charge was calculated, using Short Term Debt rate instead of the Cost of Capital, in its December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges* in Docket No. G-002/M-14-288.

⁴ See Attachment A, page 29 of 40 of the *Petition*.

In summary, the Department recommends that the Commission approve Xcel's proposed CIP Adjustment Factor of \$0.026624 per therm.

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

- 1) approve Xcel's proposed 2016 gas DSM financial incentive of \$6,245,743 and allow Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;
- 2) approve Xcel's 2016 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1, resulting in a December 31, 2016 tracker balance of \$1,746,885;
- 3) approve Xcel's proposed bill message language; and
- 4) allow Xcel to implement its proposed gas CIP Adjustment Factor of \$0.026624 per therm beginning October 1, 2017, conditional on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

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Table 1: A History of Xcel's Gas DSM and CIP Activities (2010-2016)							
	2010	2011	2012	2013	2014	2015	2016 ¹
DSM Financial Incentive	\$2,264,511	\$2,833,206	\$2,682,879	\$5,416,936	\$5,781,193	\$5,763,443	\$6,245,743
Incentive as a % of CIP Expenditures	19.9%	22.3%	20.6%	42.4%	44.6%	42.4%	45.2%
Carrying Charges	\$472,522	(\$215,734)	(\$411,428)	(\$368,277)	(\$692,481)	(\$34,795)	(\$11,880)
Year-End Tracker Balance	\$7,240,908	(\$7,631,972)	(\$4,648,913)	(\$4,680,426)	(\$12,398,883) ²	\$488,314	\$1,746,885
Year-End Tracker Balance as a % of CIP Expenditures	63.7%	-60.1%	-35.7%	-36.6%	-95.6%	3.6%	12.7%
CIP Expenditures	\$11,374,005	\$12,701,823	\$13,041,285	\$12,780,833	\$12,968,939	\$13,577,149	\$13,805,805
Achieved Energy Savings (Dth)	697,322	747,123	767,061	787,918	849,698	838,319	908,472
Average Cost per Dth Saved ³	\$16.31	\$17.00	\$17.00	\$16.22	\$15.26	\$16.20	\$15.20

¹ The 2016 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.

² Note that the Company did not include previous financial incentives in the 2014 actuals.

³ The average cost per Dth Saved equals CIP expenditures (\$) divided by achieved energy savings (Dth)