

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 10, 2017*Agenda Item #15

Companies: Xcel Energy

Docket Number: **E002/CI-15-662**

In the Matter of an Alternative Rate Design Stakeholder Process for Xcel Energy

Issue: What procedural action, if any, should the Commission take with respect to Xcel Energy's proposal to file a Residential Time of Use (TOU) rate design pilot by November 2017?

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Relevant Documents

Xcel Energy's Rate Design Informational Meeting Presentation..... April 13, 2017
Commission Notice of Comment Period April 19, 2017
Suburban Rate Authority, Procedural Comments..... May 15, 2017
Office of the Attorney General Comments..... May 15, 2017
Fresh Energy and Minnesota Center for Environmental Advocacy Comments..... May 15, 2017
Department of Commerce Comments May 15, 2017
Xcel Energy Comments May 15, 2017

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Statement of the Issue

What procedural action, if any, should the Commission take with respect to Xcel Energy's proposal to file a Residential TOU rate design pilot by November 2017?

Background

TOU Pilot

On April 11, 2017, in Docket No. 15-662, Xcel Energy (Excel) gave a presentation to the Commission about its plans to develop a TOU pilot and submit a Petition for the TOU Pilot to the Commission on, or around, November 1, 2017.

On April 19, 2017, the Commission issued a Notice of Comment Period seeking suggestions for procedural actions the Commission should take, if any, with respect to Xcel's proposal to file a TOU Pilot.

The following parties filed written comments in Response to the Commission's Notice of Comment Period on May 15, 2017:

- The Suburban Rate Authority (SRA)
- Fresh Energy
- The Office of Attorney General (OAG)
- The Department of Commerce (The Department)
- Xcel

The Commission's Notice also asked for comments on whether any other issues should be addressed in the instant docket. Staff is limiting the issues addressed in these briefing papers to those regarding the TOU Pilot.

Procedural History

Docket No. 15-662, In the Matter of an Alternative Rate Design Stakeholder Process for Xcel Energy, was opened as required by the Commission's May 8, 2015 Order in Xcel's 2013 rate case in Docket No. E002/GR-13-868. In this Order, the Commission concurred with the ALJ's Report that inclining block rates (IBR) be examined in a separate docket. The Commission found that a separate proceeding, without the time pressure of a rate case, would allow careful consideration of an IBR proposal and the effect an IBR structure would have on low-income customers. In addition, the Commission ordered that the separate proceeding include consideration of other possible alternative rate designs that promote energy conservation, reduce peak demand, and/or send more accurate, useful price signals to customers.¹

¹ Docket No. E-002/GR-13-868, *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Findings of Fact, Conclusions, and Order, May 8, 2015, pp. 90-91 and Ordering ¶45, p. 104.

The Order requested that the Department complete stakeholder meetings on alternative rate designs and issue a report to the Commission on the stakeholder process within 180 days of the order. On November 10, 2015, the Department issued its report, which identified the following rate design alternatives considered in the stakeholder process:²

1. IBR;
2. TOU;
3. Critical Peak Pricing (CPP);
4. Demand Charge rates for Residential Customers; and
5. Reduce the Customer Charge/Increase Energy Charge.

On December 18, 2015, the Commission issued an Order in the current Docket, which stated it would take action, including issuing notices and convening workgroups meetings, to engage interested parties for the purposes of continuing the discussion of alternative rate designs. Such discussions would include assessing the impact of various alternative rate designs on low income and low use customers; evaluating the effect that the current rate design has on price signals; comparing the costs and benefits of implementing the different alternative rate designs; and recommending which alternative rate designs, if any, are appropriate for experimental pilot programs.³

The Commission convened workgroups on May 14 and November 4, 2016 with interested parties to discuss alternative rate designs and issued a Notice for Comments on February 15, 2017 requesting recommendations for alternative rate design pilot programs. On March 31, 2017, several interested parties responded the Commission's Notice for Comments, including Xcel Energy.⁴

Xcel Energy filed Joint Comments with Center for Energy (CEE) and the Environment and Great Plains Institute (GPI), which indicated the parties had retained Strategen Consulting to provide support in developing a TOU pilot. According to XCEL, CEE and GPI they were exploring the deployment of advanced meters and other grid modernization investments, and investigating how TOU rates could help the Company respond to the Commission's requirement to add 400 MW of new demand response in the early 2020's.⁵

Xcel's Plans for Development of TOU Pilot

On April 11, 2017 made a presentation to the Commission indicating that a TOU Pilot would update Xcel's current TOU offering to address emerging technologies, deploy geographically focused smart grid investments to complement TOU offering and leverage new investments and rates to meet new demand response requirements. Xcel indicated its willingness to engage stakeholders and customers in the development of the TOU offering and to share learnings from

² 15-662, Report on Alternative Rate Design Options, November 10, 2015.

³ Order Taking Procedural Actions to Further the Process to Establish an Alternative Rate Design, December 18, 2015, p. 2 and Ordering ¶2, p. 3.

⁴ Parties responding included Xcel, Center for Energy and the Environment and Great Plains Institute, the Department, Suburban Rate Authority, Citizens Utility Board of Minnesota, Fresh Energy and Minnesota Center for Environmental Advocacy, Office of attorney General – Residential and Anti-Trust Utilities Division, and Energy CENTS Coalition.

⁵ Joint Comments by Xcel, CEE and GPI, March 31, 2017, p. 1.

the pilot with interested stakeholders. Xcel indicated the development of the TOU Pilot would proceed along the following Timeline:⁶

- May 2017..... Stakeholder engagement;
- June 2017Pilot Development;
- July 2017Customer engagement;
- August 2017Pilot Refinement;
- September 2017.....Stakeholder Re-engagement;
- October 2017.....Pilot Finalization; and
- November 2017.....Pilot Filed with Commission.

Recommendations for Procedural Action on Xcel’s Proposed Pilot Program

The SRA

The SRA supported Xcel’s recent proposal to move forward with a TOU pilot conservation rate design consistent with Xcel’s April 11, 2017 Pilot Development Timeline, although the SRA cautioned it is not clear that the TOU will be ready to implement within this aggressive timeframe. The SRA also recommended that the Commission consider the TOU Pilot in this docket rather than in a separate docket, for customer engagement and comparison purposes when evaluating the Pilot Program.

According to the SRA, the evaluation of a TOU pilot is easier when customers can compare it to other rate design and conservation options. The SRA explained that, if customers have only one form of conservation rate design to assess, their responses are more limited and less reliable. The SRA cautioned that that Customer Engagement would be limited if Xcel’s TOU pilot was filed in a separate docket and thus the sole focus of any evaluation. The SRA stated that evaluating Xcel’s TOU proposal within this docket is efficient and furthers the goal of identifying the most effective rate design(s) in providing customer incentive to conserve and other pilot considerations.

Fresh Energy and Minnesota Center for Environmental Advocacy (MCEA)

Fresh Energy and the MCEA recommended that the Commission order Xcel to file a rate design pilot on or by November 1, 2017, in this docket. In addition, the Joint Parties stated the Commission should require Xcel to file interim filings at each stakeholder benchmark envisioned in the Company’s proposed timeline.

The OAG

The OAG stated that the Commission should decide how to move forward—and provide its rationale in a written order—just as it does in all other instances in which parties have asked the Commission to take specific action. The OAG stated that the Commission could either obtain the services of an independent expert to develop a TOU rate for Xcel or allow Xcel to move forward with its alternative process. The OAG stated its preference is for a process led and directed by

⁶ Xcel Rate Design Pilot, MPUC Informational Meeting Presentation, April 11, 2017, filed in e-dockets on April 13, 2017.

the Commission using an independent expert to develop a TOU Pilot proposal, other than one working for Xcel.

The OAG explained Xcel has a financial conflict of interest, because a well-designed TOU rate will reduce the amount of capital investments required to serve customers, which will reduce the return on those investments earned by Shareholders. The OAG explained further that Xcel's fiduciary duty to act in the interests of its shareholders is in conflict with the primary goals of a TOU rate.

If the Commission declines to develop a residential TOU pilot on its own, the OAG recommended that the Commission order Xcel to develop the TOU Pilot in the current docket. While the OAG preference is for a TOU pilot developed through a Commission-led process, the OAG does agree that there should be a TOU pilot for Xcel's residential customers. The OAG stated that the Commission could provide more clarity and certainty to the process by creating an order point directing Xcel to develop a residential TOU pilot proposal and to submit its proposal for approval no later than December 31, 2017.

Further, the OAG recommended that docket 15-662 should remain open and the Commission should ensure that the information in this record should be used to inform its decision about alternative rate designs for Xcel, regardless of which dockets those decisions are made in.

The Department

The Department stated it does not object to the proposal by Xcel, CEE and GPI to move forward in developing a TOU pilot program. Further, the Department recommended that the Commission use the record in this docket to inform its evaluation of any TOU proposal.

Specifically, the Department recommended that the Commission identify the information it wishes to learn from the pilot project to ensure that upon pilot completion parties have useful information on which to evaluate the program. Information that the Department considered would be useful for evaluating the TOU pilot included the following:

- Identify the type, timing and quality of information Xcel can provide to customers,
- Develop effective methods for informing and educating customers on price variances,
- Develop methods to inform and educate customers on the timing of their energy usage,
- Effectively evaluate customers' responses to the pilot's price signals,
- Identify barriers that customers may face in responding to price signals,
- Identify any information from other pilots that may be helpful for Minnesota (e.g. potentially the TOU pilot in the Sacramento Municipal Utilities District) and
- Identify opportunities and methods to address the barriers.

Xcel

Xcel stated that that once the Commission has the TOU proposal before it, the Commission may resume its standard procedures for Notice and Comment. As such, Xcel stated any Commission action now with respect to the Company's future filing would be premature.

Xcel advised that while the Commission may wish to close this docket in favor of initiating a new docket when the Company's proposal is made, the Commission may also wish to keep the present docket open for the purpose of gathering comments on other rate design topics. Xcel stated it sees no harm and would not oppose leaving the docket open.

Staff Analysis

Staff notes that no parties appear to be opposed to Xcel's proposal to file a TOU pilot program. In addition, no parties appear to be opposed to leaving the current docket open after Xcel files its pilot program. Staff agrees with Xcel that the Commission does not need to take any action until after Xcel files its proposal. Staff also agrees with Parties that the Commission will benefit from the information filed in the current docket when evaluating Xcel's pilot proposal. The Commission may wish to consider whether to set a deadline for Xcel to file its TOU Pilot proposal.

Decision Alternatives

- A. Use an independent expert to develop a TOU Pilot program for Xcel under Commission direction.
- B. Require Xcel to file a TOU Pilot Proposal by:
 - 1. November 1, 2017
 - 2. December 31, 2017
 - 3. Some other Date
- C. Require Xcel to file interim filings at each stakeholder benchmark envisioned in the Company's April 11, 2017 proposed timeline.
- D. Take no action