Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: October 30, 2014 ....**Agenda Item **#6**

Company: Interstate Power and Light Company

Docket No. G**-001/M-14-283**

In the Matter of IPL Gas's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of ($248,721)?

2. Should the Commission approve an incentive of $37,207 for IPL's 2013 CIP achievements to be included in the Company's tracker account no sooner than the issue date of the Commission's Order in this docket?

3. At what level should the Commission set the Conservation Cost Recovery Adjustment (CCRA) for 2014/2015?

4. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

5. Should the Commission eliminate the carrying charge or otherwise modify its application to IPL's tracker balance for the CIP rider effective with the date of the Commission's Order?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Initial Filing Interstate Power and Light (IPL) Gas .... April 1, 2014

Comments of the Department of Commerce,
Division of Energy Resources (DOC) .... June 2, 2014

Reply Comments IPL.. June 10, 2014

Reply Comments of the Department of Commerce, Division of Energy Resources .... June 20, 2014

Commission Order Approving Financial Incentive,
Setting Conservation Cost Recovery Adjustment,
Reducing Carrying Charges, and Varying Rules
Docket No. E-017/M-14-201 .... September 26, 2014

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Statement of the Issue(s)

1. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of ($248,721)?

2. Should the Commission approve an incentive of $37,207 for IPL's 2013 CIP achievements to be included in the Company's tracker account no sooner than the issue date of the Commission's Order in this docket?

3. At what level should the Commission set the Conservation Cost Recovery Adjustment (CCRA) for 2014/2015?

4. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

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II. Relevant Statute

Minn. Stat. § 216B.16, subd. 6c.

Incentive plan for energy conservation improvement. (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

(1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

(2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

(3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and

(4) whether the plan is in conflict with other provisions of this chapter.

(c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

III. Background

On April 1, 2014, Interstate Power and Light Company (IPL or the Company) filed a petition requesting approval of its 2013 natural gas CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2013 Performance of $37,206.56, and a proposed 2014/2015 Gas Conservation Cost Recovery Adjustment (CCRA). The Petition includes a report of proposed recoveries and expenditures in IPL's gas CIP tracker account during 2013, a proposed change in the currently approved gas CCRA, and a proposed incentive for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on June 2, 2014.

On June 10, 2014, reply comments were filed by IPL Gas. The DOC filed reply comments on June 20, 2014.

Below are the DSM financial incentives 2009 to 2013 for the Minnesota gas utilities filing for DSM incentives:

DSM Financial Incentives 2009-2013

	2009	2010	2011	2012	2013
Xcel	$965,307	$2,264,511	$2,833,206	$2,682,879	$5,416,936
Center Point Energy	$1,394,200	$3,933,921	$4,590,392	$3,207,411	$10,890,131
Great Plains	$0	$18,915	$37,707	$114,763	$24,137
Interstate Power	$86,463	$85,716	$15,349	$20,097	$37,207
Minnesota Energy Resources Corp.	$582,288	$2,292,375	$2,587,948	$2,729,531	$2,492,730

IV. Parties' Positions

IPL: IPL respectfully requests that the Commission allow IPL to recover the financial incentives for calendar year 2013. IPL's incentive request of $37,206.56 is consistent with past precedent as established by the Commission.

IPL requests that the Commission approve the Company's proposed increase in the CCRA from ($0.0135) to $0.0033.

The issue of carrying charges was not raised in this docket.

DOC: The DOC recommends that the Commission:

1) approve IPL's 2013 DSM financial incentive of $37,207 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;
2) approve IPL's 2013 CIP Tracker Account with an ending balance of ($248,721);

3) approve IPL's proposed CCRA of $0.0033 per therm for all of IPL's Minnesota customer classes, to be effective on the first billing cycle in the next full month after Commission approval, conditioned on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations;

4) require IPL to include the following bill message (with the appropriate date) in the billing month immediately following the date of the Order in the present docket:

    > IPL recovers the costs of its energy conservation programs in Minnesota through a Conservation Cost Recovery adjustment CCRA). The CCRA is an annual adjustment subject to Minnesota Public Utilities Commission approval. Based on actual and anticipated energy efficiency costs, the revised 2014 CCRA, as approved the Commission, will be $0.0033/therm effective [insert date]. Learn more about reducing your energy use by visiting our website at www.alliantenergy.com/save or calling us at 1-866-255-4268.

Further, the Department requests that, in future CIP tracker filings, IPL list any financial incentive received as a separate line item in the Company's CIP tracker account report.

Additionally, the DOC requests that IPL make the following additional changes in its 2014 CIP tracker and CCRA calculations:

5) IPL should record any DSM financial incentives awarded during the calendar year

of the tracker filing in question;

6) Based on experience from previous CCRA filings, IPL should calculate its proposed CCRA rate assuming that the rate will be effective November of the filing year;

7) IPL should include its estimated next year DSM financial incentive in the CCRA calculation to minimize fluctuations in the tracker account balance; and

8) IPL should use the projected therm sales for the period the proposed CCRA will be effective, not the projected sales for the calendar year. For example, in IPL's 2014 filing the Company should use projected sales for November 2015 through October 2016 in its calculation.

V. Staff Discussion

Staff agrees with the DOC that the 2013 tracker account was calculated correctly. As such, the Commission should approve IPL's 2013 CIP Tracker account of ($248,721) as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of $37,207 should be approved by the Commission. With respect to the carrying charge applied to the CIP tracker, this issue was not raised by the DOC in this particular CIP docket. However in the spirit of consistency and equity, Staff believes that carrying charges should be eliminated for IPL gas for two reasons. First, Staff believes that the current carrying cost structure provides a perverse incentive for any Company to maintain the CCRA at relatively low level and carry a significant positive tracker account balance. This increases the cost of the CIP over the long run.

Second, Staff believes that the goal should be to carry a zero balance as much as possible in the tracker account. By having a carrying charge of any size, it will reduce the likelihood of such an outcome.[1] Again, the goal should be to keep CIP costs at a minimum. In this context, having an incentive structure which facilitates this outcome, generally will facilitate the achievement of the desired outcome.[2]

With this in mind, Staff believes that the Commission's September 26, 2014 Order Approving Financial Incentives, Setting Conservation Cost Recovery Adjustment, Reducing Carrying Charges, And Varying Rules in Docket No. E-017/M-14-201 is quite instructive and useful for this matter. In that Order, the Commission modified the carrying charge on the CIP tracker-

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[1] Staff notes that a lower carrying charge will result in a reduced incentive for maintaining a significant tracker balance.

[2] Staff notes that IPL-Gas has done a very good job keeping the tracker balance at or near zero.

account balance to the short-term cost of debt set in the Company's last rate case. In its Order at page 6, the Commission determined the following:

> The Commission concurs with the Chamber and the Department that it is no longer appropriate to grant the Company carrying charges on unrecovered CIP costs at its authorized rate of return. The Commission will, however, grant carrying charges at the Company's short-term cost of debt, as explained below.

The Commission defended its determination that using authorized rate of return as excessive and may not be appropriate in the rate rider/tracker account context at page 7:

> Here, the Commission concurs with the Chamber and the Department that granting carrying charges at Otter Tail's authorized rate of return would be excessive. While the CIP financial incentives making up the bulk of the CIP tracker account serve an important public-policy purpose, they are not the kind of costs—out of pocket costs—for which rate-of-return treatment can be most readily justified.

Additionally, the Commission reasoned that the generous carrying charges were appropriate at the beginning of the DSM financial incentive as a way to facilitate the success of the program. The Commission Order provided the following reasoning at page 7:

> Further, the factual context that led to setting carrying charges at the overall rate of return no longer applies. As the Department pointed out, in 1992—and for years thereafter—demand-side management financial incentives were small, the financial-incentive program was new, and it was important to use whatever tools were at hand to encourage its success. The incentives are now sizeable, the program is well established, and Otter Tail itself stated at hearing that reducing or eliminating carrying charges would not affect its conservation commitment or efforts, just its approach to rate amelioration.

Finally, the Commission reasoned that there is no perfect mapping between the cost recovery period and interest rates. However, the short-term cost of debt is the closest match. The Commission's Order stated the following at page 7:

> While there is no exact match between this additional twelve-month recovery period and a standard interest rate, the Commission concurs with the Department and the Chamber that the authorized cost of short-term debt is the closest match contained in the record. The twelve-month term typical of short-term debt corresponds to the twelve-month period CIP costs are typically carried in the tracker account. And, while the additional twelve months of recovery necessitated by the moderated CCRA level is anomalous, the short-term debt rate is still more consistent with the public interest than the overall rate of return, given the nature of these costs—cash financial incentives—and the relatively short term—two years—within which they will be recovered.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely but reasonable manner. In the event the Commission eliminates or reduces the carrying charges, it would be reasonable to bring the tracker to zero as quickly as possible. At the same time, the Commission needs to mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that a reasonable rate at this time would be $0.0033/therm. This was the rate proposed by the DOC and subsequently agreed to by the the Company. Next year, the Company should evaluate the progress that has been made, and propose a rate which would continue the progress to bring the tracker balance to zero.

VI. Commission Options

A. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of ($248,721)?

1. Approve IPL's 2013 CIP tracker account as indicated at page two of the DOC's June 20, 2014 comments.

2. Do not approve IPL's 2013 CIP tracker account.

B. Should the Commission approve an incentive of $37,207 for IPL's 2013 CIP achievements?

1. Approve IPL's 2013 financial incentive for CIP achievements.

2. Do not approve IPL's 2013 financial incentive for CIP achievements.

C. At what level should the Commission set the Conservation Cost Recovery Adjustment (CCRA) for 2014/2015?

1. Approve the revised gas CCRA of $0.0033 per therm for all IPL's Minnesota customer classes to be effective on the first billing cycle in the next full month after Commission approval as recommended by the DOC and agreed to by IPL, conditioned on the Company submitting, within 10 days of the issue of the Commission's Order in this docket.

2. Approve the CCRA of $0.0051 per therm as originally proposed by the DOC.

3. Approve some other rate for the CCRA.

D. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

1. Approve IPL's proposed bill message with the modifications that the October 1, 2014 effective date and gas CIP Adjustment Factor listed in the bill message be

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updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate.

2. Do not approve IPL's proposed bill message.

3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.[3]

E. Should the Commission eliminate the carrying charge or otherwise modify its application to IPL's tracker balance for the CIP rider effective with the date of the Commission's Order?

1. Modify the carrying charge to be equal to the two year U.S. Treasury Bond rate as of October 29, 2014. The modification shall be effective as of the date of the Commission's Order in this docket.[4]

2. Do not eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

3. Eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

4. Modify the application of the carrying charge to exclude the Company's financial incentive when determining the amount of carrying charges allowed for recovery.

5. Take other action the Commission deems appropriate.

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1, and E1.

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[3] If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.

[4] IPL-Gas' last rate case was in 1995, Docket No. G-001/GR-95-406. Given that nearly 20 years has passed, it may be more appropriate to consider a more contemporary rate.