June 26, 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. G008/M-17-339

Dear Mr. Wolf:

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

> CenterPoint Energy's 2016 Conservation Improvement Program Status Report, 2016 Demand Side Management Financial Incentive, Conservation Improvement Program Tracker Report, and 2016 Conservation Cost Recovery Adjustment Aggregated Compliance Filing (Petition).

The *Petition* was filed on May 1, 2017 by:

> Nick C. Mark
> Manager, Conservation and Renewable Energy Policy
> CenterPoint Energy, a Division of CenterPoint Energy Resources Corp.
> 505 Nicollet Mall
> PO Box 59038
> Minneapolis, Minnesota 55402

As discussed in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission **approve CenterPoint's *Petition* with modifications.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/lt
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G008/M-17-339

I. SUMMARY OF THE UTILITY'S FILING

On May 1, 2017, CenterPoint Energy, a Division of CenterPoint Energy Resources Corporation (CenterPoint, CPE, or the Company), submitted a filing in the present docket entitled *CenterPoint Energy's 2016 Conservation Improvement Program Status Report, 2016 Demand-Side Management Financial Incentive, Conservation Improvement Program Tracker Report and 2016 Conservation Cost Recovery Adjustment Aggregated Compliance Filing* (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). The Company's *Petition* included:

- a proposed 2016 Demand Side Management (DSM) financial incentive of $13,791,346;
- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2016; and
- no change to the Conservation Cost Recovery Adjustment (CCRA).

In addition, Section I of the *Petition* contained the Company's 2016 *Status Report*. Since the *Status Report* does not require Commission approval, that portion of the *Petition* has been assigned a separate docket number.[1]

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

[1] See Docket No. G008/CIP-12-564.05.

II. COMMISSION'S 2016 ORDER

On September 21, 2016, the Commission issued its Order in Docket No. G008/M-16-366 approving CenterPoint's 2015 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved CenterPoint's proposed 2015 DSM financial incentive of $12,732,019.
2. Approved CenterPoint's 2015 CIP tracker account, as set forth at page six of the Department's June 28, 2016 comments.
3. Required CenterPoint to use a carrying-charge rate of 0.36% from October 2015 through the effective date of final rates in the Company's 2015 rate case and a carrying-charge rate of 0.65% beginning with the effective date of final rates in the Company's 2015 rate case.
4. Approved a CCRA of $0.1553/Dth, to be effective on January 1, 2017.
5. Required CenterPoint to file monthly status reports on the large conservation project until its completion.
6. Approved the following bill message:

> The MPUC has approved a Conservation Cost Recovery Adjustment (CCRA) factor of $0.01553 per therm. This charge is used to fund energy conservation activities and has been added to your delivery charge. For more information please call 1-800-245-2377 or visit our website at www.centerpointenergy.com.

On December 16, 2016, CenterPoint filed an updated published tariff page that is consistent with the approved recovery rate.

On May 1, 2017, CenterPoint requested approval to allocate the Company's 2016 financial incentive to its CIP tracker; to update its CIP Tracker activity through December 31, 2016, including approval of the CIP Tracker balance; and to continue the Company's current CCRA. Because the Company did not propose a change to its CCRA, CenterPoint did not propose tariff sheet or bill message language in this filing.

III. THE DEPARTMENT'S ANALYSIS

The Department presents its analysis of CPE's *Petition* below in the following sections:

- in Section III.A, CenterPoint's proposed 2016 DSM financial incentive;
- in Section III.B, CenterPoint's proposed 2016 CIP tracker account;

- in Section III.C, CenterPoint's proposed 2017/2018 CCRA; and
- in Section III.D, a review of CenterPoint's CIP activities for the period 2008 through 2016.

A. CPE'S PROPOSED 2016 DSM FINANCIAL INCENTIVE

1. Background and Summary of CPE's Proposed 2016 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; however, the incentive calibration does not take effect until a specified savings threshold is reached. 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:

> *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 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.
L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and

biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

M. 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.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission-approved decoupling mechanisms.
O. 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.

With respect to net benefits, CenterPoint provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2016 CIP. According to the Company, CPE's 2016 CIP activities resulted in an estimated $97,070,372 of net benefits before the requested incentive.[2] CenterPoint also stated that its CIP activities achieved energy savings in 2016 of 2,006,014 Dth. Based on the terms and conditions of its approved DSM incentive plan, CenterPoint requested approval of a 2016 financial incentive of $13,791,346.

2. The Department's Review of CPE's Proposed 2016 DSM Financial Incentive

The Department's CIP Engineering Staff review of the Company's claimed demand and energy savings that underpin CenterPoint's proposed DSM financial incentive is on-going and may not be completed before the fall of 2016. This lag between the Company's request for recovery of the incentive and completion of the Department CIP Engineering Staff review is a recurring phenomenon.

Similar to last year, the Department's analysis assumes that CenterPoint's claimed 2016 energy savings are correct as filed. If the Deputy Commissioner of the Department subsequently approves changes to CenterPoint'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, which will be made by May 1, 2018.

[2] *Petition*, Attachment A, page A-5.

In its present *Petition*, CenterPoint reported gas energy savings of 2,006,014 Dth from 2016 CIP activity, and so the Department used this figure in reviewing the present docket.

According its *Petition*, the Company receives approximately 1.30995 percent of the net benefits created by its 2016 CIP investments for every 0.1 percent of sales saved above 0.2 percent.[3] CenterPoint estimated that it achieved energy savings of 1.47 percent of its non-CIP-exempt retail sales goals. This results in a financial incentive of 16.63 percent of net benefits achieved, for a total of $16,145,346. However, this incentive yields a cost per Dth savings of $8.05/Dth, violating the approved cap of $6.875/Dth saved. Thus, the Company must use the $/Dth saved cap to calculate its financial incentive, and so proposed an incentive of $13,791,346 ($6.875/Dth * 2,006,014 Dth = $13,791,346.) This incentive level equates to 14.21 percent of net benefits achieved.

The Department verified the calculation of the financial incentive and recommends that the Commission approve CenterPoint's proposed 2016 DSM financial incentive of $13,791,346 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.

B. CENTERPOINT'S 2016 CIP TRACKER ACCOUNT

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

Table 1: Summary of CenterPoint's CIP Tracker Account in 2016

Description	**Time Period**	**Amount**
Beginning Balance	January 1, 2016	$2,932,026
CIP Expenditures	January 1 through December 31, 2016	$29,897,277
Recovery via Base Rates (CCRC)	January 1 through December 31, 2016	($25,218,426)
Recovery via CCRA	January 1 through December 31, 2016	($13,222,213)
Carrying Charges	January 1 through December 31, 2016	($8,953)
2015 DSM Financial Incentive	September 1, 2016	$12,732,019
Adjustments	January 1 through December 31, 2016	$349,387
Ending Balance (Over)/Under	December 31, 2016	$7,461,117

The Company's CIP Tracker reflects the Commission's 2015 DSM financial incentive of $12,732,019, approved September 21, 2016 as part of Docket No. G008/M-16-366.

[3] *Petition*, Attachment A, page A-4.

CenterPoint's CIP tracker also includes:

- two adjustments due to misalignment of billing dates with new and interim rate implementation dates, and
- one adjustment due to restating the CIP Tracker by making an accounting entry at the time that final rates were implemented.

The Department recommends that the Commission approve CenterPoint's 2016 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 $7,461,117.

C. CENTERPOINT'S PROPOSED CCRA

Minnesota law states in relevant part that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements."[4] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

On page 46 of its *Petition*, CenterPoint states:

> With this filing, CenterPoint Energy does not propose an additional change to the CCRA. As detailed below, the Company's projections indicate that maintaining, as opposed to increasing, the current CCRA will result in lower 2018-2019 monthly tracker balances and thus keep carrying charges closer to zero.

Further, on page 47, CenterPoint states:

> Using the assumptions discussed above, the Company's 2017 ending CIP Tracker balance is forecasted to be underrecovered by $7,214,314. At current rates of recovery, and using the approved 2018 CIP budget, the Company projects that the CIP Tracker under-recovery would be reduced to $3,917,889 by the end of 2018. In 2019, the Company's projections indicate that the CCRA could be reduced slightly to $0.01533 per therm to result in a zero year-end balance (see Attachment B-2).[Footnote omitted].

[4] See Minn. Stat. §216B.16, subd. 6b(c).

> An alternative approach would be to pursue a zero year-end balance in both 2018 and 2019. This could be accomplished by increasing the CCRA in January 2018 by 17 percent (to $0.01822 per therm) followed by a reduction in 2019 of nearly 31 percent (to $0.01263 per therm) (see Attachment B-3). However, the Company proposes to keep the rate constant at this time, in part because maintaining the current CCRA would reduce the fluctuations in rates for customers. More importantly, the Company's proposed approach reduces the over-recovery of CIP costs and associated carrying charges by maintaining a lower average monthly balance.
>
> While it may be counter-intuitive, the timing of CIP expenses and recovery results in lower carrying charges when the current CCRA is maintained than when a zero year-end balance is targeted.

Table 2 below summarizes some of the Company's analysis.

Table 2: Summary of CenterPoint's Analysis of Different CCRA Rates

	Maintaining Approved CCRA for 2017 and 2018, Setting 2019 Year End Goal to $0			Maintaining Approved CCRA for 2017, Setting 2018 and 2019 Year End Goals to $0		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
CIP Expenditures	$34,556,129	$33,401,400	$34,637,046	$34,556,129	$33,401,400	$34,637,046
Incentive Estimate	$13,791,346	$13,822,452	$11,690,490	$13,791,346	$13,822,452	$11,690,490
CCRA	$0.1553/Dth	$0.1553/Dth	$0.1533/Dth	$0.1553/Dth	$0.1822/Dth	$0.1263/Dth
Carrying Charges	($34,843)	($36,195)	($46,679)	($34,843)	($45,697)	($52,207)
Projected Ending Balance	$7,214,315	$3,917,890	$4,721	$7,214,315	$7,149	$4,376
2017 to 2019 Carrying Charges			($117,717)			($132,747)

The Department believes that when approving a utility's CCRA, the Commission should consider whether the CCRA:

- Closely matches cost recovery to when costs are incurred,;
- Minimizes carrying charges to customers; and
- Minimizes rate shock to customers.

Below, the Department evaluates CenterPoint's CCRA proposal and the alternative CCRA scenarios in light of these three criteria.

1. Matching Cost Recovery

One of the principles of rate design is to allocate costs to the customers that cause them. One way of achieving this goal is to ensure that rates recover costs close to the time that they are incurred. The alternative CCRA scenario that CenterPoint analyzed (CCRA of $0.1553/Dth in 2017, $0.1822/Dth in 2017 and $0.1263/Dth in 2019) would be a better choice for achieving this goal. The Company projects that both its CCRA proposal and the alternative scenario would result in a 2017 ending balance of $7.2 million. For the alternative scenario, CenterPoint projects a 2018 ending balance of only $7,149 and only $4,376 at the end of 2019. On the other hand, CenterPoint projects that its proposed CCRA would result in a 2018 ending balance of $3.9 million in 2018 and $4,721 in 2019. The Department notes that a third alternative—implementing a higher CCRA beginning in 2017 would have performed even better under this criterion.

2. Minimizing Carrying Charges

Although CenterPoint states that its proposed approach reduces the over-recovery of CIP costs and associated carrying charges by maintaining a lower average monthly balance, the difference in carrying charges would only be $15,030 over a three-year period ($132,747-$117,717=$15,030) and CenterPoint's customers would be better off under the alternative scenario. Given that the difference in carrying charges between the two scenarios is minimal; that the carrying charges are estimated to be quite low under both scenarios; and that minimal changes in actual expenditures, recoveries or other expenditures could change the carrying charge levels incurred under either CCRA scenario; the Department concludes that the CCRA approaches have the potential to perform equally well under this criterion.

3. Minimizing Rate Shock

The Department agrees that CenterPoint's proposal to keep the CCRA at $0.1553/Dth for the remainder of 2017, all of 2018, and then to minimally reduce it to $0.1533/Dth (a reduction of only $.002/Dth) for 2018 would minimize changes in rates to customers. However, this scenario's 2018 and 2019 CCRA rates are uncertain as the Commission will have the opportunity to alter this scenario through CenterPoint's 2018 and 2019 annual filings.

4. Department Discussion

The Department concludes that both of the CCRA scenarios analyzed by CenterPoint strike a reasonable balance of meeting the three criteria outlined above. Although the alternative CCRA would do a better job of aligning cost recovery with the timing of when the costs are incurred, CenterPoint's proposal does a reasonable job of achieving this goal as well. The Department recommends that the Commission approve CenterPoint's proposal to maintain its present CCRA of $0.1553/Dth until the Company implements the Commission's decision on the Company's future May 1, 2018 filing. The Department and the Commission will be able to re-evaluate the Company's approach when CenterPoint submits its next filing in May 2018.

D. REVIEW OF CENTERPOINT'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2008-2016)

In Attachment A, Table 1, the Department presents a historical comparison of CenterPoint's DSM and CIP activities during the period 2008 through 2016. Attachment A, Table 1 provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment A, Table 1 indicates that, between 2008 and 2016, the Company's energy savings grew 142 percent, the Company's expenditures grew 256 percent, and the Company's incentives grew 2,748 percent. CenterPoint's tracker balance was $7,461,117 at the end of 2016; this compares with a high of $14,225,552 in 2012 and a low of $2,285,733 in 2014. In the last eight years, CenterPoint's carrying charges have ranged from $507,115 to ($443,194).

The Department notes that the Commission approved a modified Shared Savings DSM financial incentive mechanism on August 5, 2016 in Docket No. E,G999/CI-08-133. The modified incentive mechanism is for CIP years 2017-2019. Table 3 below shows the two caps approved for the Shared Savings mechanism—a cap on percent of net benefits awarded and a cap on the incentive as a percent of expenditures.

Table 3: Caps on Modified Shared Savings DSM Financial Incentive Mechanism Covering CIP Years 2017-2019

Caps	2017	2018	2019
Net Benefits	13.5%	12.0%	10.0%
Incentive/Expenditures	40.0%	35.0%	30.0%

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

1) approve CenterPoint's proposed 2016 DSM financial incentive of $13,791,346 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 CenterPoint's 2016 CIP tracker account, as summarized in Table 1 above, resulting in a December 31, 2016 tracker balance of $7,461,117;

3) allow CenterPoint to continue to implement a Conservation Cost Recovery Adjustment of $0.1553/Dth.

Table 1: A History of CenterPoint Energy's DSM and CIP Activities (2008-2016)									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
DSM Financial Incentive	$484,182	$1,394,200	$3,493,921	$4,590,392	$3,207,411	$10,890,131	$11,608,486	$12,732,019	$13,791,346
Incentive/ CIP Expenditures	5.8%	13.8%	21.1%	24.5%	16.3%	46.9%	47.7%	48.2%	46.1%
Carrying Charges	N/A	$507,115	$296,465	$450,945	$418,624	$344,598	($443,194)	($13,773)	($8,953)
Carrying Charges/CIP Expenditures	N/A	5.0%	1.8%	2.4%	2.1%	1.5%	1.8%	0.05%	0.03%
Year-End Tracker Balance	$8,147,421	$6,879,416	$10,216,655	$9,248,025	$14,225,552	$8,501,064	$2,285,733	$2,932,026	$7,461,117
Year-End Tracker Balance/ CIP Expenditure	97.09%	67.99%	61.64%	49.42%	72.3%	36.6%	9.39%	11.11%	25.0%
CIP Expenditures	$8,391,297	$10,117,898	$16,574,737	$18,713,923	$19,680,178	$23,222,379	$24,352,083	$26,394,800	$29,897,277
Achieved Energy Savings (Dth)	827,340	938,978	1,300,228	1,488,231	1,330,518	1,584,019	1,701,716	1,851,930	2,006,014
Avg. Cost/Dth Saved	$10.14	$10.78	$12.75	$12.57	$14.79	$14.66	$14.31	$14.25	$14.90