

May 10, 2018

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-18-246

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, doing business as Xcel Energy (Xcel or the Company), requesting approval of the following:

- a proposed 2017 gas Demand Side Management financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its 2017 natural gas (gas) CIP; and
- a proposed 2018/2019 gas CIP Adjustment Factor.

The *Petition* was filed on March 30, 2018 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 will provide its final recommendations in reply comments. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ MICHAEL N. ZAJICEK  
Rates Analyst

MNZ/lt  
Attachment

## Before the Minnesota Public Utilities Commission

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### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G002/M-18-246

#### I. SUMMARY OF THE UTILITY'S PROPOSAL

On March 30, 2018, Northern States Power Company, doing business as Xcel Energy (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 2018-2019 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 \$3,753,592 for 2017;
- a report of proposed recoveries and expenditures in Xcel's natural gas (gas) Conservation Improvement Program (CIP) tracker account in 2016; and
- a proposed 2018/2019 CIP Adjustment Factor (CAF) of \$0.011036 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 August 16, 2017, the Commission issued its Order in Docket No. G002/M-17-258 approving Xcel's 2016 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved Xcel's proposed 2016 gas DSM financial incentive of \$6,245,743 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 2016 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, 2016 tracker balance of \$1,746,885;
3. Approved Xcel's proposed bill message language; and
4. Allowed 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 this Order, a

compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

On August 25, 2017, Xcel filed its compliance filing pursuant to Order Point 4. Given the October 1, 2017 implementation date, Xcel filed an updated compliance filing on September 12, 2017. On September 19, 2016, Xcel filed a corrected compliance filing, recalculating the CAF and proposing to implement the resultant new factor (\$0.25277 per dekatherm) on October 1, 2017. The Department filed a compliance sign-off form on April 10, 2018. Xcel's proposed rate went into effect October 1, 2017.

### 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 2017 gas DSM financial incentive;
- in Section II.B, Xcel's proposed 2017 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 2011 through 2017.

#### A. XCEL'S PROPOSED 2017 GAS DSM FINANCIAL INCENTIVE

##### 1. *Background and Summary of Xcel's Proposed 2017 Gas DSM Financial Incentive*

The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan*, Docket No. E,G999/CI-08-133. The new mechanism, which began January 1, 2017, is triggered when electric utilities achieve energy savings of 1 percent, and gas utilities achieve 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.<sup>1</sup> For 2017, the electric and gas incentives are capped at 13.5 percent of net benefits and 40 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

1. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.

A. For electric utilities, the plan is modified to do the following:

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<sup>1</sup> Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes 216B.241, Subd. 1a(b).

- 1) Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
  - 2) For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
  - 3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
  - 4) For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.
- B. For gas utilities, the plan is modified to do the following:
- 1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
  - 2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
  - 3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
  - 4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.
- C. For all utilities, set the following Net Benefit Caps:
- 1) 13.5 percent in 2017,
  - 2) 12.0 percent in 2018, and
  - 3) 10.0 percent in 2019.
- D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
- 1) 40 percent in 2017,
  - 2) 35 percent in 2018, and
  - 3) 30 percent in 2019.
2. The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

- A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.
  - B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
  - C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.
  - D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.
  - E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments,<sup>2</sup> University of Minnesota Initiative for Renewable Energy and the Environment costs<sup>3</sup>) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.
  - F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs,<sup>4</sup> solar installation,<sup>5</sup> and biomethane purchases<sup>6</sup> shall not be included in energy savings for DSM financial incentive purposes.
3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.
  4. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

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<sup>2</sup> See 2007 Laws, art. 2.

<sup>3</sup> *Id.*, § 3, subd. 6.

<sup>4</sup> Minn. Stat. § 216B.1636.

<sup>5</sup> Minn. Stat. § 216B.241, subd. 5a.

<sup>6</sup> *Id.*, subd. 5b.

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, its 2017 energy savings achievements resulted in \$29,211,800 of net benefits. Xcel also stated that its gas CIP activities achieved energy savings in 2017 of 799,597 dekatherms (Dth); this savings is equal to 1.11 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 \$3,753,592 for its 2017 CIP achievements.

### 3. *The Department's Review of Xcel's Proposed 2017 Gas DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2017 DSM financial incentive of \$3,753,592 is ongoing and will not be completed before the instant comments are due. 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 2016 CIP status report, the Deputy Commissioner of the Department approved the Company's proposed energy savings level,<sup>7</sup> and thus no adjustment needs to be made this year.

As was done last year, the Department's analysis assumes that Xcel's claimed 2017 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 2018 filing that will be made April 1, 2019.

Xcel's reported gas energy savings level is 799,597 Dth, in the Company's 2017 *Status Report*. The Department used the 799,597 Dth energy savings in its review in this docket.

Xcel's gas's 2017 energy savings approximated 1.11 percent of the Company's non-CIP-exempt retail sales. At that achievement level, Xcel was eligible to receive 12.841 percent of net benefits, or \$3,753,592 (12.841% x \$29,231,281). Xcel's two caps for 2017 are 13.5 percent of

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<sup>7</sup> Docket No. E,G002/CIP-12-447.09 - *In the Matter of Xcel Energy's 2016 Electric and Gas Conservation Improvement Program Status Report*, filed June 30, 2017

net benefits and 40 percent of CIP expenditures. Xcel gas's incentive cap on expenditures for 2017 is \$5,511,257 (\$13,778,144 of CIP expenditures x 40 percent)<sup>8</sup>. The Department recommends that the Commission approve Xcel's proposed 2017 gas DSM financial incentive of \$3,753,592 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 2017 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 2017. Table 1 below provides a summary of activities in Xcel's gas CIP tracker account during 2017.

**Table 1: A Summary of Xcel's Gas CIP Tracker Account in 2017<sup>9</sup>**

<b>Description</b>	<b>Time Period</b>	<b>Amount</b>
Beginning Balance	January 1, 2017	\$1,746,885
CIP Expenses	January 1 through December 31, 2017	\$14,181,339
Carrying Charges	January 1 through December 31, 2017	(\$21,564)
CIP Recoveries in base rates	January 1 through December 31, 2017	(\$3,928,334)
CIP Recoveries from CCRA	January 1 through December 31, 2017	(\$19,044,975)
Performance Incentives	2016	\$6,145,750
<b>Ending Balance</b>	<b>December 31, 2017</b>	<b>(\$920,899)</b>

The *Petition* indicated that the 2016 financial incentive, which was approved on August 16, 2017, was booked during October of 2017.

The Department recommends that the Commission approve Xcel's 2017 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2017 tracker balance of (\$920,899).

<sup>8</sup> The incentive caps will decline in 2018 and 2019. For 2018 CIP achievements, if Xcel gas were to achieve the same energy savings and net benefits and spend the same expenditures as in 2017, Xcel would receive a DSM financial incentive of \$3,507,753.72 (net benefits of \$29,231,281 x 12%), and for 2019, Xcel would receive a DSM financial incentive of \$2,923,128 (net benefits of \$29,231,281 x 10%).

<sup>9</sup> See: 2017 Natural Gas CIP Tracker (DSM Cost Recovery) on page 26 of 40 of Attachment A of the *Petition*.

**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.”<sup>10</sup> Xcel refers to its approved annual gas CIP recovery mechanism as the CIP Adjustment Factor (CAF).

In its *Petition*, Xcel proposed a gas CAF of \$0.011036 per therm for each customer class, effective on October 1, 2018, as calculated below in Table 2.

**Table 2: Xcel Gas’ Forecasted End of September 2019 CIP Tracker Account**

<b>Description</b>	<b>Amount</b>
Forecasted Beginning Balance (October 2018)	(\$5,200,966)
October 2018-September 2019 Budget	\$16,946,655
Forecasted 2018 Incentive	\$2,115,511
Less Forecasted CCRC Recovery (Oct 2018-Sept 2019)	\$4,452,485
Forecasted September 2019 Balance without CAF	\$9,408,715
Forecasted Sales (Oct 2018-Sept 2019)	84,971,094 dth
Xcel’s Proposed CIP Adjustment Factor	\$0.11073/dth

However, during the Department’s analysis an error was found in the Company’s forecasted non-exempt Customer Dth Gas sales for October 2018 through September 2019. In response to an information request<sup>11</sup> the Company indicated that 10,812,678 Dth for the Interdepartmental Transport class was erroneously included in the Company’s calculation. The removal of these sales decreased the forecasted gas sales to 74,158,416 Dth for October 2018 through September 2019, which resulted in a revised CIP adjustment factor of \$0.012687 per therm.<sup>12</sup>

Table 3 below compares the Company’s proposed gas CIP Adjustment Factor with the Company’s currently approved CIP Adjustment Factor of \$0.025277 per therm.

<sup>10</sup> See Minn. Stat. §216B.16, subd. 6b(c).

<sup>11</sup> See Attachment 1, DOC IR 2.

<sup>12</sup> The Company’s response to DOC IR 2, as seen in Attachment 1, incorrectly calculated this revised rate as \$0.016574 per therm.



**Table 3: Xcel's Current and Department's Proposed CIP Adjustment Factor**

<b>Current Factor (\$/Therm)</b>	<b>Proposed Factor (\$/Therm)</b>	<b>Change (\$/Therm)</b>	<b>Percent Change</b>
\$0.025277	\$0.012687	(\$0.012590)	(49.8%)

The Department notes that Xcel normally adjusts this rate to minimize carrying charges. While the Company provided a similar calculation in its response to DOC IR 2, this calculation incorrectly calculated the CIP adjustment factor. Thus the Department recommends that the Company provide a similar calculation in reply comments using the Corrected Forecasted Non-exempt Customer Dth Gas Sales and the correctly recalculated Gas CIP Adjustment rate. The Department will make its final recommendation after reviewing the Company's response.

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, 2018, 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 \$0.011073 per therm.

The Department recommends approval of the proposed bill message language with the modifications that the October 1, 2018 effective date and the gas CIP Adjustment Factor listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate. In the event that the timing of Commission approval of the proposed factor suggests that the implementation date of the 2018/2019 CIP Adjustment Factor will occur after October 1, 2018, 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 (2011-2017)*

In Attachment 2, Table 1, the Department presents a historical comparison of Xcel's gas DSM and CIP activities during the period 2011 through 2017. Attachment 2, 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 2, Table 1 indicates that, between 2011 and 2017, the Company's energy savings increased by 7.02 percent, the Company's expenditures grew 11.65 percent, and the Company's incentives increased by 32.49 percent. Xcel's tracker balance was (\$920,889) at the end of 2017. 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 (\$11,880) to (\$692,481), but have been reduced significantly the last three years as the Commission changed how the carrying charge was calculated.<sup>13</sup>

#### IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

- 1) approve Xcel's proposed 2017 gas DSM financial incentive of \$3,753,592 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 2017 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1, resulting in a December 31, 2017 tracker balance of (\$920,889); and
- 3) approve Xcel's proposed bill message language.

The Department will make its final recommendation regarding the Company's CIP Adjustment Factor for 2018/2019 after reviewing Xcel's Reply Comments.

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<sup>13</sup> Xcel used to use the Company's weighted cost of capital for its carrying charge rate. In its December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges* in Docket No. G002/M-14-288.

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 Public Document

Xcel Energy

Docket No.: G002/M-18-246

Response To: Department of Commerce Information Request No. 1

Requestor: Michael Zajicek

Date Received: April 11, 2018

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Question:

On Page 7 of Northern States Power Company d/b/a Xcel Energy's (Xcel or the Company) Initial filing, the Company states that the Company's net benefits achieved were over \$28 million for 2017. Meanwhile, Attachment A, Page 39 lists Net Benefits Achieved as \$29,231,281. Please reconcile these numbers and explain either why the Company did not indicate savings of over \$29 million in the initial filing or what the correct savings should be on Attachment A, Page 39.

Response:

On page 7 of the Initial filing, \$28 million represents the net benefits achieved from the Company's gas CIP achievements in 2017. On page 39 of Attachment A, \$29 million represents the total net benefits used in the calculation of the Company's 2017 Gas Financial Incentive Mechanism and excludes net costs from low-income gas programs.

On page 214 of the Company's 2017 CIP Status Report (Docket No. E,G002,CIP-16-115.06), the net costs from gas low-income programs is \$722,941 as indicated in the Utility Test Net Benefit (Cost) of the Low-Income Segment total. This cost is included in the calculation of the \$28 million net benefits achieved. Minnesota Statute 216B.241, subdivision 7, allows utilities to exclude the net benefits of low-income programs from the calculation of net benefits for the incentive if the net benefits are negative.

This cost allowance for low-income programs in the financial incentive (\$722,941) is the difference between the \$28 million in net benefits from the Company's 2017 CIP gas achievements and the \$29 million in net benefits used in the calculation of the Company's 2017 Gas Financial Incentive Mechanism.

Preparer: Jeremy Petersen  
Title: DSM Principal Technical Consultant  
Department: DSM Strategy and Financial Operations  
Telephone: 612-330-7934  
Date: April 23, 2018

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Xcel Energy

Docket No.: G002/M-18-246

Response To: Department of Commerce Information Request No. 2

Requestor: Michael Zajicek

Date Received: April 11, 2018

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Question:

On page 31 of Attachment A Northern States Power D.B.A. Xcel Energy (Xcel or the Company) stated that the Company's forecasted gas sales for October 2018 through September 2019 are 84,971,094 Dth. In Docket G002/M-17-258 on page 29 of Attachment A the Company stated that its forecasted gas sales for October 2017 through September 2018 were 71,667,794 Dth.

Please explain how the Company forecasted its gas sales for October 2018 through September 2019 and why this estimate has increased by such a large amount compared to the estimate for October 2017 through September 2018.

Response:

The difference between the two forecasts for October 2018 through September 2019 is primarily due to the Interdepartmental Transport class not being included in the 2016 Status Report sales (Docket G002/M-17-258), but being included in the forecast provided in Docket No. G002/M-18-246. The total sales for the Interdepartmental Transport class during the period of October 2018 through September 2019 are 10,812,678 Dth. The forecast sales from the Interdepartmental Transport class represent the "gas sales to qualifying large energy facilities" as stated in footnote 2 on page 31 of Attachment A.

These sales should be excluded from the Gas CIP tracker, which results in forecast gas sales of 74,158,416 Dth for October 2018 through September 2019. The effect of this correction is an increase in the Gas CIP Adjustment Factor. The Company provides the corrected sales in Attachment A of this response and will also make this correction in the final compliance filing following the Commission's order in this docket.

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Preparer: Jeremy Petersen  
Title: DSM Principal Technical Consultant  
Department: DSM Strategy and Financial Operations

Telephone: 612-330-7934  
Date: April 23, 2018

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 Public Document

Xcel Energy

Docket No.: G002/M-18-246

Response To: Department of Commerce Information Request No. 3

Requestor: Michael Zajicek

Date Received: April 11, 2018

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Question:

On page 39 of Attachment A Northern States Power D.B.A. Xcel Energy (Xcel or the Company) stated that the Company's net benefits for 2017 DSM activities were \$29,231,281, based on achieving savings of 1.11213% of retail sales. However Xcel's Gas Incentive Mechanism spreadsheet only estimated net benefits of approximately \$19.4 million for 1.11% gas savings.

1. Please explain why Xcel's actual net benefits are so much higher than the estimated net benefits.
2. Please explain why basing the Company's estimated 2018 DSM incentive on the Estimated Net Benefits achieved from the Company's Gas Incentive Mechanism spreadsheet, for purposes of calculating the Company's Gas CIP Adjustment Rate, is reasonable when it appears to significantly underestimate actual net benefits.

Response:

1. The estimated net benefits of approximately \$19.4 million for 1.11 percent of gas savings is based on the net benefits and gas savings from the Company's 2017-2019 Triennial CIP Plan (Plan) for 2017, which is \$17,638,744 at 719,362 Dth of gas savings, or 1.00 percent of gas savings. The actual net benefits from 2017 DSM activities of \$29,231,281 at 1.11213 percent of gas savings is higher than the \$19.4 million at 1.11 percent of gas savings, due to a higher net benefit intensity (\$/Dth) of actual achievements versus achievements expected in the Plan for 2017. This difference may have several causes, including differences in spend intensities (\$/Dth), and project lifetimes. In the cost-benefit analysis of the Company's gas CIP total portfolio (pages 79 and 80 of the Company's 2017 CIP Status Report Docket E, G002/CIP-16-115.06), which excludes alternative filings, the greatest difference is a reduction in spend intensity from Plan goal of \$22.36/Dth (\$16,084,990/719,360 Dth) to actual spend intensity of \$17.23/Dth (\$13,778,144/799,597 Dth). Additionally, more measures of a longer lifetime were actually implemented than planned, as evidenced by the

originally estimated project life of 10.9 years versus actual project life of 12.2 year.

2. The Company believes that the estimated 2018 DSM incentive based on the Estimated Net Benefits achieved from the Company's Gas Incentive Mechanism spreadsheet is still reasonable as the factors that led to higher actual net benefits in 2017 (i.e. reduction in spend intensity) cannot necessarily be expected in 2018. Historically the Company has seen both positive and negative variances compared to original estimates. Because the calculation of net benefits is heavily dependent on the varying nature of customer choices, we believe our forecast methodology is the most reasonable.

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Preparer:           Jeremy Petersen  
Title:                DSM Principal Technical Consultant  
Department:       DSM Strategy and Financial Operations  
Telephone:         612-330-7934  
Date:                April 23, 2018



**Calculation of Revised Gas CIP Adjustment Rate**

(1) Forecasted Oct 2019 Natural Gas CIP Tracker Balance	\$9,408,715
(2) Forecasted Gas Sales <sup>2</sup> – October 2018 through September 2019	74,158,416 <del>84,971,094</del>
(3) Recalculated Gas CIP Adjustment Rate = (1)/(2)	$\frac{\$9,408,715}{74,158,416} = \$0.1269$ <del><math>\frac{\\$9,408,715}{84,971,094} = \\$0.11073</math></del> <b><math>\\$0.016574/\text{therm}</math></b> <del><b><math>\\$0.011073/\text{therm}</math></b></del>

Our above forecasted balance does not include carrying charges. To get as close as possible to a \$0 balance by Sept 30, 2019, the calculated rate of \$0.016574 ~~\$0.011073~~ per therm was incrementally decreased to incorporate the effect of carrying charges, which are projected to be negative for several months. We determined the final rate by decreasing the calculated rate until the September 2019 forecasted CIP Tracker balance approached zero (\$0) without going negative. The resulting rate is **\$0.016536 ~~\$0.011036~~ per therm**. As shown in Table 21, this rate results in a forecasted September 30, 2018 Tracker balance of \$20.

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<sup>2</sup> Forecasted sales exclude the exempt customers and gas sales to qualifying large energy facilities.

**Northern States Power Company, a Minnesota corporation  
State of Minnesota - Gas Utility  
DSM Cost Recovery and Incentive Mechanism  
Tracker and Balance (\$)  
2018**

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
<u>EXPENSES</u>	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
1. Balance	(\$920,899)	(\$4,097,707)	(\$6,173,010)	(\$7,831,252)	(\$8,997,145)	(\$9,473,758)	(\$9,331,551)	(\$9,551,112)	(\$9,402,383)	(\$5,200,966)	(\$4,361,958)	(\$3,776,051)	
2. CIP Program Expenditures	1,097,409	1,444,362	1,637,516	1,013,831	1,122,241	1,358,011	1,103,584	1,292,295	1,442,351	1,372,111	1,561,813	2,357,831	16,803,354
3. 2017 Performance Incentive			99,993						3,753,592				3,853,585
4. <b>Total Expenses</b> (Line 1 + 2 + 3)	<b>176,510</b>	<b>(2,653,344)</b>	<b>(4,435,501)</b>	<b>(6,817,420)</b>	<b>(7,874,904)</b>	<b>(8,115,748)</b>	<b>(8,227,967)</b>	<b>(8,258,817)</b>	<b>(4,206,440)</b>	<b>(3,828,854)</b>	<b>(2,800,145)</b>	<b>(1,418,221)</b>	
<b>RECOVERY</b>													
5. CCRC Rate (\$/Dth)	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	
6. CCRC Cost Recovery	733,451	586,322 <del>603,654</del>	577,467 <del>582,189</del>	360,631 <del>373,256</del>	219,110 <del>273,462</del>	151,622 <del>207,705</del>	113,273 <del>226,112</del>	110,174 <del>195,294</del>	116,485 <del>170,178</del>	170,704 <del>170,704</del>	295,575 <del>313,388</del>	500,277 <del>557,364</del>	3,935,091 <del>4,406,755</del>
7. CIP Adjustment Factor Rate (\$/Dth)	0.25277	0.25277	0.25277	0.25277	0.25277	0.25277	0.25277	0.25277	0.25277	0.16536 <del>0.11036</del>	0.16536 <del>0.11036</del>	0.16536 <del>0.11036</del>	
8. CIP Adjustment Factor Recovery	3,538,062	2,828,332 <del>2,911,939</del>	2,785,619 <del>2,808,396</del>	1,739,630 <del>1,800,533</del>	1,056,956 <del>1,319,142</del>	731,401 <del>1,001,941</del>	546,412 <del>1,090,732</del>	531,462 <del>942,069</del>	561,909 <del>820,916</del>	538,696 <del>359,521</del>	932,755 <del>660,028</del>	1,578,735 <del>1,173,863</del>	17,369,969 <del>18,427,141</del>
9. <b>Total Recovery</b> (Line 6 + 8)	<b>4,271,514</b>	<b>3,515,593</b>	<b>3,390,585</b>	<b>2,173,789</b>	<b>1,592,604</b>	<b>1,209,646</b>	<b>1,316,844</b>	<b>1,137,363</b>	<b>991,094</b>	<b>530,226</b>	<b>973,415</b>	<b>1,731,224</b>	
10. Rate Refund	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Sub-Balance (Line 4-9)	(4,095,003)	(6,168,937)	(7,826,085)	(8,991,209)	(9,467,508)	(9,325,394)	(9,544,811)	(9,396,180)	(5,197,534)	(4,359,080)	(3,773,560)	(3,149,445)	
12. Accum Deferred Tax (Line 11 * 41.37%)	(1,694,103)	(2,552,089)	(3,237,652)	(3,719,663)	(3,916,708)	(3,857,916)	(3,948,688)	(3,887,200)	(2,150,220)	(1,803,351)	(1,561,122)	(1,302,926)	(33,631,637)
13. Net Investment (Line 11-12)	(2,400,900)	(3,616,848)	(4,588,434)	(5,271,546)	(5,550,800)	(5,467,479)	(5,596,123)	(5,508,980)	(3,047,314)	(2,555,729)	(2,212,438)	(1,846,520)	(47,663,111)
14. Carrying Charge (a) (Line 13 * Carrying Charge Rate)	(2,703)	(4,073)	(5,167)	(5,936)	(6,250)	(6,156)	(6,301)	(6,203)	(3,431)	(2,878)	(2,491)	(2,079)	(53,669)
15. <b>End of Month Balance</b> (Line 11+14)	<b>(4,097,707)</b>	<b>(6,173,010)</b>	<b>(7,831,252)</b>	<b>(8,997,145)</b>	<b>(9,473,758)</b>	<b>(9,331,551)</b>	<b>(9,551,112)</b>	<b>(9,402,383)</b>	<b>(5,200,966)</b>	<b>(4,361,958)</b>	<b>(3,776,051)</b>	<b>(3,151,524)</b>	

Table 23: 2018 Gas CIP Tracker Forecast, With Cost Recovery in 2018

<b>Northern States Power Company, a Minnesota corporation</b>									
<b>State of Minnesota - Gas Utility</b>									
<b>DSM Cost Recovery and Incentive Mechanism</b>									
<b>Tracker and Balance (\$)</b>									
<b>2019 Forecast</b>									
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>
<u>EXPENSES</u>	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
1. Balance	(\$3,151,524)	(\$4,644,928)	(\$4,997,244)	(\$5,070,925)	(\$5,285,833)	(\$4,994,419)	(\$4,244,333)	(\$3,779,229)	(\$3,113,795)
2. CIP Program Expenditures	780,541	1,508,184	1,709,872	1,058,629	1,171,829	1,418,017	1,152,348	1,349,397	1,506,083
3. 2018 Performance Incentive									2,115,511
4. <b>Total Expenses</b> (Line 1 + 2 + 3)	<b>(2,370,983)</b>	<b>(3,136,744)</b>	<b>(3,287,371)</b>	<b>(4,012,296)</b>	<b>(4,114,004)</b>	<b>(3,576,402)</b>	<b>(3,091,985)</b>	<b>(2,429,832)</b>	<b>507,799</b>
<u>RECOVERY</u>									
5. CCRC Rate (\$/Dth)	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524	0.0524
	678,050	586,906	562,160	375,770	220,057	152,082	114,635	111,851	117,834
6. CCRC Cost Recovery	731,102	597,920	573,132	408,888	282,386	214,136	220,453	219,538	163,478
	0.16536	0.16536	0.16536	0.16536	0.16536	0.16536	0.16536	0.16536	0.16536
7. CIP Adjustment Factor Rate (\$/Dth)	0.11036	0.11036	0.11036	0.11036	0.11036	0.11036	0.11036	0.11036	0.11036
	2,139,739	1,852,113	1,774,021	1,185,826	694,440	479,929	361,758	352,971	371,852
8. CIP Adjustment Factor Recovery	1,539,779	1,259,283	1,207,076	861,162	594,734	450,994	464,298	462,370	344,302
9. <b>Total Recovery</b> (Line 6 + 8)	<b>2,270,880</b>	<b>1,857,203</b>	<b>1,780,208</b>	<b>1,270,050</b>	<b>877,120</b>	<b>665,131</b>	<b>684,751</b>	<b>681,908</b>	<b>507,779</b>
10. Rate Refund	0	0	0	0	0	0	0	0	0
11. Sub-Balance (Line 4-9)	(4,641,864)	(4,993,947)	(5,067,580)	(5,282,346)	(4,991,124)	(4,241,533)	(3,776,736)	(3,111,741)	20
12. Accum Deferred Tax (Line 11 * 41.37%)	(1,920,339)	(2,065,996)	(2,096,458)	(2,185,307)	(2,064,828)	(1,754,722)	(1,562,436)	(1,287,327)	8
13. Net Investment (Line 11-12)	(2,721,525)	(2,927,951)	(2,971,122)	(3,097,039)	(2,926,296)	(2,486,811)	(2,214,300)	(1,824,414)	12
14. Carrying Charge (a) (Line 13 * Carrying Charge Rate)	(3,064)	(3,297)	(3,345)	(3,487)	(3,295)	(2,800)	(2,493)	(2,054)	0
15. <b>End of Month Balance</b> (Line 11+14)	<b>(4,644,928)</b>	<b>(4,997,244)</b>	<b>(5,070,925)</b>	<b>(5,285,833)</b>	<b>(4,994,419)</b>	<b>(4,244,333)</b>	<b>(3,779,229)</b>	<b>(3,113,795)</b>	<b>20</b>

Table 23: 2019 Gas CIP Tracker Forecast, With Cost Recovery in 2019

Table 1: A History of Xcel's Gas DSM and CIP Activities (2010-2016)							
	2011	2012	2013	2014	2015	2016	2017 <sup>1</sup>
DSM Financial Incentive	\$2,833,206	\$2,682,879	\$5,416,936	\$5,781,193	\$5,763,443	\$6,145,743	\$3,753,592
Incentive as a % of CIP Expenditures	22.3%	20.6%	42.4%	44.6%	42.4%	45.2%	26.5%
Carrying Charges	(\$215,734)	(\$411,428)	(\$368,277)	(\$692,481)	(\$34,795)	(\$11,880)	(\$21,564)
Year-End Tracker Balance	(\$7,631,972)	(\$4,648,913)	(\$4,680,426)	(\$12,398,883) <sup>2</sup>	\$488,314	\$1,746,885	(\$920,889)
Year-End Tracker Balance as a % of CIP Expenditures	-60.1%	-35.7%	-36.6%	-95.6%	3.6%	12.7%	-6.5%
CIP Expenditures	\$12,701,823	\$13,041,285	\$12,780,833	\$12,968,939	\$13,577,149	\$13,805,805	\$14,181,339
Achieved Energy Savings (Dth)	747,123	767,061	787,918	849,698	838,319	908,472	799,597
Average Cost per Dth Saved <sup>3</sup>	\$17.00	\$17.00	\$16.22	\$15.26	\$16.20	\$15.20	\$17.74

<sup>1</sup> The 2017 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.

<sup>2</sup> Note that the Company did not include previous financial incentives in the 2014 actuals.

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