

June 16, 2021

Will Seuffert
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. E002/M-21-226

Dear Mr. Seuffert:

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 2020 electric Shared Savings Demand Side Management (DSM) financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its electric CIP; and
- a proposed 2021/2022 electric CIP Adjustment Factor (CAF).

The *Petition* was filed on April 1, 2021 by:

Shawn White
Director, Demand Side Management and Renewable Operations
Northern States Power Company, a Minnesota corporation
414 Nicollet Mall
Minneapolis, Minnesota 55401

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/ar
Attachment



Before the Minnesota Public Utilities Commission

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

Docket No. E002/M-21-226

I. INTRODUCTION

On April 1, 2021, Northern States Power Company d/b/a Xcel Energy (Xcel, Xcel Electric, or the Company) submitted to the Minnesota Public Utilities Commission (Commission) a *Petition of Northern States Power Company for Approval of an Electric Conservation Improvement Program Adjustment Factor* (Petition). The Petition includes a report of proposed recoveries and expenditures in Xcel's electric Conservation Improvement Program (CIP) tracker account during 2020, a proposed increase in the currently approved electric CIP Adjustment Factor (CAF), and a proposed Shared Savings demand side management (DSM) financial incentive for its 2020 CIP achievements. Xcel's *Petition* requested that the Commission approve the following:

- A Shared Savings DSM financial incentive of \$30,500,073 for Xcel's 2020 electric CIP achievements;
- A report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2020; and
- A CAF for 2021/2022 of \$0.003628/kilowatt-hour (kWh).

The Petition contains data relevant to the Company's natural gas utility as well as to its electric utility. The Division of Energy Resources of the Minnesota Department of Commerce (Department) will not comment here on information related to the natural gas utility in this docket; instead see Docket No. G002/M-21-227.

II. COMMISSION'S 2020 ORDER

On August 18, 2020, the Commission issued its Order in Docket No. E002/M-20-402 approving Xcel's 2020 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Allowed Xcel to implement its proposed gas CIP Adjustment Factor (CAF) of \$0.001928 per kWh beginning October 1, 2020, or the first billing cycle in the month following this Order, whichever is later, 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;
2. Approved Xcel's proposed bill message effective the first month the 2020/2021 CIP Adjustment Factor takes effect, revised as necessary to incorporate the approved CAF and effective date;

3. Approved a Shared Savings Demand Side Management financial incentive of \$17,589,180 for Xcel's 2019 electric CIP achievements, and allowed Xcel to include the incentive in the Company's electric CIP tracker account no sooner than the issue date of this Order; and

4. Approved Xcel's 2019 Electric CIP tracker account activity, as provided in the Company's Petition and summarized in Table 1 of the Department of Commerce's May 7, 2020, comments, resulting in a December 31, 2019 tracker balance of \$14,097,193.

On August 28, 2020, Xcel filed its compliance filing in response to Order Point 1, recalculating its CAF and proposing to implement the new factor, \$0.001848/kWh, on October 1, 2020. The Department filed a compliance sign-off form on September 19, 2020. Xcel's proposed rate went into effect October 1, 2020.

III. DEPARTMENT ANALYSIS

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

- in Section III.A, Xcel's proposed electric 2020 Shared Savings DSM financial incentive;
- in Section III.B, Xcel's proposed electric 2020 CIP Tracker Account;
- in Section III.C, Xcel's proposed electric CAF for 2021/2022; and
- in Section III.D, a review of Xcel's CIP activity for the period 2011 through 2020.

A. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2020 CIP ACHIEVEMENTS

1. Background and Summary of Xcel's Proposed Electric DSM 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 revised 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.¹ The Commission extended this order for 2020 in its February 20, 2020 *Order Extending Existing Incentive Formula and Encourage Discussions for Future Revisions* in the same docket. For 2020, the electric and gas incentives are capped at 10 percent of net benefits and 30 percent of CIP expenditures. The Commission's Order included the following:

¹ 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. 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:
 - 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,² University of Minnesota Initiative for Renewable Energy and the Environment costs³) 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,⁴ solar installation,⁵ and biomethane purchases⁶ 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.

In Attachment A of its Petition, Xcel noted that in 2020 its electric program met and exceeded the state's 1.5 percent energy savings target by achieving 646,796,991 kWh of savings, or 2.25 percent of non-CIP-exempt retail sales. Xcel's 2020 energy savings were 22 percent higher than in 2019. Xcel calculated that the Company should receive a Shared Savings incentive based on 30 percent of the Company's expenditures as its estimated \$308,239,130 in net benefits resulted in an incentive that exceeded the cap based on spending. The Company spent \$101,666,090 on its programs, resulting in an incentive award of \$30,500,073.⁷

² See 2007 Laws, art. 2.

³ Id., § 3, subd. 6.

⁴ Minn. Stat. § 216B.1636.

⁵ Minn. Stat. § 216B.241, subd. 5a.

⁶ Id., subd. 5b.

⁷ See Xcel Attachment A, pages 22-23.

3. Department Analysis of Xcel’s Proposed 2020 Electric DSM Financial Incentive

The Department’s technical analysis of the demand and energy savings that underpin Xcel’s proposed 2020 DSM financial incentive of \$30,500,073 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, and as the Company filed its 2020 Status Report on April 1, 2021, Department staff will need to review Xcel’s energy savings before they are approved.

In the event that the Deputy Commissioner of the Department approves different 2020 CIP energy savings or budget, the Commission can approve any adjustments to the Company’s DSM financial incentive for 2020 achievements as part of the Company’s 2021 filing, due April 1, 2022.

In 2020, the Department compensated for this lag by assuming Xcel Electric’s claimed energy savings for 2019 were correct as filed, with the intent to make in the instant filing any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner approved Xcel’s 2019 Status Report, covering 2019 CIP activity, without any adjustments in Docket No. E002/CIP-16-115.08,⁸ and thus none need to be made in this docket.

The Department’s review indicates that the Company correctly calculated its DSM financial incentive; therefore the Department recommends that the Commission approve Xcel’s 2020 Shared Savings financial incentive of \$30,500,073.

B. 2020 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2020 electric CIP tracker activity, resulting in a year-end 2020 balance of \$6,960,280. Table 1 below shows a summary of activity in Xcel Electric’s 2020 CIP tracker account.

Table 1: A Summary of Xcel Electric’s 2020 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	31-Dec-19	\$14,097,193
CIP Expenses	January 1 through December 31, 2020	\$104,461,579
Financial Incentive	For 2019 CIP achievements	\$17,589,180
Carrying Charges	January 1 through December 31, 2020	\$157,228
Recovered in Base Rates	January 1 through December 31, 2020	(\$83,465,102)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2020	(\$45,879,798)
Ending Balance	31-Dec-20	\$6,960,280

⁸ Approved by the Department on August 6, 2020.

The Department reviewed the Company's filing and recommends that the Commission approve Xcel's 2020 electric CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2020 CIP tracker balance of \$6,960,280.

C. CIP ADJUSTMENT FACTOR REPORT

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."⁹ Xcel refers to its approved annual electric CIP recovery mechanism as the CIP Adjustment Factor (CAF).

As noted above, in its August 18, 2020 Order in Docket No. E002/M-20-402, the Commission approved a 2020/2021 (CAF) of \$0.001928 per kWh for Xcel. The CAF was eventually adjusted to \$0.001848 per kWh through the Company's August 28, 2020 Compliance Filing.

Table 2 below shows that Xcel currently projects an unrecovered October 1, 2022 CIP Tracker balance of \$96.7 million under the assumption of no additional recovery of CIP costs through the CAF.

Table 2: Xcel Electric's Forecasted End of September 2022 CIP Tracker Account

<u>Description</u>	<u>Amount</u>
Forecasted beginning balance (October 2020)	\$31,886,777
October 2021-September 2022 Budget	\$126,944,775
Forecasted 2021 Incentive	\$21,464,518
Less Forecasted CCRC recovery (Oct 2020-Sept 2021)	(\$83,603,714)
Forecasted September 2021 balance without CAF	\$96,692,356

Xcel included the above calculations so that it can calculate the CAF modification needed to most closely align recovery of costs to when costs are incurred and to minimize the under- or over-recovery of CIP costs, which in turn both minimizes carrying charges and helps ensure that the customers that caused the costs pay for the costs.

The Company proposed to update its electric CIP Adjustment Factor to \$0.003628 per kWh to be effective with the first billing cycle of October 2021 and to remain in effect through the September 2022 billing period. Xcel's proposed CIP Adjustment Factor is an increase of \$0.000178 per kWh from its currently approved \$0.001848 per kWh,¹⁰ a 96.3 percent increase in the Company's current CAF. The proposed 2021/2022 factor was calculated to allow Xcel to recover CIP costs not recovered through the Conservation Cost Recovery Charge (CCRC) and approved financial incentives and would minimize the projected unrecovered tracker balance.

⁹ See Minn. Stat. §216B.16, subd. 6b(c).

¹⁰ The Company will continue to apply the current CIP Adjustment of \$0.001848 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.

Table 3 below shows Xcel’s calculation of its proposed CAF.

Table 3: Xcel’s Calculation of Its Revised Electric CIP Adjustment Factor

(1) Forecasted October 2021 Electric CIP Tracker Balance	\$96,692,356
(2) Forecasted Electric Sales (MWh) – October 2021 through September 2022 ¹¹	26,684,875
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2)	\$3.623/MWh
	\$0.003623/kWh

Xcel adjusted the calculated rate to incorporate the effect of carrying charges, which were not included in the forecasted balance. To get the September 2022 forecasted CIP Tracker balance as close to \$0 without going negative the Company adjusted the calculated CIP Adjustment Rate to \$0.003628 per kWh.¹²

The Department concludes that Xcel’s proposed CIP cost recovery is responsive to the public policy goal of Xcel minimizing its carrying charges and recovering costs close to when they are incurred. The Department recommends that the Commission approve Xcel’s proposed CIP adjustment factor of \$0.003628 per kWh, updated in a compliance filing to factor in actual costs at the time of the Commission Order.

With respect to rate change notification, Xcel proposed to notify customers by implementing the following message on customer bills, effective the first month the 2021/2022 CIP Adjustment Factor takes effect:

Effective Oct. 1, 2021, the Resource Adjustment line item on your bill has decreased due to a change in the Conservation Improvement Program (CIP) factor. The electric CIP portion of the Resource Adjustment is \$0.003628 per kilowatt-hour (kWh).

The Department recommends that the Commission approve Xcel’s proposed bill message with the modifications that the October 1, 2021 effective date and the electric 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.

D. A REVIEW OF XCEL’S ELECTRIC CIP ACTIVITY (2011-2020)

In Attachment A, the Department presents a historical comparison of Xcel’s electric CIP activity for the period 2011 through 2020. The attachment provides an indication of how the Company’s DSM financial incentive, carrying charges, year-end tracker balance, CIP expenditures, and reported energy and demand savings changed during the period.

¹¹ Forecasted sales exclude the customers exempted from electric CIP charges

¹² Petition Attachment A, Page 15 of 25.

An analysis of Table 1 in Attachment A indicates that, between 2011 and 2020, the Company's energy savings grew 40 percent, although the Company's 2020 energy savings decreased approximately 5 percent compared from the Company's highest ever energy savings in 2018. Compared to 2011 the Company's 2020 expenditures grew 37 percent, and the Company's 2020 incentives decreased 41 percent. Demand savings have remained relatively stable since 2011, having decreased during 2013 and 2014 before increasing to their new high of 165,742 kW in 2020, a 19 percent increase over 2011, a 12 percent increase from the previous high of 148,400 in 2018. Xcel's tracker balance was \$6.9 million at the end of 2020. Xcel projects that by the end of September 2021 its tracker balance will be close to zero again. Xcel's carrying charges for 2020 decreased to \$157,228. After the Commission's 2014 decision to reduce the carrying charge rate, carrying charges have moderated. Xcel Electric's carrying charges peaked at \$1.1 million in 2010 and have varied since then, with a negative carrying charge in 2011, 2014 and again in 2015.¹³

IV. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve:

1. Xcel's proposed CIP Adjustment factor of \$0.003628 per kWh, updated in a compliance filing to factor in actual costs at the time of the Commission Order;
2. Xcel's proposed bill message effective the first month the 2021/2022 CIP Adjustment Factor takes effect, revised as necessary to incorporate the approved CAF and effective date;
3. A Shared Savings DSM financial incentive of \$30,500,073 for Xcel's 2020 electric CIP achievements, and allow Xcel to include the incentive in the Company's electric CIP tracker account no sooner than the issue date of the Commission's Order in the present docket; and
4. Xcel's 2020 Electric CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1, resulting in a December 31, 2020 tracker balance of \$6,960,280.

/ar

¹³ 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. E002/M-14-287, the Commission modified the carrying charge on Xcel Electric's CIP tracker-account balance to the Company's short-term cost of debt.

**Attachment A, Table 1. Xcel Electric’s Historical CIP Achievements, Incentives, and Tracker Balance
2011-2020**

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (kWh)	Demand Savings (kw)	CIP Expenditures	Net Benefits	DSM Financial Incentive	Carrying Charges	Year-End Tracker Balance	Average Cost per first year kWh Saved ¹	Average cost per kWh Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2007	259,207,822	103,633	\$47,382,619	\$208,992,753	\$5,314,625			\$0.18	\$0.20	11%	3%		
2008	331,024,729	120,652	\$50,707,870	\$265,436,020	\$15,212,361			\$0.15	\$0.20	30%	6%		
2009	342,863,043	119,065	\$57,885,077	\$268,644,362	\$16,493,289			\$0.17	\$0.22	28%	6%		
2010	415,591,000	102,574	\$71,884,336	\$290,852,319	\$40,401,006			\$0.17	\$0.27	56%	14%		
2011	462,021,574	138,765	\$76,302,262	\$332,568,538	\$51,350,104	(\$619,259)	(\$21,768,428)	\$0.17	\$0.28	67.30%	15.44%	(0.81%)	(28.53%)
2012	533,477,510	143,226	\$87,071,903	\$376,897,422	\$53,911,925	\$4,231	\$31,925,410	\$0.16	\$0.26	61.92%	14.30%	0.00%	36.67%
2013	462,021,576	127,203	\$79,570,696	\$249,969,276	\$42,679,496	\$298,021	\$30,624,948	\$0.17	\$0.26	53.64%	17.07%	0.37%	38.49%
2014	481,325,941	114,023	\$87,889,789	\$255,953,599	\$40,179,927	(\$1,229,487)	(\$56,291,008) ²	\$0.18	\$0.27	45.71%	15.70%	(1.39%)	64.05%
2015	500,393,537	115,585	\$91,385,776	\$268,957,814	\$43,277,219	(\$56,557)	\$9,164,617 ³	\$0.18	\$0.27	47.36%	16.09%	(0.06%)	10.03%
2016	552,781,775	135,564	\$101,146,305	\$312,424,228	\$48,368,493	\$15,721	\$19,640,542	\$0.18	\$0.27	47.82%	15.48%	0.02%	19.42%
2017	658,274,791	139,359	\$109,109,805	\$224,008,869	\$30,241,197	\$48,421	\$31,512,526	\$0.17	\$0.21	27.72%	13.50%	0.04%	28.88%
2018	680,448,447	148,400	\$107,451,885	\$240,468,488	\$28,856,219	\$580,490	\$26,639,223	\$0.16	\$0.20	26.86%	12.00%	0.54%	24.79%
2019	528,899,458	120,344	\$92,816,075	\$175,891,796	\$17,589,180	\$591,471	\$14,097,193	\$0.18	\$0.21	18.95%	10.00%	0.64%	15.19%
2020 ⁴	646,796,991	165,742	\$104,461,579	\$308,239,130	\$30,500,073	\$157,228	\$6,960,280	\$0.16	\$0.21	29.20%	9.89%	0.15%	6.66%

¹ Xcel’s conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.

² Does not reflect the inclusion of 2013 financial incentive of \$42,729,930.

³ Includes both the 2013 and 2014 financial incentives.

⁴ The 2019 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.