May 26, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/M-20-428

Dear Mr. Seuffert:

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

Minnesota Power's 2019 Conservation Improvement Program Consolidated Filing.

The Petition was filed on May 1, 2020 by:

Ana Vang
Public Policy Advisory
Minnesota Power
30 West Superior Street
Duluth, MN 53802

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Minnesota Power's Petition.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E017/M-20-428

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 1, 2020, Minnesota Power (MP or the Company) submitted its annual Conservation Improvement Program (CIP) Consolidated Filing (*Report* or *Petition*) for 2019 with the Minnesota Public Utilities Commission (Commission) in Docket No. E015/M-20-428. In its *Petition,* MP requested that the Commission approve:

- A Shared Savings Demand Side Management (DSM) financial incentive of $2,353,722 for MP's 2019 CIP achievements;
- 2019 CIP tracker account activity, resulting in a year-end 2019 balance of ($5,384,063.67);
- An updated carrying charge rate of 0.2917% for the CIP tracker;
- A 2020/2021 Conservation Program Adjustment factor of ($0.000817)/kWh for bills rendered on and after August 1, 2020; and
- A variance of Minn. Rules 7820.3500 and 7825.2600 to permit MP's continued combination of the Conservation Program Adjustment with the Fuel and Purchased Power Clause Adjustment on customer bills.

The Company also filed its 2019 CIP Status Report (*Status Report*). The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' (Department) annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, that portion of the *Petition* has been assigned to a separate docket.[1]

II. COMMISSION'S 2019 ORDER

On July 19, 2019, the Commission issued its Order approving MP's 2018 Consolidated CIP filings,[2] with the following determinations:

1. Approved Minnesota Power's 2018 CIP tracker account, as summarized in Table 1 of the Department's comments, with a December 31, 2018 tracker balance of ($1,519,260).
2. Approved Minnesota Power's new monthly carrying charge rate of 0.4792 percent.

[1] See Docket No. E015/CIP-16-117.03.
[2] Docket No. E015/M-19-31.

3. Approved a 2019/2020 Conservation Program Adjustment (CPA) of ($0.000137) per kWh, to be effective July 1, 2019, or on the first billing cycle in the next full month after Commission approval, whichever is later.
4. Approved a Demand Side Management financial incentive of $2,780,073 for Minnesota Power's 2018 CIP achievements, to be included in the Company's CIP tracker account no sooner than the issue date of this Order.
5. Granted Minnesota Power a variance to Minnesota Rules part 7820.3500, item (K), and a variance to Minnesota Rules part 7825.2600, until issuance of the Commission's Order establishing MP's 2020/2021 CPA.
6. Required Minnesota Power to submit a compliance filing, within 10 days of the issue date of this Order, with revised tariff sheets reflecting the Commission's determinations in this matter.

On July 29, 2019, MP submitted its compliance tariff sheets in response to Order Point 6. The Department filed a compliance sign-off form on August 1, 2019.

III. DEPARTMENT ANALYSIS

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

- in Section III.A, Minnesota Power's proposed 2019 Shared Savings DSM financial incentive;
- in Section III.B, MP's proposed reconciliation for its 2019 CIP tracker Account;
- in Section III.C, Minnesota Power's proposed CPA for 2020/2021;
- in Section III.D, Minnesota Power's request for a waiver from Minnesota Rules part 7820.3500 (K) and Minnesota Rules part 7825.2600 and its proposed notice of the rate increase; and
- in Section III.E, MP's historical CIP achievements and incentives, 2007-2019.

A. MINNESOTA POWER'S PROPOSED FINANCIAL INCENTIVE FOR 2019 CIP ACHIEVEMENTS

1. Background and Summary of MP's Proposed DSM Incentive for 2019 Achievements

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.[3] For 2019, the electric and gas incentives are capped at 10 percent of net benefits and 30 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

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[3] 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).

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, University of Minnesota Initiative for Renewable Energy and the Environment costs) 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, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

G. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

H. 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.

MP reported that its 2019 achievements resulted in energy savings of 67,669,227 kWh, approximately 2.50% of retail sales, and demand savings of 8,338 kW. Together the 2019 energy and demand savings resulted in $23,537,199 of net benefits.[4] Based on the terms and conditions of its approved Shared Savings DSM financial incentive plan, Minnesota Power requested recovery of a DSM financial incentive of $2,353,720 for 2019, which the Company calculated by multiplying the net benefits cap of 10 percent by the calculated net benefits of $23,537,199. Minnesota Power's proposed incentive is equal to approximately 28% ($2,353,722/$8,280,773) of the Company's 2019 CIP actual expenditures.

2. The Department's Review of MP's Proposed 2019 DSM Incentive

Minnesota Power estimated that its 2019 performance should result in a Shared Savings DSM financial incentive of $2,353,720.

The Department's technical analysis of the demand and energy savings that underpin MP's proposed Shared Savings 2019 DSM financial incentive of $2,353,720 is ongoing and will not be completed before the instant comments are due. The existence of this lag between the Company's request for

[4] Calculations of Net Benefits are shown in Exhibit 5, page 2. There were no MP facilities projects in 2019 so no adjustments were needed.

recovery of the incentive and the completion of the Department's engineering review is a recurring phenomenon.

In 2019, the Department compensated for this lag by simply assuming Minnesota Power's claimed energy savings for 2018 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 Minnesota Power's 2019 Status Report, covering 2018 CIP activity, without any adjustments in Docket No. E015/CIP-16-117.02,[5] and thus none are required in this docket.

In the event that the Deputy Commissioner of the Department approves different 2019 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2019 achievements as part of the Company's 2020 filing, due April 1, 2021.

The Department's review indicates that the Company correctly calculated its DSM financial incentive for 2019 CIP achievements; therefore the Department recommends that the Commission approve MP's 2019 Shared Savings financial incentive of $2,353,720.

B. MINNESOTA POWER'S PROPOSED 2019 CIP TRACKER ACCOUNT

In its *Petition*, Minnesota Power requested approval of its report on recoveries and expenditures included in the Company's CIP tracker account balance during 2019. Activity in MP's CIP tracker account during 2019 is summarized below in Table 1.

Table 1: A Summary of MP's 2019 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	January 1, 2019	($1,519,260.67)
CIP Expenses	January 1 through December 31, 2019	$8,280,773.00
DSM Financial Incentive	Approved in 2019 for 2018	$2,780,073.00
Carrying Charges	January 1 through December 31, 2019	($192,344.00)
Base Rate Cost Recovery	January 1 through December 31, 2019	($10,408,383.00)
Conservation Program Adjustment Recovery	January 1 through December 31, 2019	($4,324,922.00)
Ending Balance	December 31, 2019	($5,384,063.67)

[5] Approved by the Department on August 8, 2019.

The Department reviewed MP's CIP tracker account and concludes that the Company correctly calculated its CIP tracker account for 2019, resulting in a year-end balance of ($5,384,063.67). The Department recommends that the Commission approve Minnesota Power's 2019 CIP Tracker account as summarized in Table 1 above.

C. MINNESOTA POWER'S PROPOSED UPDATED CPA AND MONTHLY CHARGE RATE

The Commission approved MP's CPA (Conservation Program Adjustment) of ($0.000137) per kWh on July 19, 2019 in Docket No. E015/M-19-31.

On pages 16-17 of its instant filing, MP stated:

> The CIP Tracker Account balance at year-end 2019 reflects the result of prior activity in Tracker 2, as indicated on page 1 of Exhibit 1. However, for CPA purposes, the 2019 year-end balance requires adjustments to properly calculate the proposed CPA factor. Using the new fiscal year approach, these factors have been expanded to include actual and anticipated expenditures and cost recovery through base rates (CCRC) and the current CPA rate for the remainder of the current CPA period (January 2020–July 2020) as well as anticipated financial incentives, anticipated CIP expenditures and anticipated cost recovery through base rates for the new CPA period (August 2020–June 2021). The new approach is designed to achieve a zero Tracker balance at the end of the CPA period (fiscal year) rather than at the end of the calendar year. Higher (calendar) year-end Tracker balances should therefore be anticipated going forward which is a deviation from Minnesota Power's recent history of low year-end Tracker balances. Minnesota Power notes that actual program performance, expenditures and sales will lead to tracker balance fluctuation. Additionally, the 2019 year-end Tracker balance was impacted by the implementation timing of an updated CCRC. In December 2018 Minnesota Power implemented an updated CCRC when final rates were implemented as part of the rate case.[Footnote omitted] As that was not in effect at the time of the 2017 CIP Consolidated filing, Minnesota Power calculated the (proposed and approved) CPA factor for July 2018 through June 2019 using the CCRC in effect at that time. As a result, the actual CCRC in place was higher than the CCRC that was assumed when calculating the CPA factor that was effective between December 2018 and July 2019. The CPA proposed for approval for July 2019 through June 2020 was calculated using the updated CCRC that is currently in effect.

For July 2020 through June 2021, Minnesota Power proposed a reduced surcharge of ($0.000817) per kWh, or a $0.00068 per kWh reduction from the Company's 2019/2020 CPA of ($0.000137) per kWh.

Table 2 below delineates the Company's calculation of its 2019/2020 CPA.

Table 2: MP's 2020/2021 CPA

Line No.	Description	Jan 2020-June 2020	July 2020-June 2021
1	CIP Tracker Account balance	($5,384,063)	($6,002,087.00)
2	Financial Incentives for 2019 Activity	N/A	$2,353,720
3	CIP Current Year Expenditures	$381,008	N/A
	CIP Expenditures Approved or Budgeted	$4,382,821	$9,642,206
4	CIP Costs Recovered Through Base Rates (actuals)	($2,028,645)	N/A
	CIP Costs Recovered Through Base Rates (estimated)	($3,528,178)	($8,211,132)
5	CIP Cost Recovery through current CPA (actuals)	$67,765	N/A
	CIP Cost Recovery through current CPA (estimated)	$146,513	N/A
6	Carrying Charges	($39,308)	N/A
7	**Recoverable CIP Tracker Balance**	($6,002,087)	($2,217,293)
8	CPA per kWh = ($2,217,293)/2,715,160,330 kWh		($0.000817)

MP derived its proposed 2020/2021 CPA by dividing the recoverable CIP tracker balance projected for June 30, 2020 (third column of line 7) by the kilowatt hour sales subject to CIP over the corresponding time period (2,715,160,330 kWh, see line 8). The result is the ($0.000817)/kWh CPA that the Company proposed.

Order Point 4 of the Commission's Order in Docket No. E015/M-15-80 required the Company to calculate the carrying charge on its CIP tracker account using the rate from its multi-year credit facility, effective upon the Commission's Order of September 16, 2015. Exhibit 1, page 3 of MP's filing shows that the Company proposed a changed monthly carrying charge rate of 0.2917 percent to be used for the 2020/2021 CPA. The Department concludes that MP correctly calculated its new monthly carrying charge rate of 0.2917 percent.

The Department recommends that the Commission approve MP's proposed 2020/2021 CPA of ($0.000817)/kWh.

D. NOTICE TO CUSTOMERS

On page 17 of its filing, MP stated that it will include a message referencing the change in the CPA in customers' bills in the month in which the new CPA factor goes into effect. Minnesota Power proposed the following message:

> *Effective <DATE>, the Resource Adjustment line item on your bill has <increased/decreased> due to a change in the Conservation Improvement Program (CIP) billing factor. The CIP portion of the Resource Adjustment is <CPA Factor> per kilowatt-hour (kWh).*

The Department recommends that the Commission approve the Company's proposed customer bill language.

E. MP'S ANNUAL REQUEST FOR VARIANCES FROM COMMISSION RULES

Minnesota Power requested renewal of two variances:

- a variance from Minnesota Rules part 7820.3500 (K), which requires the Fuel Clause Adjustment (FCA) to be listed on customers' bills as a separate line item; and
- a variance from Minnesota Rules part 7825.2600, which states that the FCA should be stated on a per-kWh basis on customer bills.

MP indicated that it seeks a variance of these two rules so that the Company may calculate the CIP adjustment rate on a per-kilowatt-hour basis, and combine the FCA and CIP adjustment rate on one bill line-item called a "Resource Adjustment."

Minnesota Rules part 7829.3200 authorizes the Commission to grant a variance to its rules when:

- enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- granting the variance would not adversely affect the public interest; and
- granting the variance would not conflict with standards imposed by law.

The Department concludes that the criteria for granting the requested variances are met as follows:

- <u>Excessive Burden</u>: MP has been using the combined Resource Adjustment for several years. While this approach certainly can be changed if the Commission desires, requiring a change now, for an adjustment to go in effect soon (MP requested an effective date of July 1, 2019), would create an administrative burden that is excessive.
- <u>Public Interest</u>**:** The variance would not adversely affect the public interest and could avoid confusion that might result from changing the presentation on bills at this time.

- Standards Imposed by Law: The separate line item requirement is created by Commission rule, and is not required by statute. Therefore, the requirement may be varied pursuant to Minnesota Rules pt. 7829.3200.

Therefore, the Department recommends that the Commission approve the variances requested by the Company.

F. HISTORY OF MINNESOTA POWER'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES 2007-2019

In Attachment A, the Department presents a historical comparison of MP's CIP activity for the period 2007 through 2019. The attachment provides an indication of how the Company's energy and demand savings, CIP expenditures, Shared Savings financial incentive, carrying charges, and year-end tracker balance changed during the period.

Based on an analysis of Table 1 in Attachment A, in 2019:

- First-year energy savings were 7 percent lower than the Company's 2018 energy savings, but the 2019 amount was still equal to 2.46 percent of normalized retail sales to non-CIP-opt-out customers;
- Demand savings were 3 percent higher than the Company's 2018 demand savings; and
- financial incentive as a percent of CIP expenditures was less than 30 percent for the first time since 2009.

III. CONCLUSION AND RECOMMENDATIONS

Based on the analysis provided above, the Department recommends that the Commission:

1. Approve Minnesota Power's 2019 CIP tracker account, as summarized in Table 1 above, with a December 31, 2019 tracker balance of ($5,384,063).

2. Approve MP's new monthly carrying charge rate of 0.2917 percent;

3. Approve a 2020/2021 CPA of ($0.000817) per kWh, to be effective August 1, 2019, or on the first billing cycle in the next full month after Commission approval, whichever is later.

4. Approve a DSM financial incentive of $2,353,720 for Minnesota Power's 2019 CIP achievements, 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;

5. Approve Minnesota Power's following customer notice language:

> Effective <DATE>, the Resource Adjustment line item on your bill has <increased/decreased> due to a change in the Conservation Improvement Program (CIP) billing factor. The CIP portion of the Resource Adjustment is <CPA Factor> per kilowatt-hour (kWh).

6. Grant Minnesota Power a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 until issuance of the Commission's *Order* establishing MP's 2020/2021 CPA;

7. Require Minnesota Power to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

/ja

Attachment A

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 kWh Saved	Average cost per kWh Saved (including incentives)	Energy savings as a % of Normalized Retail Sales	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	44,168,014	4,842	$3,908,223	$13,617,215	$349,334	$37,945	$1,188,103	$0.088	$0.096	1.34%	9%	3%	1%	30%
2008	48,845,282	5,644	$4,826,410	$18,669,840	$607,169	$100,453	$1,870,428	$0.099	$0.111	1.46%	13%	3%	2%	39%
2009	52,897,732	6,378	$5,483,230	$23,391,755	$878,709	$97,222	$1,613,335	$0.104	$0.120	1.60%	16%	4%	2%	29%
2010	60,503,220	7,173	$5,635,000	$29,675,047	$6,806,612	$42,425	$662,926	$0.093	$0.206	1.83%	121%	23%	1%	12%
2011	69,091,422	7,455	$6,295,187	$16,611,526	$7,772,785	($62,643)	$4,603,612	$0.091	$0.204	2.11%	123%	47%	-1%	73%
2012	63,159,196	8,132	$6,813,817	$16,543,789	$7,105,410	$87,535	$4,337,461	$0.108	$0.220	1.93%	104%	43%	1%	64%
2013	77,630,645	5,724	$6,405,828	$17,757,678	$8,733,448	($55,657)	($495,816)	$0.083	$0.195	2.53%	136%	49%	-1%	-8%
2014	76,338,363	9,215	$7,200,833	$20,792,339	$6,237,702	($157,343)	($1,116,332)	$0.094	$0.176	2.53%	87%	30%	-2%	-16%
2015	85,447,344	7,226	$6,554,551	$29,636,057	$7,476,643	($210,949)	($2,649,748)	$0.077	$0.164	2.84%	114%	25%	-3%	-40%
2016	63,182,840	9,489	$7,515,866	$22,997,984	$5,528,499	$210,949	$4,029,104	$0.119	$0.206	2.13%	74%	24%	3%	54%
2017	72,372,163	8,594	$8,129,337	$22,184,003	$2,994,840	$88,914	$3,315,558	$0.112	$0.154	2.64%	37%	13%	1%	41%
2018	72,479,534	8,096	$9,031,446	$23,167,277	$2,780,073	($13,336)	($1,519,260)	$0.125	$0.163	2.64%	31%	12%	0%	-17%
2019	67,669,222	8,338	$8,280,773	$23,537,199	$2,353,720	($192,344)	($5,384,063)	$0.122	$0.157	2.46%	28%	10%	-2%	-65%