

May 8, 2015

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-15-321

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, a Minnesota corporation (Xcel or the Company), requesting approval of the following:

- a proposed 2014 gas Demand Side Management financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its natural gas (gas) CIP; and
- a proposed gas CIP Adjustment Factor.

The *Petition* was filed on April 1, 2015 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 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/ ZAC RUZYCKI  
Rates Analyst

ZR/It  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-15-321

**I. A SUMMARY OF THE UTILITY'S PROPOSAL**

On April 1, 2015, Northern States Power Company, a Minnesota corporation (Xcel or the Company), submitted a filing in the present docket entitled *In the Matter of the Petition of Northern States Power Company Approval of a 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 \$5,781,193 for 2014;
- a report of proposed recoveries and expenditures in Xcel's natural gas (gas) Conservation Improvement Program (CIP) tracker account in 2014; and
- a proposed change to Xcel's CIP Adjustment Factor (CAF), adjusting the CAF to \$0.020361 per therm.

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

**II. 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 2014 gas DSM financial incentive;
- in Section II.B, Xcel's proposed 2014 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 2008 through 2014.

A. *XCEL'S PROPOSED 2014 GAS DSM FINANCIAL INCENTIVE*

1. *Background and Summary of Xcel's Proposed 2014 Gas 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 after the threshold. Specifically, 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:

2. *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.

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, this test results in \$35,995,257 of net benefits from gas CIP activities in 2014. Xcel also stated that its gas CIP activities achieved energy savings in 2014 of 849,698 dekatherms (Dth); this savings is 1.22 percent of the Company's sales. Based on the terms and conditions of its approved DSM incentive plan, Xcel requested recovery of a gas DSM financial incentive of \$5,781,193 for 2014.

3. *The Department's Review of Xcel's Proposed 2014 Gas DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2014 DSM financial incentive of \$5,781,193 is ongoing. In all likelihood, it will not be completed before the fall of 2015. The existence of this lag between the Company's request for recovery of the incentive and the completion of the DOC's engineering review is a recurring phenomenon, and as the Company has filed its 2014 Status Report on April 1, 2015, 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 2014 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2014 achievements as part of the Company's 2016 filing. The Department notes that in the 2013 CIP status report, the Deputy Commissioner of the Department approved a different energy savings level, making an adjustment of 138.8 therms.<sup>1</sup> The Company subsequently made an adjustment of \$60,478 to its 2014 financial incentive in this year's filing due to this change.

As was done last year, the Department's analysis assumes that Xcel's claimed 2014 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 2015 filing that will be made April 1, 2016.

Xcel's reported gas energy savings level is 849,698 Dth, in the Company's 2014 *Status Report*. The Department used the 849,698 Dth energy savings in its review in this docket.

4. *The Department's Overall Recommendation Concerning Xcel's 2014 Gas DSM Financial Incentive*

The Department recommends that the Commission approve Xcel's proposed 2014 gas DSM financial incentive of \$5,781,193 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 2014 GAS CIP TRACKER ACCOUNT*

1. *Overall 2014 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 2014. Table 1 below provides a summary of activities in Xcel's gas CIP tracker account during 2014.

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<sup>1</sup> Docket No. E,G002/CIP-12-447.06 - In the Matter of Xcel Energy's 2013 Electric and Gas Conservation Improvement Program Status Report, filed April 1, 2014

**Table 1: A summary of Xcel's Gas CIP Tracker Account in 2014<sup>2</sup>**

<b>Description</b>	<b>Time Period</b>	<b>Amount</b>
Beginning Balance	January 1, 2014	(4,680,426)
CIP Expenses	January 1 through December 31, 2014	\$12,968,939
Carrying Charges	January 1 through December 31, 2014	(692,481)
CIP Recoveries in base rates	January 1 through December 31, 2014	(\$4,230,020)
CIP Recoveries from CCRA	January 1 through December 31, 2014	(\$15,764,896)
<b>Ending Balance</b>	<b>December 31, 2014</b>	<b>(12,398,883)<sup>3</sup></b>

In its 2015 filing, the Company appears to have departed from the normal practice of booking a DSM financial incentive in the month that it is approved by the Commission.

In the Company's petition, it appears that the 2013 financial incentive has been excluded from the 2014 actuals. Xcel's 2013 financial incentive was approved on December 17, 2014. The Department would like the Company to explain in Reply Comments the reason for this change, and what impacts, if any, including the 2013 financial incentive would have in the 2014 calculation of its financial incentive (e.g., impacts to the forecasted Sept. 2015 Natural Gas CIP Tracker Balance).

*2. The Department's Overall Recommendation Concerning Xcel's Proposed 2014 Gas CIP Tracker Account*

The Department recommends that the Commission approve Xcel's 2014 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above pending a response from the Company in Reply Comments regarding the omission of previous financial incentives from the 2014 actuals.

*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>4</sup> Xcel refers to its approved annual gas CIP recovery mechanism as the CIP Adjustment Factor.

In its *Petition*, Xcel proposed a gas CIP Adjustment Factor of \$0.020361 per therm for each customer class, effective on the first billing cycle of October 2015. Table 2 below compares the Company's proposed gas CIP Adjustment Factor with the Company's currently approved CIP Adjustment Factor of \$0.008642 per therm.

<sup>2</sup> See Table 17: 2014 Natural Gas CIP Tracker (DSM Cost Recovery) on page 29 of 48 of Attachment A of the *Petition*.

<sup>3</sup> Amount does not appear to include Commission-approved DSM financial incentives for the Company's 2013 CIP achievements. Normally a utility books incentives in the month they are approved.

<sup>4</sup> See Minn. Stat. §216B.16, subd. 6b(c).

**Table 2: Xcel's Current and Proposed CIP Adjustment Factor**

<b>Current Factor (\$/Therm)</b>	<b>Proposed Factor (\$/Therm)</b>	<b>Change (\$/Therm)</b>	<b>Percent Change</b>
\$0.008642	\$0.020361	(\$0.017754)	(136%)

To develop the proposed CIP Adjustment Factor identified above in Table 2, Xcel developed a forecasted gas CIP tracker account balance of \$11,767,752 as of September 30, 2015. Table 3 below provides Xcel's calculation of the CIP Adjustment Factor

**Table 3: Xcel's Calculation of the Calculated CIP Adjustment Factor**

<b>Item</b>	<b>Amount</b>
Forecasted Beginning Balance as of October 1, 2015	\$1,012,999
CIP Budget (October 2015 - September 2016)	\$14,026,236
Forecasted 15 Gas DSM Financial Incentive	\$3,670,701
<u>Less Forecasted CCRC Recovery (October 2014 – September 2015)</u>	<u>(\$3,824,266)</u>
Forecasted October 1, 2016 Balance	\$14,885,670
Forecasted Non-exempt Customer Dth Gas Sales (October 2014 – September 2015)	72,982,176
Calculated CIP Adjustment Factor (per Dth)	\$0.20396
<b>Calculated CIP Adjustment Factor (per therm)</b>	<b>\$0.020396</b>
Proposed CIP Adjust Factor (per therm)	\$0.020361

Xcel's forecasted balance does not include carrying charges. To get as close as possible to a \$0 balance by Sept 30, 2016, Xcel adjusted the calculated rate of \$0.020396 per therm to account for the effect of carrying charges, which are projected to be negative for several months. The resulting rate is \$0.020361 per therm. Xcel estimates that this CIP adjustment rate will result in a forecasted September 30, 2016 Tracker balance of \$136.<sup>5</sup> Xcel followed the same calculation approach in calculating the current CIP Adjustment Factor. The Department concludes that Xcel's calculation of its proposed gas CIP Adjustment Factor of \$0.020361 per therm is reasonable. The proposed factor would allow Xcel to recover CIP costs, financial incentives and the projected unrecovered tracker balance.

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 proposes to do so again in this proceeding.

In the event that Commission approval of the proposed factor is delayed beyond September 20, 2015 (in order to implement the rate change by October 1), the Company proposed to continue to apply the current CIP Adjustment Factor of \$0.008642 per therm up to the first cycle of the first full billing period following Commission approval of a revised factor.

<sup>5</sup> See Attachment A, page 34 of 48 of the current *Petition*.

**D. A REVIEW OF XCEL'S GAS DSM AND CIP ACTIVITIES (2008-2014)**

In Attachment A, Table 1, the Department presents a historical comparison of Xcel's gas DSM and CIP activities during the period 2008 through 2014. Attachment A, 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 A, Table 1 indicates that, between 2008 and 2014, the Company's energy savings grew 39 percent, the Company's expenditures grew 102 percent, and the Company's incentives grew 633 percent. Xcel's tracker balance was (\$692,481) at the end of 2014. Xcel projects that by the end of September 2016 its tracker balance will be close to zero again. In the last six years Xcel's carrying charges have ranged from \$472,522 to (\$692,481).

In summary, the Department recommends that the Commission approve Xcel's proposed CIP Adjustment Factor of \$0.020361 per therm.

**III. THE DEPARTMENT'S RECOMMENDATIONS**

The Department recommends that the Commission:

- 1) approve Xcel's proposed 2014 gas DSM financial incentive of \$5,781,193 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 2014 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1 pending the Company's response to the Department's requested information in Reply Comments; and
- 3) allow Xcel to implement its proposed gas CIP Adjustment Factor of \$0.020361 per therm beginning in the first billing cycle in the next full month after Commission approval, conditional on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

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Table 1: A History of Xcel's Gas DSM and CIP Activities (2008-2013)							
	2008	2009	2010	2011	2012	2013 <sup>1</sup>	2014
DSM Financial Incentive	\$789,200	\$965,307	\$2,264,511	\$2,833,206	\$2,682,879	\$5,416,936	\$5,781,193
Incentive as a % of CIP Expenditures	12.3%	12.6%	19.9%	22.3%	20.6%	42.4%	44.6%
Carrying Charges	(\$64,074)	\$130,437	\$472,522	(\$215,734)	(\$411,428)	(\$368,277)	(\$692,481)
Year-End Tracker Balance	\$394,997	\$5,233,468	\$7,240,908	(\$7,631,972)	(\$4,648,913)	(\$4,680,426)	(\$12,398,883) <sup>2</sup>
Year-End Tracker Balance as a % of CIP Expenditures	6.15%	68.1%	63.7%	-60.1%	-35.7%	-36.6%	-95.6%
CIP Expenditures	\$6,423,486	\$7,682,999	\$11,374,005	\$12,701,823	\$13,041,285	\$12,780,833	\$12,968,939
Achieved Energy Savings (Dth)	613,134	670,120	697,322	747,123	767,061	787,918	849,698
Average Cost per Dth Saved <sup>3</sup>	\$10.48	\$11.47	\$16.31	\$17.00	\$17.00	\$16.22	\$15.26

<sup>1</sup> The 2014 DSM Financial Incentive, Carrying 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; the Department is requesting information from the Company in Reply Comments regarding the impact of this omission.

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