MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	January 31, 2019	Agenda Item *4
Company	Northern States Power Company d/b/a Xcel Energy (Xcel, Company)	
Docket No.	**E-002/GR-13-868 & E-002/GR-15-826** In the Matter of an Application by Northern States Power Company for Authority to Increase Rates for Electric Service in Minnesota	
Issues	Should the Commission accept Xcel's annual revenue decoupling report for the period ended December 31, 2017, and approve Xcel's revenue decoupling rate adjustments?	

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✓ **Relevant Documents**	**Date**
Xcel Energy – 2017 Decoupling Evaluation Report (Year 2)	February 1, 2018
Minnesota Department of Commerce – Corrected Comments	April 4, 2018

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I. Statement of the Issues

Should the Commission accept Xcel's annual revenue decoupling report for the period ended December 31, 2017, and approve Xcel's revenue decoupling rate adjustments?

II. Introduction

This is the Commission's second annual review of Xcel's full revenue decoupling program.

Xcel Energy and the Minnesota Department of Commerce (Department, DOC) are in agreement on recommending that the Commission:

Approve Xcel's Revenue Decoupling Evaluation Report (Report) for the one year ending on December 31, 2017.

Authorize Xcel to continue its program through the assessment of revenue decoupling rate adjustments and approve the Company's currently proposed annual revenue decoupling rate adjustments.

III. Background

A. Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

1. Reduce Xcel's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.
2. Achieve energy savings, and
3. Not harm ratepayers.

B. Pilot Revenue Decoupling Program

On May 8, 2015, the Commission issued its Findings of Fact, Conclusions of Law, and Order (2015 Order) in Xcel's 2013 General Rate Case.[1] In this Order, the Commission authorized, effective January 1, 2016, a three year pilot "full" revenue decoupling mechanism (RDM) that applies to the Residential, Residential with Space Heating and Small Commercial and Industrial (Non-Demand) Classes. To coordinate with rates approved in Xcel's 2015 General Rate Case (Docket No. E-002/GR-15-826) the original three year program was extended for a fourth year and will run through December 31, 2019.

[1] Docket No. E-002/GR-13-868.

Among the 2015 Order's RDM requirements, the Commission instructed Xcel to file an annual decoupling report by February 1st of each year. This is the Company's second annual report encompassing the period of January 1 to December 31, 2017.

IV. Parties' Comments

A. Xcel's Annual Decoupling Report

Xcel's revenue decoupling program is a four year pilot for residential and small business customers. These customers consist of three classes for which the largest share of fixed costs are recovered through volume-based rates: 1) residential non-space heating, 2) residential space heating, and 3) C&I non-demand. The revenue decoupling mechanism (RDM) accounts for all differences between approved sales and actual sales, including those caused by weather. The RDM adjustment is calculated by subtracting actual electric revenue for each customer class from the revenue approved by the Commission for that customer class. This may result in a surcharge (actual revenue below approved revenue) or a credit (approved revenue below actual revenue). Any surcharge is capped, by class, at three percent. This calculation is performed once per year and the resulting adjustments are reflected on customer bills beginning the following April and remain in effect for a 12 month period.

Due to a cooler than normal summer, for the 2017 report year, the overall RDM calculation resulted in approximately $27.5 million of revenues collected below the 2016 baseline.[2] The calculations resulted in surcharges for all three customer classes. For the second consecutive year, the Residential with Space Heating class was capped at three percent.

Table 1: Total Over- or Under-Collection of Allowed Revenues by Customer Class[3]
2017 Actual Sales and Actual Customer Counts

	($ Millions)			Avg. Monthly Customer Surcharge/ (Refund)	RDM Rate ($/kWh) April 2018 – March 2019
	Total RDM Surcharge/ (Refund)	Estimated Surcharge Cap	2017 Class Impact		
Residential	$25.0	$26.2	$25.0	$1.87[4]	$0.003064
Residential with Space Heating	$1.3	$0.9	$0.9	$2.19[5]	$0.002361
Small Commercial Non-Demand	$1.1	$2.5	$1.1	$1.06[6]	$0.001245
Total	$27.5		$27.1		

[2] Cooler than normal summer weather results in *less* electricity sales.

[3] Xcel Energy – 2017 Decoupling Evaluation Report (Year 2), Page 6, February 1, 2018

[4] Based on average usage per customer of 610 kWh per month.

[5] Based on average usage per customer of 927 kWh per month.

[6] Based on average usage per customer of 850 kWh per month.

In terms of energy savings, Xcel stated that preliminary results from its 2017 portfolio of CIP programs showed positive results by saving approximately 656 million kWh[7] or 2.28 percent of sales. This represents 151 percent of Xcel's approved energy savings goal of 434 million kWh.[8] Below is a table listing Xcel's 2017 CIP programs.

Business	Residential
Business New Construction	Efficient New Home Construction
Commercial Efficiency	Energy Efficient Showerheads
Computer Efficiency	Energy Feedback
Cooling Efficiency	Home Energy Squad
Custom Efficiency	Home Lighting
Efficiency Controls	Insulation Rebate
Fluid Systems Optimization	Refrigerator Recycling
Foodservice Equipment	Residential Cooling
Heating Efficiency	Residential Heating (Heating Rebate)
Lighting Efficiency	School Education Kits
Motor and Drive Efficiency	Water Heater Rebate
Multi-Family Building Efficiency	Whole Home Efficiency
Process Efficiency	Residential Saver's Switch
Recommissioning	Consumer Education
Self-Direct	Home Energy Audit
Turn Key Services	Residential Lamp Recycling
Saver's Switch for Business	**Low Income**
Electric Rate Savings	Home Energy Savings
Business Education	Low-Income Home Energy Squad
Small Business Lamp Recycling	Multi-Family Energy Savings

The Company went on to note that weather is the key variable impacting energy consumption. In the 2017 RDM year, weather conditions were generally warmer than usual during the winter and cooler in the summer. Winter was 7.9 percent warmer when measured by Heating Degree

[7] Per Xcel, the 656 million kWh is the annual savings from measures installed in 2017. However, the actual impact on sales in 2017 is approximately half of this, assuming the measures are installed at a constant pace throughout the year.

[8] Per Xcel, the achievement results were based on the CIP standard for energy savings as defined in Minn. Stat. §216B.241, subd. 1a(b).

Days (HDD), which generally resulted in less electricity sales. Summer was 9.3 percent cooler, as measured by a Temperature Humidity Index (THI), which generally resulted in less summer electricity sales. The net effect resulted in a weather normalization[9] adjustment of 187,607 MWh for weather-sensitive customer classes. Weather impacts in 2017 accounted for approximately 52 percent of the surcharges to all RDM customer classes.

Xcel discussed its customer communication efforts in a separate section of its report. In Attachment F, Xcel included a copy of a customer "Onsert"[10] that provides general educational information about decoupling. Additionally, the Company provided the proposed bill messages, by customer class, on pages 13-14 of the report.

In summary, the report re-iterated that the 2017 RDM program year resulted in surcharges to all three customer classes, for a total of $27.1 million. Weather accounted for 52 percent of the total surcharge, while the balance was attributable to significant energy saving through Xcel's CIP programs.

B. Department of Commerce - Comments

The Department's analysis of Xcel's 2017 Annual Report includes a review of:

- Xcel's ability to surcharge customers for 2017 deferrals
- Xcel's compliance with Commission reporting requirements
- Xcel's 2017 energy savings
- Xcel's 2017 deferral calculation.

1. Xcel's Ability to Surcharge Customers

The Commission's 2015 Order stated that Xcel is prohibited from making an upward rate adjustment through revenue decoupling following a year where it fails to achieve energy savings equal to 1.2 percent of its retail sales. The Department noted that, although Xcel's 2017 CIP Status Report had not been evaluated, the Company claimed first year energy savings of over 658 million kWH or approximately 2.27 percent of retail sales. Therefore, the Department concludes that Xcel is able to surcharge its applicable customers through its RDM Rider beginning in 2018.

2. Xcel's Reporting Requirements

Order Point 40e of the Commission's May 8, 2015 Order requires annual reporting by February 1 of each year before any application of an RDM adjustment factor on April 1. This report shall include the following information:

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[9] Normal weather conditions is defined as the 20-year average of the weather data available at the time the Test Year forecast was developed.

[10] Per Xcel, an "Onsert" is the content of what might have been provided to customers in a traditional bill insert directly onto the billing statement.

i. Total over- or under-collection of allowed revenues by customer class or group;
ii. Total collection of prior deferred revenue;
iii. Calculations of the RDM deferral amounts;
iv. The number of customer complaints;
v. The amount of revenues stabilized and how the stabilization impacted Xcel's overall risk profile;
vi. A comparison of how revenues under traditional regulation would have differed from those collected under partial and full decoupling;
vii. A description of all new and existing demand-side-management programs and other conservation initiatives Xcel had in effect for the year covered by the report;
viii. A description of the effectiveness of all new and existing demand-side management programs and other conservation initiatives Xcel had in effect for the year covered by the report; and
ix. Other factors that may have contributed to a decline in energy consumption, including weather and the economy.

The Department concluded that Xcel complied with these reporting requirement.

3. Xcel's 2017 Energy Savings

The Department noted that Minnesota Statutes § 216B.241, Subdivision 3 states, in part: "Each pilot program must utilize the criteria and standards established in subdivision 2 and be designed to determine whether a rate-decoupling strategy achieves energy savings".

Table 2, below, shows the Department's comparison between Xcel's 2017 CIP energy saving achievements with the three years of its pre-decoupling achievements.

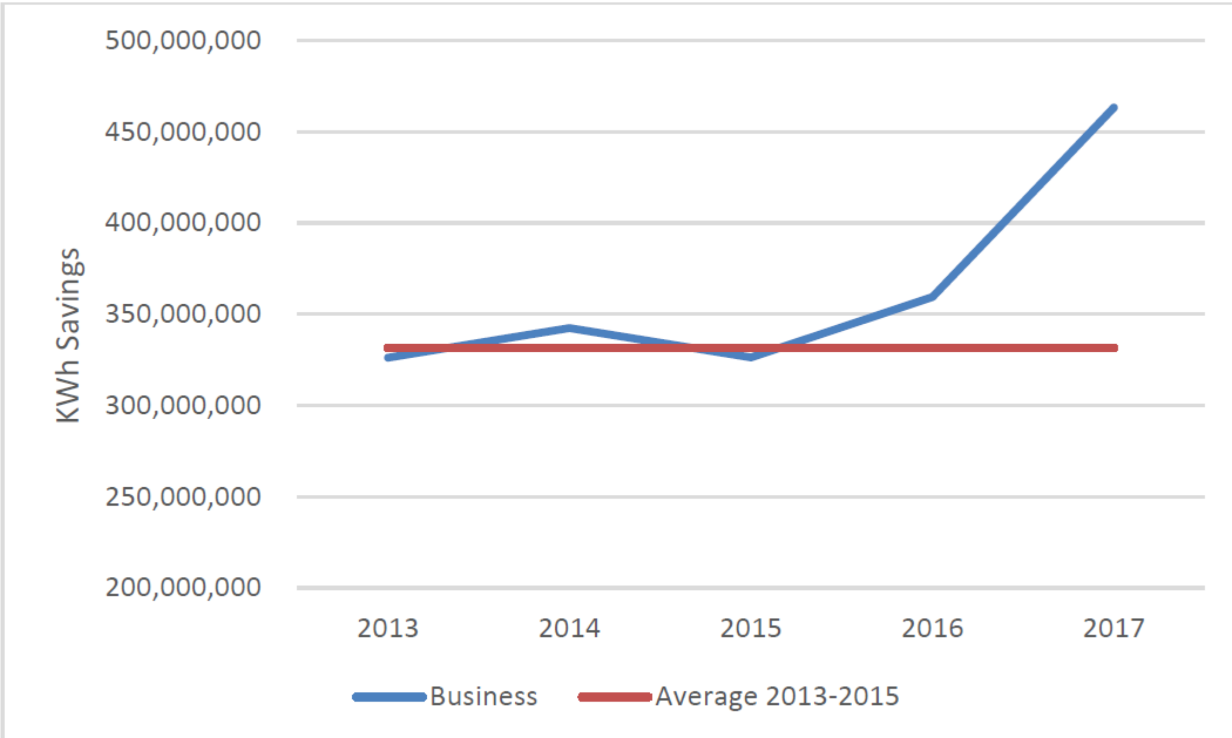
Table 2: Xcel's 2017 CIP Achievements Compared to Pre-Decoupling (2013-2015) CIP Achievements (in kWH)[11]

	Business	Residential	Total
2013	326,172,990	167,072,321	493,245,311
2014	342,313,567	136,265,278	478,578,845
2015	326,406,491	173,987,045	500,393,536
2013-2015 Average	331,631,016	159,108,215	490,739,231
2016	359,412,589	191,286,634	550,699,223
2017	463,172,254	192,898,330	656,070,584
2017 % Difference from Average	40%	21%	34%
2017 % Difference from 2016[12]	29%	1%	19%

[11] Source: Docket E-002/GR-15-826 Minnesota Department of Commerce – Corrected Comments, Page 7, Table 3, April 4, 2018.

[12] Department's Table 3 label showed "2017 % Difference from 2015" but percentages reflect comparison of 2017 to 2016, the subsequent analysis reflects correct numbers and percent's.

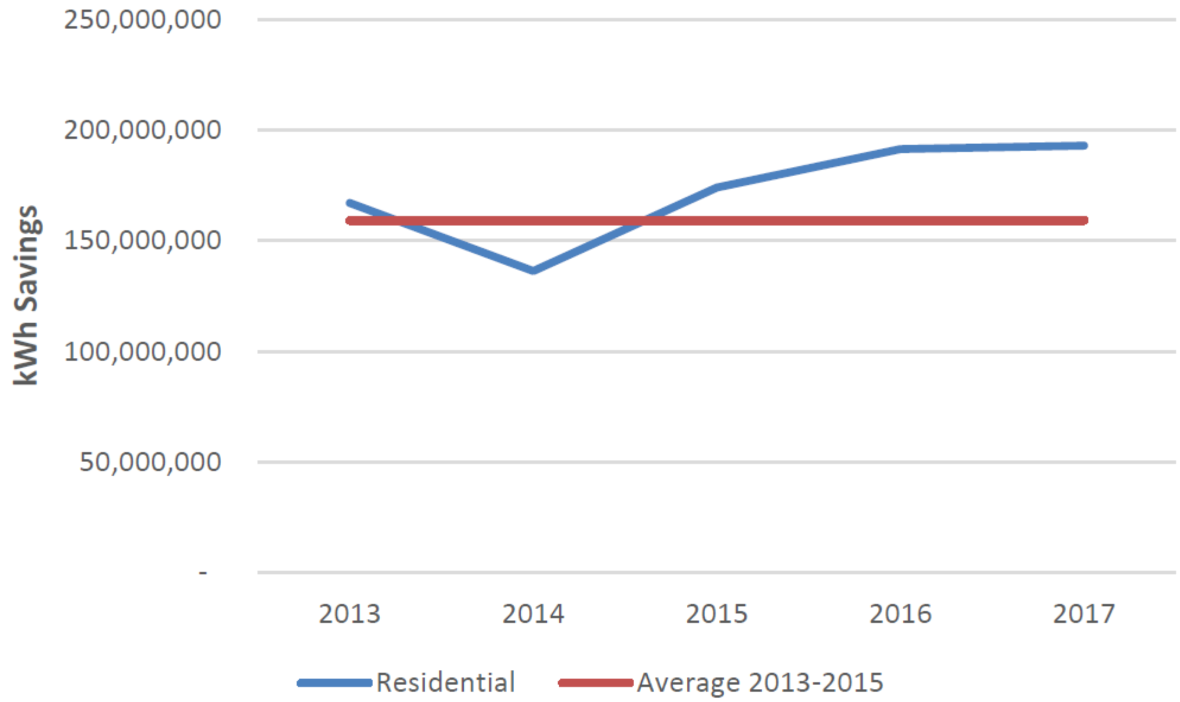
Figure 1: Comparing Xcel's 2017 Business First-Year Energy Savings to Average Pre-Decoupling (2013-2015) Business First-Year Energy Savings[13]



As can be seen in Table 2 and Figure 1, the Company's business segment energy savings were 29 percent higher than its 2016 savings and 40 percent higher than the average of its 2013-2015 business segment energy savings. It should be noted that, since Xcel did not provide separate CIP achievements for it non-demand-metered Small General Service customers, this comparison is only for the larger Business segment group.

[13] Source: Docket E-002/GR-15-826 Minnesota Department of Commerce – Corrected Comments, Page 7, April 4, 2018.

Figure 2: Comparing Xcel's 2017 Residential First-Year Energy Savings to Average Pre-Decoupling (2013-2015) Residential First-Year Energy Savings[14]



In comparing Xcel's Residential customer group energy savings, Table 2 and Figure 2 show that 2017 savings were 1 percent higher than 2016 and 21 percent higher than the average 2013-2015 pre-decoupling energy savings.

The Department concluded that, due to other state policies such as the Shared Savings DSM financial incentive program, these increases in energy savings, while commendable, cannot be directly attributed to the decoupling pilot program.

As shown in Table 3, due to under-collection of revenues in 2017, Xcel's decoupling deferral calculations resulted in surcharges for each of its decoupling customer classes for the period April 1, 2018 through March 31, 2019. The Department concluded that Xcel correctly calculated its RDM factors.

[14] Source: Docket E-002/GR-15-826 Minnesota Department of Commerce – Corrected Comments, Page 8, April 4, 2018.

4. Xcel's 2017 Deferral Calculation.

Table 3: Xcel's Calculation of its April 2018-March 2019 RDM Factors[15]

	Residential Without Space Heating ($/kWh)	Residential ($/kWh)	Small General Service (non-demand) ($/kWh)
Under(Over) Collection in 2017	$25,047,593	$933,610	$1,088,400
Carry Over Balance	($18,995)	($13,466)	$3,738
Total	$25,028,598	$920,144	$1,092,138
April 2018-March 2019 Sales	$8,168,639,281	$389,796,446	$877,087,737
RDM Factor – Surcharge/(Refund)	**$0.003064**	**$0.002361**	**$0.001245**

5. Department Recommendations

In conclusion, the Department recommended that the Commission approve Xcel's 2017 Annual Decoupling Report and the RDM factors shown in Table 3 above.

V. Staff Analysis

In general, Staff agrees with the Department's analysis and supports their recommendations. However, Staff does have comments on three additional issues.

A. Full-Decoupling compared to Partial Decoupling

Staff notes that, in addition to the full-decoupling calculations, Xcel has been ordered to also provide, as part of the Report and for informational purposes only, partial-decoupling[16] calculations. As shown in Tables 4 and 5, had Xcel's program been a partial decoupling pilot, the decoupling adjustments would have been $14.0 million lower, including $13.2 million lower for the residential class. Additionally, under partial decoupling, the 3% would have not impacted any of the decoupled classes.

Table 4 - Comparison, Xcel's 2017 Full-Decoupling and Partial-Decoupling Amounts

Class	Full Decoupling, in $000	Partial Decoupling, in $000	Difference
Residential	$25,048	$11,818	$13,229
Residential with Space Heating	$934[17]	$308	$626
Small C&I (Non-Demand)	$1,088	$901	$188
Total	$27,070	$13,027	$14,043

[15] Source: Docket E-002/GR-15-826 Minnesota Department of Commerce – Corrected Comments, Page 8, Table 4, April 4, 2018.

[16] Partial decoupling is based on actual sales that are weather-normalized.

[17] Net of 3% cap.

Table 5 - Comparison, Xcel's 2017 Full-Decoupling and Partial-Decoupling RDM Factors

Class	Full Decoupling	Partial Decoupling	Difference
Residential	$0.003064	$0.001447	$0.001617
Residential with Space Heating	$0.002361	$0.000790	$0.001571
Small C&I (Non-Demand)	$0.001245	$0.001027	$0.000218

Staff performed this analysis only to confirm what should have been intuitive results. For Xcel's electric business, cooler than normal weather will typically result in lower revenues; therefore, cooler weather will yield lower partial-decoupling adjustment amounts. Conversely, if weather is warmer than normal then the opposite would be true. This analysis should not be misconstrued as Staff's attempt to advocate for a change to partial decoupling.

B. Customer Education

As part of its customer education plan for this RDM program,[18] Xcel proposes to continue using a bill onsert in addition to bill messages rather than a bill insert to explain the RDM program to its customers. Staff recognizes that bill onserts are more convenient and a less expensive way for Xcel to provide information to its customers. However, when asked previously on several occasions, Xcel has never provided any evidence that bill onsets are a more effective way to communicate with consumers than bill inserts.

Staff does not to argue that, when bundled in an envelope with other bill inserts and the bill itself, a bill insert is a one-hundred percent effective way to communicate information and educate consumers nor that bill inserts are more effective than sending information by direct mail. Staff does not believe the Commission has identified criteria that could be used to determine when an onsert might potentially be appropriate instead of inserts when the goal is to have consumers comprehend and retain information over time. Staff also believes it would be useful for the Commission to develop guidelines for standardized bill messages that clearly and concisely provide the information the Commission has ordered the utility to provide to consumers. For these reasons, the Commission may want to take this opportunity to investigate Xcel's use of bill onserts instead of bill inserts for this program and more generally in rate cases and other matters that require notice to customers.

C. Future Annual Reports

Staff points out that these Annual Decoupling Evaluation Reports are under the 2013 and 2015 rate case dockets and, due to the multiple reoccurring filings made in these docket, that practice makes it difficult to identify decoupling-related filings. In the recent Great Plains and CenterPoint decoupling filings, Staff has recommended, and the Commission has ordered, that those companies file all future Reports in their own separate dockets. Consistent with that

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[18] Ordering paragraph 40[d]: Xcel shall implement its proposed revenue decoupling mechanism (RDM) for its residential and small business customer groups with the following modifications: … [d] Customer education: Xcel shall file a plan for implementing an education and outreach program for its customers explaining the goals and operations of its RDM program. FINDINGS OF FACT, CONCLUSIONS, AND ORDER, *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minneso*ta, Docket No. E-002/GR-13-868 (May 8, 2015)

practice, the Commission may want to instruct Xcel to do the same starting with its 2018 Report.

VI. Decision Options

<u>2018 Annual Decoupling Evaluation Report (Year 2)</u>

1. Accept Xcel's 2017 (Year 2) revenue decoupling evaluation report. (Xcel, DOC) <u>OR</u>

2. Reject Xcel's 2017 (Year 2) revenue decoupling evaluation report.

<u>2018 Annual Decoupling Evaluation Report (Year 2)</u>

3. Approve Xcel's revenue decoupling rate adjustment factors. (Xcel, DOC) <u>OR</u>

4. Reject Xcel's revenue decoupling rate adjustment factors and determine alternative adjustment factors.

<u>Effectiveness of Bill Onserts for Communicating with Consumers</u>

5. Direct Xcel to use bill inserts unless affirmative authorization is given in advance to use bill onserts. <u>AND/OR</u>

6. Open an investigation into (a) when it is appropriate for Xcel to use bill onserts rather than bill inserts, and (b) best practices for standardized bill messages and bill messaging. Authorize the Commission's Executive Secretary to issue a notice requesting comments and to set procedures and timelines for this investigation. <u>OR</u>

7. Take no action.

<u>Future Annual Decoupling Evaluation Reports</u>

8. Order Xcel to file all future Annual Decoupling Evaluation Reports in their own separate docket. (Staff)