

June 2, 2017

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. E002/M-17-259

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 2016 electric Demand Side Management financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its electric CIP; and
- a proposed 2017/2018 electric CIP Adjustment Factor.

The *Petition* was filed on April 3, 2017 by:

Shawn White
Manager, DSM Regulatory Strategy and Planning
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/
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET No. E002/M-17-259

I. INTRODUCTION

On April 3, 2017, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) submitted to the Minnesota Public Utilities Commission (Commission) the *Petition of Northern States Power Company for Approval of a 2017/2018 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 2016, a proposed increase in the currently approved electric CIP Adjustment Factor (CAF), and a proposed demand side management (DSM) financial incentive for its 2016 CIP achievements. Xcel's *Petition* requested that the Commission approve the following:

- a DSM financial incentive of \$48,368,493 for Xcel's 2016 electric CIP achievements;
- a report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2016; and
- a CIP Adjustment Factor for 2017/2018 of \$0.001271/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-17-258.

II. COMMISSION'S 2016 ORDER

On August 30, 2016, the Commission issued its Order in Docket No. E002/M-16-282 approving Xcel's 2016 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved the 2015 Xcel Electric CIP Tracker Account activity shown in Table 1 of the Department's June 23, 2016 comments;
2. Approved Xcel's proposed bill message effective the first month the 2016/2017 CIP Adjustment Factor takes effect;
3. Approved a DSM financial incentive of \$43,277,219 for Xcel's 2015 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 this order; and
4. Approved a CIP Adjustment Factor for 2016/2017 of \$0.001941/kWh beginning with the first billing cycle of October 2016, conditional on the Company submitting, within ten 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 September 9, 2016, Xcel filed its compliance filing in response to Order Point 4, recalculating the CAF and proposing to implement the new factor, \$0.002164/kWh, on October 1, 2016. The Department filed a compliance sign-off form on September 29, 2016. Xcel's proposed rate went into effect October 1, 2016.

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 2016 Demand Side Management (DSM) financial incentive;
- in Section III.B, Xcel's proposed electric 2016 CIP Tracker Account;
- in Section III.C, Xcel's proposed electric CAF for 2017/2018; and
- in Section III.D, a review of Xcel's CIP activity for the period 2010 through 2016.

A. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2015 ACHIEVEMENTS

1. Background and Summary of Xcel's Proposed Electric DSM 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.

The incentive for Xcel is triggered when the Company achieves 50 percent of the utility's average energy savings for the period from 2007 to 2011, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. The incentive is capped at 8.75 cents per first-year kWh savings.¹

In the Commission's August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plane* in Docket No. E,G999/CI-08-133 the Commission modified the incentive mechanism. This modification will not go into effect until the 2017 DSM incentive is calculated.

In Attachment A of its *Petition*, Xcel noted that in 2016 its electric program met and exceeded the state's 1.5% energy savings target by achieving 552,781,775 kWh of savings, or 1.91% of non-CIP-exempt retail sales. Xcel's 2016 energy savings were 10.5 percent higher than in 2015. Xcel calculated that the Company should receive an incentive based on 17.39 percent of its \$312,424,228 in net benefits, or \$54,344,007, however this value exceeded the incentive cap of \$0.0875 per kWh, so Xcel instead calculated its incentive to be \$48,368,493.²

3. Department Analysis of Xcel's Proposed 2016 Electric DSM Financial Incentive

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2016 DSM financial incentive of \$48,368,493 is ongoing. In all likelihood, it will not be completed before the fall of 2017. 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 2016 Status Report on April 3, 2017, 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 2016 CIP energy savings or budget, the Commission can approve any adjustments to the Company's

¹ Since Xcel's CIP projects have average lifetimes of 13 to 15 years, the cap per lifetime kWh saved is significantly lower than 8.75 cents per kWh.

² See Xcel Attachment A, page 34 of 40.

DSM financial incentive for 2016 achievements as part of the Company's 2017 filing. The Deputy Commissioner's review of Xcel's 2015 CIP Electric energy savings and budget did not result in any changes.

The Department's review indicates that the Company correctly calculated its DSM financial incentive; therefore the Department recommends that the Commission approve Xcel's 2016 Shared Savings financial incentive of \$48,368,493.

B. 2016 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2016 Electric CIP Tracker activity, resulting in a year-end 2016 balance of \$19,640,542. Table 1 below shows a summary of activity in Xcel Electric's 2016 CIP tracker account.

Table 1: A Summary of Xcel Electric's 2016 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	31-Dec-15	\$9,164,617
CIP Expenses	January 1 through December 31, 2016	\$101,146,305
Financial Incentive	For 2015 CIP achievements	\$43,277,219
Carrying Charges ³	January 1 through December 31, 2016	\$15,721
Recovered in Base Rates	January 1 through December 31, 2016	(\$89,179,588)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2016	(\$44,783,732)
Ending Balance	31-Dec-16	\$19,640,542

The Department recommends that the Commission approve Xcel's 2016 electric CIP tracker account activity, as provided in the Company's Petition and summarized in Table 1 above, resulting in a December 31, 2016 tracker balance of \$19,640,542.

C. CIP ADJUSTMENT FACTOR REPORT

As noted above, in its August 30, 2016 Order in Docket No. E002/M-16-282, the Commission approved a 2015/2016 CIP adjustment factor (CAF) of \$0.001941 per kWh for Xcel. The CAF was eventually adjusted to \$0.002164 per kWh through the Company's September 9, 2016 Compliance Filing.

Table 2 below shows that Xcel currently projects an unrecovered October 1, 2017 CIP Tracker balance of \$36.9 million under the assumption of no additional recovery of CIP costs through the CAF.

³ Xcel's monthly carrying charges are included at the short-term cost of debt set in the Company's last electric rate case, E002/GR-12-961.

Table 2: Xcel Electric’s Forecasted End of September 2018 CIP Tracker Account

<u>Description</u>	<u>Amount</u>
Forecasted beginning balance (October 2017)	\$18,051,481
October 2017-September 2018 Budget	\$94,806,132
Forecasted 2017 Incentive	\$14,950,560
Less Forecasted CCRC recovery (Oct 2017-Sept 2018)	(\$90,894,020)
Forecasted September 2018 balance without CAF	\$36,914,154

Xcel included the above calculations so that it can calculate the CAF modifications needed to minimize its 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 \$0.001271 per kWh to be effective with the first billing cycle of October 2016 and to remain in effect through the September 2018 billing period. Xcel’s proposed CIP Adjustment Factor is a decrease of \$0.000893 per kWh from its currently approved \$0.002164 per kWh.⁴ Xcel’s proposed electric CAF would result in a 41.3 percent decrease in the Company’s current CAF. The proposed 2017/2018 factor would allow Xcel to recover CIP costs, financial incentives, and the projected unrecovered tracker balance.

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 2018 Electric CIP Tracker Balance	\$36,914,154
(2) Forecasted Electric Sales (MWh) – October 2017 through September 2018 ⁵	29,039,623
(3) Calculated Electric CIP Adjustment Rate = (1)/(2)	\$1.271/MWh
	\$0.001271/kWh

Typically, Xcel incrementally decreases the calculated rate to incorporate the effect of carrying charges, which are not included in the forecasted balance. However, because the September 2018 forecasted CIP Tracker balance approaches \$0 without going negative no change was made to the calculated CIP Adjustment Rate of \$0.001271 per kWh.⁶ 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 2017/2018 CCRA of \$0.001271 per kWh.

⁴ The Company will continue to apply the current CIP Adjustment of \$0.002164 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.

⁵ Forecasted sales exclude the customers exempted from electric CIP charges

⁶ Petition Attachment A, Page 30 of 40.

With respect to rate change notification, Xcel proposed to notify customers by implementing the following message on customer bills, effective the first month the 2017/2018 CIP Adjustment Factor takes effect:

Effective Oct. 1, 2017, 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 \$0.001271 per kilowatt-hour (kWh).

The Department recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2017 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. REVIEW OF XCEL'S ELECTRIC CIP ACTIVITY (2010-2016)

In Attachment A, the Department presents a historical comparison of Xcel's electric CIP activity for the period 2010 through 2016. The attachment provides an indication of how the Company's DSM financial incentive, carrying charges, year-end tracker balance, CIP expenditures, and reported energy savings changed during the period.

An analysis of Table 1 in Attachment A indicates that, between 2010 and 2016, the Company's energy savings grew 35.1 percent, the Company's expenditures grew 40.7 percent, and the Company's incentives grew 19.7 percent. Xcel's tracker balance was \$19.6 million at the end of 2016. Xcel projects that by the end of September 2017 its tracker balance will be close to zero again. Xcel's carrying charges for 2016 decreased to \$15,721. In the past 7 years, Xcel's carrying charges have ranged from (\$1,229,487) to \$4,231. 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-14-287, the Commission changed how the carrying charge is calculated, directing that Xcel use its short-term debt rate rather than Xcel's most recently approved overall rate of return.

In summary, the Department recommends that the Commission approve Xcel's proposed 2017/2018 CAF of \$0.001271 per kWh.

IV. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve:

1. the 2016 Xcel Electric CIP Tracker Account activity shown in Table 1 above;
2. Xcel's proposed bill message effective the first month the 2017/2018 CIP Adjustment Factor takes effect;
3. a DSM financial incentive of \$48,368,493 for Xcel's 2016 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.

A CIP Adjustment Factor for 2017/2018 of \$0.001271/kWh beginning with the first billing cycle of October 2017, 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 Electric CIP Activity (2009-2016)

	2010	2011	2012	2013	2014	2015	2016¹
DSM Financial Incentive	\$40,401,006	\$51,350,104	\$53,911,925	\$42,679,496	\$40,179,927	\$43,277,219	\$48,368,493
Incentive as a % of CIP Expenditures	56.20%	67.30%	61.92%	53.64%	45.71%	47.36%	47.82%
Carrying Charges	\$1,132,778	(\$619,259)	\$4,231	\$298,021	(\$1,229,487)	(\$56,557)	\$15,721
Carrying Charges as a % of Expenditures	1.58%	-0.81%	0.00%	0.37%	-1.39%	-0.06%	0.02%
Year-End Tracker Balance	\$24,233,452	(\$21,768,428)	\$31,925,410	\$30,624,948	(\$56,291,008) ²	\$9,164,617 ³	\$19,640,542
Year-End Tracker Balance as a % of CIP Expenditures	33.71%	-28.53%	36.67%	38.49%	64.05%	10.03%	19.42%
CIP Expenditures	\$71,884,335	\$76,302,262	\$87,071,903	\$79,570,696	\$87,889,789	\$91,385,776	\$101,146,305
Achieved Energy Savings (kWh)	409,111,894	462,021,574	533,477,510	462,021,576	481,325,941	500,393,537	552,781,775
Average Cost per kWh Saved ⁴	\$0.18	\$0.17	\$0.16	\$0.17	\$0.18	\$0.18	\$0.18

¹ The 2016 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.

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

³ Includes both the 2013 and 2014 financial incentives

⁴ Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.