Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014..**Agenda Item **#7**

Company: Interstate Power and Light (IPL)

Docket No. **E-001/M-14-284**

In the Matter Interstate Power and Light Electric's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of $2,209,305?

2. Should the Commission approve an incentive of $263,420.53 for IPL's 2013 CIP achievements?

3. At what level should the Commission set the CIP Adjustment Factor for 2014/2015?

4. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and CIP Adjustment Factor as determined by the Commission?

5. Should the Commission eliminate the carrying charge or otherwise modify its application to IPL's tracker balance for the CIP rider effective with the date of the Commission's Order?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Initial Filing IPLEnergy...April 1, 2014

Comments of the Department of Commerce,
Division of Energy Resources (DOC) ....July 14, 2014

Reply Comments IPLEnergy...July 28, 2014

Reply Comments of the Department of Commerce,
Division of Energy Resources ....August 28, 2014

Commission Order Approving Financial Incentive,
Setting Conservation Cost Recovery Adjustment,
Reducing Carrying Charges, and Varying Rules
Docket No. E-017/M-14-201 .... September 26, 2014

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Statement of the Issue(s)

1. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of $2,209,305?

2. Should the Commission approve an incentive of $263,420.53 for IPL's 2013 CIP achievements?

3. At what level should the Commission set the CIP Adjustment Factor for 2014/2015?

4. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and CIP Adjustment Factor as determined by the Commission?

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II. Relevant Statute

Minn. Stat. § 216.16, subd. 6c.

Incentive plan for energy conservation improvement. (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

(1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

(2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

(3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and

(4) whether the plan is in conflict with other provisions of this chapter.

(c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

III. Background

On April 1, 2014, Interstate Power and Light Company (IPL or the Company) filed a petition that includes a report of proposed recoveries and expenditures in its electric Conservation Improvement Program (CIP) tracker account during 2013 and a proposed decrease in the currently approved electric Conservation Cost Recovery Adjustment (CCRA). IPL also submitted a request that the Commission approve a proposed electric Demand Side Management (DSM) financial incentive of $263,420.53 for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on July 15, 2014.

On July 22, 2014, reply comments were filed by IPL. The DOC filed reply comments on July 23, 2014. On August 19, 2014, IPL filed a letter in lieu of reply comments.

Below are the DSM financial incentives for the four electric utilities filing for DSM incentives:

DSM Financial Incentives 2009-2013

	2009	2010	2011	2012	2013
Xcel	$16,398,115	$40,401,006	$51,350,104	$53,911,925	$42,679,496
Minnesota Power	$878,709	$6,806,612	$7,772,785	$7,105,410	$8,733,448
Otter Tail Power	$1,927,314	$3,721,665	$5,188,129	$3,572,621	$4,835,558
Interstate Power	$86,463	$85,716	$15,349	$20,097	$37,207

IV. Parties' Comments

IPL: The DOC recommended the approval of IPL's CIP corrected tracker account and proposed CCRA, and recommended IPL be required to include a related bill message to its customers regarding the CCRA recovery. Additionally, the DOC recommended that the Commission approve IPL's proposed electric 2013 DSM financial incentive and either discontinue the approval of carrying charges in IPL's CIP tracker or disallow the application of the carrying charge to IPL's financial incentive. IPL has reviewed the DOC's July 23, 2014, submission to the Commission and files this letter in support of the DOC's recommendations.

DOC: The DOC recommends that the Commission:

1) approve IPL's 2013 year end CIP tracker account balance $2,209,305;

2) approve IPL's proposed CCRA of $0.00281/kWh for all customer classes and require that the CCRA approved by the Commission be effective in the billing month immediately following the issue date of the of the *Order* in the present docket, conditioned on the Company submitting, within 10 days of the *Order*, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations; and

3) require IPL to include the following bill message (with the correct effective date added) in the billing month immediately following the date of the *Order* in the present docket:

> IPL recovers the costs of its energy conservation programs in Minnesota through a Conservation Cost Recovery Adjustment (CCRA). The CCRA is an annual adjustment subject to Minnesota Public Utilities Commission approval. Based on actual and anticipated energy efficiency costs, the revised 2014 CCRA, as approved the Commission, will be $0.00281/per kWh effective MM/DD/YYYY. Learn more about reducing your energy use by visiting our website at www.alliantenergy.com/save or calling us at 1-866-255-4268.

4) approve IPL's proposed electric 2013 DSM financial incentive of $263,420.53 and allow the Company to book this amount in its tracker account; and

5) discontinue approving carrying charges for under- or over-recovered balances in IPL's CIP tracker account beginning in the month after the Commission issues its *Order* in this docket;

6) in the event that the Commission continues to allow the application of carrying charges to the over and under recovery of CIP tracker accounts, disallow application of the carrying charge to the Company's financial incentive.

V. Staff Discussion

Staff agrees with the DOC that the 2013 tracker account was calculated correctly. As such, the Commission should approve IPL's 2013 year end CIP Tracker account balance of $ 2,209,305 as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of $263,421 should be approved by the Commission. With respect to the carrying charge applied to the CIP tracker, Staff agrees with the DOC that it should be eliminated for two reasons. First, Staff believes that the current carrying cost structure provides a perverse incentive for any company to maintain the CCRA at relatively low level and carry a significant positive tracker account balance. This increases the cost of the CIP over the long run.

Second, Staff believes that the goal should be to carry a zero balance as much as possible in the tracker account. By having a carrying charge of any size, it will reduce the likelihood of such an outcome.[1] Again, the goal should be to keep CIP costs at a minimum. In this context, having an incentive structure which facilitates this outcome, generally will facilitate the achievement of the desired outcome.[2]

With this in mind, Staff believes that the Commission's September 26, 2014 Order Approving Financial Incentives, Setting Conservation Cost Recovery Adjustment, Reducing Carrying Charges, And Varying Rules in Docket No. E-017/M-14-201 is quite instructive and useful for this matter. In that Order, the Commission modified the carrying charge on OTP's CIP tracker-account balance to the short-term cost of debt set in the Company's last rate case. In its Order at page 6, the Commission determined the following:

> The Commission concurs with the Chamber and the Department that it is no longer appropriate to grant the Company carrying charges on unrecovered CIP costs at its authorized rate of return. The Commission will, however, grant carrying charges at the Company's short-term cost of debt, as explained below.

The Commission defended its determination that using authorized rate of return as excessive and may not be appropriate in the rate rider/tracker account context at page 7:

> Here, the Commission concurs with the Chamber and the Department that granting carrying charges at Otter Tail's authorized rate of return would be excessive. While the CIP financial incentives making up the bulk of the CIP tracker account serve an important public-policy purpose, they are not the kind of costs—out of pocket costs—for which rate-of-return treatment can be most readily justified.

Additionally, the Commission reasoned that the generous carrying charges were appropriate at the beginning of the DSM financial as a way to facilitate the success of the program. The Commission Order provided the following reasoning at page 7:

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[1] Staff notes that a lower carrying charge will result in a reduced incentive for maintaining a significant tracker balance.

[2] Staff notes that IPL has done a good job of maintaining the annual tracker balance near zero.

> Further, the factual context that led to setting carrying charges at the overall rate of return no longer applies. As the Department pointed out, in 1992—and for years thereafter—demand-side management financial incentives were small, the financial-incentive program was new, and it was important to use whatever tools were at hand to encourage its success. The incentives are now sizeable, the program is well established, and Otter Tail itself stated at hearing that reducing or eliminating carrying charges would not affect its conservation commitment or efforts, just its approach to rate amelioration.

Finally, the Commission reasoned that there is no perfect mapping between the cost recovery period and interest rates. However, the short-term cost of debt is the closest match. The Commission's Order stated the following at page 7:

> While there is no exact match between this additional twelve-month recovery period and a standard interest rate, the Commission concurs with the Department and the Chamber that the authorized cost of short-term debt is the closest match contained in the record. The twelve-month term typical of short-term debt corresponds to the twelve-month period CIP costs are typically carried in the tracker account. And, while the additional twelve months of recovery necessitated by the moderated CCRA level is anomalous, the short-term debt rate is still more consistent with the public interest than the overall rate of return, given the nature of these costs—cash financial incentives—and the relatively short term—two years—within which they will be recovered.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely but reasonable manner. In the event the Commission eliminates or reduces the carrying charges, it would be it would be reasonable to bring the tracker to zero as quickly as possible. At the same time, the Commission needs to mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that a reasonable rate at this time would be $0.00281/kWh. This was the rate proposed by the DOC and agreed upon by IPL. Next year, the Company should evaluate the progress that has been made, and propose a rate which would maintain the tracker balance at or near zero.

VI. Commission Options

A. Should the Commission approve IPL's 2013 CIP tracker account with an ending balance of $2,209,305?

1. Approve IPL's 2013 CIP tracker account as indicated at page four of the DOC's July 23, 2014 comments.

2. Do not approve IPL's 2013 CIP tracker account.

B. Should the Commission approve an incentive of $263,420.53 for IPL's 2013 CIP achievements?

1. Approve IPL's 2013 financial incentive for CIP achievements.

2. Do not approve IPL's 2013 financial incentive for CIP achievements.

C. At what level should the Commission set the Conservation Cost Recovery Adjustment (CCRA) for 2014/2015 to be effective in the billing month immediately following the issue date of the Commission's Order in this docket?

1. Set the CCRA at $0.00281 as recommended by the DOC and agreed to by the Company.

2. Set the CCRA at $0.00368 as originally recommended by the Company.

3. Set the CCRA at some other level.

D. Should the Commission approve IPL's proposed bill message with the appropriate modifications to reflect an accurate effective date and CIP Adjustment Factor as determined by the Commission?

1. Approve the proposed bill message and require IPL to include the bill message in the month immediately following the date of the Order in this docket.

2. Do not approve the proposed bill message.

3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.[3]

E. Should the Commission eliminate the carrying charge or otherwise modify its application to IPL's tracker balance for the CIP rider effective with the date of the Commission's Order?

1. Modify the carrying charge to reflect the Company's Short-term cost of debt established in the Company's last rate case, Docket No. E-001/GR-10-276. The modification shall be effective as of the date of the Commission's Order in this docket.

2. Do not eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

[3] If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.

3. Eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.

4. Modify the application of the carrying charge to exclude Company's financial incentive when determining the amount of carrying charges allowed for recovery.

5. Take other action the Commission deems appropriate.

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1, and E1.