

June 16, 2021

Will Seuffert
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-21-227

Dear Mr. Seuffert:

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, doing business as Xcel Energy (Xcel or the Company), requesting approval of the following:

- a proposed 2020 natural gas Shared Savings Demand Side Management financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its 2020 natural gas CIP; and
- a proposed 2021/2022 natural gas CIP Adjustment Factor.

The *Petition* was filed on April 1, 2021 by:

Shawn White
Director, Demand Side Management and Renewable OPS
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** the Company'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

Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G002/M-21-227

I. A SUMMARY OF THE UTILITY'S PROPOSAL

On April 1, 2021, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), submitted a filing in the present docket entitled *In the Matter of the Petition of Northern States Power Company for Approval of a Natural Gas Conservation Improvement Program (CIP) Adjustment Factor (Petition)*. Xcel's *Petition* requested that the Minnesota Public Utilities Commission (Commission) approve the following:

- a proposed natural gas (gas) Shared Savings Demand Side Management (DSM) financial incentive of \$4,268,369 for 2020;
- a report of proposed recoveries and expenditures in Xcel's gas Conservation Improvement Program (CIP) tracker account in 2020; and
- a proposed 2021/2022 CIP Adjustment Factor (CAF) of \$0.024551 per therm.

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis and recommendations below. The Department will not comment here on information related to the Xcel's electric CAF; instead see Docket No. G002/M-21-226.

II. THE COMMISSION'S 2020 ORDER

On August 18, 2020, the Commission issued its Order in Docket No. G002/M-20-403 approving Xcel's 2019 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved Xcel's proposed 2019 gas DSM financial incentive of \$1,790,002 and allowed Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of this Order;
2. Approved Xcel's 2019 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 of the Department's comments, resulting in a December 31, 2019 tracker balance of \$(3,730,035);
3. Approved Xcel's proposed bill message language; and
4. Allowed Xcel to implement its proposed gas CIP Adjustment Factor of \$0.019478 per therm beginning October 1, 2020, conditional on the Company submitting, within 10 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 August 28, 2020, Xcel filed its compliance filing pursuant to Order Point 4, which included an update for the October 1, 2020 implementation date recalculating the CAF and proposing to implement the resultant new factor of \$0.16276 per dekatherm on October 1, 2020. The Department filed a compliance sign-off form on September 17, 2020. Xcel's proposed rate went into effect October 1, 2020.

III. 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 2020 gas DSM financial incentive;
- in Section II.B, Xcel's proposed 2020 gas CIP tracker account;
- in Section II.C, Xcel's proposed change to its currently approved gas CIP Adjustment Factor; and
- in Section II.D, a review of Xcel's gas DSM and CIP activities for the period 2011 through 2020.

A. XCEL'S PROPOSED 2020 GAS DSM FINANCIAL INCENTIVE

1. Background and Summary of Xcel's Proposed 2020 Gas DSM Financial Incentive

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 revised 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. The Commission extended this order for 2020 in its February 20, 2020 *Order Extending Existing Incentive Formula and Encourage Discussions for Future Revisions* in the same docket. For 2020, the electric and gas incentives are capped at 10 percent of net benefits and 30 percent of CIP expenditures. The Commission's Order included the following:

- 1 The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.
 - 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:
 - 5) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
 - 6) 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.
 - 7) 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.
 - 8) 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:
 - 9) 13.5 percent in 2017,
 - 10) 12.0 percent in 2018, and
 - 11) 10.0 percent in 2019.

- D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
 - 12) 40 percent in 2017,
 - 13) 35 percent in 2018, and
 - 14) 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,¹ University of Minnesota Initiative for Renewable Energy

¹ See 2007 Laws, art. 2.

and the Environment costs²) 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,³ solar installation,⁴ and biomethane purchases⁵ shall not be included in energy savings for DSM financial incentive purposes.
3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.
4. 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.

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, its 2020 energy savings achievements resulted in \$46,802,220 of net benefits. Xcel also stated that its gas CIP activities achieved energy savings in 2020 of 868,599 dekatherms (Dth); this savings is equal to 110 percent of the Company's 2020 savings goal and 1.21 percent of retail sales to non-CIP exempt customers. Based on the terms and conditions of its approved DSM incentive plan, Xcel requested recovery of a gas DSM financial incentive of \$4,268,369 for its 2020 CIP achievements.

3. The Department's Review of Xcel's Proposed 2020 Gas Shared Savings DSM Financial Incentive

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2020 DSM financial incentive of \$4,268,369 is ongoing and will not be completed before the instant comments are due. The existence of this lag between the Company's request for recovery of the incentive and the completion of the Department's engineering review is a recurring phenomenon.

The Department typically compensates for this lag by simply assuming that Xcel's claimed energy savings for the most recent year are correct as filed, with the intent of making any adjustments approved by the Department's Deputy Commissioner in the utility's next DSM financial incentive request proceeding. The Department notes that in Xcel Gas's 2019 CIP status report, the Deputy Commissioner of the Department approved the Company's proposed energy savings level,⁶ and thus no adjustment needs to be made this year.

² Id., § 3, subd. 6.

³ Minn. Stat. § 216B.1636.

⁴ Minn. Stat. § 216B.241, subd. 5a.

⁵ Id., subd. 5b.

⁶ Docket No. E,G002/CIP-16-115.08 *In the Matter of Xcel Energy's 2018 Electric and Gas Conservation Improvement Program Status Report*, approved August 6, 2020

As was done last year, the Department's analysis assumes that Xcel's claimed 2020 energy savings are correct as filed. If the Department's Deputy Commissioner 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 2021 filing that will be made April 1, 2022.

In the Company's 2020 *Status Report*, Xcel reported gas energy savings of 868,599 Dth. The Department used the 868,599 Dth energy savings in its review in this docket.

Xcel's gas's 2020 energy savings approximated 1.21 percent of the Company's non-CIP-exempt retail sales. At that achievement level, Xcel was eligible to receive 10.0 percent of net benefits, or \$4,680,222 (10.0% x \$46,802,220). Xcel's two caps for 2020 are 10.0 percent of net benefits and 30 percent of CIP expenditures. Xcel gas's incentive cap on expenditures for 2020 is \$4,268,369 (\$14,227,897 of CIP expenditures x 30 percent) and the net benefit cap for 2020 is \$4,680,222 (\$46,802,220 of net benefits x 10 percent). Xcel hit the expenditures cap and thus while its financial incentive is reduced from the 10% of net benefits to \$4,268,369. The Department recommends that the Commission approve Xcel's proposed 2020 gas DSM financial incentive of \$4,268,369 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 2020 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 2020. Table 1 below provides a summary of activities in Xcel's gas CIP tracker account during 2020.

Table 1: A Summary of Xcel's Gas CIP Tracker Account in 2020⁷

Description	Time Period	Amount
Beginning Balance	January 1, 2020	(\$3,730,035)
CIP Expenses	January 1 through December 31, 2020	\$14,587,983
Carrying Charges	January 1 through December 31, 2020	(\$61,030)
CIP Recoveries in base rates	January 1 through December 31, 2020	(\$3,955,240)
CIP Recoveries from CCRA	January 1 through December 31, 2020	(\$13,981,288)
Performance Incentives	2019	\$1,790,002
Ending Balance	December 31, 2020	(\$5,349,608)

The Department recommends that the Commission approve Xcel's 2020 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2020 tracker balance of (\$5,349,608).

⁷ See: 2020 Natural Gas CIP Tracker (DSM Cost Recovery) on page 11 of 25 of Attachment A of the *Petition*.

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.”⁸ Xcel refers to its approved annual gas CIP recovery mechanism as the CIP Adjustment Factor (CAF).

In its *Petition*, Xcel proposed a gas CAF of \$0.24551 per dekatherm for each customer class, effective on October 1, 2021, as calculated below in Table 2.

Table 2: Xcel Gas’ Forecasted End of September 2022 CIP Tracker Account

Description	Amount
Forecasted Beginning Balance (October 2021)	\$748,601
October 2021-September 2022 Budget	\$18,841,229
Forecasted 2021 Incentive	\$3,612,740
Forecasted CCRC Recovery (Oct 2021-Sept 2022)	(\$4,075,189)
Forecasted September 2022 Balance without CAF	\$19,127,381
Forecasted Sales (Oct 2021-Sept 2022)	77,770,783 dth
Xcel’s Proposed CIP Adjustment Factor	\$0.24595/dth

Xcel’s forecasted balance does not include carrying charges. To get as close as possible to a \$0 balance by Sept 30, 2022, Xcel adjusted the calculated rate of \$0.024595 per therm to account for the effect of carrying charges, which Xcel projects to be negative for several months. This adjustment resulted in a proposed CIP Adjustment factor of \$0.024551 per therm. Xcel estimated that this CIP adjustment rate will result in a forecasted September 30, 2022 tracker balance of \$73.⁹

Xcel followed the same calculation approach in calculating past CIP Adjustment Factors. The Department concludes that Xcel’s calculation of its proposed gas CIP Adjustment Factor of \$0.024551 per therm is reasonable. The proposed factor would allow Xcel to recover CIP costs not recovered through the CCRC and approved financial incentives and would minimize the projected tracker balance.

Table 3 below compares the Company’s proposed gas CIP Adjustment Factor with the Company’s currently approved CIP Adjustment Factor of \$0.016276 per therm.

Table 3: Xcel’s Current and Department’s Proposed CIP Adjustment Factor

Current Factor (\$/Therm)	Proposed Factor (\$/Therm)	Change (\$/Therm)	Percent Change
\$0.016276	\$0.024551	\$0.008275	50.84%

⁸ See Minn. Stat. §216B.16, subd. 6b(c).

⁹ See Attachment A, page 16 of 25 of the *Petition*.

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 proposed to do so again in this proceeding. Below is Xcel's proposed bill message language:

Effective Oct. 1, 2021, the Resource Adjustment line item on your bill has decreased due to a change in the Conservation Improvement Program (CIP) factor. The natural gas CIP portion of the Resource Adjustment is \$0.024551 per therm.

The Department recommends approval of the proposed bill message language with the modifications that the October 1, 2021 effective date and the gas 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. In the event that the timing of Commission approval of the proposed factor suggests that the implementation date of the 2021/2022 CIP Adjustment Factor will occur after October 1, 2021, the Company proposed to continue to apply the current CIP Adjustment Factor up to the first cycle of the first full billing period following Commission approval of a revised factor.

D. A REVIEW OF XCEL'S GAS CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2011-2020)

In Attachment A, Table 1, the Department presents a historical comparison of Xcel's gas DSM and CIP activities during the period 2011 through 2020. Attachment A, Table 1 provides an indication of how the Company's gas Shared Savings 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 2011 and 2020, the Company's energy savings increased by 16.26 percent, the Company's expenditures grew 14.85 percent, and the Company's incentives increased by 50.66 percent. The Company's 2020 shared savings incentive of \$4,268,369 is 29.3 percent of its 2012 CIP expenditures and 9.12 percent of its net benefits. Xcel's tracker balance was (\$5,349,608) at the end of 2020. Xcel projected that by the end of September 2021 its tracker balance will be close to zero again. In the last seven years Xcel's carrying charges have ranged from (\$11,880) to (\$692,481), but have been reduced significantly the last six years as the Commission changed how the carrying charge was calculated.¹⁰ Average cost per first-year energy savings are \$16.79 per Dth, \$21.71 per Dth when the cost of incentives are added in for 2020, a drop from the previous high of \$23.21 per Dth, \$26.27 per Dth when the cost of incentives are added in, recorded in 2019.

The Department notes that energy savings achieved have generally increased since 2008 and rebounded from a sharp fall in 2019.

¹⁰ Xcel used to use the Company's weighted cost of capital for its carrying charge rate. 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-14-288, the Commission directed Xcel to use the short-term cost of debt set in the Company's last rate case as the carrying charge rate.

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

- 1) approve Xcel's proposed 2020 gas DSM financial incentive of \$4,268,369 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 2020 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1, resulting in a December 31, 2020 tracker balance of (\$5,349,608);
- 3) approve Xcel's proposed bill message language; and
- 4) allow Xcel to implement its proposed gas CIP Adjustment Factor of \$0.024551 per therm beginning October 1, 2021, or the first billing cycle in the month following the Commission's *Order* in this matter, whichever is later, 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.

/ar

**Attachment A, Table 1. Xcel Gas's Historical CIP Achievements, Incentives, and Tracker Balance
2011-2020**

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (DTH)	CIP Expenditures	DSM Financial Incentive	Incentive + CIP Expenditures	Net Benefits	Carrying Charges	Year-End Tracker Balance	Average Cost per first year Dth Saved ¹	Average cost per Dth Saved (including incentives)	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	888,460	\$5,762,345	\$1,689,752	\$7,452,097	\$84,934,941			\$6.49	\$8.39	29%	2%		
2008	613,134	\$6,423,486	\$1,267,379	\$7,690,865	\$53,103,686			\$10.48	\$12.54	20%	2%		
2009	670,120	\$7,682,999	\$964,758	\$8,647,757	\$54,919,812			\$11.47	\$12.90	13%	2%		
2010	697,322	\$11,374,005	\$2,264,511	\$13,638,516	\$53,710,455			\$16.31	\$19.56	20%	4%		
2011	747,123	\$12,701,823	\$2,833,206	\$15,535,029	\$62,179,293	(\$215,734)	(\$7,631,972)	\$17.00	\$20.79	22.3%	4.56%	-1.70%	-60.1%
2012	767,061	\$13,041,285	\$2,682,879	\$15,724,164	\$69,395,588	(\$411,428)	(\$4,648,913)	\$17.00	\$20.50	20.6%	3.87%	-3.15%	-35.7%
2013	787,918	\$12,780,833	\$5,416,936	\$18,197,769	\$32,085,609	(\$368,277)	(\$4,680,426)	\$16.22	\$23.10	42.4%	16.88%	-2.88%	-36.6%
2014	849,698	\$12,968,939	\$5,781,193	\$18,750,132	\$35,995,257	(\$692,481)	(\$12,398,883) ²	\$15.26	\$22.07	44.6%	16.06%	-5.34%	-95.6%
2015	838,319	\$13,577,149	\$5,763,443	\$19,340,592	\$37,350,638	(\$34,795)	\$488,314	\$16.20	\$23.07	42.4%	15.43%	-0.26%	3.6%
2016	908,472	\$13,805,805	\$6,245,743	\$19,951,548	\$42,565,945	(\$11,880)	\$1,746,885	\$15.20	\$21.96	45.2%	14.44%	-0.09%	12.7%
2017	799,597	\$14,181,339	\$3,753,592	\$17,934,931	\$29,231,281	(\$21,564)	(\$920,889)	\$17.74	\$22.43	26.5%	12.84%	-6.49%	-6.5%
2018	913,240	\$15,132,566	\$4,391,216	\$19,523,782	\$36,593,467	(\$60,944)	(\$3,660,890)	\$16.57	\$21.38	29.0%	12.00%	-0.40%	-24.2%
2019	584,761	\$13,573,925	\$1,790,002	\$15,363,927	\$25,211,491	(\$48,780)	(\$3,730,035)	\$23.21	\$26.27	13.2%	7.10%	-0.36%	-27.5%
2020 ³	868,599	\$14,587,983	\$4,268,369	\$18,856,352	\$46,802,220	(\$61,030)	(\$5,349,608)	\$16.79	\$21.71	29.3%	9.12%	-0.42%	-36.7%

¹ The average cost per Dth Saved equals CIP expenditures (\$) divided by achieved energy savings (Dth)

² Note that the Company did not include previous financial incentives in the 2014 actuals.

³ The 2020 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in its *Petition*.