COMMERCE DEPARTMENT

May 10, 2018

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-18-240

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

- a proposed 2017 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 2018/2019 electric CIP Adjustment Factor.

The *Petition* was filed on March 30, 2018 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/lt
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E002/M-18-240

I. INTRODUCTION

On March 30, 2018, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) submitted to the Minnesota Public Utilities Commission (Commission) a *Petition of Northern States Power Company for Approval of an 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 2017, a proposed increase in the currently approved electric CIP Adjustment Factor (CAF), and a proposed demand side management (DSM) financial incentive for its 2017 CIP achievements. Xcel's *Petition* requested that the Commission approve the following:

- A DSM financial incentive of $30,241,197 for Xcel's 2017 electric CIP achievements;
- A report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2017;
- A CIP Adjustment Factor for 2018/2019 of $0.001730/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-18-246.

II. COMMISSION'S 2017 ORDER

On August 16, 2017, the Commission issued its Order in Docket No. E002/M-17-259 approving Xcel's 2017 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved the 2016 Xcel Electric CIP Tracker Account activity shown in Table 1 of the Department's June 2, 2017 comments;
2. Approved Xcel's proposed bill message effective the first month the 2017/2018 CIP Adjustment Factor takes effect;
3. Approved 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 this order; and

4. Approved 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 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 August 25, 2017, Xcel filed its compliance filing in response to Order Point 4, recalculating the CAF and proposed to implement the new factor, $0.001875/kWh, on October 1, 2017. The Department filed a compliance sign-off form on September 12, 2017. Xcel's proposed rate went into effect October 1, 2017.

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 2017 Demand Side Management (DSM) financial incentive;
- in Section III.B, Xcel's proposed electric 2017 CIP Tracker Account;
- in Section III.C, Xcel's proposed electric CAF for 2018/2019; and
- in Section III.D, a review of Xcel's CIP activity for the period 2011 through 2017.

A. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2017 ACHIEVEMENTS

1. Background and Summary of Xcel's Proposed Electric DSM 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 new 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.[1] For 2017, the electric and gas incentives are capped at 13.5 percent of net benefits and 40 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

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[1] Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes 216B.241, Subd. 1a(b).

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:

      1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
      2) 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.
      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 1.2 percent of retail sales.
      4) 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:
      1) 13.5 percent in 2017,
      2) 12.0 percent in 2018, and
      3) 10.0 percent in 2019.

   D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
      1) 40 percent in 2017,
      2) 35 percent in 2018, and

3) 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,[2] University of Minnesota Initiative for Renewable Energy and the Environment costs[3]) 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,[4] solar installation,[5] and biomethane purchases[6] 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.

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[2] See 2007 Laws, art. 2.
[3] *Id*., § 3, subd. 6.
[4] Minn. Stat. § 216B.1636.
[5] Minn. Stat. § 216B.241, subd. 5a.
[6] *Id*., subd. 5b.

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.

In Attachment A of its *Petition*, Xcel noted that in 2017 its electric program met and exceeded the state's 1.5 percent energy savings target by achieving 658,274,791 kWh of savings, or 2.29 percent[7] of non-CIP-exempt retail sales. Xcel's 2017 energy savings were 19.1 percent higher than in 2016. Xcel calculated that the Company should receive an incentive based on 13.5 percent of its $224,008,869 in net benefits, or $30,241,197.[8]

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 2017 DSM financial incentive of $30,241,197 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, and as the Company filed its 2017 Status Report on March 30, 2018, 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 2017 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2017 achievements as part of the Company's 2017 filing.

In 2017, the Department compensated for this lag by simply assuming Xcel Electric's claimed energy savings for 2016 were correct as filed, with the intent to make in the instant filing any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner approved Xcel's 2017 Status Report, covering 2017 CIP activity, without any adjustments in Docket No. E002/CIP-12.447.09,[9] and thus none need to be made in this docket.

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[7] In Xcel's petition the savings are listed as 2.27 percent, however the weather normalized sales in the Company's spreadsheet were incorrectly listed. Correcting these values did not affect the CIP tracker or the DSM financial incentive.
[8] See Xcel Attachment A, page 37 of 40.
[9] Approved by the Department on June 30, 2017.

The Department's review indicates that the Company correctly calculated its DSM financial incentive; therefore the Department recommends that the Commission approve Xcel's 2017 Shared Savings financial incentive of $30,241,197.[10]

B. 2017 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2017 Electric CIP Tracker activity, resulting in a year-end 2017 balance of $31,512,526. Table 1 below shows a summary of activity in Xcel Electric's 2017 CIP tracker account.

Table 1: A Summary of Xcel Electric's 2017 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	31-Dec-16	$19,640,542
CIP Expenses	January 1 through December 31, 2017	$109,109,805
Financial Incentive	For 2016 CIP achievements	$48,368,493
Carrying Charges[11]	January 1 through December 31, 2017	$48,421
Recovered in Base Rates	January 1 through December 31, 2017	($87,279,824)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2017	($58,374,911)
Ending Balance	31-Dec-17	$31,512,526

The Department recommends that the Commission approve Xcel's 2017 electric CIP tracker account activity, as provided in the Company's Petition and summarized in Table 1 above, resulting in a December 31, 2017 tracker balance of $31,512,526.

C. CIP ADJUSTMENT FACTOR REPORT

As noted above, in its August 16, 2017 Order in Docket No. E002/M-17-259, the Commission approved a 2016/2017 CIP adjustment factor (CAF) of $0.001271 per kWh for Xcel. The CAF

[10] The Company's 2017 incentive is capped by a limit of 13.5 percent of net benefits and 40 percent of expenditures. As the caps on net benefits and expenditures decline in 2018 and 2019, Xcel's allowed incentive will decline. Xcel's 2017 achievements would result in an incentive of $26,881,064 in 2018 and $22,400,887 in 2019, both years limited by the cap on net benefits, not the cap on expenditures.

[11] 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. 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. E002/M-14-287, the Commission modified the carrying charge on Xcel Electric's CIP tracker-account balance to the Company's short-term cost of debt.

was eventually adjusted to $0.001875 per kWh through the Company's August 25, 2017 Compliance Filing.

Table 2 below shows that Xcel currently projects an unrecovered October 1, 2018 CIP Tracker balance of $47.8 million under the assumption of no additional recovery of CIP costs through the CAF.

Table 2: Xcel Electric's Forecasted End of September 2019 CIP Tracker Account

Description	Amount
Forecasted beginning balance (October 2018)	$25,115,681
October 2018-September 2019 Budget	$95,472,121
Forecasted 2018 Incentive	$13,964,073
Less Forecasted CCRC recovery (Oct 2018-Sept 2019)	($86,705,715)
Forecasted September 2019 balance without CAF	$47,846,160

Xcel included the above calculations so that it can calculate the CAF modification needed to most closely align recovery of costs to when costs are incurred and to minimize the 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 $0.001730 per kWh to be effective with the first billing cycle of October 2018 and to remain in effect through the September 2019 billing period. Xcel's proposed CIP Adjustment Factor is a decrease of $0.000145 per kWh from its currently approved $0.001875 per kWh.[12] Xcel's proposed electric CAF would result in a 7.7 percent decrease in the Company's current CAF. The proposed 2018/2019 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.

[12] The Company will continue to apply the current CIP Adjustment of $0.001875 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.

Table 3: Xcel's Calculation of Its Revised Electric CIP Adjustment Factor

(1) Forecasted October 2018 Electric CIP Tracker Balance	$47,846,160
(2) Forecasted Electric Sales (MWh) – October 2017 through September 2018[13]	27,674,981
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2)	$1729/MWh
	$0.001729/kWh

Xcel adjusted the calculated rate to incorporate the effect of carrying charges, which were not included in the forecasted balance. To get the September 2018 forecasted CIP Tracker balance as close to $0 without going negative the Company adjusted the calculated CIP Adjustment Rate to $0.001730 per kWh.[14] Consequently, 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 2018/2019 CCRA of $0.001730 per kWh.

With respect to rate change notification, Xcel proposed to notify customers by implementing the following message on customer bills, effective the first month the 2018/2019 CIP Adjustment Factor takes effect:

> Effective Oct. 1, 2018, 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 $0.001730 per kilowatt-hour (kWh).

The Department recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2018 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. A REVIEW OF XCEL'S ELECTRIC CIP ACTIVITY (2011-2017)

In Attachment A, the Department presents a historical comparison of Xcel's electric CIP activity for the period 2011 through 2017. 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.

[13] Forecasted sales exclude the customers exempted from electric CIP charges
[14] Petition Attachment A, Page 30 of 40.

An analysis of Table 1 in Attachment A indicates that, between 2011 and 2017, the Company's energy savings grew 42.5 percent, the Company's expenditures grew 43.0 percent, and the Company's incentives decreased 41.1 percent. Xcel's tracker balance was $31.5 million at the end of 2017. Xcel projects that by the end of September 2018 its tracker balance will be close to zero again. Xcel's carrying charges for 2017 increased to $48,421. In the past few years, the Department has been working with utilities and the Commission to minimize carrying charges, resulting in a change in how carrying charges were calculated for CIP Tracker accounts. Xcel Electric's carrying charges peaked at $1.1 million in 2010 and have varied since then, with a negative carrying charge in 2011, 2014 and again in 2015.[15]

IV. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve:

1. The 2017 Xcel Electric CIP Tracker Account activity shown in Table 1 above;

2. Xcel's proposed bill message effective the first month the 2018/2019 CIP Adjustment Factor takes effect, revised to incorporate the approved CAF; and

3. A DSM financial incentive of $30,241,197 for Xcel's 2017 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 2018/2019 of $0.001730/kWh beginning with the first billing cycle of October 2018, 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.

[15] 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. E002/M-14-287, the Commission modified the carrying charge on Xcel Electric's CIP tracker-account balance to the Company's short-term cost of debt.

Table 1: A History of Xcel's Electric CIP Activity (2011-2017)							
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**[1]
DSM Financial Incentive	$51,350,104	$53,911,925	$42,679,496	$40,179,927	$43,277,219	$48,368,493	$30,241,197[2]
Incentive as a % of CIP Expenditures	67.30%	61.92%	53.64%	45.71%	47.36%	47.82%	27.72%
Carrying Charges	($619,259)	$4,231	$298,021	($1,229,487)	($56,557)	$15,721	$48,421
Carrying Charges as a % of Expenditures	-0.81%	0.00%	0.37%	-1.39%	-0.06%	0.02%	0.04%
Year-End Tracker Balance	($21,768,428)	$31,925,410	$30,624,948	($56,291,008)[3]	$9,164,617[4]	$19,640,542	$31,512,526
Year-End Tracker Balance as a % of CIP Expenditures	-28.53%	36.67%	38.49%	64.05%	10.03%	19.42%	28.88%
CIP Expenditures	$76,302,262	$87,071,903	$79,570,696	$87,889,789	$91,385,776	$101,146,305	$109,109,805
Achieved Energy Savings (kWh)	462,021,574	533,477,510	462,021,576	481,325,941	500,393,537	552,781,775	658,274,791
Average Cost per kWh Saved[5]	$0.17	$0.16	$0.17	$0.18	$0.18	$0.18	$0.17

[1] The 2017 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.
[2] The Commission changed how the DSM Financial incentive is calculated beginning in 2017.
[3] Does not reflect the inclusion of 2013 financial incentive of $42,729,930.
[4] Includes both the 2013 and 2014 financial incentives.
[5] Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.