May 11, 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. E015/M-18-116

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Minnesota Power's Conservation Improvement Program Consolidated Filing (*Petition*).

The *Petition* was filed on April 2, 2018 by:

Tina S. Koecher
Manager, Customer Solutions
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends **approval** and is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/lt
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce

Docket No. E015/M-18-116

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 2, 2018, Minnesota Power (MP or the Company) submitted its annual Conservation Improvement Program (CIP) report (*Report* or *Petition*) for 2017 with the Minnesota Public Utilities Commission (Commission) in Docket No. E015/M-18-116. In its *Petition,* MP requests that the Commission approve:

- A Demand Side Management (DSM) financial incentive of $2,994,840 for MP's 2017 CIP achievements;
- 2017 CIP tracker account activity, resulting in a year-end 2017 balance of $3,315,558;
- An updated carrying charge rate of 0.4063% for the CIP tracker;
- A 2018/2019 Conservation Program Adjustment factor of $0.002741/kWh for bills rendered on and after July 1, 2018; and
- A variance of Minn. Rules 7820.3500 and 7825.2600 to permit MP's continued combination of the Conservation Program Adjustment with the Fuel and Purchased Power Clause Adjustment on customer bills.

The Company also filed its 2017 CIP Status Report (*Status Report*). The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' (Department or DOC) annual CIP reporting rules contained in Minnesota Rules part 7690.0500. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned to a separate docket.[1]

[1] See Docket No. E015/CIP-16-117.01.

II. COMMISSION'S 2017 ORDER

On June 22, 2017, the Commission issued its Order approving MP's 2017 Consolidated CIP filings,[2] with the following determinations:

1. Approved Minnesota Power's 2016 CIP tracker account, as summarized in Table 1 of the Department's May 3, 2017 comments, with a December 31, 2017 tracker balance of $4,029,104
2. Approved a 2016/2017 Conservation Program Adjustment (CPA) of $0.005052 per kWh.
3. Approved an incentive of $5,528,499 for Minnesota Power's 2016 CIP achievements.
4. Granted Minnesota Power a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 for one year after the issue date of this Order.
5. Required Minnesota Power to submit a compliance filing, within 10 days of the issue date of the Order, with revised tariff sheets reflecting the Commission's determinations.

III. DEPARTMENT ANALYSIS

The Department's analysis of MP's *Petition* is provided below in the following sections:

- in Section III.A, Minnesota Power's proposed 2017 DSM financial incentive;
- in Section III.B, MP's proposed reconciliation for its 2017 CIP tracker Account;
- in Section III.C, Minnesota Power's proposed CPA for 2018/2019;
- in Section III.D, Minnesota Power's request for a waiver from Minnesota Rules part 7820.3500 (K) and Minnesota Rules part 7825.2600 and its proposed notice of the rate increase; and
- in Section III.E, MP's historical CIP achievements and incentives.

[2] Docket No. E015/M-17-178.

A. MINNESOTA POWER'S PROPOSED FINANCIAL INCENTIVE FOR 2017 CIP ACHIEVEMENTS

1. Background and Summary of MP's Proposed DSM Incentive for 2017 Achievements

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.[3] 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:

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.

[3] 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).

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,[68] University of Minnesota Initiative for Renewable Energy and the Environment costs[69]) 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,[70] solar installation,[71] and biomethane purchases[72] shall not be included in energy savings for DSM financial incentive purposes.

G. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

H. 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.

MP reported that its 2017 achievements resulted in energy savings of 71,896,709 kWh, approximately 2.61% of retail sales, resulting in $22,184,003 of net benefits.[4] Based on the terms and conditions of its approved Shared Savings DSM incentive plan, Minnesota Power requests recovery of a DSM financial incentive of $2,994,840 for 2017. Minnesota Power's proposed incentive is equal to approximately 38% ($2,994,840/$7,806,679) of the Company's 2017 CIP actual expenditures.

2. The Department's Review of MP's Proposed 2017 DSM Incentive

Minnesota Power estimated that its 2017 performance should result in a Shared Savings DSM financial incentive of $2,994,840.[5]

The Department's engineering-oriented analysis of the demand and energy savings that underpin MP's proposed 2016 DSM financial incentive of $2,994,840 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 DOC's engineering review is a recurring phenomenon.

In 2017, the Department compensated for this lag by simply assuming Minnesota Power'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 Minnesota Power's 2017 Status Report, covering 2016 CIP activity, without any adjustments in Docket No. E015/CIP-13-409.03,[6] and thus none need to be made in this docket.

[4] Calculations of Net Benefits are shown in Exhibit 5, page 2. The net benefits exclude $208,265 of net benefits resulting from conservation improvements at Minnesota Power facilities.
[5] 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, the allowed incentive will decline. MP's 2017 achievements would result in an incentive of $2,662,080 in 2018 and $2,218,400 in 2019, both years limited by the cap on net benefits, not the cap on expenditures.
[6] Approved by the Department on June 30, 2017.

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 DSM financial incentive for 2016 achievements in the proceeding governing the Company's 2017 filing, which will be made April 1, 2018.

The Department recommends that the Commission allow MP to book a 2017 incentive of $2,994,840 in the Company's 2018 CIP tracker account.

B. MINNESOTA POWER'S PROPOSED 2017 CIP TRACKER ACCOUNT

In its *Petition*, Minnesota Power requested approval of its report on recoveries and expenditures included in the Company's CIP tracker account balance during 2017. Activity in MP's CIP tracker account during 2017 is summarized below in Table 1.

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

Description	Time Period	Amount
Beginning Balance	1-Jan-17	$4,029,103.76
CIP Expenses	January 1 through December 31, 2017	$8,129,336.96
DSM Financial Incentive	Approved in 2017 for 2016	$5,528,499.00
Carrying Charges	January 1 through December 31, 2017	$88,914.00
Base Rate Cost Recovery	January 1 through December 31, 2017	($9,812,149.17)
Conservation Program Adjustment Recovery	January 1 through December 31, 2017	($4,641,914.79)
CIP Carrying Charge Recovered	January 1 through December 31, 2017	($6,232.00)
Ending Balance	31-Dec-17	$3,315,557.76

The Department reviewed MP's CIP tracker account and concludes that the Company correctly calculated its CIP tracker account for 2017, resulting in a year-end balance of $3,315,557.76. The Department recommends that the Commission approve Minnesota Power's 2017 CIP Tracker account as summarized in Table 1 above.

C. MINNESOTA POWER'S PROPOSED UPDATED CIP RIDER AND CPA

MP's approved CPA (Conservation Program Adjustment) of $0.005052 per kWh was approved on June 22, 2017 in Docket No. E015/M-17-178.

On page 17 of its instant filing, MP stated:

> The CIP Tracker Account balance at year-end 2017 reflects the result of prior activity in Tracker 2, as indicated on page 1 of Exhibit 1. However, for CPA purposes, the 2017 year-end balance requires adjustments to properly calculate the proposed CPA factor. Using the new fiscal year approach, these factors have been expanded to include actual and anticipated expenditures and cost recovery through base rates (CCRC) and the current CPA rate for the remainder of the current CPA period (January 2018–June 2018) as well as anticipated financial incentives, anticipated CIP expenditures, and anticipated cost recovery through base rates for the new CPA period (July 2018–June 2019). The new approach is designed to achieve a zero Tracker balance at the end of the CPA period (fiscal year) rather than at the end of the calendar year. Higher (calendar) year-end Tracker balances should therefore be anticipated going forward which is a deviation from Minnesota Power's recent history of low year-end Tracker balances. Minnesota Power notes that actual program performance, expenditures and sales will lead to tracker balance fluctuation.

For July 2018 through June 2019, Minnesota Power proposed a reduced surcharge of $0.002741 per kWh, or a reduction of $0.002311 per kWh from the Company's 2017/2018 CPA of $0.005052 per kWh.

Table 2 below delineates the Company's calculation of its 2018/2019 CPA.

Table 2: MP's 2017/2018 CPA Calculation

Line No.	Description	Time Period	Amount
1	Beginning Balance	31-Dec-17	$3,315,558
2	CIP Program Expenses	Jan 2018-Jun 2018	$4,271,433
3	CIP Costs Recovered Through Base Rates	Jan 2018-Jun 2018	($2,183,588)
4	CIP Costs Recovered Through Current CPA	Jan 2018-Jun 2018	($7,115,981)
5	Carrying Charges	Actuals through Feb 2018	$12,258
6	Recoverable CIP Tracker Balance	30-Jun-18	($1,700,320)
7	DSM Financial Incentive	Requested for 2017 Achievements	$2,994,840
8	CIP Program Expenses	July 2018-Jun 2019	$10,423,325
9	CIP Costs Recovered Through Base Rates	July 2018-Jun 2019	($4,084,323)
10	Recoverable CIP Tracker Balance	30-Jun-19	$7,633,522
11	kWh Sales Subject to CIP		2,784,566,000
12	Calculated CPA per kWh	Line 10/Line 11	$0.002741

MP derived its proposed 2018/2019 CPA by dividing the recoverable CIP tracker balance projected for June 30, 2019 (line 10) by the kilowatt hour sales subject to CIP over the corresponding time period (line 11). The result is the $0.002741/kWh ($7,633,522/2,784,566,000 kWh) CPA that the Company proposed.

Order Point 4 of the Commission's Order in Docket No. E015/M-15-80 required the Company to calculate the carrying charge on its CIP tracker account using the rate from its multi-year credit facility, effective upon the Commission's Order of September 16, 2015. In Exhibit 1, page 1 of MP's filing shows that the Company charged a monthly carrying charge rate of 0.3229 percent since June 1, 2017. On page 5 of Exhibit 1, MP proposed a monthly carrying charge rate of 0.4063 percent, to be effective July 1, 2017[7]. The Department concludes that MP correctly calculated its new monthly carrying charge rate of 0.4063 percent.

[7] The effective date depends on when the Commission issues its Order on MP's consolidated CIP filing. As part of this filing, Minnesota Power proposed an effective date of July 1, 2017 for its carrying charge, or upon approval by the Commission, whichever is later.

The Department recommends that the Commission approve MP's proposed 2018/2019 CPA of $0.002741/kWh.

D. MP'S ANNUAL REQUEST FOR VARIANCES FROM COMMISSION RULES

Minnesota Power requested renewal of two variances:

- a variance from Minnesota Rules part 7820.3500 (K), which requires the Fuel Clause Adjustment (FCA) to be listed on customers' bills as a separate line item; and

- a variance from Minnesota Rules part 7825.2600, which states that the FCA should be stated on a per-kWh basis on customer bills.

MP indicated that it seeks a variance of these two rules so that the Company may calculate the CIP adjustment rate on a per-kilowatt-hour basis, and combine the FCA and CIP adjustment rate on one bill line-item called a "Resource Adjustment."

Minnesota Rules part 7829.3200 authorizes the Commission to grant a variance to its rules when:

- enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- granting the variance would not adversely affect the public interest; and
- granting the variance would not conflict with standards imposed by law.

The Department concludes that the criteria for granting the requested variances are met as follows:

- <u>Excessive Burden</u>: MP has been using the combined Resource Adjustment for several years. While this approach certainly can be changed if the Commission desires, requiring a change now, for an adjustment to go in effect soon, would create an administrative burden that is excessive.
- <u>Public Interest</u>**:** The variance would not adversely affect the public interest and could avoid confusion that might result from changing the presentation on bills at this time.
- <u>Standards Imposed by Law</u>: The separate line item requirement is created by Commission rule, and is not required by statute. Therefore, the requirement may be varied pursuant to Minnesota Rules pt. 7829.3200.

Therefore, the Department recommends that the Commission approve the variances requested by the Company.

Finally, MP indicated that it would notify customers of the CPA change by including a message in customer bills as follows:

> Effective <DATE> the Resource Adjustment line item on your bill has <increased/decreased> due to a change in the Conservation Improvement Program (CIP) billing factor. The CIP portion of the Resource Adjustment is <CPA Factor> per kilowatt-hour (kWh)

The Department concludes that MP's proposed customer notification is reasonable.

E. HISTORY OF MINNESOTA POWER'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES

The Department includes a summary of historical and forecasted CIP-related information for Minnesota Power in Attachment B. The information in Attachment B provides summary information for the period 2007 through 2017.

Based on the information in Attachment B, Minnesota Power's:

- 2017 energy savings are 99 percent of the Company's 2012-2026 average energy savings of 73,151,678 kWh;
- Average cost per first-year energy savings are 11.2 cents per kWh, 15.4 cents per kWh when the cost of incentives are added in (for a total cost to ratepayers at the lowest level since 2009.)
- Requested 2017 Shared Savings incentive is 37 percent of its 2017 CIP expenditures and 13.5 percent of its net benefits.

IV. THE DEPARTMENT'S RECOMMENDATIONS

Based on the analysis provided above, the Department recommends that the Commission:

1. approve Minnesota Power's 2017 CIP tracker account, as summarized in Table 1 above, with a December 31, 2017 tracker balance of $3,315,558.

2. Approve MP's new monthly carrying charge rate of 0.4063 percent;

3. approve a 2018/2019 CPA of $0.002741 per kWh.

4. approve an incentive of $2,994,840 for Minnesota Power's 2017 CIP achievements;

5. grant Minnesota Power a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 for one year after the issue date of the Commission's *Order* in the present docket; and

6. require Minnesota Power to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

ATTACHMENT A

INCREMENTAL INCENTIVES

The level of net benefits a utility accrues for achieving the threshold level of savings equals:

$$\textit{Net Benefit Cap} \; - \; \frac{0.75\,\% * (\textit{Energy Savings Benchmark} + 0.2\,\% - \textit{threshold})}{0.1\,\%}$$

(Underline identifies threshold savings level required for trigger awards; Double-underline identifies Net Benefits Cap.)

	Electric Investor Owned Utilities			**Natural Gas Investor Owned Utilities**		
Achievement Level (percent of retail sales avoided)	**2017 Percent of Net Benefits Awards**	**2018 Percent of Net Benefits Awards**	**2019 Percent of Net Benefits Awards**	**2017 Percent of Net Benefits Awards**	**2018 Percent of Net Benefits Awards**	**2019 Percent of Net Benefits Awards**
0.0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.1%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.2%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.3%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.4%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.5%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.6%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
0.7%	0.00%	0.00%	0.00%	9.75%	8.25%	6.25%
0.8%	0.00%	0.00%	0.00%	10.50%	9.00%	7.00%
0.9%	0.00%	0.00%	0.00%	11.25%	9.75%	7.75%
1.0%	8.25%	6.75%	4.75%	12.00%	10.50%	8.50%
1.1%	9.00%	7.50%	5.50%	12.75%	11.25%	9.25%
1.2%	9.75%	8.25%	6.25%	13.50%	12.00%	10.00%
1.3%	10.50%	9.00%	7.00%	13.50%	12.00%	10.00%
1.4%	11.25%	9.75%	7.75%	13.50%	12.00%	10.00%
1.5%	12.00%	10.50%	8.50%	13.50%	12.00%	10.00%
1.6%	12.75%	11.25%	9.25%	13.50%	12.00%	10.00%
1.7%	13.50%	12.00%	10.00%	13.50%	12.00%	10.00%
1.8%	13.50%	12.00%	10.00%	13.50%	12.00%	10.00%
1.9%	13.50%	12.00%	10.00%	13.50%	12.00%	10.00%
2.0%	13.50%	12.00%	10.00%	13.50%	12.00%	10.00%

Source: Department Reply Comments, at 18 (Table 4) and 20 (Table 5) (February 18, 2016).

Line No.		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.	Achieved Energy Savings (kWh)	44,168,014	48,845,282	52,897,732	60,503,220	69,091,422	63,159,196	77,630,645	76,338,363	85,447,344	63,182,840	72,372,163
2.	CIP Expenditures	$3,908,223	$4,826,410	$5,483,230	$5,635,000	$6,295,187	$6,813,817	$6,405,828	$7,200,833	$6,554,551	$7,515,866	$8,129,337
3.	Net Benefits	$13,617,215	$18,669,840	$23,391,755	$29,675,047	$16,611,526	$16,543,789	$17,757,678	$20,792,339	$29,636,057	$22,997,984	$22,184,003
4.	DSM Financial Incentive	$349,334	$607,169	$878,709	$6,806,612	$7,772,785	$7,105,410	$8,733,448	$6,237,702	$7,476,643	$5,528,499	$2,994,840
5.	Carrying Charges	$37,945	$100,453	$97,222	$42,425	($62,643)	$87,535	($55,657)	($157,343)	($210,949)	$210,949	$88,914
6.	Year-End Tracker Balance	$1,188,103	$1,870,428	$1,613,335	$662,926	$4,603,612	$4,337,461	($495,816)	($1,116,332)	($2,649,748)	$4,029,104	$3,315,558
7.	Average Cost per first year kWh Saved	$0.088	$0.099	$0.104	$0.093	$0.091	$0.108	$0.083	$0.094	$0.077	$0.119	$0.112
8.	Average cost per kWh Saved (including incentives)	$0.096	$0.111	$0.120	$0.206	$0.204	$0.220	$0.195	$0.176	$0.164	$0.206	$0.154
9.	Incentive as a % of CIP Expenditures	9%	13%	16%	121%	123%	104%	136%	87%	114%	74%	37%
10.	Incentive as a % of Net Benefits	3%	3%	4%	23%	47%	43%	49%	30%	25%	24%	13%
11.	Incentive per first year kWh saved	$0.008	$0.012	$0.017	$0.112	$0.113	$0.113	$0.113	$0.082	$0.088	$0.088	$0.041
12.	Carrying Charges as a % of Expenditures	1%	2%	2%	1%	-1%	1%	-1%	-2%	-3%	3%	1%
13.	Year-End Tracker Balance as a % of Expenditures	30%	39%	29%	12%	73%	64%	-8%	-16%	-40%	54%	41%