Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: October 30, 2014 .... **Agenda Item **#8**

Company: Xcel Energy

Docket No. **E-002/M-14-287**

In the Matter of Xcel Energy Electric's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve Xcel's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $42,679,496 for Xcel's 2013 CIP achievements?

3. Should the Commission approve a Solar*Rewards financial incentive of $50,434 for Xcel's 2013 achievements?

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

5. Should the Commission eliminate the carrying charge or otherwise modify its application to Xcel'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 Xcel Energy .... April 1, 2014

Errata to the April 1, 2014 Petition of
Northern States Power Company requesting
approval of our 2013 electric Conservation
Improvement Program (CIP) Tracker account,
financial incentive on 2013 performance, and
2014/2015 electric CIP Adjustment Factor.. May 21, 2014

Comments of the Department of Commerce,

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 Xcel's 2013 CIP tracker account?

2. Should the Commission approve an incentive of $42,679,496 for Xcel's 2013 CIP achievements?

3. Should the Commission approve a Solar*Rewards financial incentive of $50,434 for Xcel's 2013 achievements?

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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, Northern States Power Company d/b/a Xcel Energy filed a petition requesting approval of its 2013 Electric CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2013 Performance, and 2014/2015 Electric Conservation Improvement Program Adjustment Factor. The Petition includes a report of proposed recoveries and expenditures in Xcel's electric CIP tracker account during 2013, a proposed reduction in the currently approved electric CIP Adjustment Factor (CAF), and a proposed incentive for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on July 14, 2014.

On July 28, 2014, reply comments were filed by Xcel Energy. The DOC filed reply comments on August 28, 2014.

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

Xcel: Xcel agrees with the DOC's recommendation to approve the 2013 electric CIP Tracker activity as filed and the CIP financial incentive of $42,679,496 for the 2013 DSM performance and a financial incentive of $50,434 for the Company's Solar*Rewards program performance.[1]

With respect to the application of carrying charges, Xcel believes that carrying charges serve the purpose of keeping customers and the Company whole for mismatches in cost recovery over discrete periods of time. The Company argues that the carrying charges are symmetrical and should be continued.

Xcel indicated that it calculates the CIP Riders to recover CIP costs and incentives in a manner that produces a balance as close as possible to zero at the end of the recovery period to minimize carrying charges. As such, the historical total annual carrying charges have been relatively insignificant.

In addition, the application of a carrying charge is consistent with Commission precedent and policy. Xcel pointed out that the continued application of carrying charges was recently approved along with MN Power's CIP 2014/2015 Conservation Program Adjustment (CPA) factor and in Docket No. E015/M-14-233. A broad-based change in Commission policy should not be made in the context of an individual utility's annual filing, and should not be applied inconsistently between utilities.[2]

Regarding the CIP Adjustment Factor, Xcel identifying uncertainty of what the Commission's decision will be regarding the future application of carrying charges provided two different updates of the 2014/2015 electric CIP Adjustment factor. One scenario applies a carrying charge as usual; the other reflects a complete removal of all carrying charges beginning the month after the Commission's decision.

Xcel pointed out that the DOC's alternative proposal to disallow carrying charges only on the CIP financial incentive would result in significant changes to the Company's rider calculation methodology and CIP trackers which may impact the Company's internal accounting practices. If the DOC's proposal is adopted, Xcel has indicated that it would request additional time to review the necessary changes and coordinate the calculation and revised tracker mechanism with the DOC.

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[1] To calculate the proposed Solar*Rewards incentive, the Company applied the methodology approved by the Commission in Docket No. E002/M-11-1101. The Commissioner's March 12, 2012 Order approved a solar incentive of $0.035 for every kWh of solar energy produced during the first year of operation of the systems installed under the Solar*Rewards program. The Order clarifies that the incentive plan applies to solar energy generated after the date of the Order (March 12, 2012) through December 31, 2015.

[2] Staff acknowledges and agrees with Xcel on this point. Staff would hope to rectify this in Minnesota Power's next CIP filing. This issue was not raised and did not become salient in Docket E015/M-14-233. The Minnesota Power CIP filing was the first to be addressed in 2014.

Finally, the Company updated the rider based on actual tracker activity through June 2014. Xcel calculated the rider to reduce the Tracker to approximately $0 by the end of September 2015. The Company provided revised CIP Adjustment Factors and projected end-of-month balance for September 2015 to each scenario:

- Continued application of carrying charges (business as usual) $0.001261 per kWh and $25,791 ending tracker balance.
- Elimination of carrying charges $0.001286 per kWh and $2,213 ending tracker balance.

Xcel recommends that the Commission approve a CIP Adjustment Factor (CAF) of $0.001261 consistent with continuation of carrying charges.

DOC: The DOC notes that carrying charges were first approved as part of Minnesota utilities' CIP tracker accounting in the early 1990s. One of the purposes of carrying charges, and allowing recovery through a CIP tracker account, was to provide utilities an incentive to invest in energy conservation by ensuring that they not only recovered all conservation costs incurred in a timely manner, but that they also received a carrying charge on uncollected balances. At that time financial incentives for conservation were de minimis.

Now, however, the Commission provides large financial incentives for utility investments in CIP (Xcel's electric DSM financial incentives totaled $146.3 million for 2010-2012). Rather than continue to calculate carrying charges on positive or negative monthly tracker account balances, the DOC recommends that the Commission eliminate carrying charges. The DOC notes that eliminating carrying charges on CIP balances would bring the CIP tracker into line with how the Commission treats other riders for Xcel. For example, Xcel does not compute carrying charges on its Renewable Energy Standard Rider (see Docket E002/M-13-475) or its Transmission Cost Recovery Rider (see Docket No. E002/M-13- 1179). The DOC concludes that it is reasonable to exclude carrying charges for Xcel beginning with this filing.

In the event that the Commission decides not to discontinue Xcel's CIP carrying charges, then the DOC recommends that the Commission disallow carrying charges on Xcel's financial incentive. The Minnesota Chamber of Commerce (the Chamber) made this recommendation for Otter Tail Power Company in the Chamber's May 30, 2014 Comments (see Docket No. E017/M-14-201). The Chamber argued that carrying costs should not be charged "since the utility is not incurring any risk in receiving the incentive nor are dollars being held up to pay for the CIP expenditures." The DOC agrees with the Chamber that paying carrying costs on CIP financial incentives is not needed and recommends that Xcel remove its incentive when calculating carrying charges. The DOC anticipates that removing Xcel's DSM financial incentive may reduce carrying charges to such an extent as to virtually eliminate carrying charges.

In summary, the DOC recommends that the Commission approve Xcel's proposed CAF of $0.001261 per kWh. The DOC also recommends that the Commission eliminate carrying charges on under- or over-recovered CIP balances beginning with the month after the Commission issues its Order in this docket. In the event that the Commission decides not to eliminate carrying charges on the entire CIP balance, the DOC recommends that the Commission not allow carrying charges on Xcel's CIP financial incentive.

In summary, the DOC recommends that the Commission approve the following:

1. The 2013 Xcel Electric CIP Tracker Account activity shown in Table 1 of the DOC comments with an ending balance of $30,624,948.

2. A DSM financial incentive of $42,679,496 for Xcel's 2013 electric CIP achievements.

3. A Solar*Rewards financial incentive of $50,434 for Xcel's 2013 achievements.

4. A CIP Adjustment Factor for 2014/2015 of $0.001261 per kWh if carrying charges are eliminated.

5. The discontinuation of CIP carrying charges beginning in the month after the Commission issues its Order in this Docket. In the event that the Commission does not discontinue approving carrying charges for Xcel's CIP tracker, the Department recommends that the Commission not allow Xcel to compute carrying charges on 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 Xcel's 2013 CIP Tracker account balance of $30,624,948 as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of $42,679,496 should be approved by the Commission. Additionally, the Commission should approve the a Solar*Rewards financial incentive of $50,434 for Xcel's 2013 achievements. 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.[3] 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.

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 the 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:

> 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.

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

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 $0.001286/kWh. This was the rate proposed by Xcel in reply comments as a rate that should be used in the event that the Commission reduces or eliminates that carrying charges on tracker balances. Next year, the Company should evaluate the progress that has been made, and propose a rate which would continue the progress to bring the tracker balance to zero.

VI. Commission Options

A. Should the Commission approve Xcel's 2013 CIP tracker account?

1. Approve Xcel's 2013 CIP tracker account as indicated at page two of the DOC's July 14, 2014 comments with an ending balance of $30,624,948.

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

B. Should the Commission approve an incentive of $42,679,496 for Xcel's 2013 CIP achievements?

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

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

C. Should the Commission approve a Solar*Rewards financial incentive of $50,434 for Xcel's 2013 achievements?

1. Approve Xcel's 2013 Solar*Rewards financial incentive for 2013 achievements.

2. Do not approve Xcel's 2013 Solar*Rewards financial incentive for 2013 achievements.

D. Should the Commission eliminate the carrying charge or otherwise modify its application to Xcel'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-002/GR-12-961. The modification shall be effective as of the date of the Commission's Order in this docket.

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

3. Do not 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.

E. What rate level for the CCRA (a.k.a. CIP Adjustment Factor) should the Commission approve for the first billing cycle in the month following Commission approval, assuming reasonable time for implementation and customer notice?

1. Set the CCRA at $0.001286 as recommended by the Company if the Company is not allowed to collect carrying charges on the CIP tracker.

2. Set the CCRA at $0.001261 as recommended by the DOC and the Company (in the event that carrying charges are allowed to continue).

3. Set the CCRA at $0.001253 as originally recommended by the Company and the DOC.

VII. Staff Recommendation

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