

**STATE OF MINNESOTA**  
**BEFORE THE PUBLIC UTILITIES COMMISSION**

Katie J. Sieben	Chair
Joseph K. Sullivan	Vice Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

**In the Matter of the Commission Investigation to  
Identify and Develop Performance Metrics and  
Potentially, Incentives for Xcel Energy’s Electric  
Utility Operations**

**PUC Docket Number E002/CI-17-401**

**Comments of the R Street Institute**

The R Street Institute (R Street) submits these comments in response to the Notice of Comment Period, issued by the Minnesota Public Utilities Commission (Commission or PUC) on May 26, 2023.<sup>1</sup> R Street appreciates the opportunity to offer its perspectives on this topic as the Commission proposes to initiate Step 5 of its process toward a performance-based ratemaking (PBR) structure for Minnesota. The comments provided do not address all the questions raised in the Commission’s Notice, but R Street may address those questions in response to other initial comments filed. R Street believes that the questions identified in the Notice cover many important topics related to PBR and will help the Commission determine appropriate next steps for this proceeding.

**Introduction**

The Commission initiated an investigation into PBR in 2017.<sup>2</sup> In 2019, the Commission adopted a multi-step process toward the implementation of a PBR framework for Minnesota.<sup>3</sup> The adopted process, noted in the following table, focuses on a deliberative effort that results in the adoption of performance incentive mechanisms (PIM) that reward (or penalize) Xcel for good (or poor) performance against specific targets. R Street appreciates the Commission’s deliberative approach to considering a transition to a PBR mechanism from traditional cost-of-service ratemaking.

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<sup>1</sup> *In the Matter of the Commission Investigation to Identify and Develop Performance Metrics and Potentially, Incentives for Xcel Energy’s Electric Utility Operations*, Notice of Comment Period, Docket No. E002/CI-17-401, (May 26, 2023) (Notice). On July 10, 2023, the Commission issued a subsequent notice extending the due date for comments to July 31, 2023, and reply comments to Aug. 14, 2023.

<sup>2</sup> Notice at 2.

<sup>3</sup> *Id.*

<b>Table. 1 PIM Process</b>		
<b>Step</b>	<b>Action</b>	<b>Order Accomplishing Step</b>
1	Articulate goals	January 8, 2019
2	Identified desired outcomes	January 8, 2019
3	Identify performance metrics	September 18, 2019
4	Establish metrics & review	September 18, 2019; April 16, 2020
5	Establish targets, as needed	
6	Establish incentive mechanisms as needed	
7	Evaluate, improve, repeat	

The more recent action taken by the Commission in this transition was the rejection of Xcel’s proposed incentive mechanism in Docket No. 21-101.<sup>4</sup>

In this docket, the Commission seeks comments on several questions related to pending Annual Reports submitted by Xcel for the years 2021 and 2022. These questions include whether the Commission should accept the submission of the Annual Reports, set any targets for the previously approved metrics, and what would be appropriate targets for those metrics.<sup>5</sup>

R Street has previously participated in this docket and in Docket No. 21-101. R Street’s interest in this topic is to ensure that a transition to a PBR program results in substantial changes to utility economic interests from capital to performance. As such, any target and, eventually, PIM should be focused on this transition. A metric or PIM that simply adopts requirements that the utility is already required to do as a result of a Commission order or legislation will not be beneficial to ratepayers. R Street looks forward to reading the comments filed in response to the Notice and may supplement its perspective in Reply Comments.

**Comments in Response to the Commission’s Questions**

R Street’s responses to the Commission’s questions are below. However, while R Street may not respond to each question, R Street may provide additional information in reply comments.

**1. Should the Commission accept Xcel’s 2021 & 2022 PBR Annual Reports? Do Xcel’s reports address the requirements set forth by Commission Orders in this docket, including but not limited to:**

- o Future metrics?**
- o Development of an online utility performance dashboard?**
- o Data collection on and/or reductions in upstream methane emissions?**

Based on a review of Xcel’s Annual Reports, R Street believes that the Commission should accept Xcel’s Annual Reports. R Street notes that Xcel’s Annual Reports paint a picture of a utility, and system, in a significant amount of transition. For example, Xcel is in the process of installing advanced metering infrastructure, which may provide a significant amount of information not only about reliability, but its

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<sup>4</sup> *In the Matter of Xcel Energy’s Petition for Load Flexibility Pilot Programs and Financial Incentive*, Order Approving Modified Load-Flexibility Pilots and Demonstration Projects, Authorizing Deferring Accounting, and Taking Other Action, Docket No. E-002/M-21-101 (March 15, 2022).

<sup>5</sup> Notice at 1-2.

ability to better align generation with load through the development of new demand response programs. Additionally, in 2021, two significant laws were passed—the ECO Act and Natural Gas Innovation Act—that Xcel is still in the process of implementing.<sup>6</sup> Furthermore, additional legislation was passed this session setting a number of new policy requirements, including the adoption of a carbon-free requirement and the submission of a transportation electrification plan.<sup>7</sup> Finally, the passage of federal legislation, the Bipartisan Infrastructure Law and the Inflation Reduction Act, offer additional funding sources for Xcel to leverage in advancing certain goals around reducing carbon from its system.

R Street cautions that Xcel may be being asked to do too much. While R Street has opposed using customer satisfaction results to inform a PIM, since Xcel is not subject to competition, the Annual Reports point to Xcel’s challenges in responding to the various forces being levied against it, including responding to changes in workforce expectations on working from home after COVID-19.<sup>8</sup> As reported by Xcel, its customer satisfaction ranking has declined each of the past three years.<sup>9</sup> With inflationary pressure on customer incomes over the past several years, it may be hard for Xcel, and Xcel’s customers, to catch a break. In addition, as R Street has noted previously in this docket, metrics should be limited in number “and be focused on utility behavior, which will incentivize action towards performance.”<sup>10</sup>

**2. From the three years of data that have been filed for each metric, how should a single baseline value be calculated? Please explain your reasoning and provide calculations of the baseline for each metric.**

R Street does not provide comment to this question.

**3. For which metrics, if any, should the Commission set targets and why?**

R Street focuses its comments on the metrics for the section on “Cost Effective Alignment of Generation and Load.” It does not appear that Xcel has made any noticeable improvement in these metrics. In the Commission’s decision approving Xcel’s proposed load flexibility pilots, the Commission modified that program to introduce opportunities for demand response aggregators to sign up retail customers. That decision also directed the executive secretary to initiate a new proceeding to determine whether Minnesota should allow demand response aggregators to operate in Minnesota, which was initiated on Dec. 9, 2022 in Docket No. E999/CI-22-600. To R Street, Xcel has little economic incentive to expand its demand response offerings beyond what is already required under its Conservation Improvement Program requirements. A significant question in Docket No. 22-600 is whether Xcel’s existing demand response programs are developed toward the structure identified by the Commission in the adoption of these metrics; notably, enabling shed, shifting and shaping of consumer demand.<sup>11</sup> As part of the question posed here, the Commission should consider setting targets for metrics 1-3, 4(a) and 4(b).

R Street does also note that with the passage of the 100 percent clean energy standard, Xcel now has targets defined by statute for reaching emission reductions. The metrics should reflect this new statutory requirement. To the extent that Xcel is successful in meeting its statutory requirements on

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<sup>6</sup> Xcel 2022 Annual Report Performance Metrics and Incentives, Docket No. E002/CI-17-401 at 15-16 (April 28, 2023).

<sup>7</sup> See, H.F. 7 and H.F. 2310 (2023).

<sup>8</sup> Xcel 2021 Annual Report Performance Metrics and Incentives, Docket No. E002/CI-17-401 at 10 (April 29, 2022).

<sup>9</sup> Xcel 2022 Annual Report at 8.

<sup>10</sup> Comments of the R Street Institute, Docket No. E0002/CI-17-401 (Dec. 2, 2019).

<sup>11</sup> See, e.g., Reply Comments of the R Street Institute, Docket No. E999/CI-22-600 (April 10, 2023).

time, R Street would caution the Commission that it should be wary of incentivizing Xcel to meet targets and performance requirements for which it is already required to meet.

#### **4. Where applicable, by what methodology should targets be set? How often should targets be reviewed and potentially updated?**

R Street believes that it is important for local and system reliability for more demand response to participate in markets operated by the Midcontinent Independent System Operator (MISO). Demand response can play a vital role in maintaining the reliability of the system by integrating intermittent resources and reducing demand during high-priced hours and in advance of system emergencies. As noted in its 2023 Annual Report, Xcel had a total demand response capacity available of “772 Gen. MW and 165,134 Gen. MWh,” but only called “0 Gen. MW and 1,671 Gen. MWh.”<sup>12</sup> These numbers have been roughly the same since 2019, when the Commission first adopted the PBR process.

R Street suggests that these metrics should reflect the potential of demand response aggregators to assist customers in shaping, shedding and shifting demand. It seems clear from the metrics reported in Xcel’s 2021 and 2022 Annual Reports that it is not making progress on these metrics. The Commission should consider whether demand response aggregators would do a better job in meeting these metrics. To the extent that Xcel is enabling such opportunities for demand response aggregators, then Xcel should be provided a pathway to be rewarded for such facilitation. R Street expects that many of these Xcel demand response programs are emergency demand response programs that can only be called upon the declaration of a system emergency by MISO. R Street believes that it is the Commission’s expectation that more demand response participates in MISO’s market, either through new programs that are bid into MISO’s marketplace or moving these emergency programs into the market to be more price-responsive. Otherwise, MISO will call upon natural gas units to meet demand, which would defeat the purpose of Minnesota’s clean energy bill. More demand response participating in wholesale markets, and, perhaps even procured directly by Xcel, would help Xcel also avoid new investments in generation and other infrastructure, and, by using demand response more regularly, would result in fuel savings. In other words, Xcel should be looking at how demand response, and distributed energy resources more generally, can be used to enhance its economic and operational performance by using these resources for more than just in an emergency, which, in R Street’s view, is more consistent with Commission’s direction for better aligning generation and load.

#### **5. Where applicable, what are appropriate targets for the metrics?**

The Commission should consider either modifying metrics 1-3, 4(a) and 4(b) to include aggregator programs enabled by Xcel or create a new metric to measure demand response capacity and dispatch of aggregator programs enabled by Xcel. The Commission previously approved 43 megawatts (MW) to be procured by aggregators in the Peak Flex Credit program approved in Docket No. 21-101. For example, for metric 1, “Demand response, including (1) capacity available (MW & MWh) and (2) amount called (MW, MWh per year)” the Commission could add the following:

“(3) amount under contract by an aggregator of retail customers (MW & MWh).”

If the Commission decides to allow aggregators to operate in Minnesota, then the Commission could consider a starting target that would increase over time as aggregators expand operations. If the Commission decides against allowing aggregators in Docket No. 22-600, then the Commission could still direct Xcel to work directly with aggregators, similar to its decision in Docket No. 21-101, and a target could still be set that encourages Xcel to work with aggregators to expand demand response

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<sup>12</sup> 2022 Annual Report at Attachment A, page 5.

opportunities in Minnesota, which would be higher. The target is not intended to limit the opportunities for demand response aggregators to only work as part of an Xcel-sponsored demand response program. Instead, the purpose is to be broader and cover any and all third-party aggregator demand response products, to the extent the Commission allows demand response aggregators to participate in Minnesota.

**6. What action should the Commission take on reporting the Company's Workforce Transition Plan in docket no. E002/M-22-265 rather than the instant docket?**

R Street does not provide comments to this question.

**7. How should the Commission evaluate the metrics that do not yet have three years of baseline data?**

R Street does not provide comments to this question.

**8. Are there other issues or concerns related to this matter?**

With a focus on utility performance and affordability, R Street suggests that an additional metric or consideration in the review of Xcel's affordability metrics be considered by the Commission. As noted in Xcel's 2022 Annual Report, rates across each customer class and residential bills have increased each year since 2019. R Street believes that it might be useful for the Commission to consider what percentage of those increases are due to generation fuel increases, since that is typically treated as a pass-through cost to customers. R Street is suggesting that the Commission consider how well Xcel is negotiating and reducing its fuel cost risk. Since this is treated as a pass-through cost, if Xcel is able to reduce its fuel cost risk, that would result in savings to customers, through lower fuel costs and it may, therefore, be worthwhile for a potential target and PIM, if Xcel is successful.

R Street notes that significant changes are occurring across Minnesota's energy landscape. With the passage of the 100 percent clean energy bill earlier this year, even more change is set to occur. However, R Street does note that Xcel still plays a substantial role in how the consumer chooses to participate in this transition, notably through the adoption of solar, either via community solar programs or installing rooftop solar. This Commission has already found Xcel in violation of its interconnection rules before and subjected Xcel to a \$1 million penalty. This penalty, however, may not be significant enough to spur change as it appears interconnection problems remain a problem. R Street offers that under a PBR regime, Xcel's performance in enabling customer adoption of technologies, such as solar and storage, should be part of any reporting program. To the extent that Xcel is already providing such information, then it may be worthwhile to merge those reports with its annual reporting requirements. R Street believes the Commission will continue to be free to act on any continued violation of Commission rules, should the Commission find any, but if the Commission's long-term goal for this proceeding is to transition Xcel's economic incentives toward performance and supporting the customer, then this proceeding should be aware of as many opportunities as possible.

**Conclusion**

R Street thanks the Commission for the opportunity to comment on this important topic.

Respectfully submitted,

          /s/ Christopher Villarreal          

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July 31, 2023

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing pleading has this day been served on each person whose name appears on the Official Service List for E002/CI-17-401, as attached.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Eden Prairie, Minnesota

xx electronic filing

/s/ Christopher Villarreal  
Christopher Villarreal

Dated at Eden Prairie, Minnesota  
This 31<sup>st</sup> Day of July 2023.

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