MINNESOTA DEPARTMENT OF
COMMERCE

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May 4, 2015

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. G001/M-15-325

Dear Mr. Wolf:

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

A Request by Interstate Power and Light Company (IPL or the Company) for approval of the Company's 2014 Conservation Cost Recovery Adjustment and 2014 Natural Gas Demand Side Management Financial Incentive (*Petition*).

The *Petition* was filed on April 1, 2015 by:

Samantha C. Norris
Senior Attorney
Interstate Power and Light Company
200 First Street SE, PO Box 351
Cedar Rapids, Iowa 52406-0351

The Department recommends that the Commission **approve IPL's petition with modifications.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Rates Analyst

CTD/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G001/M-15-325

I. SUMMARY OF THE UTILITY'S PROPOSAL

On April 1, 2015, Interstate Power and Light Company (IPL or the Company) submitted its annual Conservation Improvement Program (CIP) report (*Report* or *Petition*) for 2014 with the Minnesota Public Utilities Commission (Commission) in Docket No. G001/M-15-325. The *Petition* contains the following sections:

- proposed recoveries and expenditures in the Company's natural gas (gas) Conservation Improvement Program (CIP) tracker account during 2014,
- proposed Conservation Cost Recovery Adjustment (CCRA) for 2015/2016, and
- request for approval of a proposed gas Demand Side Management (DSM) financial incentive of $76,476 for 2014.

The Company also filed its 2014 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) 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]

The *Petition* contains data relevant to the Company's electric utility. The Department will not comment here on information related to the electric utility in this docket; instead see Docket No. E001/M-15-326.

[1] See Docket No. E,G001/CIP-12-484.02.

II. MINNESOTA DEPARTMENT OF COMMERCE, DIVISION OF ENERGY RESOURCES (DEPARTMENT) ANALYSIS

On December 8, 2014 in Docket No. G001, G011/ PA-14-107, the Commission approved the Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Minnesota Energy Resources Corporation. As part of the Order Approving Sale Subject to Conditions. Order Points 2 and 3 state:

> 2. Upon completion of the transaction, MERC shall transition current IPL gas customers to MERC's tariffs, but shall bill transitioned IPL customers for the customer charge and purchased gas adjustment allowed under IPL's tariff structure.
> 3. MERC shall provide IPL's customers a 60-day notice prior to implementing a change in rates. Prior to release of the notice, MERC shall submit a proposed notice and receive approval of the Department and Commission staff.

It is not clear to the Department how the CIP tracker accounts recommended in Table 1 below and the Conservation Cost Recovery Adjustment (CCRA) calculated in Table 2 below will be used by IPL or MERC. The Department requests that IPL clarify this issue in its Reply Comments.

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

- in Section II.A, IPL's proposed 2014 gas DSM financial incentive;
- in Section II.B, IPL's proposed 2014 gas CIP tracker account;
- in Section II.C, IPL's proposed gas CCRA; and
- in Section II.D, a review of IPL's gas DSM and CIP activity and DSM financial incentives for the period 2008 through 2014.

A. IPL'S PROPOSED GAS DSM FINANCIAL INCENTIVE FOR 2014 ACHIEVEMENTS

1. Background and Summary of IPL's Proposed Gas DSM Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels after the threshold. Specifically, each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to $0.07 per kWh saved and gas utilities will earn $9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

> *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
>
> A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest.
> B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) $9.00 per Mcf for natural gas utilities, and (2) $0.07 per kWh for electric utilities.
> C. A utility may not modify its incentive to correct for non-linear benefits.
> D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
> E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities ($0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities ($6.875) per Mcf are continued.
> F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
> G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
> H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
> I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the

energy savings will count toward the 1.5 percent savings goal.

J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
K. The costs of any mandated, non-third-party projects (*e.g.*, Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.
L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission-approved decoupling mechanisms.
O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

IPL reported first-year gas energy savings of 14,036 dekatherm (Dth) in 2014, or 0.82 percent of the Company's weather-normalized, non-CIP-exempt retail sales of 1,709,294 Dth. IPL reported that the net benefits associated with its 2014 achievements were $819,601. IPL calculated that the Company should receive an incentive based on 9.331 percent of its $819,601 in net benefits, or $76,476.36.

2. The Department's Review of IPL's Proposed 2014 Gas DSM Financial Incentive

The Department's CIP Engineering Staff review of the demand and energy savings that underpin IPL's proposed 2014 DSM financial incentive is on-going.[2] In all likelihood, it will not be completed before the fall of 2014. This lag between the Company's request for recovery of the incentive and completion of the Department CIP Engineering Staff review is a recurring phenomenon. In its review of IPL's 2014 DSM financial incentive filing,[3] the

[2] Docket No. E,G001/CIP-12-484.02
[3] Docket No. G001/M-14-283

Department compensated for this lag by simply assuming IPL's claimed energy savings for 2013 were correct as filed and planned to make, in the instant docket, any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner accepted IPL's 2014 Status Report without any adjustments[4] and thus none need to be made in the instant docket.

As was done last year, the Department's analysis assumes that IPL's claimed 2014 energy savings are correct as filed. If the Deputy Commissioner of the Department subsequently approves changes to IPL'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 2015 filing, which will be made April 1, 2016.

3. *The DOC's Overall Recommendation Concerning IPL's 2014 Gas DSM Financial Incentive*

The Department recommends that the Commission approve IPL's proposed 2014 gas DSM financial incentive of $76,476.36 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. IPL'S 2014 GAS CIP TRACKER ACCOUNT

1. *Overall 2014 Tracker Account*

In its *Petition*, IPL provided a report on recoveries and expenditures in the Company's gas CIP tracker account during 2014.[5] IPL's report indicated that the gas utility CIP tracker balance at the end of 2014 was $343,252. However, when reviewing IPL's calculations the Department discovered that the Company did not take into account its end of 2013 gas CIP tracker account balance of ($248,721) when calculating its end of 2014 gas CIP tracker account balance. The Department provides the correct calculations in Table 1 below.

Table 1: Summary of IPL's Gas CIP Tracker Account Activity in 2014

Description	Time Period	Amount
Beginning Balance	December 31, 2013	($248,721)
CIP Expenses	January 1 through December 31, 2014	$379,946
Carrying Charges	January 1 through December 31, 2014	($11,144)
2013 DSM Financial Incentive	For 2013 CIP Achievements	$37,207
Recovered through CIP Adjustment Factor	January 1 through December 31, 2014	$280,537
Recovered in Base Rates	January 1 through December 31, 2014	($343,294)
Ending Balance	31-Dec-14	$94,531

[4] Docket No. E,G001/CIP-12-484.01
[5] See Tab 16, Page 10 of 28 of the *Petition* for the CIP Tracker activity data.

The Department recommends that the Commission approve the CIP tracker account activity and end of 2014 CIP tracker account balance shown in Table 1 above.

C. IPL'S PROPOSED GAS CCRA

In its *Petition,* IPL requested approval of a revised CCRA of $0.0013 per therm, effective with the June 2015 billing month. However, IPL's proposed CCRA calculation used the Company's incorrect calculation of the Company's end of 2014 tracker balance. The Department recalculated IPL's 2015/2016 CCRA below in Table 2 starting with a 2014 year-end tracker balance total of $94,531. In addition, the Department included IPL's proposed incentive for 2014 CIP achievements in the calculation since this amount will be added to IPL's CIP tracker account in 2015.

Table 2: Department Calculation of Gas CCRA

Description	Amount
Gas CIP Tracker Account Balance as of December 31, 2014	$94,531
CIP Approved Spending Levels for 12 months beginning January 2015	$631,561
CIP Cost Recovery via Base Rates – January-December 2014	($324,843)
Proposed 2014 DSM Incentive	$76,476
CIP Cost Recovery via existing CCRA credit – January-May 2014	($34,688)
Beginning CIP Tracker Account Balance – June 2014	$443,037
Projected Annual Therm Sales for 2014	19,663,599
Proposed CCRA ($/Therm)	$0.023

Table 3 below compares the Department calculated CCRA of $0.023 per therm in the present docket with the Company's current CCRA of ($0.0033) per therm, which was approved in Docket No. G001/M-14-283.

Table 3: Comparison of IPL's Current and Proposed Gas CCRAs

Current CCRA ($/Therm)	Proposed CCRA ($/Therm)	Change ($/Therm)	Percent Change
($0.0033)	$0.023	$0.0263	800%

As indicated in Table 3, the revised gas CCRA represents an 800 percent increase from the current gas CCRA credit. While this is a large percentage increase, the entire increase is only 2.3 cents per therm and will help keep IPL's tracker balance near zero. The Department recommends that the Commission approve a gas CCRA of $0.023 per therm for all of IPL's Minnesota gas customer classes, to be effective on the first billing cycle in the next full month after Commission approval, conditioned on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.

A. REVIEW OF CUSTOMER NOTIFICATION

On pages 63-64 of its instant filing, IPL proposes to include the following message on its customers' gas bills in the month that the updated CCRA becomes effective:

> IPL recovers the costs of its energy conservation programs in Minnesota through a Conservation Cost Recovery Adjustment (CCRA). The CCRA is an annual adjustment subject to Minnesota Public Utilities Commission approval. Based on actual and anticipated energy efficiency costs, the revised 2015/2016 CCRA, as approved by the Commission, will be $0.023 per therm[6] effective [insert date]. Learn more about reducing your energy use by visiting our website at www.alliantenergy.com/save or calling us at 1-866-255-4268.

In addition, IPL states that it will work with the Commission's Consumer Affairs Office for final approval of the bill message. The Department recommends that the Commission approve IPL's proposed customer language.

D. REVIEW OF IPL'S GAS DSM AND CIP ACTIVITIES (2008-2014)

In Table 4 below, the Department presents a historical comparison of IPL's gas DSM and CIP activities for the period 2008 through 2014. Table 4 provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and reported energy savings changed during the period.

Table 4: History of IPL's CIP Achievements, Expenditures, and Incentives

	2008	2009	2010	2011	2012	2013	2014
DSM Financial Incentive	$86,463	$86,463	$85,716	$15,349	$20,097	$37,207	$76,476
Incentive as a % of CIP Expenditures	24%	12%	12%	4%	5%	10%	20%
Carrying Charges	$49,433	$52,032	$79,222	$81,683	$36,446	($14,166)	($11,144)
Carrying Charges as a % of Expenditures	14%	7%	11%	20%	7%	-4%	-3%
Year-End Tracker Balance	$827,440	$1,146,562	$1,462,458	$970,095	$209,087	($213,237)	$94,531
CIP Expenditures	$360,440	$695,977	$734,449	$417,652	$391,089	$362,781	$379,946
Achieved Energy Savings (Dth)[7]	18,466	25,871	21,889	11,312	12,905	10,768	14,036
Average Cost per Dth saved	$19.52	$26.90	$33.54	$36.92	$30.31	$33.69	$27.07

[6] The Department inserted the corrected CCRA here, based on our analysis above.
[7] 2008 – 2012 achieved energy savings were reported in 1,000 cubic feet (Mcf).

As indicated in Table 4, compared to 2014, IPL's 2013:

- proposed incentive level is higher;
- energy savings are higher;
- year-end tracker balance is higher;
- carrying charges are higher[8]; and
- average cost per unit of energy saved is lower.

III. THE DEPARTMENT'S RECOMMENDATIONS

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

1) approve IPL's 2014 DSM financial incentive of $76,476 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;
2) approve the CIP tracker activity and end of 2014 tracker balance as shown in Table 1 above;
3) approve the revised gas CCRA of $0.023 per therm for all of IPL's Minnesota customer classes, to be effective on the first billing cycle in the next full month after Commission approval, conditioned on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations; and
4) require IPL to include the following bill message (with the appropriate date) in the billing month immediately following the date of the *Order* in the present docket:

> IPL recovers the costs of its energy conservation programs in Minnesota through a Conservation Cost Recovery Adjustment (CCRA). The CCRA is an annual adjustment subject to Minnesota Public Utilities Commission approval. Based on actual and anticipated energy efficiency costs, the revised 2015/2016 CCRA, as approved by the Commission, will be $0.023 per therm effective [insert date].. Learn more about reducing your energy use by visiting our website at www.alliantenergy.com/save or calling us at 1-866-255-4268.

In reply comments, the Department recommends that IPL explain how the 2014 gas CIP tracker account activity shown in Table 1 above and the gas CCRA calculated in Table 2 above will be used by IPL or MERC.

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[8] Carrying charges are considered lower than the previous year if a utility's customers are paying less in interest on CIP funds that have not yet been collected. In this case, IPL has over collected from customers and owes customers interest on the over collection.