MINNESOTA DEPARTMENT OF
COMMERCE

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May 8, 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. E002/M-15-320

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, a Minnesota corporation (Xcel or the Company), requesting approval of the following:

- a proposed 2014 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 electric CIP Adjustment Factor.

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

Shawn White
Manager, DSM Regulatory Strategy and Planning
Northern States Power Company, a Minnesota corporation
414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

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/ ZAC RUZYCKI
Rates Analyst

ZR/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. E002/M-15-320

I. INTRODUCTION

On April 1, 2015, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) submitted to the Minnesota Public Utilities Commission (Commission) the Company's *Petition for Approval of its 2014 Electric CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2014 Performance, and 2015/2016 Electric Conservation Improvement Program Adjustment Factor* the (Petition). The Petition includes a report of proposed recoveries and expenditures in Xcel's electric CIP tracker account during 2014, a proposed increase in the currently approved electric CIP Adjustment Factor (CAF), a proposed incentive for its 2014 CIP achievements, and a proposed incentive for its 2014 Solar* Rewards achievements. Xcel's *Petition* requested that the Commission approve the following:

- A DSM financial incentive of $40,179,927 for Xcel's 2014 electric CIP achievements;
- A report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2014;
- A Solar*Rewards financial incentive of $96,148 for Xcel's 2014 achievements; and
- A CIP Adjustment Factor for 2015/2016 of $0.001382/kWh.

A refiling was submitted on the same day as the original filing by the Company due to a formatting error with the initial filing. The Petition contains data relevant to the Company's natural gas 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-15-321.

II. DEPARTMENT ANALYSIS

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

- in Section II.A, Xcel's proposed electric 2014 CIP Tracker Account;
- in Section II.B, Xcel's proposed electric CAF for 2015/2016;
- in Section II.C, Xcel's proposed electric 2014 Demand Side Management (DSM) financial incentive; and
- in Section II.D, a review of Xcel's 2014 Solar* Rewards financial incentive calculation; and
- in Section II. E, a review of Xcel's CIP activity for the period 2008 through 2014.

A. 2014 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2014 Electric CIP Tracker activity, resulting in a year-end 2014 balance of $30,624,948. Table 1 below shows a summary of activity in Xcel Electric's 2014 CIP tracker account.

The Department reviewed Xcel's 2014 CIP tracker account activity in Table 1 and notes that in its calculation, the Company appears to have left out the 2013 approved financial incentive of $42,729,930 in line item 3 of Table 16.[1] Xcel's 2013 financial incentive was approved on December 17, 2014. Due to this omission, the end-of-month balance for 31 December, 2014 is listed as $(56,291,009). With the approved financial incentive amount of $42,729,930 from the 2013 CIP Tracker Docket the final ending balance should be calculated as $(13,561,078).[2] The Company appears to have instead booked the approved 2013 financial incentive amount in January 2015. The Department requests that in reply comments, the Company explain why this decision was made and what effects, if any, incorporating the 2013 financial incentive amount of $42,729,930 in December of 2014 would have as opposed to January of 2015. Historically, Xcel has calculated the actual year ending balance including the previously approved financial incentive amount. The Department offers the following CIP Tracker Account summary assuming a December 2014 incorporation of the 2013 financial incentive.

[1] Docket No. E002/M-15-320 Attachment A, Page 28 of 48.
[2] Docket No. E002/M-14-287 ORDER APPROVING TRACKER ACCOUNT, APPRVING FINANCIAL INCENTIVE, SETTING CONSERVATION COST RECOVERY ADJUSTMENT, AND REDUCING CARRYING CHARGES.

Table 1: A Summary of Xcel Electric's 2014 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	31-Dec-13	$30,624,948
CIP Expenses	January 1 through December 31, 2014	$87,889,789
Financial Incentive	For 2013 CIP achievements	$42,729,930[3]
Carrying Charges[4]	January 1 through December 31, 2014	$(1,229,487)
Recovered in Base Rates	January 1 through December 31, 2014	($88,470,145)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2014	($85,106,113)
Ending Balance	31-Dec-14	$(56,291,009)[5]

B. CIP ADJUSTMENT FACTOR REPORT

In its November 25, 2013 Order in Docket No. E002/M-13-247, the Commission approved a 2013/2014 CIP adjustment factor (CAF) of $0.002935 per kWh for Xcel. The December 17 Order in the 2013 CIP Tracker Docket indicated the necessity for a downward adjustment because carrying charges were valued at the cost of short term debt instead of the Company's overall rate of return.[6] The CAF was eventually adjusted to $0.000545 per kWh. Table 2 below shows that Xcel currently projects an unrecovered October 1, 2015 CIP Tracker balance of $40.1 million under the assumption of no additional recovery of CIP costs through the CAF.

Table 2: Xcel Electric's Forecasted End of September 2016 CIP Tracker Account

Description	Amount
Forecasted beginning balance (October 2015)	$9,237,524
October 2015-September 2016 Budget	$88,962,278
Forecasted 2015 Incentive	$30,539,502
Less Forecasted CCRC recovery (Oct 2015-Sept 2016)	($88,578,128)
Forecasted September 2016 balance without CAF	$40,161,176

Xcel included the above calculations so that it can calculate the CAF modifications needed to minimize its 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.

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[3] Includes a reduction of $1,714 due to an adjustment made to the Company's 2013 financial incentive.
[4] 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.
[5] 2014 ending balance was booked by Xcel as $(56,291,009) but excluded the 2013 financial incentive. The ending balance would be $(13,561,078) if that amount had been included.
[6] Docket No. E002/M-14-287 ORDER APPROVING TRACKER ACCOUNT, APPRVING FINANCIAL INCENTIVE, SETTING CONSERVATION COST RECOVERY ADJUSTMENT, AND REDUCING CARRYING CHARGES

The Company proposed to update its electric CIP Adjustment Factor to $0.001382 per kWh to be effective with the first billing cycle of October 2015 and to remain in effect through the September 2016 billing period. Xcel's proposed CIP Adjustment Factor is an increase of $0.000837 per kWh from its currently approved $0.000545 per kWh.[7] Xcel's proposed electric CAF would result in a 57 percent increase in the Company's current CAF. The proposed 2015/2016 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.

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

(1) Forecasted October 2016 Electric CIP Tracker Balance	$40,161,176
(2) Forecasted Electric Sales (MWh) – October 2015 through September 2016[8]	29,032,490
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2)	$1.383/MWh
	$0.001383/kWh

Xcel incrementally decreased the calculated rate to incorporate the effect of carrying charges, which were not included in the forecasted balance. The new calculated rate is $0.001382 per kWh. Xcel estimated that it will have a CIP tracker balance of close to $0 by the end of September 2016.[9] 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 2015/2016 CCRA of $0.001382 per kWh pending a response from the Company regarding its 2013 financial incentive in reply comments.

With respect to rate change notification, Xcel proposed to notify customers by implementing the following message on customer bills, effective the first month the 2015/2016 CIP Adjustment Factor takes effect:

> *Effective Oct. 1, 2015, the Resource Adjustment line item on your bill has increased due to a change in the Conservation Improvement Program (CIP) factor. The electric CIP portion of the Resource Adjustment is $0.001382 per kilowatt-hour (kWh).*

The Department recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2015 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.

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[7] The Company will continue to apply the current CIP Adjustment of $0.000545 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.
[8] Forecasted sales exclude the customers exempted from electric CIP charges
[9] Petition Attachment A, Page 33 of 48.

C. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2014 ACHIEVEMENTS

1. Background and Summary of Xcel's Proposed Electric 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:

> 2. *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.

The incentive for Xcel is triggered when the Company achieves 50 percent of the utility's average energy savings for the period from 2007 to 2011, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. The incentive is capped at 8.75 cents per first-year kWh savings.[10]

In Attachment A of its *Petition*, Xcel noted that in 2014 its electric program met and exceeded the state's 1.5% energy savings target by achieving 481,325,941 kWh of savings, or 1.66% of non-CIP-exempt retail sales. Xcel's 2014 energy savings were three percent lower than in 2013 and ten percent lower than in 2012. However, compared to 2008, the Company has increased its energy savings by forty-five percent. Xcel calculated that the Company should receive an incentive based on 15.6981 percent of its $255,953,599[11] in net benefits, or $40,179,927.

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[10] Since Xcel's CIP projects have average lifetimes of 13 to 15 years, the cap per lifetime kWh saved is significantly lower than 8.75 cents per kWh.
[11] See Xcel Attachment A, page 41 of 48.

3. *Department Analysis of Xcel's Proposed 2014 Electric DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2014 DSM financial incentive of $40,179,927 is ongoing. In all likelihood, it will not be completed before the fall of 2015. 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, and as the Company has filed its 2014 Status Report on April 1, 2015, 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 2014 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2014 achievements as part of the Company's 2016 filing. The Department notes that in the 2013 CIP status report, the Deputy Commissioner of the Department approved a different energy savings level, making an adjustment of 8,491 kWh. The Company subsequently made an adjustment of $1,714 to its 2014 financial incentive in this year's filing due to this change.

Xcel's 2014 calculated incentive results in an incentive of 8.34 cents per first year kWh savings ($40,179,927/481,325,941 kWh), which is below the 8.75 cents per kWh incentive cap. The Department's review indicates that the Company correctly calculated its DSM financial incentive; therefore the Department recommends that the Commission approve Xcel's 2014 Shared Savings financial incentive of $40,179,927.

*D. XCEL'S PROPOSED SOLAR*REWARDS FINANCIAL INCENTIVE CALCULATION*

Xcel's Solar*Rewards program provides incentives to Xcel customers that install customer-sited solar energy generating units. Minnesota Statutes section 216B.241, subdivision 5a, permits a utility to "include in its conservation plan programs for the installation of qualifying solar energy projects . . . ." The statute goes on to allow that energy savings from qualifying solar energy projects in approved conservation improvement plans may "be eligible for a performance incentive under section 216B.16, subdivision 6c, or 216B.241, subdivision 2c, that is distinct from the incentive for energy conservation and is based on the competitiveness and cost effectiveness of solar projects in relation to other potential solar projects available to the utility." A solar energy project qualifies if it meets certain quality and performance standards, if it has a peak generating capacity of 100 kilowatts or less, and if it is used to generate electricity for use in a residential, commercial, or publicly owned property or facility. Minn. Stat. § 216B.2411, subd. 2.

In Docket No. E002/M-11-1101, Xcel petitioned the Commission to approve a performance incentive under section 216B.241 for its Solar*Rewards program. Solar energy systems installed as part of the program meet the statutory requirements for "qualifying" solar energy projects. Xcel seeks the performance incentive because, although the Solar*Rewards program accomplishes a statutory goal of increasing adoption of solar and distributed energy sources, the program also reduces sales of energy and therefore reduces Xcel's revenues.

On March 12, 2012, the Commission approved a financial incentive of $0.035 for every kWh of solar energy produced during the first year of operation. The Commission's March 12, 2012 Order clarifies that the solar incentive plan applies to solar energy generated after the date of the Order (March 12, 2012). The Company calculated the Solar* Rewards incentive using first-year generation, calculated the same as its CIP programs, where savings are estimated based upon a full year of operation regardless of when the equipment was installed.

In Xcel's filing in the instant docket, the Company estimated the first-year generation from systems that received rebates in 2014. Xcel estimated that the solar systems for which it provided rebates in 2014 had first-year generation of 2,747,096 kWh. Xcel proposed a financial incentive of $96,148 (2,747,096kWh x $0.035 per kWh = $96,148). The Department reviewed Xcel's calculations and concludes that the Company correctly calculated its 2014 incentive for its Solar*Rewards program. The Department recommends that the Commission approve an incentive of $96,148 for Xcel's 2014 Solar*Rewards achievements.

E. A REVIEW OF XCEL'S ELECTRIC CIP ACTIVITY (2008-2014)

In Attachment A, the Department presents a historical comparison of Xcel's electric CIP activity for the period 2008 through 2014. 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.

An analysis of Table 1 in Attachment A indicates that, between 2008 and 2014, the Company's energy savings grew 45.4 percent, the Company's expenditures grew 74 percent, and the Company's incentives grew 172 percent. Xcel's tracker balance was $-56 million at the end of 2014.[12] Xcel projects that by the end of September 2016 its tracker balance will be close to zero again. Xcel's carrying charges for 2014 fell to $-1.2 million. In the past few years the Department has been working with utilities and the Commission to minimize carrying charges. As can be seen in Attachment A, Table 1, Xcel's carrying charges peaked at $1.1 million in 2010 and have varied since them, with a negative carrying charge in 2011 and again in 2014.

In summary, the Department recommends that the Commission approve Xcel's proposed 2015/2016 CAF of $0.001382 per kWh.

F. 2013 LEGISLATIVE CHANGES TO HOW LOW-INCOME NET BENEFITS MAY BE COUNTED TOWARDS DSM SHARED SAVINGS INCENTIVE

Minnesota Statutes Section 216B.241, subdivision 7 was amended by the 2013 Minnesota Legislature to state:

> (e) The costs and benefits associated with any approved low income gas or electric conservation improvement program that

[12] Assuming the 2013 financial incentive is not booked until January 2015, as discussed in section II.A.2 above.

> is not cost-effective when considering the costs and benefits to the utility may, at the discretion of the utility, be excluded from the calculation of net economic benefits for purposes of calculating the financial incentive to the utility. The energy and demand savings may, at the discretion of the utility, be applied toward the calculation of overall portfolio energy and demand savings for the purposes of determining progress toward annual goals and in the financial incentive mechanism.

In Attachment A, page 40 of 48 of its filing, Xcel stated that the Company included the net benefits from its low-income segment in both its pre-year inputs and 2014 achievement.

III. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve:

1. The 2014 Xcel Electric CIP Tracker Account activity shown in Table 1 above, pending a response from the Company in Reply Comments.

2. Xcel's proposed bill message effective the first month the 2015/2016 CIP Adjustment Factor takes effect.

3. A DSM financial incentive of $40,179,927 for Xcel's 2014 electric CIP achievements.

4. A Solar*Rewards financial incentive of $96,148 for Xcel's 2014 achievements.

5. A CIP Adjustment Factor for 2015/2016 of $0.001382/kWh.

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Table 1: History of Xcel's Electric CIP Activity (2008-2014)

	2008	2009	2010	2011	2012	2013	2014
DSM Financial Incentive	$14,761,751	$16,398,115	$40,401,006	$51,350,104	$53,911,925	$42,679,496	$40,179,927
Incentive as a % of CIP Expenditures	29.22%	28.33%	56.20%	67.30%	61.92%	53.64%	45.71%
Carrying Charges	$125,176	$613,210	$1,132,778	($618,259)	$4,231	$298,021	($-1,229,487)
Carrying Charges as a % of Expenditures	0.25%	1.06%	1.58%	-0.81%	0.00%	0.37%	-1.39%
Year-End Tracker Balance	$7,794,342	$24,785,198	$24,233,452	($21,768,428)	$31,925,410	$30,624,948	($56,291,008)[1]
Year-End Tracker Balance as a % of CIP Expenditures	15.43%	42.82%	33.71%	-28.53%	36.67%	38.49%	64.05%
CIP Expenditures	$50,516,190	$57,885,077	$71,884,335	$76,302,262	$87,071,903	$79,570,696	$87,889,789
Achieved Energy Savings (kWh)	331,024,729	342,205,073	409,111,894	462,021,574	533,477,510	462,021,576	481,325,941
Average Cost Per kWh Saved[2]	$0.15	$0.17	$0.18	$0.17	$0.16	$0.17	$0.18

[1] Does not reflect inclusion of 2013 financial incentive of $42,729,930

[2] Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.