COMMERCE DEPARTMENT

May 31, 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. G008/M-18-120

Dear Mr. Wolf:

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

> CenterPoint Energy's 2017 Conservation Improvement Program Status Report, 2017 Demand Side Management Financial Incentive, Conservation Improvement Program Tracker Report, and 2017 Conservation Cost Recovery Adjustment Aggregated Compliance Filing (*Petition*).

The *Petition* was filed on May 1, 2018 by:

> Erica Larson
> Regulatory Analyst, Conservation Improvement Program
> CenterPoint Energy
> 505 Nicollet Mall, PO Box 59038
> Minneapolis, Minnesota 55402

As discussed in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve CenterPoint's *Petition*.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G008/M-18-120

I. SUMMARY OF THE UTILITY'S FILING

On May 1, 2018, CenterPoint Energy, a Division of CenterPoint Energy Resources Corporation (CenterPoint, CPE, or the Company), submitted a filing in the present docket entitled *CenterPoint Energy's 2017 Conservation Improvement Program Status Report, 2017 Demand-Side Management Financial Incentive, Conservation Improvement Program Tracker Report and 2017 Conservation Cost Recovery Adjustment Aggregated Compliance Filing* (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC, or PUC). On May 18, 2018 CenterPoint submitted a corrected version of the same filing.

The Company's *Petition* included:

- a proposed 2017 Shared Savings Demand Side Management (DSM) financial incentive of $12,456,038;

- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2017 resulting in a tracker balance of $3,899,086; and

- a reduction in the Conservation Cost Recovery Adjustment (CCRA) to $0.00441 per therm.

In addition, Section I of the *Petition* contained the Company's 2017 *Status Report*. Since the *Status Report* does not require Commission approval, that portion of the *Petition* has been assigned a separate docket number.[1]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) provides its analysis and recommendations below.

[1] See Docket No. G008/CIP-16-119.03.

II. COMMISSION'S 2017 ORDER

On August 16, 2017, the Commission issued its Order in Docket No. G008/M-17-339 approving CenterPoint's 2016 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved CenterPoint's proposed 2016 DSM financial incentive of $13,791,346.
2. Approved CenterPoint's 2016 CIP tracker account, resulting in a December 31, 2016 tracker balance of $7,461,117.
3. Allowed CenterPoint to continue to implement a CCRA of $0.1553/Dth

III. THE DEPARTMENT'S ANALYSIS

The Department presents its analysis of CPE's *Petition* below in the following sections:

- in Section III.A, CenterPoint's proposed 2017 DSM financial incentive;
- in Section III.B, CenterPoint's proposed 2017 CIP tracker account;
- in Section III.C, CenterPoint's proposed 2018/2019 CCRA;
- in Section III.D, CenterPoint's proposed bill language; and
- a review of CenterPoint's CIP activities for the period 2008 through 2017.

A. CPE'S PROPOSED 2017 DSM FINANCIAL INCENTIVE

1. Background and Summary of CPE's Proposed 2017 DSM Financial 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. 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.[2] 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:

[2] 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).

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.
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, University of Minnesota Initiative for Renewable Energy and the Environment costs) 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, solar installation, and biomethane purchases 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.

With respect to net benefits, CenterPoint provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2017 CIP. According to the Company, CPE's 2017 CIP activities resulted in an estimated $160,452,310 of net benefits before the requested incentive.[3] CenterPoint also stated that its CIP activities achieved energy savings in 2017 of 2,632,545 Dth, equivalent to 1.87 percent of its retail sales to non-CIP-opt-out customers. Based on the terms and conditions of its approved DSM incentive plan, CenterPoint requested approval of a 2017 financial incentive of $12,456,038.

[3] *Petition*, page 39.

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

CenterPoint estimated that its 2017 performance would result in an incentive of $21,661,062 if it were awarded 13.5 percent of net benefits, the incentive's cap on net benefits. However, the Shared Savings mechanism also has a cap of 40 percent of expenditures, which results in an incentive of $12,456,038.[4]

The Department's engineering-oriented analysis of the demand and energy savings that underpin CenterPoint's proposed 2017 DSM financial incentive of $12,456,038 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. If the Deputy Commissioner of the Department subsequently approves changes to CenterPoint'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 2018 filing, which will be made by May 1, 2019.

In its present *Petition*, CenterPoint reported gas energy savings of 2,632,545 Dth from 2017 CIP activity, and so the Department used this figure in reviewing the present docket.

The Department verified the calculation of CenterPoint's financial incentive and recommends that the Commission approve CenterPoint's proposed 2017 DSM financial incentive of $12,456,038 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.

B. CENTERPOINT'S 2017 CIP TRACKER ACCOUNT

In its *Petition*, CenterPoint requested approval of its report on recoveries and expenditures in the Company's tracker account during 2017. Table 1 below provides a summary of the activity in the Company's CIP tracker account during 2017.

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[4] 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 $10,889,033 in 2018 and $9,342,028 in 2019, both years limited by the cap on expenditures, not the cap on net benefits.

Table 1: Summary of CenterPoint's CIP Tracker Account in 2017

Description	Time Period	Amount
Beginning Balance	January 1, 2017	$7,461,117
CIP Expenditures	January 1 through December 31, 2017	$32,131,251
Recovery via Base Rates (CCRC)	January 1 through December 31, 2017	($26,740,373)
Recovery via CCRA	January 1 through December 31, 2017	($21,539,315)
Carrying Charges	January 1 through December 31, 2017	($19,848)
2016 DSM Financial Incentive	August 1, 2017	$13,791,346
Interim Rate Recovery	January 1 through December 31, 2017	($1,670,473)
Adjustments	January 1 through December 31, 2017	$485,382
Ending Balance (Over)/Under	December 31, 2017	$3,899,087

The Company's CIP tracker reflects the Commission's 2016 DSM financial incentive of $13,791,346, approved August 16, 2017 in Docket No. G008/M-17-339.

CenterPoint's CIP tracker also includes:

- One adjustment to reflect interim rate recovery, and
- Three adjustments due to misalignment of billing dates with new and interim rate implementation dates.

The Department recommends that the Commission approve CenterPoint's 2017 CIP tracker account activity as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2017 tracker balance of $3,899,087.

C. CENTERPOINT'S PROPOSED CCRA

Minnesota law states in relevant part that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements."[5] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

On page 51 of its *Petition*, CenterPoint states:

> The Company ordinarily proposes to make modifications to the CCRA on January 1 of the year following the proposal. However, in recent years the Commission's review of the Company's status reports has been early enough to potentially allow for an earlier

[5] See Minn. Stat. §216B.16, subd. 6b(c).

> CCRA modification.[footnote excluded] Because an earlier, less dramatic, decrease to the CCRA will result in a lower 2018 year-end over-recovery and lower carrying charges, the Company proposes to reduce the CCRA to 0.0441 per Dth effective September 1, 2018. If the Commission's schedule will not allow a change to the CCRA in 2018, the Company alternatively proposes to reduce the CCRA to 0.0134 per Dth effective January 1, 2019.

To calculate its CCRA, CenterPoint used Excel's goal-seek function[6] to find the CCRA value that would provide a year-end balance as close to zero as possible by the end of 2019. Pages A-5 and A-7 in the appendix of the *Petition* show the corresponding projections. On pages 50-51 of the *Petition*, CenterPoint stated:

> In the scenario where the CCRA is not changed until January 2019, the Company projects that its 2018 ending CIP Tracker balance will be $10,071,267 over-recovered, but only $5,676,896 over recovered if the CCRA is changed in September 2018. Total 2018-2019 carrying charges are also reduced from $81,405 to $78,942 (in the customers' favor in both cases) if the CCRA is reduced in September 2018 rather than January 2019.

The Department concludes that CenterPoint's approach for estimating an appropriate CCRA level is reasonable and recommends that the Commission approve a CCRA of $0.00441 per therm beginning September 1, 2018.

D. CENTERPOINT'S PROPOSED BILL LANGUAGE FOR CCRA

CenterPoint proposed the following bill language to alert customers of the change to the CCRA:

> The MPUC has approved a Conservation Cost Recovery Adjustment (CCRA) factor of $0.00441 per therm. This charge will be used to fund energy conservation activities and has been added to your delivery charge. For more information, please call 1-800-245-2377 or visit our website at www.centerpointenergy.com

[6] Goal Seek is a process whereby Excel calculates a value by performing what-if analysis on a given set of values. Excel's Goal Seek feature allows the user to adjust a value used in a formula to achieve a specific goal. Or, put another way, Goal Seek determines input values needed to achieve a specific goal.

The Company's proposed language is the same it has used on previous bills. The Department recommends that the Commission approve CPE's proposed language.

E. REVIEW OF CENTERPOINT'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2008-2017)

In Attachment A, Table 1, the Department presents a historical comparison of CenterPoint's DSM and CIP activities during the period 2008 through 2017. The table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment A, Table 1 indicates that, between 2008 and 2017, the Company's first-year energy savings grew from 827,340 Dth to 2,632,545 Dth. In fact, in 2017, CenterPoint's first-year energy savings were about 31 percent higher than the Company's previous highest savings, achieved in 2016. In addition, the Company's financial incentive grew from $484,182 in 2017 to $12,456,038, expenditures grew from $8.4 million to $32.1 million, and incentives plus expenditures grew from $8.9 million to $44.6 million.

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

1) approve CenterPoint's proposed 2017 DSM financial incentive of $12,456,038 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 CenterPoint's 2017 CIP tracker account, as summarized in Table 1 above, resulting in a December 31, 2017 tracker balance of $3,899,087;

3) approve a 2018/2019 CCRA of $0.00441 per therm, effective September 1, 2018 or $0.0134 per therm if effective January 1, 2019; and

4) approve the Company's proposed bill message concerning its CCRA.

/ja

Attachment

Table 1: A History of CenterPoint Energy's CIP Activities (2008-2017)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
DSM Financial Incentive	$484,182	$1,394,200	$3,493,921	$4,590,392	$3,207,411	$10,890,131	$11,608,486	$12,732,019	$13,791,346	$12,456,038
Incentive/CIP Expenditures	5.80%	13.80%	21.10%	24.50%	16.30%	46.90%	47.70%	48.20%	46.10%	38.77%
Carrying Charges	N/A	$507,115	$296,465	$450,945	$418,624	$344,598	($443,194)	($13,773)	($8,953)	($19,848)
Carrying Charges/CIP Expenditures	N/A	5.00%	1.80%	2.40%	2.10%	1.50%	1.80%	0.05%	0.03%	0.06%
Year-End Tracker Balance	$8,147,421	$6,879,416	$10,216,655	$9,248,025	$14,225,552	$8,501,064	$2,285,733	$2,932,026	$7,461,117	$3,899,087
Year-End Tracker Balance/CIP Expenditure	97.09%	67.99%	61.64%	49.42%	72.30%	36.60%	9.39%	11.11%	25.00%	12.13%
CIP Expenditure	$8,391,297	$10,117,898	$16,574,737	$18,713,923	$19,680,178	$23,222,379	$24,352,083	$26,394,800	$29,897,277	$32,131,251
Incentive + CIP Expenditures	$8,875,479	$11,512,098	$20,068,658	$23,304,315	$22,887,589	$34,112,510	$35,960,569	$39,126,819	$43,688,623	$44,587,289
Achieved First Year Energy Savings (Dth)	827,340	938,978	1,300,228	1,488,231	1,330,518	1,584,019	1,701,716	1,851,930	2,006,014	2,632,545
Avg. Cost/First Year Dth Saved	$10.14	$10.78	$12.75	$12.57	$14.79	$14.66	$14.31	$14.25	$14.90	$12.21
CIP Expenditures + Incentives/First Year Energy Savings	$10,73	$12.26	$15.43	$15.66	$17.20	$21.54	$21.13	$21.13	$21.78	$16.94