

June 23, 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-16-282

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 2015 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, 2016 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/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E002/M-16-282

I. INTRODUCTION

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

- A DSM financial incentive of \$43,277,219 for Xcel's 2015 electric CIP achievements;
- A report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2015;
- A CIP Adjustment Factor for 2016/2017 of \$0.001941/kilowatt-hour (kWh).

The Petition contains data relevant to the Company's natural gas utility as well as to its electric 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-16-283.

II. COMMISSION'S 2015 ORDER

On June 23, 2015, the Commission issued its Order in Docket No. E002/M-15-320 approving Xcel's 2015 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved the 2014 Xcel Electric CIP Tracker Account activity shown in Table 1 of the Department's comments, pending a response from the Company in Reply Comments.

2. Approved Xcel's proposed bill message effective the first month the 2015/2016 CIP Adjustment Factor takes effect.
3. Approved a DSM financial incentive of \$40,179,927 for Xcel's 2014 electric CIP achievements.
4. Approved a Solar*Rewards financial incentive of \$96,148 for Xcel's 2014 achievements.
5. Approved a CIP Adjustment Factor for 2015/2016 of \$0.001414/kWh.

On September 18, 2015, Xcel filed its compliance filing in response to Order Point 5, recalculating the CAF and proposed to implement the new factor, \$0.001386/kWh, on October 1, 2015. The Department filed a compliance sign-off form on March 7, 2016. Xcel's proposed rate went into effect October 1, 2015.

III. DEPARTMENT ANALYSIS

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

- in Section III.A, Xcel's proposed electric 2015 Demand Side Management (DSM) financial incentive;
- in Section III.B, Xcel's proposed electric 2015 CIP Tracker Account;
- in Section III.C, Xcel's proposed electric CAF for 2016/2017; and
- in Section III.D, a review of Xcel's CIP activity for the period 2009 through 2015.

The Solar*Rewards program offered through CIP ended in 2014;¹ therefore there is no Solar*Rewards financial incentive for 2015.

A. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2015 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

¹ See Procedural History section of the Commission's July 23, 2014 *Order Approving Tariffs as Modified* in Docket No. E002/M-13-1015.

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.²

In Attachment A of its *Petition*, Xcel noted that in 2015 its electric program met and exceeded the state's 1.5% energy savings target by achieving 500,393,537 kWh of savings, or 1.72% of non-CIP-exempt retail sales. Xcel's 2015 energy savings were 4 percent higher than in 2014 and 8 percent higher than in 2013. Compared to 2008, the Company has increased its energy savings by 46 percent. Xcel calculated that the Company should receive an incentive based on 16.0907 percent of its \$268,957,814³ in net benefits, or \$43,277,219.

² 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.

³ See Xcel Attachment A, page 33 of 39.

3. *Department Analysis of Xcel's Proposed 2015 Electric DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2015 DSM financial incentive of \$43,277,219 is ongoing. In all likelihood, it will not be completed before the fall of 2016. 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 2015 Status Report on April 1, 2016, 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 2015 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2015 achievements as part of the Company's 2016 filing.

Xcel's 2015 calculated incentive results in an incentive of 8.65 cents per first year kWh savings (\$43,277,219/500,393,537 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 2015 Shared Savings financial incentive of \$43,277,219.

B. 2015 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2015 Electric CIP Tracker activity, resulting in a year-end 2015 balance of \$9,164,617. Table 1 below shows a summary of activity in Xcel Electric's 2015 CIP tracker account. The Department reviewed Xcel's 2015 CIP tracker account activity in Table 1.

Table 1: A Summary of Xcel Electric's 2015 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	31-Dec-14	\$(56,291,009)
CIP Expenses	January 1 through December 31, 2015	\$91,385,776
Financial Incentive	For 2013/2014 CIP achievements	\$82,836,794
Carrying Charges ⁴	January 1 through December 31, 2015	\$(56,557)
Recovered in Base Rates	January 1 through December 31, 2015	(\$87,383,872)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2015	(\$21,326,516)
Ending Balance	31-Dec-15	\$9,164,617

The Department recommends that the Commission approve Xcel's 2015 electric CIP tracker account activity, as provided in the Company's Petition and summarized in Table 1 above, resulting in a December 31, 2015 tracker balance of \$9,164,617.

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.

C. CIP ADJUSTMENT FACTOR REPORT

As noted above, in its June 23, 2015 Order in Docket No. E002/M-15-320, the Commission approved a 2014/2015 CIP adjustment factor (CAF) of \$0.001414 per kWh for Xcel. The CAF was eventually adjusted to \$0.001386 per kWh through the Company's September 18, 2015 Compliance Filing.

Table 2 below shows that Xcel currently projects an unrecovered October 1, 2016 CIP Tracker balance of \$55.9 million under the assumption of no additional recovery of CIP costs through the CAF.

Table 2: Xcel Electric's Forecasted End of September 2017 CIP Tracker Account

Description	Amount
Forecasted beginning balance (October 2016)	\$22,354,535
October 2016-September 2017 Budget	\$92,896,603
Forecasted 2016 Incentive	\$30,982,523
Less Forecasted CCRC recovery (Oct 2016-Sept 2017)	(\$90,249,302)
Forecasted September 2017 balance without CAF	\$55,984,359

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.

The Company proposed to update its electric CIP Adjustment Factor to \$0.001941 per kWh to be effective with the first billing cycle of October 2016 and to remain in effect through the September 2017 billing period. Xcel's proposed CIP Adjustment Factor is an increase of \$0.000555 per kWh from its currently approved \$0.001386 per kWh.⁵ Xcel's proposed electric CAF would result in a 40 percent increase in the Company's current CAF. The proposed 2016/2017 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.

⁵ The Company will continue to apply the current CIP Adjustment of \$0.001386 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.

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

(1) Forecasted September 2017 Electric CIP Tracker Balance	\$55,984,359
(2) Forecasted Electric Sales (MWh) – October 2016 through September 2017 ⁶	28,833,643
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2)	\$1.942/MWh
	\$0.001942/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 \$0.001941 per kWh. Xcel estimated that it will have a CIP tracker balance of close to \$0 by the end of September 2017.⁷ 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 2016/2017 CCRA of \$0.001941 per kWh.

With respect to rate change notification, Xcel proposed to notify customers by implementing the following message on customer bills, effective the first month the 2016/2017 CIP Adjustment Factor takes effect:

Effective Oct. 1, 2016, 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 \$0.001941 per kilowatt-hour (kWh).

The Department recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2016 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.

D. A REVIEW OF XCEL'S ELECTRIC CIP ACTIVITY (2009-2015)

In Attachment A, the Department presents a historical comparison of Xcel's electric CIP activity for the period 2009 through 2015. 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 2009 and 2015, the Company's energy savings grew 46.2 percent, the Company's expenditures grew 57.9 percent, and the Company's incentives grew 163.9 percent. Xcel's tracker balance was \$9.16 million at the end of 2015. Xcel projects that by the end of September 2016 its tracker balance will be close to zero again. Xcel's carrying charges for 2015 increased to - \$0.056 million. In the past few years the Department has been working with utilities and

⁶ Forecasted sales exclude the customers exempted from electric CIP charges

⁷ Petition Attachment A, Page 26 of 39.

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 then, with a negative carrying charge in 2011, 2014 and again in 2015.

In summary, the Department recommends that the Commission approve Xcel's proposed 2016/2017 CAF of \$0.001941 per kWh.

IV. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission approve:

1. The 2015 Xcel Electric CIP Tracker Account activity shown in Table 1 above;
2. Xcel's proposed bill message effective the first month the 2016/2017 CIP Adjustment Factor takes effect;
3. A DSM financial incentive of \$43,277,219 for Xcel's 2015 electric CIP achievements, and allow Xcel to include the incentive in the Company's electric CIP tracker account no sooner than the issue date of the Commission's Order in the present docket.
4. A CIP Adjustment Factor for 2016/2017 of \$0.001941/kWh beginning with the first billing cycle of October 2016, conditional on the Company submitting, within 10 days of the issue date of the Order in the present docket, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

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Table 1: A History of Xcel's Electric CIP Activity (2009-2015)

	2009	2010	2011	2012	2013	2014	2015¹
DSM Financial Incentive	\$16,398,115	\$40,401,006	\$51,350,104	\$53,911,925	\$42,679,496	\$40,179,927	\$43,277,219
Incentive as a % of CIP Expenditures	28.33%	56.20%	67.30%	61.92%	53.64%	45.71%	47.36%
Carrying Charges	\$613,210	\$1,132,778	(\$619,259)	\$4,231	\$298,021	(\$1,229,487)	(\$56,557)
Carrying Charges as a % of Expenditures	1.06%	1.58%	-0.81%	0.00%	0.37%	-1.39%	-0.06%
Year-End Tracker Balance	\$24,785,198	\$24,233,452	(\$21,768,428)	\$31,925,410	\$30,624,948	(\$56,291,008) ²	\$9,164,617 ³
Year-End Tracker Balance as a % of CIP Expenditures	42.82%	33.71%	-28.53%	36.67%	38.49%	64.05%	10.03%
CIP Expenditures	\$57,885,077	\$71,884,335	\$76,302,262	\$87,071,903	\$79,570,696	\$87,889,789	\$91,385,776
Achieved Energy Savings (kWh)	342,205,073	409,111,894	462,021,574	533,477,510	462,021,576	481,325,941	500,393,537
Average Cost per kWh Saved ⁴	\$0.17	\$0.18	\$0.17	\$0.16	\$0.17	\$0.18	\$0.18

¹ The 2015 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.

² Does not reflect the inclusion of 2013 financial incentive of \$42,729,930

³ Includes both the 2013 and 2014 financial incentives

⁴ Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.