COMMERCE DEPARTMENT

May 30, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-19-31

Dear Mr. Wolf:

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

Minnesota Power's Conservation Improvement Program Consolidated Filing (*Petition*).

The *Petition* was filed on April 1, 2019 by:

Leah Peterson
Supervisor-Customer Business Analytics
Minnesota Power
30 West Superior Street
Duluth, Minnesota 55802

The Department recommends that the Minnesota Public Utilities Commission **approve MP's *Petition*.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/CHRISTOPER T. DAVIS
Analysis Coordinator

CTD/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E015/M-19-31

I. SUMMARY OF THE UTILITY'S PROPOSAL

On April 1, 2019, Minnesota Power (MP or the Company) submitted its annual Conservation Improvement Program (CIP) report (*Report* or *Petition*) for 2018 with the Minnesota Public Utilities Commission (Commission) in Docket No. E015/M-19-31. In its *Petition,* MP requested that the Commission approve:

- A Shared Savings Demand Side Management (DSM) financial incentive of $2,780,073 for MP's 2018 CIP achievements;
- 2018 CIP tracker account activity, resulting in a year-end 2018 balance of ($1,519,260);
- An updated carrying charge rate of 0.4792% for the CIP tracker;
- A 2019/2020 Conservation Program Adjustment factor of ($0.000137)/kWh for bills rendered on and after July 1, 2019; and
- A variance of Minn. Rules 7820.3500 and 7825.2600 to permit MP's continued combination of the Conservation Program Adjustment with the Fuel and Purchased Power Clause Adjustment on customer bills.

The Company also filed its 2018 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]

II. COMMISSION'S 2017 ORDER

On September 4, 2018, the Commission issued its Order approving MP's 2017 Consolidated CIP filings,[2] with the following determinations:

---

[1] See Docket No. E015/CIP-16-117.02.
[2] Docket No. E015/M-18-116.

1. Approved MP's 2017 CIP tracker account, as summarized in Table 1 of the Department's May 11, 2018 comments, with a December 31, 2017 tracker balance of $3,315,558.
2. Approved MP's new monthly carrying charge rate of 0.4063 percent.
3. Approved a 2018/2019 Conservation Program Adjustment [CPA] of $0.002741 per kWh.
4. Approved an incentive of $2,994,840 for Minnesota Power's 2017 CIP achievements.
5. Granted Minnesota Power a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 for one year after the issue date of this Order.
6. Required Minnesota Power to submit a compliance filing, within 10 days of the issue date of this Order, with revised tariff sheets reflecting the Commission's determinations in this matter.

III. DEPARTMENT ANALYSIS

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

- in Section III.A, Minnesota Power's proposed 2018 Shared Savings DSM financial incentive;
- in Section III.B, MP's proposed reconciliation for its 2018 CIP tracker Account;
- in Section III.C, Minnesota Power's proposed CPA for 2019/2020;
- in Section III.D, Minnesota Power's request for a waiver from Minnesota Rules part 7820.3500 (K) and Minnesota Rules part 7825.2600 and its proposed notice of the rate increase; and
- in Section III.E, MP's historical CIP achievements and incentives, 2007-2018.

A. MINNESOTA POWER'S PROPOSED FINANCIAL INCENTIVE FOR 2018 CIP ACHIEVEMENTS

1. Background and Summary of MP's Proposed DSM Incentive for 2018 Achievements

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 weathernormalized retail sales.[3] For 2018, the electric and gas incentives are capped at 12 percent of net benefits and 35 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

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:

[3] 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).

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.

[Footnotes omitted.]

MP reported that its 2018 achievements resulted in energy savings of 72,479,534 kWh, approximately 2.61% of retail sales, and 8,096 kW. Together the 2018 energy and demand savings resulted in $23,167,277 of net benefits.[4] Based on the terms and conditions of its approved Shared Savings DSM incentive plan, Minnesota Power requested recovery of a DSM financial incentive of $2,780,073 for 2018, which the Company calculated by multiplying the net benefits cap of 12 percent by the calculated net benefits of $23,167,277. Minnesota Power's proposed incentive is equal to approximately 31% ($2,780,073/$9,031,446) of the Company's 2018 CIP actual expenditures.

2. The Department's Review of MP's Proposed 2018 DSM Incentive

Minnesota Power estimated that its 2018 performance should result in a Shared Savings DSM financial incentive of $2,780,073.[5]

The Department's engineering-oriented analysis of the demand and energy savings that underpin MP's proposed Shared Savings 2018 DSM financial incentive of $2,780,073 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 Department's engineering review is a recurring phenomenon.

In 2018, the Department compensated for this lag by simply assuming Minnesota Power's claimed energy savings for 2017 were correct as filed, with the intent to make in the instant filing any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner approved Minnesota Power's 2018 Status Report, covering 2017 CIP activity, without any adjustments in Docket No. E015/CIP-16-117.01,[6] and thus none are required in this docket.

In the event that the Deputy Commissioner of the Department approves different 2018 CIP energy savings or budget, the Commission can approve any adjustments to the Company's Shared Savings DSM financial incentive for 2018 achievements in the proceeding governing the Company's 2018 filing, which the Company will make April 1, 2020.

The Department recommends that the Commission allow MP to book a 2018 incentive of $2,780,073 in the Company's 2018 CIP tracker account.

---

[4] Calculations of Net Benefits are shown in Exhibit 5, page 2. The net benefits exclude $208,265 of net benefits resulting from conservation improvements at Minnesota Power facilities.

[5] The Company's 2018 incentive is capped by a limit of 12.0 percent of net benefits and 35 percent of expenditures. As the caps on net benefits and expenditures decline in 2019, the allowed incentive will decline. MP's 2018 achievements would result in an incentive of $2,316, 728 in 2019, based on a 2019 incentive cap of 10 percent of net benefits ($23,167,277 of net benefits x 10% cap).

[6] Approved by the Department on August 6, 2018.

B. MINNESOTA POWER'S PROPOSED 2018 CIP TRACKER ACCOUNT

In its *Petition*, Minnesota Power requested approval of its report on recoveries and expenditures included in the Company's CIP tracker account balance during 2018. Activity in MP's CIP tracker account during 2018 is summarized below in Table 1.

Table 1: A Summary of MP's 2018 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	1-Jan-18	$3,315,557.76
CIP Expenses	January 1 through December 31, 2018	$9,031,446.00
DSM Financial Incentive	Approved in 2018 for 2017	$2,994,840.00
Carrying Charges	January 1 through December 31, 2018	($13,336.00)
Base Rate Cost Recovery	January 1 through December 31, 2018	($4,625,957.04)
Conservation Program Adjustment Recovery	January 1 through December 31, 2018	($12,221,811.39)
Ending Balance	31-Dec-18	($1,519,260.67)

The Department reviewed MP's CIP tracker account and concludes that the Company correctly calculated its CIP tracker account for 2018, resulting in a year-end balance of ($1,519,260.67). The Department recommends that the Commission approve Minnesota Power's 2018 CIP Tracker account as summarized in Table 1 above.

C. MINNESOTA POWER'S PROPOSED UPDATED CIP RIDER AND CPA

MP's CPA (Conservation Program Adjustment) of $0.005052 per kWh was approved on June 22, 2017 in Docket No. E015/M-17-178.

On page 16 of its instant filing, MP stated:

> The CIP Tracker Account balance at year-end 2018 reflects the result of prior activity in Tracker 2, as indicated on page 1 of Exhibit 1. However, for CPA purposes, the 2018 year-end balance requires adjustments to properly calculate the proposed CPA factor. Using the new fiscal year approach, these factors have been expanded to include actual and anticipated expenditures and cost recovery through base rates (CCRC) and the current CPA rate for the remainder of the current CPA period (January 2019–June 2019) as well as anticipated financial incentives, anticipated CIP expenditures, and anticipated cost recovery through base rates for the new CPA period (July 2019–June 2020). The new approach is designed to achieve a zero Tracker balance at the end of the CPA period (fiscal year) rather than at the end of the calendar year. Higher (calendar) year-end Tracker balances should therefore be anticipated going forward which is a deviation from Minnesota Power's recent history of low year-end Tracker balances. Minnesota Power notes that actual program performance, expenditures and sales will lead to tracker balance fluctuation.

For July 2019 through June 2020, Minnesota Power proposed a reduced surcharge of ($0.00137) per kWh, or a reduction of $0.002878 per kWh from the Company's 2018/2019 CPA of $0.002741 per kWh.

Table 2 below delineates the Company's calculation of its 2019/2020 CPA.

Table 2: MP's 2019/2020 CPA Calculation

Line No.	Description	Jan 2019-June 2019	July 2019-June 2019
1	CIP Tracker Account balance	($1,519,260)	($4,647,548)
2	Financial Incentives for 2018 Activity	N/A	$2,780,073
3	CIP Current Year Expenditures	$780,540	N/A
	CIP Expenditures Approved or Budgeted	$3,506,257	$10,518,770
4	CIP Costs Recovered Through Base Rates (actuals)	($870,195)	N/A
	CIP Costs Recovered Through Base Rates (estimated)	($2,806,169)	($9,026,008)
5	CIP Cost Recovery through current CPA (actuals)	($1,396,121)	N/A
	CIP Cost Recovery through current CPA (estimated)	($2,331,453)	N/A
6	Carrying Charges	($11,147)	N/A
7	**Recoverable CIP Tracker Balance**	($4,647,548)	($374,713)
8	CPA per kWh ($374,714)/2,735,896,000 kWh		($0.000137)

MP derived its proposed 2019/2020 CPA by dividing the recoverable CIP tracker balance projected for June 30, 2019 (third column of line 7) by the kilowatt hour sales subject to CIP over the corresponding time period (2,735,896,000 kWh, see line 8). The result is the ($0.000137)/kWh) CPA that the Company proposed.

Order Point 4 of the Commission's Order in Docket No. E015/M-15-80 required the Company to calculate the carrying charge on its CIP tracker account using the rate from its multi-year credit facility, effective upon the Commission's Order of September 16, 2015. In Exhibit 1, page 5 of MP's filing shows that the Company proposed a changed monthly carrying charge rate of 0.4792 percent beginning March 26, 2019. The Department concludes that MP correctly calculated its new monthly carrying charge rate of 0.4792 percent.

The Department recommends that the Commission approve MP's proposed 2019/2020 CPA of ($0.000137)/kWh.

D. MP'S ANNUAL REQUEST FOR VARIANCES FROM COMMISSION RULES

Minnesota Power requested renewal of two variances:

- a variance from Minnesota Rules part 7820.3500 (K), which requires the Fuel Clause Adjustment (FCA) to be listed on customers' bills as a separate line item; and
- a variance from Minnesota Rules part 7825.2600, which states that the FCA should be stated on a per-kWh basis on customer bills.

MP indicated that it seeks a variance of these two rules so that the Company may calculate the CIP adjustment rate on a per-kilowatt-hour basis, and combine the FCA and CIP adjustment rate on one bill line-item called a "Resource Adjustment."

Minnesota Rules part 7829.3200 authorizes the Commission to grant a variance to its rules when:

- enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- granting the variance would not adversely affect the public interest; and
- granting the variance would not conflict with standards imposed by law.

The Department concludes that the criteria for granting the requested variances are met as follows:

- <u>Excessive Burden</u>: MP has been using the combined Resource Adjustment for several years. While this approach certainly can be changed if the Commission desires, requiring a change now, for an adjustment to go in effect soon (MP requested an effective date of July 1, 2019), would create an administrative burden that is excessive.

- Public Interest**:** The variance would not adversely affect the public interest and could avoid confusion that might result from changing the presentation on bills at this time.
- Standards Imposed by Law: The separate line item requirement is created by Commission rule, and is not required by statute. Therefore, the requirement may be varied pursuant to Minnesota Rules pt. 7829.3200.

Therefore, the Department recommends that the Commission approve the variances requested by the Company.

Finally, MP indicated that it would notify customers of the CPA change by including a message in customer bills as follows:

> Effective <DATE> the Resource Adjustment line item on your bill has <increased/decreased> due to a change in the Conservation Improvement Program (CIP) billing factor. The CIP portion of the Resource Adjustment is <CPA Factor> per kilowatt-hour (kWh).

The Department concludes that MP's proposed customer notification is reasonable.

E. HISTORY OF MINNESOTA POWER'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES 2007-2018

In Attachment A, the Department presents a historical comparison of MP's CIP activity for the period 2007 through 2018. The attachment provides an indication of how the Company's energy and demand savings, CIP expenditures, Shared Savings financial incentive, carrying charges, and year-end tracker balance changed during the period.

Based on an analysis of Table 1 in Attachment A, Minnesota Power's:

- 2018 energy savings were 64 percent higher than 2007 energy savings and 2 percent higher than the average of 2010-2017, the period during which a version of the Shared Savings DSM financial incentive has been in effect;
- 2018 demand savings were 67 percent higher than its 2007 energy savings and 3 percent higher than the average of 2010-2017, the period during which a version of the Shared Savings DSM financial incentive has been in effect
- 2018 average cost per first-year energy savings were 12.5 cents per kWh, 16.3 cents per kWh when the cost of incentives are included.
- 2018 carrying charges were the lowest to date (in terms of absolute value).

II. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

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

1. Approve Minnesota Power's 2018 CIP tracker account, as summarized in Table 1 above, with a December 31, 2018 tracker balance of ($1,519,260).

2. Approve MP's new monthly carrying charge rate of 0.4792 percent;

3. Approve a 2019/2020 CPA of ($0.000137) per kWh, to be effective July 1, 2019, or on the first billing cycle in the next full month after Commission approval, whichever is later.

4. Approve a DSM financial incentive of $2,780,073 for Minnesota Power's 2018 CIP achievements, 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;

5. Grant Minnesota Power a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 until issuance of the Commission's *Order* establishing MP's 2020/2021 CPA; and

6. Require Minnesota Power to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

/ja

Attachment A

Docket No. E015/M-19-31

Minnesota Power

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (kWh)	Demand Savings (kw) *	CIP Expenditures	Net Benefits	DSM Financial Incentive	Carrying Charges	Year-End Tracker Balance	Average cost per kWh Saved	Average cost per kWh Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2007	44,168,014	4,842	$3,908,223	$13,617,215	$349,334	$37,945	$1,188,103	$0.088	$0.096	9%	3%	1%	30%
2008	48,845,282	5,644	$4,826,410	$18,669,840	$607,169	$100,453	$1,870,428	$0.099	$0.111	13%	3%	2%	39%
2009	52,897,732	6,378	$5,483,230	$23,391,755	$878,709	$97,222	$1,613,335	$0.104	$0.120	16%	4%	2%	29%
2010	60,503,220	7,173	$5,635,000	$29,675,047	$6,806,612	$42,425	$662,926	$0.093	$0.206	121%	23%	1%	12%
2011	69,091,422	7,455	$6,295,187	$16,611,526	$7,772,785	($62,643)	$4,603,612	$0.091	$0.204	123%	47%	-1%	73%
2012	63,159,196	8,132	$6,813,817	$16,543,789	$7,105,410	$87,535	$4,337,461	$0.108	$0.220	104%	43%	1%	64%
2013	77,630,645	5,724	$6,405,828	$17,757,678	$8,733,448	($55,657)	($495,816)	$0.083	$0.195	136%	49%	-1%	-8%
2014	76,338,363	9,215	$7,200,833	$20,792,339	$6,237,702	($157,343)	($1,116,332)	$0.094	$0.176	87%	30%	-2%	-16%
2015	85,447,344	7,226	$6,554,551	$29,636,057	$7,476,643	($210,949)	($2,649,748)	$0.077	$0.164	114%	25%	-3%	-40%
2016	63,182,840	9,489	$7,515,866	$22,997,984	$5,528,499	$210,949	$4,029,104	$0.119	$0.206	74%	24%	3%	54%
2017	72,372,163	8,594	$8,129,337	$22,184,003	$2,994,840	$88,914	$3,315,558	$0.112	$0.154	37%	13%	1%	41%
2018	72,479,534	8,096	$9,031,446	$23,167,277	$2,780,073	($13,336)	($1,519,260)	$0.125	$0.163	31%	12%	0%	-17%