April 30, 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. E002/M-19-258

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, doing business as Xcel Energy (Xcel or the Company), requesting approval of the following:

- a proposed 2018 electric Shared Savings Demand Side Management (DSM)financial incentive;
- the conservation cost recovery contained in its Conservation Improvement Program (CIP) Tracker Account for its electric CIP; and
- a proposed 2019/2020 electric CIP Adjustment Factor (CAF).

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

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

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/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E002/M-19-258

I. INTRODUCTION

On April 1, 2019, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) submitted to the Minnesota Public Utilities Commission (Commission) a *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 2018, a proposed increase in the currently approved electric Conservation Improvement Program (CIP) Adjustment Factor (CAF), and a proposed Shared Savings demand side management (DSM) financial incentive for its 2018 CIP achievements. Xcel's *Petition* requested that the Commission approve the following:

- A Shared Savings DSM financial incentive of $28,856,219 for Xcel's 2018 electric CIP achievements;
- A report of proposed recoveries and expenditures in Xcel's electric CIP tracker account in 2018;
- A CAF for 2019/2020 of $0.001581/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-19-259.

II. COMMISSION'S 2018 ORDER

On September 4, 2018, the Commission issued its Order in Docket No. E002/M-18-240 approving Xcel's 2018 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved the 2017 Xcel Electric CIP Tracker Account activity shown in Table 1 of the Department's May 10, 2018 comments;
2. Approved Xcel's proposed bill message effective the first month the 2018/2019 CIP Adjustment Factor takes effect, revised to incorporate the approved CIP Adjustment Factor;

3. Approved a demand side management financial incentive of $30,241,197 for Xcel's 2017 electric CIP achievements, and allowed Xcel to include the incentive in the Company's electric CIP tracker account no sooner than the issue date of this Order; and
4. Approved a CIP Adjustment Factor for 2018/2019 of $0.001730/kWh beginning with the first billing cycle of October 2018, conditioned on Xcel's filing, within ten days of the date of this order, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

On September 04, 2018, Xcel filed its compliance filing in response to Order Point 4, recalculating the CAF and proposed to implement the new factor, $0.001813/kWh, on October 1, 2018. The Department filed a compliance sign-off form on September 18, 2018. Xcel's proposed rate went into effect October 1, 2018.

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 2018 Shared Savings DSM financial incentive;
- in Section III.B, Xcel's proposed electric 2018 CIP Tracker Account;
- in Section III.C, Xcel's proposed electric CAF for 2019/2020; and
- in Section III.D, a review of Xcel's CIP activity for the period 2011 through 2018.

A. XCEL'S PROPOSED ELECTRIC DSM FINANCIAL INCENTIVE FOR 2018 ACHIEVEMENTS

1. Background and Summary of Xcel's Proposed Electric DSM Incentive

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.[1] For 2018, the electric and gas incentives are capped at 13.5 percent of net benefits and 35 percent of CIP expenditures. The Commission's Order included the following:

[1] 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. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.

   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,[2] University of Minnesota Initiative for Renewable Energy and the Environment costs[3]) 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,[4] solar installation,[5] and biomethane purchases[6] shall not be included in energy savings for DSM financial incentive purposes.

3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

4. 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.

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[2] See 2007 Laws, art. 2.
[3] Id., § 3, subd. 6.
[4] Minn. Stat. § 216B.1636.
[5] Minn. Stat. § 216B.241, subd. 5a.
[6] Id., subd. 5b.

In Attachment A of its Petition, Xcel noted that in 2018 its electric program met and exceeded the state's 1.5 percent energy savings target by achieving 680,448,447 kWh of savings, or 2.35 percent of non-CIP-exempt retail sales. Xcel's 2018 energy savings were 3.37 percent higher than in 2017. Xcel calculated that the Company should receive an incentive based on 12 percent of its $240,468,488 in net benefits, or $28,856,219.[7]

3. *Department Analysis of Xcel's Proposed 2018 Electric DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2018 DSM financial incentive of $28,856,219 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, and as the Company filed its 2018 Status Report on April 1, 2019, 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 2018 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2018 achievements as part of the Company's 2019 filing.

In 2018, the Department compensated for this lag by assuming Xcel Electric'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 Xcel's 2017 Status Report, covering 2017 CIP activity, without any adjustments in Docket No. E002/CIP-16-115.06,[8] and thus none need to be made in this docket.

The Department's review indicates that the Company correctly calculated its DSM financial incentive; therefore the Department recommends that the Commission approve Xcel's 2018 Shared Savings financial incentive of $28,856,219.[9]

B. 2018 CONSERVATION COST RECOVERY

Xcel requested Commission approval of its 2018 Electric CIP Tracker activity, resulting in a year-end 2018 balance of $26,639,223. Table 1 below shows a summary of activity in Xcel Electric's 2018 CIP tracker account.

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[7] See Xcel Attachment A, pages 34 - 36.

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

[9] The Company's 2018 incentive is capped by a limit of 12 percent of net benefits and 35 percent of expenditures. As the caps on net benefits and expenditures decline in 2019, Xcel's allowed incentive will decline. Xcel's 2018 achievements would result in an incentive of $24,046,848 in 2019, which would be limited by the cap on net benefits, not the cap on expenditures.

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

Description	Time Period	Amount
Beginning Balance	31-Dec-17	$31,486,876
CIP Expenses	January 1 through December 31, 2018	$107,451,885
Financial Incentive	For 2017 CIP achievements	$30,241,197
Carrying Charges	January 1 through December 31, 2018	$89,098
Recovered in Base Rates	January 1 through December 31, 2018	($89,488,835)
Recovered in CIP Adjustment Factor	January 1 through December 31, 2018	($53,140,998)
Ending Balance	31-Dec-18	$26,639,223

The Department notes that Xcel's carrying charges were calculated using the short-term cost of debt from the Company's 2012 rate case. The Commission's December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges* in Docket No. E002/M-14-287 modified the carrying charge rate as follows:

> The Commission modifies the carrying charge on the CIP tracker-account balance to the short-term cost of debt set in the Company's last electric rate case, E-001/GR-12-961. This change shall become effective in the month following the date of this order.

The Ordering Paragraph above cites Xcel's 2012 rate case because that case was the "last electric rate case" at the time.[10] The 2014 Order also reasons:

> There is no exact match, however, between any standard interest rate and the varying periods over which CIP costs might be carried in the tracker account. The closest match would appear to be the utility's cost of short-term debt. The twelve-month term typical of short-term debt corresponds to the twelve-month period for which CCRAs are set, normally at levels calculated to zero out the CIP tracker account over twelve months. The Commission will therefore direct the Company to prospectively reduce carrying

[10] Xcel filed a general rate case in E002/GR-13-868, but that case was in process at the time of the 2014 Order.

> charges on its CIP tracker account to the authorized cost of short-term debt set in its last rate case. [Footnote omitted.]

A new short-term cost of debt rate was approved in the Company's 2015 rate case, Docket No. E002/GR-15-826.[11] As such, the Department recommends that the Company use the 2015 short-term cost of debt rate for calculating carrying costs in the instant proceeding.

The Department requests that Xcel re-calculate its December 31, 2018 tracker balance, and present the result in reply comments.

C. CIP ADJUSTMENT FACTOR REPORT

As noted above, in its September 4, 2018 Order in Docket No. E002/M-18-240, the Commission approved a 2018/2019 CIP adjustment factor (CAF) of $0.001730 per kWh for Xcel. The CAF was eventually adjusted to $0.001813 per kWh through the Company's September 18, 2018 Compliance Filing.

Table 2 below shows that Xcel currently projects an unrecovered October 1, 2019 CIP Tracker balance of $47.8 million under the assumption of no additional recovery of CIP costs through the CAF.

Table 2: Xcel Electric's Forecasted End of September 2020 CIP Tracker Account

Description	Amount
Forecasted beginning balance (October 2019)	$21,461,853
October 2019-September 2020 Budget	$95,934,611
Forecasted 2019 Incentive	$12,746,662
Less Forecasted CCRC recovery (Oct 2019-Sept 2020)	($86,512,712)
Forecasted September 2020 balance without CAF	$43,630,415

[11] The Department notes that, while the Commission approved a settlement in the 2015 rate case, Xcel's short-term cost of debt was not a disputed issue, and thus is appropriate for use in the Company's CIP tracker.

Xcel included the above calculations so that it can calculate the CAF modification needed to most closely align recovery of costs to when costs are incurred and to minimize the 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 $0.001581 per kWh to be effective with the first billing cycle of October 2019 and to remain in effect through the September 2020 billing period. Xcel's proposed CIP Adjustment Factor is a decrease of $0.000233 per kWh from its currently approved $0.001813 per kWh,[12] a 12.8 percent decrease in the Company's current CAF. The proposed 2019/2020 factor was calculated to 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 2020 Electric CIP Tracker Balance	$43,630,415
(2) Forecasted Electric Sales (MWh) – October 2019 through September 2020[13]	27,613,378
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2)	$1580/MWh
	$0.001580/kWh

Xcel adjusted the calculated rate to incorporate the effect of carrying charges, which were not included in the forecasted balance. To get the September 2020 forecasted CIP Tracker balance as close to $0 without going negative the Company adjusted the calculated CIP Adjustment Rate to $0.001581per kWh.[14] As stated above the short-term cost of debt rate used to determine the carrying charges was updated in the Company's 2015 rate case. The Department requests that Xcel recalculate the proposed CIP Adjustment Factor using the Company's short-term cost of debt rate as approved in Xcel's 2015 rate case, and provide the result in reply comments.

The Department concludes that, after adjusting its rate to account for the 2015 short-term cost of debt when calculating carrying charges, 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

[12] The Company will continue to apply the current CIP Adjustment of $0.001813 per kWh up to the first cycle of the first full billing period following Commission approval of a revised factor.

[13] Forecasted sales exclude the customers exempted from electric CIP charges
[14] Petition Attachment A, Page 28 of 38.

they are incurred. The Department will make a final recommendation on the rate after reviewing the Company's 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 2019/2020 CIP Adjustment Factor takes effect:

> *Effective Oct. 1, 2019, the Resource Adjustment line item on your bill has decreased due to a change in the Conservation Improvement Program (CIP) factor. The electric CIP portion of the Resource Adjustment is $0.001581 per kilowatt-hour (kWh).*

The Department recommends that the Commission approve Xcel's proposed bill message with the modifications that the October 1, 2019 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 (2011-2018)

In Attachment A, the Department presents a historical comparison of Xcel's electric CIP activity for the period 2011 through 2018. The attachment provides an indication of how the Company's DSM financial incentive, carrying charges, year-end tracker balance, CIP expenditures, and reported energy and demand savings changed during the period.

An analysis of Table 1 in Attachment A indicates that, between 2011 and 2018, the Company's energy savings grew 47.3 percent, the Company's expenditures grew 40.8 percent, and the Company's incentives decreased 43.8 percent. Demand savings have remained relatively stable, having decreased during 2013 and 2014 before increasing to their new high of 148,400 kw in 2018, a 6.9 percent increase over 2011. Xcel's tracker balance was $26.6 million at the end of 2018. Xcel projects that by the end of September 2019 its tracker balance will be close to zero again. Xcel's carrying charges for 2018 increased to $89,098. After the Commission's 2014 decision to reduce the carrying charge rate, carrying charges have moderated. Xcel Electric'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.[15]

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[15] Xcel used to use the Company's weighted cost of capital for its carrying charge rate. In its December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, And Reducing Carrying Charges* in Docket No. E002/M-14-287, the Commission modified the carrying charge on Xcel Electric's CIP tracker-account balance to the Company's short-term cost of debt.

IV. DEPARTMENT RECOMMENDATION

The Department requests that Xcel recalculate the proposed CIP tracker and CIP Adjustment Factor using the short-term cost of debt rate approved in the Company's 2015 rate case, and provide the results in reply comments.

At this time, the Department recommends that the Commission approve:

1. Xcel's proposed bill message effective the first month the 2019/2020 CIP Adjustment Factor takes effect, revised as necessary to incorporate the approved CAF and effective date; and

2. A Shared Savings DSM financial incentive of $28,856,219 for Xcel's 2018 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.

The Department will make final recommendations on the CIP tracker and CIP Adjustment Factor after reviewing the Company's reply comments.

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Attachment A, Table 1. Xcel Electric's Historical CIP Achievements, Incentives, and Tracker Balance 2011-2018

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 first year kWh Saved[1]	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
2011	462,021,574	138,765	$76,302,262	$332,568,538	$51,350,104	($619,259)	($21,768,428)	$0.17	$0.28	67.30%	15.44%	-0.81%	-28.53%
2012	533,477,510	143,226	$87,071,903	$376,897,422	$53,911,925	$4,231	$31,925,410	$0.16	$0.26	61.92%	14.30%	0.00%	36.67%
2013	462,021,576	127,203	$79,570,696	$249,969,276	$42,679,496	$298,021	$30,624,948	$0.17	$0.26	53.64%	17.07%	0.37%	38.49%
2014	481,325,941	114,023	$87,889,789	$255,953,599	$40,179,927	($1,229,487)	($56,291,008)[2]	$0.18	$0.27	45.71%	15.70%	-1.39%	64.05%
2015	500,393,537	115,585	$91,385,776	$268,957,814	$43,277,219	($56,557)	$9,164,617[3]	$0.18	$0.27	47.36%	16.09%	-0.06%	10.03%
2016	552,781,775	135,564	$101,146,305	$312,424,228	$48,368,493	$15,721	$19,640,542	$0.18	$0.27	47.82%	15.48%	0.02%	19.42%
2017	658,274,791	139,359	$109,109,805	$224,008,869	$30,241,197	$48,421	$31,512,526	$0.17	$0.21	27.72%	13.50%	0.04%	28.88%
2018[4]	680,448,447	148,400	$107,451,885	$240,468,488	$28,856,219	$89,098	$26,639,223	$0.16	$0.20	26.86%	12.00%	0.08%	24.79%

[1] Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.
[2] Does not reflect the inclusion of 2013 financial incentive of $42,729,930.
[3] Includes both the 2013 and 2014 financial incentives.
[4] The 2017 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition.*