

June 4, 2019

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E002/M-19-258

Dear Mr. Wolf:

Attached are the *Response 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. The Department filed *Comments* on April 30, 2019, to which the Company filed *Reply Comments* on May 13, 2019.

As detailed in the attached *Response Comments*. The Department recommends that the Commission **approve the *Petition*, with modification.**

Sincerely,

/s/ MICHAEL N. ZAJICEK  
Rates Analyst

MNZ/ja  
Attachment

## **Before the Minnesota Public Utilities Commission**

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### **Comments of the Minnesota Department of Commerce Division of Energy Resources**

Docket No. E002/M-19-258

#### **I. BACKGROUND**

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)*. This Petition included 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 CIP Adjustment Factor (CAF), and a proposed Shared Savings demand side management (DSM) financial incentive for its 2018 CIP achievements.

On April 30, 2019 the Minnesota Department of Commerce, Division of Energy Resources (Department) filed *Comments* recommending approval of Xcel's bill message and shared savings DSM financial incentive and requesting that the Company provide a recalculated CIP tracker and CIP adjustment factor using the short-term cost of debt rate approved in the Company's 2015 rate case.

On May 13, 2019 the Company filed *Reply Comments* providing updated CIP tracker and CIP adjustment factor numbers using the short-term cost of debt rate approved in the Company's 2015 rate case.

#### **II. ANALYSIS**

In its *Reply Comments* the Company stated that the approved short-term cost of debt rate in its 2015 rate case, Docket No. E002/GR-15-826, is 4.45% for 2018 and 4.31% for 2019.<sup>1</sup> As the short-term cost of debt rate in the Company's previous rate case was only 0.68%, using the more up-to-date short-term cost of debt rate results in an increase in carrying charges for the 2018 CIP tracker and for the expected carrying charges for the next several years, resulting in an increased proposed CIP adjustment factor.

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<sup>1</sup> Minnesota Public Utilities Commission, Order (Docket No. E002/GR-15-826), June 12, 2017.

The Company recalculated the carrying charges for 2018 using a 4.45% short-term cost of debt rate resulting in carrying charges of \$580,490 for 2018, an increase of \$491,392 over the \$89,098 calculated using the old short-term cost of debt. Table 1 below shows a summary of the updated CIP tracker account for 2018. The Department also updated its Attachment A to account for the changes in carrying charges.

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

<b>Description</b>	<b>Time Period</b>	<b>Amount</b>
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	\$580,490
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	\$27,130,615

As stated in its initial *Comments*, the Department believes that using the most recently approved short-term cost of debt for the Company is reasonable and consistent with the intent of the Commission's order in Docket No. E002/M-14-287. Therefore the Department recommends that the Commission approve Xcel's 2018 electric CIP tracker account activity, as provided in the Company's *Reply Comments* and summarized in Table 1 above, resulting in a December 31, 2018 tracker balance of \$27,130,615.

The Company also recalculated its proposed CIP adjustment factor to account for these changes. As reported in Table 2 and 3 below the Company's calculation using the new short-term cost of debt rate raises the CIP adjustment factor to \$0.001613 per kWh, an increase of \$0.000032 per kWh over the originally proposed CIP adjustment factor of \$0.001581 per kWh.

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

<b>Description</b>	<b>Amount</b>
Forecasted beginning balance (October 2019)	\$22,187,981
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	\$44,356,542

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

(1) Forecasted October 2020 Electric CIP Tracker Balance.....	\$44,356,542
(2) Forecasted Electric Sales (MWh) – October 2019 through September 2020 <sup>2</sup> .....	27,613,378
(3) Recalculated Electric CIP Adjustment Rate = (1)/(2) .....	\$1.606/MWh
	<b>\$0.001606/kWh</b>

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 \$0.001613 per kWh. 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 2019/2020 CCRA of \$0.001613 per kWh.

### **III. RECOMMENDATIONS**

The Department recommends that the Commission approve:

1. The 2018 Xcel Electric CIP Tracker Account activity shown in Table 1 above;
2. A CIP Adjustment Factor for 2019/2020 of \$0.001613/kWh beginning with the first billing cycle in the month following the Commission's Order in this matter, or October 2019, whichever is later, 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;
3. 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
4. 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.

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<sup>2</sup> Forecasted sales exclude the customers exempted from electric CIP charges

**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 <sup>1</sup>	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) <sup>2</sup>	\$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 <sup>3</sup>	\$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 <sup>4</sup>	680,448,447	148,400	\$107,451,885	\$240,468,488	\$28,856,219	\$580,490	\$26,639,223	\$0.16	\$0.20	26.86%	12.00%	0.54%	24.79%

<sup>1</sup> Xcel's conservation measures have an average lifetime of 13 to 15 years. Consequently, the average lifetime cost of energy saved is much lower.

<sup>2</sup> Does not reflect the inclusion of 2013 financial incentive of \$42,729,930.

<sup>3</sup> Includes both the 2013 and 2014 financial incentives.

<sup>4</sup> The 2018 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in their *Petition*.