

May 28, 2019

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. G002/M-19-259

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

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 55401-1993

As discussed in greater detail in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the Company'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/ar
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G002/M-19-259

I. A SUMMARY OF THE UTILITY'S PROPOSAL

On April 1, 2019, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), submitted a filing in the present docket entitled *In the Matter of the Petition of Northern States Power Company for Approval of 2019-2020 Natural Gas Conservation Improvement Program Adjustment Factor (Petition)*. Xcel's *Petition* requested that the Minnesota Public Utilities Commission (Commission) approve the following:

- a proposed gas Shared Savings Demand Side Management (DSM) financial incentive of \$4,391,216 for 2018;
- a report of proposed recoveries and expenditures in Xcel's natural gas (gas) Conservation Improvement Program (CIP) tracker account in 2018; and
- a proposed 2019/2020 CIP Adjustment Factor (CAF) of \$0.022357 per therm.

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

II. THE COMMISSION'S 2018 ORDER

On September 4, 2018, the Commission issued its Order in Docket No. G002/M-18-246 approving Xcel's 2017 DSM financial incentive, CAF, and CIP tracker account as follows:

1. Approved Xcel's proposed 2017 gas DSM financial incentive of \$3,753,592 and allowed Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of this Order;
2. Approved Xcel's 2017 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 of the Department's May 10, 2018 comments, resulting in a December 31, 2017 tracker balance of \$(920,899);
3. Approved Xcel's proposed bill message language; and
4. Allowed Xcel to implement its proposed gas CIP Adjustment Factor of \$0.014845 per therm beginning October 1, 2018, conditional on the Company submitting, within 10 days of the issue 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 14, 2018, Xcel filed its compliance filing pursuant to Order Point 4, which included an update for the October 1, 2018 implementation date. Xcel filed a corrected compliance filing on September 20, 2018 recalculating the CAF and proposing to implement the resultant new factor of \$0.15504 per dekatherm on October 1, 2018. The Department filed a compliance sign-off form on September 20, 2018. Xcel's proposed rate went into effect October 1, 2018.

III. THE DEPARTMENT'S ANALYSIS

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

- in Section II.A, Xcel's proposed 2018 gas DSM financial incentive;
- in Section II.B, Xcel's proposed 2018 gas CIP tracker account;
- in Section II.C, Xcel's proposed change to the currently approved gas CIP Adjustment Factor; and
- in Section II.D, a review of Xcel's gas DSM and CIP activities for the period 2011 through 2018.

A. XCEL'S PROPOSED 2018 GAS DSM FINANCIAL INCENTIVE

1. Background and Summary of Xcel's Proposed 2018 Gas DSM Financial 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 12 percent of net benefits and 35 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

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.

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).

- 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 costs³) 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 purchases⁶ 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.

Under the Shared Savings DSM financial incentive plan approved by the Commission, Xcel may request Commission approval of a performance incentive based on the percent of net benefits that the Company achieves under its approved gas CIP. The plan links the incentive to the Company's performance in achieving cost effective conservation.

According to the Company, its 2018 energy savings achievements resulted in \$36,593,467 of net benefits. Xcel also stated that its gas CIP activities achieved energy savings in 2018 of 913,240 dekatherms (Dth); this savings is equal to 127 percent of the Company's 2018 savings goal and 1.27 percent of retail sales to non-CIP exempt customers. Based on the terms and conditions of its approved DSM incentive plan, Xcel requested recovery of a gas DSM financial incentive of \$4,391,216 for its 2018 CIP achievements.

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.

3. *The Department's Review of Xcel's Proposed 2018 Gas Shared Savings DSM Financial Incentive*

The Department's engineering analysis of the demand and energy savings that underpin Xcel's proposed 2018 DSM financial incentive of \$4,391,216 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.

The Department typically compensates for this lag by simply assuming that Xcel's claimed energy savings for the most recent year are correct as filed, with the intent of making any adjustments approved by the Department's Deputy Commissioner in the utility's next DSM financial incentive request proceeding. The Department notes that in Xcel Gas's 2017 CIP

status report, the Deputy Commissioner of the Department approved the Company's proposed energy savings level,⁷ and thus no adjustment needs to be made this year.

As was done last year, the Department's analysis assumes that Xcel's claimed 2018 energy savings are correct as filed. If the Department's Deputy Commissioner subsequently approves changes to Xcel'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 2019 filing that will be made April 1, 2020.

Xcel's reported gas energy savings level is 913,240 Dth, in the Company's 2018 *Status Report*. The Department used the 913,240 Dth energy savings in its review in this docket.

Xcel's gas's 2018 energy savings approximated 1.27 percent of the Company's non-CIP-exempt retail sales. At that achievement level, Xcel was eligible to receive 12.0 percent of net benefits, or \$4,391,216 (12.0% x \$36,593,467). Xcel's two caps for 2018 are 12.0 percent of net benefits and 35 percent of CIP expenditures. Xcel gas's incentive cap on expenditures for 2018 is \$5,296,398 (\$15,132,566 of CIP expenditures x 35 percent), however the Company instead ran into the 12.0 percent cap on the percentage of net benefits awarded.⁸ The Department recommends that the Commission approve Xcel's proposed 2018 gas DSM financial incentive of \$4,391,216 to be included in the Company's gas CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

⁷ Docket No. E,G002/CIP-16-115.06 *In the Matter of Xcel Energy's 2016 Electric and Gas Conservation Improvement Program Status Report*, approved August 6, 2018.

⁸ The incentive caps will decline in 2019. For 2019 CIP achievements, if Xcel gas were to achieve the same energy savings and net benefits and spend the same expenditures as in 2018, Xcel would receive a DSM financial incentive of \$3,659,346 (net benefits of \$36,593,467 x 10%).

B. XCEL'S 2018 GAS CIP TRACKER ACCOUNT

In its *Petition*, Xcel requested approval of its report on recoveries and expenditures in the Company's gas CIP tracker account during 2018. Table 1 below provides a summary of activities in Xcel's gas CIP tracker account during 2018.

Table 1: A Summary of Xcel's Gas CIP Tracker Account in 2018⁹

Description	Time Period	Amount
Beginning Balance	January 1, 2018	\$(919,946)
CIP Expenses	January 1 through December 31, 2018	\$15,506,839
Carrying Charges	January 1 through December 31, 2018	(\$60,944)
CIP Recoveries in base rates	January 1 through December 31, 2018	(\$4,236,247)
CIP Recoveries from CCRA	January 1 through December 31, 2018	(\$17,804,177)
Performance Incentives	2017	\$3,753,592
Incentive True-up	2016	\$99,993
Ending Balance	December 31, 2018	(\$3,660,890)

The *Petition* indicated that the 2017 financial incentive, which was approved on September 4, 2018, was booked during October of 2018. The Company also indicated that the 2016 financial incentive was booked at the wrong amount, and thus Xcel included \$99,993 to true-up the tracker to be consistent with the Commission-approved 2016 financial incentive.

The Department recommends that the Commission approve Xcel's 2018 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2018 tracker balance of (\$3,660,890).

C. XCEL'S PROPOSED GAS CIP ADJUSTMENT FACTOR

Minnesota law states in relevant part that the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."¹⁰ Xcel refers to its approved annual gas CIP recovery mechanism as the CIP Adjustment Factor (CAF).

In its *Petition*, Xcel proposed a gas CAF of \$0.22357 per decatherm for each customer class, effective on October 1, 2019, as calculated below in Table 2.

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

Description	Amount
Forecasted Beginning Balance (October 2019)	2,046,617
October 2019-September 2020 Budget	\$17,180,480
Forecasted 2019 Incentive	\$1,941,954
Forecasted CCRC Recovery (Oct 2019-Sept 2020)	(\$4,014,966)
Forecasted September 2020 Balance without CAF	\$17,154,085
Forecasted Sales (Oct 2019-Sept 2020)	76,621,497 dth
Xcel's Proposed CIP Adjustment Factor	\$0.22388/dth

⁹ See: 2018 Natural Gas CIP Tracker (DSM Cost Recovery) on page 24 of 38 of Attachment A of the *Petition*.

¹⁰ See Minn. Stat. §216B.16, subd. 6b(c).

Xcel's forecasted balance does not include carrying charges. To get as close as possible to a \$0 balance by Sept 30, 2020, Xcel adjusted the calculated rate of \$0.022388 per therm to account for the effect of carrying charges, which Xcel projects to be negative for several months. This adjustment resulted in a proposed CIP Adjustment factor of \$0.022357. Xcel estimated that this CIP adjustment rate will result in a forecasted September 30, 2020 Tracker balance of \$718.¹¹

Xcel followed the same calculation approach in calculating past CIP Adjustment Factors. The Department concludes that Xcel's calculation of its proposed gas CIP Adjustment Factor of \$0.022357 per therm is reasonable. The proposed factor would allow Xcel to recover CIP costs, financial incentives and the projected unrecovered tracker balance.

Table 3 below compares the Company's proposed gas CIP Adjustment Factor with the Company's currently approved CIP Adjustment Factor of \$0.015504 per therm.

Table 3: Xcel's Current and Department's Proposed CIP Adjustment Factor

Current Factor (\$/Therm)	Proposed Factor (\$/Therm)	Change (\$/Therm)	Percent Change
\$0.015504	\$0.022357	\$0.006853	44.2%

In the past, the Company has included a message on customer bills referencing its changed CIP adjustment rate after the change has been approved; Xcel proposed to do so again in this proceeding. Below is Xcel's proposed bill message language:

Effective Oct. 1, 2019, the Resource Adjustment line item on your bill has increased due to a change in the Conservation Improvement Program (CIP) factor. The natural gas CIP portion of the Resource Adjustment is \$0.022357 per therm.

The Department recommends approval of the proposed bill message language with the modifications that the October 1, 2019 effective date and the gas 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. In the event that the timing of Commission approval of the proposed factor suggests that the implementation date of the 2019/2020 CIP Adjustment Factor will occur after October 1, 2019, the Company proposed to continue to apply the current CIP Adjustment Factor up to the first cycle of the first full billing period following Commission approval of a revised factor.

D. A REVIEW OF XCEL'S GAS CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2011-2018)

In Attachment A, Table 1, the Department presents a historical comparison of Xcel's gas DSM and CIP activities during the period 2011 through 2018. Attachment A, Table 1 provides an indication of how the Company's gas Shared Savings DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and reported energy savings changed during the period.

¹¹ See Attachment A, page 29 of 38 of the *Petition*.

An analysis of Attachment A, Table 1 indicates that, between 2011 and 2018, the Company's energy savings increased by 22.23 percent, the Company's expenditures grew 19.14 percent, and the Company's incentives increased by 54.99 percent. Xcel's tracker balance was (\$3,660,890) at the end of 2018. Xcel projected that by the end of September 2019 its tracker balance will be close to zero again. In the last six years Xcel's carrying charges have ranged from (\$11,880) to (\$692,481), but have been reduced significantly the last three years as the Commission changed how the carrying charge was calculated.¹²

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

- 1) approve Xcel's proposed 2018 gas DSM financial incentive of \$4,391,216 and allow Xcel to include the incentive in the Company's gas CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;
- 2) approve Xcel's 2018 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized above in Table 1, resulting in a December 31, 2018 tracker balance of (\$3,660,890);
- 3) approve Xcel's proposed bill message language; and
- 4) allow Xcel to implement its proposed gas CIP Adjustment Factor of \$0.022357 per therm beginning October 1, 2019, or the first billing cycle in the month following the Commission's *Order* in this matter, 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.

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¹² 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. G002/M-14-288, the Commission directed Xcel to use the short-term cost of debt set in the Company's last rate case as the carrying charge rate.

**Attachment A, Table 1. Xcel Gas'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 (DTH)	CIP Expenditures	DSM Financial Incentive	Incentive + CIP Expenditures	Net Benefits	Carrying Charges	Year-End Tracker Balance	Average Cost per first year Dth Saved ¹	Average cost per Dth 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	747,123	\$12,701,823	\$2,833,206	\$15,535,029	\$62,179,293	(\$215,734)	(\$7,631,972)	\$17.00	\$20.73	22.3%	4.56%	-1.70%	-60.1%
2012	767,061	\$13,041,285	\$2,682,879	\$15,724,164	\$69,395,588	(\$411,428)	(\$4,648,913)	\$17.00	\$20.50	20.6%	3.87%	-3.15%	-35.7%
2013	787,918	\$12,780,833	\$5,416,936	\$18,197,769	\$32,085,609	(\$368,277)	(\$4,680,426)	\$16.22	\$23.10	42.4%	16.88%	-2.88%	-36.6%
2014	849,698	\$12,968,939	\$5,781,193	\$18,750,132	\$35,995,257	(\$692,481)	(\$12,398,883) ²	\$15.26	\$22.07	44.6%	16.06%	-5.34%	-95.6%
2015	838,319	\$13,577,149	\$5,763,443	\$19,340,592	\$37,350,638	(\$34,795)	\$488,314	\$16.20	\$23.07	42.4%	15.43%	-0.26%	3.6%
2016	908,472	\$13,805,805	\$6,245,743	\$19,951,548	\$42,565,945	(\$11,880)	\$1,746,885	\$15.20	\$21.96	45.2%	14.44%	-0.09%	12.7%
2017	799,597	\$14,181,339	\$3,753,592	\$17,934,931	\$29,231,281	(\$21,564)	(\$920,889)	\$17.74	\$22.43	26.5%	12.84%	-6.49%	-6.5%
2018 ³	913,240	\$15,132,566	\$4,391,216	\$19,523,782	\$36,593,467	(\$60,944)	(\$3,660,890)	\$16.57	\$21.38	29.0%	12.00%	-0.40%	-24.2%

¹ The average cost per Dth Saved equals CIP expenditures (\$) divided by achieved energy savings (Dth)

² Note that the Company did not include previous financial incentives in the 2014 actuals.

³ The 2018 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by Xcel in its *Petition*.