
STAFF MEMORANDUM

To: Commissioners and Advisors

From: Brian Rounds, Ross Pedersen and Karen Cremer

RE: EL11-013 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval to Establish a Demand Side Management Program and Cost Recovery Tariff and for Approval of its 2011 Planned Costs to be Included in its Rates

September 20, 2011

On May 31, 2011, Northern States Power Company dba Xcel Energy (Xcel) filed a petition requesting to expand its demand side management programs through a new cost recovery tariff. The Demand Side Management (DSM) Plan would be implemented through a new rider that would also include an incentive mechanism for the recovery of lost margins.

As was the case with Black Hills Power's filing in EL11-002, this filing is the result of a collaborative effort between Xcel and Commission Staff (Staff) over the past year. In June of 2010, Staff initiated a series of workshops to discuss various issues concerning ratepayer-funded energy efficiency programs. Xcel's filing is a product of those workshops and subsequent informal discussions with Staff as well as prior proposals filed with this commission. Staff submits this memorandum in support of Xcel's proposed DSM Plan with some modification.

DSM PLAN

At this time, Xcel is offering several load management programs, including an energy control program, a peak control program, and a controlled air conditioner program. The proposed program expands on those efforts to lower both demand and energy for both residential and commercial customers.

On the residential side, Xcel initially proposed four programs: Ground Source Heat Pump, Residential Home Lighting, Residential Saver's Switch and Consumer Education. However, because Staff and Xcel believe the program is not cost effective as proposed, the Ground Source Heat Pump rebates were pulled from the proposal with its budget going towards the Lighting Efficiency Business program. A modified filing was created at Staff's request and is included as Appendix A to this memorandum. On the commercial side, Xcel has proposed three programs: Lighting Efficiency, Business Saver's Switch and Peak and Energy Control.

Staff is in support of all programs other than the Residential Home Lighting program. In past proceedings, Staff has argued that the number of free riders in such programs is high and not necessarily accounted for in the benefit-cost tests. However, the program has the benefit of providing something for everyone, and the Commission has approved such programs in the past.

The DSM Plan, as currently proposed, would have a Total Resource Cost (TRC) Ratio of 3.4 and a Ratepayer Impact Measure Ratio of 1.3. The programs would save an estimated 48,153,262 kWh over their useful lives at a cost of approximately 1.6 cents/kWh.

COST RECOVERY

The proposed DSM Plan utilizes the same mechanism to recover costs as all other regulated utilities in the state. Program costs are expensed and recovered over the period they are incurred through an energy efficiency rider that appears as a separate line item on the customer's bill. In this case, the charge is \$0.000496 per kWh.

Included in the volumetric rate described above is a fixed percentage incentive in lieu of lost margins. Similar to Black Hills Power's filing in EL11-002, Xcel proposes a fixed percentage incentive of thirty percent of budgeted costs. The incentive makes up for some of the fixed costs the utility will no longer recover as a result of lost sales. An extended explanation of Staff's position on the fixed percentage incentive, as well as benefit-cost tests, can be found in the Staff Memorandum filed in Docket EL11-002.

RECOMMENDATION

Staff recommends the Commission approve Xcel's proposed DSM plan, tariff, incentive mechanism and DSM rate, slightly modified with the removal of the Residential Home Lighting program.