

TO: COMMISSIONERS AND ADVISORS
FROM: BRIAN ROUNDS, DARREN KEARNEY, AND KAREN CREMER (STAFF)
SUBJECT: EL13-017 STAFF RECOMMENDATION
DATE: NOVEMBER 14, 2013

STAFF MEMORANDUM

OVERVIEW

With this filing, Northern States Power Company, dba Xcel Energy, (Xcel or Company) is requesting approval of its 2012 DSM Status Report and proposed 2014 DSM program changes. Commission approval of the 2012 status report encompasses a number of matters, including: the final tracker balance, the performance incentive, and the resulting rider rate. Going forward, Xcel is requesting some administrative flexibility as well as tweaks to a few of the programs. As such, Commission approval of 2014 program changes will: 1) give Xcel the ability to spend up to 110 percent of approved budget without Commission approval, 2) give Xcel the ability to transfer funds between programs to meet demand and maximize energy savings and participation, and 3) allow Xcel to modify program offerings and incentives to meet current market conditions. Staff is generally in favor of the proposed changes but believes the commercial lighting budget is inadequate at this time.

2012 RESULTS

For the 2012 calendar year, Xcel spent just over 100 percent of the budget to hit 155 percent of the savings goal. The portfolio accomplished impressive total resource cost (TRC) and ratepayer impact measure (RIM) tests of 2.55 and 1.20, respectively. As Xcel implemented the programs, it moved money around within the budget but kept the total amount almost perfectly in line, stating that the slight overage (about ½ percent) was accidental. Based on the portfolio's performance, Xcel requests that it be awarded the fixed incentive of 30 percent of the approved budget.

2012 was Xcel's first year of implementing its new energy efficiency portfolio, so it is not surprising that some of the participation and savings estimates were inaccurate. Additionally, given the final results of the portfolio, it appears the adjustments Xcel made on the fly were astute. Staff is impressed with the results and recommends approval of the 2012 Status Report and incentive.

PROGRAM CHANGES

As a result of Xcel's experience in 2012, the Company recommends the budget remain the same with a few minor programmatic and administrative changes. On the program side, Xcel intends to change some rebate levels and definitions in the lighting programs, partner with MidAmerican to install efficient lighting during audits, promote CFL recycling, and expand consumer education. On the administrative side, Xcel is requesting budget flexibility and overruns of up to ten percent, as well as some program design flexibility (i.e. changing rebate levels and availability in real time). The requested administrative changes are conservatively in line with how other companies have been operating for the past couple of years. For instance, Otter Tail Power has consistently asked for the Commission's approval of cost overruns after the fact, and their recent request for the flexibility to allow up to a 30 percent budget overrun was approved this fall.¹

The rate resulting from the 2012 true-up and proposed program changes is \$0.000486/kWh, which is an approximate two percent decrease in the rider rate. Staff recommends approval of the changes requested but, as laid out in the following section, has additional suggestions for program improvement.

XCEL CAN IMPROVE THE COMMERCIAL LIGHTING PROGRAM

Staff believes the commercial lighting program is underfunded. This is based on the fact that Xcel quit taking applications in April of this year and already has a backlog of applicants that will eat up most of the 2014 funding (if approved) without even opening the program for new applications. Because program changes and accompanying rates need to be approved by December 1st, 2013, Staff stops short of attempting to obstruct the rest of what we believe is a solid program. However, Staff would like the Company to consider increasing the budget appropriately in 2015.

Staff believes fully funding this program is necessary for the following reasons:

- Allowing only a portion of eligible customers to take advantage of a program that is often included to increase participation creates inequities in a portfolio that already needs to be carefully designed to avoid inequities.
- An underfunded program might limit the number of total upgrades to only those covered by the budget. That is, customers who decide to make efficient lighting upgrades and are placed in a rebate queue by the program until the following year (or potentially the next) may then put off completing the upgrades they

¹ See Docket EL13-016, *Proposed South Dakota Energy Efficiency Plan for 2014-2015*, page 1.

might otherwise do without the program's existence, just so they can receive the program incentive.

- Xcel believes fully funding the commercial lighting program would double the rate to approximately \$0.001/kWh, which is almost exactly the rate approved for Otter Tail Power this summer (\$0.00103/kWh).² Xcel's current rate is relatively low at approximately 1/20th of 1 cent per kWh.
- As a result of aggressive energy efficiency mandates in Minnesota, South Dakota's share of Xcel's electricity demand is rising rapidly. The result is a higher jurisdictional allocation factor for our state, which means the shifting of capital expenditure recoveries from Minnesota to South Dakota. The commercial lighting program was the second most effective program for creating annual energy savings per dollar invested (with the first being the residential lighting program) in 2012. As such, investing more in the program will likely help create additional energy savings to counter this shift in cost recovery.
- Finally, the commercial lighting program had a RIM score of 1.26 and TRC score of 2.28 in 2012. In docket EL08-028, the Commission ordered electric utilities to "integrate cost-effective energy efficiency resources into [their] plans and planning processes."³ Based on the RIM and TRC test results, the program is clearly cost effective. At some point in the future, additional generation investment could be deemed imprudent if lower cost options, such as the commercial lighting program, are not fully taken advantage of first.

For the reasons stated above, Staff would like the Company to consider raising the commercial lighting budget for 2015.

STAFF RECOMMENDATION

Staff recommends the Commission approve Xcel's 2012 Status Report and 2014 program changes.

² See Docket EL13-015.

³ See Docket EL08-028, *Order Adopting Modified Electric PURPA Standards*, page 3 at paragraph 9.