

**STATE OF SOUTH DAKOTA  
BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE PETITION OF  
NORTHERN STATES POWER COMPANY  
FOR APPROVAL OF A ONE-TIME  
CANCELLATION CHARGE WAIVER OF THE  
COMPANY TARIFF REQUIREMENTS FOR  
PEAK CONTROLLED AND ENERGY  
CONTROLLED SERVICES

DOCKET NO. EL15-\_\_\_\_\_

**PETITION**

**INTRODUCTION**

Northern States Power Company, doing business as Xcel Energy, submits to the South Dakota Public Utilities Commission this Petition for approval of a limited one-time waiver of the Company's cancellation charge for Peak Controlled Services (PCS)<sup>1</sup> and Energy Controlled Services (ECS).

The Company is proposing to provide the limited waiver as an incentive for customers to review their optional service in anticipation of potential increases in interruption requirements and make adjustments where necessary. Confirming customer participation levels will assist the Company in improving the accuracy of our forecast of reliable load reduction capabilities for purposes of registering its demand response resources with the Midcontinent Independent System Operator (MISO).

Xcel Energy registers their demand response resources with MISO to receive the related capacity accreditation and thereby help the Company fulfill its resource adequacy requirement under MISO. Without this capacity accreditation, the Company would have to obtain additional capacity either through self-owned generation or capacity purchases from other resources. Accuracy of these demand response resource capability is important because when the Company registers their capacity credit, it commits to making them available for use by MISO. Non-compliance will result in penalties to the Company by the system operator.

With the expectation that MISO will increase the use of demand response control in the summer season and begin its use in the winter season, providing customers the

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<sup>1</sup> Peak Controlled Services includes Peak Controlled Service and Peak Controlled Time of Day Service.

ability to modify or cancel contracts will improve the forecast accuracy of our load resources. Granting approval of a one-time waiver will allow customers the opportunity to cancel their PCS or ECS Contract in whole, or in part by reducing their existing load control commitment, without incurring any cancellation charge. If approved, the limited waiver would be in effect from July 1, 2015 through December 31, 2015. This time period should be sufficient for the Company to contact affected customers, allow them to assess their situation, and make the appropriate adjustments. This timeframe will also allow the Company to ensure all resulting contract changes are accurately reflected in order to register our resources with MISO by February 2016.

The following attachments are included with this Petition for reference:

- Attachment A: Peak Controlled Service Tariff
- Attachment B: Peak Controlled Time-of-Day Service Tariff
- Attachment C: Rules for Application of Peak Controlled Services
- Attachment D: Energy Controlled Service Tariff
- Attachment E: Electric Service Agreement-Peak Controlled Service
- Attachment F: Electric Service Agreement-Energy Controlled Service

## **I. GENERAL FILING INFORMATION**

The information in this filing is consistent and being provided in accordance with the requirements of South Dakota Administrative Rule §20:10:13:26.

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## II. DESCRIPTION AND PURPOSE OF FILING

### A. Background

Voluntary demand response programs generally offer customers reduced electric rates in exchange for their willingness to reduce loads during system peak load conditions, periods of high energy costs, or other emergency situations. The Company has a large portfolio of demand response resources available including all five states served by Northern States Power-Minnesota (NSPM) and Northern States Power-Wisconsin (NSPW), built through decades of customer engagement. PCS and ECS programs comprise approximately 10 percent of our NSP System peak load.

In South Dakota, the Company currently offers three demand response programs: the direct load control Saver's Switch program (both residential and business), Peak Controlled Service program, and Energy Controlled Service program. PCS and ECS customers enjoy reduced bills as a result of receiving discounted controllable demand charges.

However, PCS and ECS customers are also subject to "non-compliance" and cancellation charges. Non-compliance charges are assessed when a customer fails to meet their agreed-to load control threshold during a control event.<sup>2</sup> Specifically, participating customers are required to limit their peak load to their selected contractual firm service level, which is defined in the tariff as the Predetermined Demand Level (PDL). "Controllable load" is defined as the customer's peak load *above* the PDL. If a customer fails to meet this PDL obligation during a control event, they are subject to a non-compliance charge.

Cancellation charges are assessed when a customer cancels their contract, or reduces their committed demand reduction level, without providing the required advance notification. The cancellation charge is specified in the Electric Service Agreement (Contract) for Peak Controlled Services (Attachment E) as referenced in the Rules for Application of Peak Controlled Services rate schedule (see Attachment C), and in the Electric Service Agreement (Contract) for Energy Controlled Services (Attachment F) as referenced in the ECS Tariff (Attachment D). It is these cancellation charges that would be waived from July 1, 2015 to December 31, 2015 if this Petition is approved.

These resources have been an important part of our capacity portfolio and will continue to be in the future as part of the Company's resource adequacy with MISO.

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<sup>2</sup> Non-compliance charges include a "Failure to Control Charge" and the loss of a customer's controllable demand charge discount for the given billing month.

This petition allows the Company to improve the accuracy and reliability of its load reduction capabilities in coordination with MISO. In MISO's 2016 Resource Adequacy Forecast from June 5, 2014, the independent system operator projected shortfalls in generation beginning in 2016. The Company expects that MISO will begin to utilize their Tariffed control periods as capacity resources become more constrained. Offering a waiver of the cancellation charges in 2015 will provide customers the opportunity to make desired adjustments to coordinate their load control obligations.

## **B. Peak Controlled and Energy Controlled Services**

Peak and Energy Controlled Services were developed to provide customers with an incentive to reduce their electric loads during Company-specified control periods. Customers receive a monthly discount on their demand charge in return for reducing electric loads when notified by the Company. Participating customers must be able to reduce their electric loads by a minimum of 50 kW on control days. As registered resources providing the Company capacity credit, MISO can also call for the use of these resources.

PCS tariffs are available in the standard version as Peak Control Service (Attachment A) and in the time-of-day version as Peak Controlled Time of Day (TOD) Service (Attachment B). Both tariffs provide for interruption only for system peak load or emergency conditions. The program allows up to 80 annual control hours, with a five year initial contract and a six month cancellation notice requirement.

Additionally, the Energy Controlled Service Tariff (Attachment D) allows additional control hours at times of high energy costs for a higher demand charge discount and discounted energy rates for controllable load. This service option allows up to 300 annual control hours.

Generally speaking, control days are declared when system peak load conditions are expected as a result of high temperature and humidity conditions during summer months. Although control events have typically occurred in the months of June through September, there is no tariff restriction on controlling at other times of the year. With the exceptions of Energy-Controlled Service<sup>3</sup> and a single curtailment testing event,<sup>4</sup> the last initiated control event occurred several years ago.

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<sup>3</sup> Controllable events for ECS customers occur more frequently; more recently about once per year.

<sup>4</sup> Xcel Energy conducted a curtailment test event in the summer of 2014. This event controlled customers for one hour in order to verify controllable load.

The Company attempts to notify customers at least an hour in advance of a control period requirement using an automated system that allows each participating customer to designate up to three different contact personnel. Each contact may have up to four different types of communication including office phone, cell phone, e-mail, numeric pager, text pager, or fax. All attempts to reach a customer will cease when positive acknowledgement is received or after all attempts to reach the customer (using all of the contact-designated types of communication) are exhausted.

As noted in Table 1 we currently have 104 PCS and ECS customers in South Dakota, with a total controllable load of about 24 MW.

**Table 1: South Dakota Electric Customers  
Peak Controlled and Energy Controlled Services**

<b>Peak Controlled Service Tariff</b>	<b>Average Participants</b>	<b>MW Load</b>
Peak Controlled Service	76	8
Peak Controlled TOD Service	7	9
Energy Controlled Service	21	7
<b>Total</b>	<b>104</b>	<b>24</b>

**C. Increasing Expected use of Demand Response**

Our 2015 Integrated Resource Plan includes increased reliance on demand response resources in the future as they represent a cost-effective and environmentally sound approach to meeting our resource requirements.

Demand response is also increasingly important with respect to the Company’s resource adequacy requirements under MISO. Recent changes in the power supply landscape are prompting Xcel Energy and other utilities to reevaluate the extent to which it can rely on PCS and ECS to manage demand. For example, tighter regional capacity supplies are anticipated as a result of the Environmental Protection Agency’s (EPA) present and proposed environmental rules stemming from the Clear Air Act. The requirements impacting fossil fuel baseload generation will add pressure to increase reliance on demand response and the frequency of its use.

In MISO’s 2016 Resource Adequacy Forecast issued June 5, 2014, the independent system operator projected shortfalls in generation in the MISO region beginning in 2016. As a result, MISO has begun to prepare electric utilities for increased use of their demand response resources. In addition, there have been developments under

MISO's Tariff process which will impact our registered resources and increase the Company's need for capacity assurance.

1. MISO's measurement and verification of the capability of demand response used to help satisfy resource adequacy requirements are now administered with greater detail than in previous years.
2. MISO requires projected demand response availability by Local Balancing Authority (LBA) or specified areas within our service territory, further segmenting the demand response availability for the operator. This enables MISO to target deployment of demand response resources in the areas where the system requires relief. It also requires an accurate forecast of demand response capability within each area.
3. We expect MISO to implement demand response control events more frequently—potentially by LBA—as the supply and demand conditions tighten over the next several years. The timing of future controls and emergency conditions by MISO could occur during the winter months rather than just during our peak conditions during summer control days. This was demonstrated during last winter's extreme weather conditions and resulting changes in MISO's operating experience.

We register our demand response resources under the MISO Tariff<sup>5</sup> as emergency resources, allowing MISO to call a control event up to five times per Planning Year<sup>6</sup> for a period of up to four hours per event. The 20 controllable hours allowed for MISO use are included in the maximum load control availability for our demand response program. The Company reserves the right to utilize the remaining allowable controls provided by the terms of our tariff.

Over the past several years, the Company and MISO have had little need to call on these controllable load resources. The last time PCS customers were controlled for peak load conditions was in 2007. This has given participating customers a false sense of how frequently these programs might be normally called upon. The absence of recent control events can obscure the impact of changes in a customer's firm and controllable loads, which can affect the amount available for the program. We now anticipate that MISO will begin to control up to their 20 allowable hours as tightening power supply resources occur over the next several years.

This waiver opportunity will allow customers to review their current operations and make important load changes, if needed, for their business, and by doing so will also

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<sup>5</sup> Registering demand response resources with MISO allows the Company to obtain credit against our capacity requirements.

<sup>6</sup> The MISO Planning Year includes the 12-month period beginning June 1.

allow the Company to increase their assurance of meeting emergency requirements during a control event. In addition, the waiver will facilitate expanded communication with our customers regarding these future changes and allow customers time to adjust prior to these expected changes.

We believe it would be beneficial to have all participating customers verify their participation level and ability to comply with program requirements year-round. The review will help firm up customer interest and ability to remain on the rate or to prompt them to adjust their participation level to accurately reflect their current operations and capabilities. These steps will mitigate potential exposure to non-compliance fees and penalties assessed by MISO. These penalties could be material in the event some customers choose to accept non-compliance charges in place of controlling load to their firm service PDL.<sup>7</sup> Subsequent non-compliance by the Company could also result in MISO disqualifying the Company's demand response capacity for the remainder of the current and following planning years.

Providing a one-time waiver allows customers the opportunity to adjust their participation without charge; essentially providing an incentive to make important adjustments prior to the effect of changes by MISO.

The Company is prepared to offer our customers and MISO the assurance that during an emergency event, we can provide reliable service. PCS and ECS is an important part of this commitment. We expect to see an increase in the use of PCS and ECS and believe waiving the cancellation fees will allow us to 'right size' the program to the mutual benefit of current participants.

## **D. Waiver Impact**

### *1. Waiver Details*

The Company seeks a limited one-time waiver of the cancellation charge for Peak Controlled and Energy Controlled Services providing customers the opportunity to cancel their Contract in whole or in part with a reduction in available controllable load. The Company requests to waive cancellation charges through the end of 2015. These cancellation charges are detailed below.<sup>8</sup>

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<sup>7</sup> The current non-compliance charges for Peak Controlled and Energy Controlled Services were established prior to the development of MISO and do not currently cover penalties assessed by the independent system operator.

<sup>8</sup> Customers will still be charged all installation and removal of costs for special equipment and facilities provided by the Company for the program.

A cancellation charge is applicable after an initial one-year trial period if the required cancellation notice is not provided. The cancellation notice requirement is six months. Cancellation charges are determined to be the difference between applicable firm service General Service tariffs and the corresponding Peak or Energy Controlled Service tariff over the period of the most recent 18 months.

Customers are also subject to a charge for increasing their firm service PDL (i.e. committing to a lower controllable load to the Company), which is essentially a partial cancellation of service. This charge is applied to the applicable differential between firm and controllable demand charges for up to 18 months, if that amount is less than any “failure to control” charges over the same period.

## *2. Customer Impact*

In order to better predict customer compliance and indicate whether additional customer education was needed, the Company conducted a test event during the 2014 summer control period. Event results demonstrated that some customers did not fully control their load down to the PDL contracted with the Company and as such, the Company has administered non-compliance charges. We also worked with non-compliant customers to assist them in responding to future control events. We also determined that some customers would benefit from the opportunity to adjust their PDL levels or migrate to a tariff that better meets their needs.

The petitioned waiver will allow customers to review their Contract and make adjustments based on their current business operations and load control capabilities. We would expect that customers will take the opportunity to review their PDLs and make adjustment, if appropriate, with the understanding that historical use of demand response may not be an accurate indication of future use. Permitting this waiver will help provide timely program update and lessen customer impact prior to assessing future non-compliance charges while providing the Company additional assurance of compliance for control events.

The Company intends to hold future test events for the program including both winter and summer seasons to ensure that customers are prepared. The Company plans to communicate with customers through various marketing communications including direct mail, customer meetings, and direct contact through our account management team.



## **E. Future of Peak Controlled and Energy Controlled Service**

The Petition focuses specifically on our South Dakota operations. However, we are taking similar actions in Minnesota, North Dakota, and Wisconsin.

We are reviewing our Peak and Energy Controlled Services program and planning to make future proposals for revisions that will likely include updated non-compliance charges, program design modifications, and testing provisions. Providing the opportunity for customers to make a one-time modification of their contract without charge is in the best interest of both customers and Company in recognition of future uncertainties.

## **F. Effect of Change upon Xcel Energy Revenue**

The Company does not anticipate a significant change in revenue as a result of the proposed one-time cancellation charge waiver. We anticipate customers will be more inclined to adjust their controllable load than to completely cancel their Peak or Energy Controlled Service rate. To the extent customers reduce or cancel their controllable load, there will be some revenue increase as result of applying firm demand charges in place of discounted controllable demand charges. However, these revenues will be offset to some extent by lower potential cancellation charges (and revenues) due to the proposed waiver.

## **CONCLUSION**

The Company anticipates future change in the use of Peak or Energy Controlled Services, including winter season interruptions that may have significant implications to customers. Control events will likely become more frequent and future changes to the program are under review.

Our objective in requesting this waiver is to maintain our PCS and ECS programs as viable and useful tools for controlling system loads while being respectful of customer needs. By offering this one-time waiver, customers will have the opportunity to consider cancellation of their contract or make adjustments to the contracted load without being subject to a cancellation charge. We believe this step would help customers, provide timely ‘right-sizing’ of the current program, and allow the Company further control assurance for these important resources.

The Company respectfully requests the Commission allow this limited one-time tariff waiver of the charges for Contract cancellation in whole or in part due to PDL

adjustments outside required notification and Contract terms and ask that it be effective from July 1, 2015 to December 31, 2015.

Dated: April 16, 2015

Northern States Power Company