DECOUPLING

AND

DECOUPLING PILOT PROGRAMS

Report to the Legislature

December, 2015
(through September, 2015)

As required by

Minnesota Statutes § 216B.2412

Submitted by the Minnesota Public Utilities Commission

INTRODUCTION

Statutory Reporting Requirement

Minnesota Statutes (2014), Section 216B.2412, subdivision 3 requires the Minnesota Public Utilities Commission (Commission) to report annually to the Legislature on decoupling and decoupling pilot programs.

This report is to fulfill the reporting requirement of this section.

Costs of Preparing Report

Pursuant to Minnesota Statutes (2014), Section 3.197, it is estimated that the costs incurred by the Minnesota Public Utilities Commission in preparing this Report are minimal. Special funding was not appropriated for the costs of preparing this report.

BACKGROUND

Minnesota Statutes (2014), Section 216B.2412 is a provision of law regarding the decoupling of energy sales from revenues.

Definition of Decoupling

Subdivision 1 of that section defines decoupling as:

> a regulatory tool designed to separate a utility's revenue from changes in energy sales. The purpose of decoupling is to reduce a utility's disincentive to promote energy efficiency.

In other words, decoupling is intended to minimize or remove financial inhibitions utilities claim limit their investment in cost effective energy efficiency and other clean energy resources located "behind the customer's meter."

Decoupling Programs

Subdivisions 2 and 3 of that section provide the following:

> Subd. 2. Decoupling criteria. The commission shall, by order, establish criteria and standards for decoupling. The commission may establish these criteria and standards in a separate proceeding or in a general rate case or other proceeding in which it approves a pilot program, and shall design the criteria and standards to mitigate the impact on public utilities of the energy savings goals under section 216B.241 without adversely affecting utility ratepayers. In designing the criteria,

the commission shall consider energy efficiency, weather, and cost of capital, among other factors.

Subd. 3. Pilot programs. The commission shall allow one or more rate-regulated utilities to participate in a pilot program to assess the merits of a rate-decoupling strategy to promote energy efficiency and conservation. Each pilot program must utilize the criteria and standards established in subdivision 2 and be designed to determine whether a rate-decoupling strategy achieves energy savings. On or before a date established by the commission, the commission shall require electric and gas utilities that intend to implement a decoupling program to file a decoupling pilot plan, which shall be approved or approved as modified by the commission. A pilot program may not exceed three years in length. Any extension beyond three years can only be approved in a general rate case, unless that decoupling program was previously approved as part of a general rate case. The commission shall report on the programs annually to the chairs of the house of representatives and senate committees with primary jurisdiction over energy policy.

COMMISSION ACTIONS

Establishment of Revenue Decoupling Criteria and Standards

As noted, subdivision 2 of Section 216B.2412 required the Commission to establish criteria and standards for decoupling. In order to reach an informed decision on how best to establish these standards, the Commission contracted with the Regulatory Assistance Project (RAP) to coordinate a stakeholder input process and to prepare a written report detailing decoupling program options. RAP facilitated several meetings with Commissioners, Commission staff, and stakeholders, and issued its final report on June 30, 2008.

Following receipt of the RAP Report, the Commission solicited comments from interested parties on the findings and recommended decoupling criteria and standards in the Report. Ten parties filed comments and reply comments. Parties discussed objectives of decoupling, pilot program implementation and timing, ratepayer impact, customer class inclusion, pilot evaluation criteria, as well as several other issues raised by the RAP Report and the Commission's Notice Seeking Comments.[1]

The Commission met on May 28, 2009 and ordered the establishment of criteria and standards for pilot decoupling programs. The Commission detailed what information should be provided in the initial proposal of a decoupling pilot, how the proposal would be reviewed, and what information, at a minimum, should be provided for the annual evaluation of approved pilots.

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[1] The Public Utilities Commission provided a copy of the Regulatory Assistance Project Report with its 2009 legislative report. The Report, comments and related documents can be found via eDockets at www.edockets.state.mn.us under "08" – "132".

The Commission's *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling,* In the Matter of a Commission Investigation Into the Establishment of Criteria and Standards for the Decoupling of Energy Sales from Revenue (June 19, 2009) can be found via eDockets under Docket No. E,G-999/CI-08-132.

CenterPoint Energy's Conservation Enabling Rider, CPE Pilot Decoupling Program #1 (docket #08-1075)

On January 11, 2010, the Minnesota Public Utilities Commission (Commission) issued its *Findings of Fact, Conclusions of Law, and Order* in CenterPoint Energy's (CenterPoint, CPE, Company) 2008 General Rate Case.[2] As part of the *CPE 2008 Rate Case Order*, the Commission authorized CenterPoint to conduct a pilot partial decoupling program under Minnesota Statute § 216B.2412. Under CenterPoint's partial decoupling[3], the annual rate adjustments were based on actual sales adjusted for normal weather, known as "weather-normalized actual sales."

The *Rate Case Order*, while authorizing CenterPoint Energy to conduct this pilot program, also required the company to file a proposal for evaluating the program. Consideration of this proposed evaluation plan came before the Commission on December 9, 2010.

In the Commission's December 16, 2010 *Order Approving Decoupling Evaluation Plan As Modified,* the Commission agreed that CenterPoint Energy's evaluation plan offered a workable framework for addressing the questions posed by subdivision 3 of Minn. Stat. § 216B.2412.[4] Consequently, the Commission approved the evaluation plan with several modifications.

On March 1, 2011, CenterPoint Energy submitted its first annual report on its revenue decoupling pilot program. CenterPoint Energy's first annual report covered the first six months of the pilot program (July 1 through December 31, 2010) and is entitled Revenue Decoupling and Inverted Block Rate Evaluation (Evaluation Report). The Minnesota Department of Commerce, Division of Energy Resources (Department), the Anti-Trust and Utilities Division of the Office of the Attorney General (AUD-OAG), the Izaak Walton League of America (IWLA), the Suburban Rate Authority (SRA), the Energy Cents Coalition (ECC), and Community Action of Minneapolis (CAM) all filed *Comments* in response to CenterPoint's decoupling evaluation report.

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[2] Docket No. G-008/GR-08-1075 ("08-1075"), *In the Matter of an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota*, Findings of Fact, Conclusions of Law, and Order ("CPE 2008 Rate Case Order"), January 11, 2010.

[3] *Full* decoupling insulates a utility's revenue from deviation of actual sales from expected sales, regardless of the cause of that deviation. *Partial* decoupling operates similarly to full decoupling, except only a portion of the deviation from actual sales is trued up. *Limited* decoupling limits adjustments for sales losses to specific causes of deviation, such as weather or conservation.

[4] 08-1075, Order Approving Decoupling Evaluation Plan as Modified ("CPE Decoupling Order"), December 16. 2010.

The Company's inverted block rate (IBR) mechanism was the primary topic of these comments. Most comments generally opposed continuation of the IBR in its implemented form, except for those of the Energy Cents Coalition (ECC).

In its October 4, 2011 *Order*, the Commission: 1) suspended the Company's IBR mechanism, 2) authorized CenterPoint to convene a workgroup to address ways to revise the inverted block rate program and report back to the Commission no later than March 1, 2012, and 3) rejected the Company's proposed revenue decoupling adjustment in favor of the modified decoupling adjustment recommended by the Department.[5]

On March 1, 2012, CenterPoint filed its second decoupling plan and IBR report for calendar year 2011. After reviewing the calendar year 2011 report, the Department recommended that the Commission terminate the IBR rate mechanism while allowing the decoupling pilot program to continue.

On August 10, 2012, the Commission issued an *Order* terminating the IBR mechanism and allowing the decoupling adjustment to continue.[6]

On March 1, 2013, CenterPoint filed its Decoupling Evaluation Report for calendar year 2012. The Department recommended that the Commission allow CenterPoint to continue assessing its decoupling adjustment, approve the decoupling adjustment for the upcoming years, subject to clarification of certain issues in *Reply Comments*, and requested that the Company continue to review its low-income communication expenditures and attempt to target these expenditures in such a way that maximize potential conservation savings and participation. CenterPoint provided clarification in its *Reply Comments* and the Commission subsequently issued an *Order* regarding the calendar year 2012 decoupling report on July 26, 2013.

On June 30, 2013, CPE's CE Rider expired.

On February 28, 2014, CenterPoint filed its Decoupling Evaluation report for calendar year 2013. On August 11, 2014 the Commission issued its Order that accepted CenterPoint's revenue decoupling evaluation report for 2013 and its March 1, 2014 revenue decoupling rate adjustment.[7]

Over the course of this three-year pilot program, CenterPoint both refunded money to, and surcharged, the Residential and Commercial/Industrial Firm A classes; however, the Commercial/Industrial B and C customer classes always experienced an over recovery and thus CenterPoint always had to grant refunds to these customer classes. Furthermore, every year

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[5] Id. Order Suspending Inverted Block Rate Structure, Authorizing Workgroup and Requiring Revised Rate Adjustment, October 4, 2011.

[6] Id., Order Terminating Inverted Block Rate Structure, Accepting Evaluation and Workgroup Reports, and Requiring Compliance Filings, August 10, 2012.

[7] *Id., Order,* August 11, 2014

resulted in aggregate total refunds and every class received net refunds over the three year period. The following table summarizes over and under recoveries by years and by classes:

CenterPoint's Reported Under/(Over) Recovery For Partial Decoupling Pilot Period

Evaluation Period	Residential Under/(Over) Recovery	Commercial & Industrial Firm-A Under/(Over) Recovery	Commercial & Industrial Firm-B Under/(Over) Recovery	Commercial & Industrial Firm-C Under/(Over) Recovery	Total Under/(Over) Recovery
Jul. 1 to Dec. 31, 2010	($2,072,834)	$208,294	($136,904)	($1,402,205)	($3,403,649)
Jan. 1 to Dec. 31, 2011	($1,688,255)	$332	($654,425)	($3,001,982)	($5,344,330)
Jan. 1 to Dec. 31, 2012	$325,146	$117,044	($441,335)	($2,584,728)	($2,583,873)
Jan. 1 to Jun. 30, 2013	$2,087,308	($349,730)	($814,058)	($2,145,671)	($1,222,151)
Pilot Total	($1,348,635)	($24,060)	($2,046,722)	($9,134,586)	($12,554,003)

In order to ascertain the reason for the Commercial/Industrial B and C refunds every year, the Department conducted additional data analysis for both classes and, in both instances, concluded that sales approved in the rate case were under-forecasted. The Department also concluded that the consistent need for refunds over the pilot period suggests that these ratepayers were potentially better off under decoupling, in that the weather-normalized revenues above the Commission authorized base were returned to ratepayers while, if decoupling had not occurred, these revenues would have remained with the Company. The Department also added that, even under full decoupling, CenterPoint would have had to provide a refund to both customer classes for every year except 2012.

CenterPoint Energy's Revenue Decoupling Rider, CPE Pilot Decoupling Program #2 (docket #13-316)

On August 2, 2013, CPE proposed a Revenue Decoupling Rider in its rate case, Docket No. G-008/GR-13-316.8 The Revenue Decoupling Rider was a full decoupling mechanism. The OAG opposed the Company's proposal and the Environmental Interveners supported the Company's proposal with modifications recommended by the Department and agreed to by the Company.

The Department initially supported the premise that both full and partial decoupling would serve the goal of reducing the Company's disincentive to promote energy savings. In the course of the contested case, the Department recommended revisions to the Company's proposed full Revenue Decoupling Rider, and continued to support reinstatement of the Company's expired partial decoupling pilot as an alternative to the Company's proposal.

[8] Docket No. G-008/GR-13-316 (13-316), In the Matter of an Application by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas For Authority to Increase Natural Gas Rates in Minnesota.

In response to Department concerns raised during the contested case proceeding, CenterPoint agreed to certain modifications of its initial Revenue Decoupling Proposal. These modifications were:

- a 10% cap on non-gas margin revenue, after removing conservation costs, for a decoupling adjustment on occasions of under-recovery during an evaluation period;
- broadening the decoupling proposal to apply to all customer classes except market-rate customers; and
- an agreement concerning a proposed evaluation plan for the proposed Revenue Decoupling Rider.

In its Exceptions, the Department stated that the options to order no decoupling, partial decoupling, or full decoupling were properly before the Commission. However, the Department construed the Company's position late in the contested case proceeding—supporting either full decoupling or no decoupling—to imply that the Company lacked a sufficient conservation disincentive to warrant decoupling. Therefore, the Department's final recommendation was that the Commission direct interested parties to further investigate the effects on ratepayers of full, partial, and no decoupling.

In its brief to the ALJ after the record closed, CenterPoint withdrew its support for decoupling in this case. The Company stated that it viewed the possibility of partial decoupling—which the Department was advocating—as a negative result for the Company and its customers in light of its experience with the Company's recently expired partial-decoupling pilot. Absent widespread support for its full decoupling proposal, and because it would prefer no decoupling mechanism to a partial decoupling mechanism, the Company asserted that it no longer sought approval of any decoupling mechanism.

However, in May 2014, during its oral argument to the Commission, CenterPoint stated that it still supports full decoupling, and would stand by its decoupling-related testimony.

In its June 9, 2014, *Findings of Fact, Conclusions, and Order,* the Commission required that, beginning on ***July 1, 2015***, the Company implement a full Revenue Decoupling Rider, with modifications, as a three-year pilot project.[9] The Order also required CenterPoint to work with the parties and interested stakeholders to develop and file proposals for:

A. Annual evaluation reports that provide the same (or similar) information as required in the Company's first revenue decoupling pilot program (Docket No. G-008/GR-08-1075), and

[9] 13-316, Findings of Fact, Conclusions, and Order, June 9, 2014.

B. A comprehensive, effective, and meaningful education and consumer outreach program that sets forth the goals of, and explains, revenue decoupling.

On October 14, 2014, CenterPoint submitted its Revenue Decoupling Compliance Filing (RD Compliance Filing). In its RD Compliance Filing, the Company detailed its evaluation plan, communication plan, implementation plan, and tariff language. CenterPoint also noted that it intended to file a rate case in August 2015 (which it has, in Docket No. G-008/GR-15-424) and included a discussion of how the revenue decoupling mechanism would be treated in the event of interim rates for the new rate case.

In its *Response Letter* on February 18, 2015, after reviewing the scenarios provided by CenterPoint, the Department concluded that the Company's initial proposal was reasonable and recommended that the Commission accept CenterPoint's Decoupling Compliance Filing, including its proposal for updating the decoupling mechanism when potential future interim rates are in place.

On March 23, 2015, in its *Order Accepting Decoupling Communication Plan*, the Commission accepted CenterPoint's proposed communication plan for its revenue decoupling education and consumer outreach program.[10]

In its March 31, 2015 *Order*, the Commission agreed with the Department and Accepted CenterPoint's Decoupling Compliance Filing, including its proposal for updating the decoupling mechanism when potential future interim rates are in place.[11]

Minnesota Energy Resources Corp. Revenue Decoupling Mechanism, MERC Pilot Decoupling Program #1 (docket #10-977)

On November 30, 2010, Minnesota Energy Resources Corporation (MERC) filed a request for a general increase in its natural gas rates.[12] Included within its request was a revenue decoupling proposal.

On July 13, 2012, the Minnesota Public Utilities Commission (the Commission) issued its Findings of Fact, Conclusions and Order (Rate Case Order) in Minnesota Energy Resource Corporation's (MERC) 2010 General Rate Case.[13] As part of this Rate Case Order, the Commission authorized MERC to conduct a full decoupling program on a pilot basis for three years.

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[10] Id., Order Accepting Decoupling Communication Plan, March 23, 2015.
[11] *Id., Order*, March 31, 2015.
[12] Docket Number G-007,011/GR-10-977 (10-977), In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota,.
[13] 10-977, Findings of Fact, Conclusions, and Order, July 13, 2012.

The Commission conditioned its approval of the revenue decoupling program on MERC making a demonstration of annual incremental progress towards achieving a 1.5% rate of annual energy savings.

Accordingly, the Commission required MERC to file annual reports to the Commission that specify the Revenue Decoupling Mechanism (RDM) adjustment to be applied to each rate class for the billing period and demonstrate annual progress toward achieving the 1.5% energy efficiency goal set forth in Minn. Stat. § 216B.241.

On March 27, 2014, MERC submitted its Compliance Filing Revenue Decoupling Evaluation Report for 2013 (2013 Decoupling Evaluation). MERC's RDM went into effect on January 1, 2013 and thus was operative throughout the entire calendar year.

In its September 26, 2014 *Order*, the Commission accepted MERC's revenue decoupling evaluation report for 2013.[14] In addition, the Commission accepted MERC's revenue decoupling adjustment calculations and approved their implementation effective April 1, 2014.

On May 1, 2015, MERC submitted its Compliance Filing Revenue Decoupling Evaluation Report for 2014 (2014 Decoupling Evaluation or Report).

MERC's residential customers will be refunded approximately $3.2 million and firm General Service (GS)-Small Commercial and Industrial (C/I) customers will be refunded approximately $166,000, based on their natural gas consumption in calendar-year 2014. Please note that the GS-Small C/I customer class refund may appear relatively low because the refund/adjustment was limited by the cap of 10 percent of distribution revenues.

On August 11, 2015, the Commission issued its Order accepting MERC's revenue evaluation report for 2014.[15] The Commission also accepted MERC's revenue decoupling adjustment calculations and approved its implementation effective April 1, 2015.

In addition, the Commission extended MERC's decoupling pilot until such time as the Commission makes a determination as to its permanence.

Finally, in its August 11, 2015 *Order*, the Commission instructed MERC to include pre-filed direct testimony in its next rate case (which MERC is expected to file on September 30, 2015 in Docket No. G-011/GR-15-736), on revenue decoupling that discusses extending revenue decoupling to all of its customer classes (not just residential and small commercial customers) and explains why MERC believes including these customers in the RDM is or is not in the public interest.

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[14] *Id., Order*, September 26, 2014
[15] *Id., Order*, August 11, 2015

Xcel Energy Revenue Decoupling Mechanism, Xcel Pilot Decoupling Program #1 (Docket 13-868)

On November 4, 2013, Xcel Energy proposed a partial revenue decoupling mechanism (RDM) for its electric residential customers and electric non-demand-metered small general service customers, excluding lighting services in its electric rate case.[16] This would make Xcel the first electric utility in Minnesota to adopt a RDM.

Under Xcel's proposal, the Company would calculate each customer group's revenue requirement excluding fuel-related revenues and fixed customer charges, divided by the number of customers in the group. At the end of each calendar year, Xcel would compare this per-customer revenue requirement to the average revenues it derived per customer within each group (adjusted to reflect normal weather patterns), and adjust rates in the following year to true-up the difference.

Xcel proposed two limitations on any upward rate adjustment. First, in any year in which Xcel failed to achieve 1.2% in energy savings, the Company stated it would forgo the opportunity to increase rates in the following year. Second, Xcel stated it would adopt a 5% "soft cap" on any rate increase; any sums excluded from recovery by the cap would be deferred for recovery in the following year's adjustment. If the Commission were to modify Xcel's proposal to eliminate the weather adjustments, Xcel proposed increasing the soft cap to 10%.

Decoupling was opposed on principle by AARP, the OAG and an ad hoc group of its industrial, commercial, and institutional customers (collectively, "the ICI Group"). In contrast, decoupling was defended in principle by the Clean Energy Intervenors (CEI), the Department, Energy Cents Coalition (ECC) and Xcel.

AARP argued that decoupling would reduce a customer's incentive to conserve because reductions in sales today would trigger upward rate adjustments in the future. Xcel argued in response to AARP that, as an incentive to conserve, the magnitude and immediacy of reducing a bill would overwhelm the small rate adjustment arising roughly a year later.

AARP and the OAG challenged Xcel's choice to propose its RDM only for its smallest customers, and not for Xcel's large industrial customers that consume most of the Company's energy. Xcel explained that each kWh charged to a residential or small business customer contains a higher percentage of fixed (nonfuel) costs than a kWh charged to a large commercial and industrial customer, and the rate adjustments are designed to recover these costs. Xcel argued that it makes sense to initiate a pilot RDM program where the program could have the largest effect per kWh.

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[16] Docket No. E-002/GR-13-868 (13-868), In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota.

The ICI Group objected that Xcel's proposal fails to give enough emphasis to the distinctions among customer groups. The ICI Group asked the Commission to require that Xcel must never seek to apply a revenue decoupling mechanism to large commercial and industrial customers.

AARP and the OAG also argued that revenue decoupling would impose disproportionate burdens on customers who consume the least energy. Xcel analyzed how its RDM would affect customers in a variety of circumstances, and demonstrated that even customers with relatively low usage could be held harmless, or even benefit, from this rate design.

In addition, AARP, the ICI Group, and the OAG argued that decoupling would not increase Xcel's implementation of conservation programs because the Company already has sufficient mandates and incentives to implement conservation programs. They objected that Xcel never proposed to track whether any additional savings would in fact result from its RDM. In response, Xcel argued that the Legislature has not treated conservation/efficiency programs and revenue decoupling as substitutes, but as complements.

Finally, AARP and the OAG argued that decoupling is complicated and will confuse customers. They claimed that Xcel has not developed a strategy for educating customers about this new rate design, or for managing the resulting confusion.

In its Report, the ALJ concluded that it is reasonable for the Commission to implement revenue decoupling in this rate case.[17] The ALJ found that revenue decoupling can remove a utility's disincentives to promote energy efficiency and conservation without adversely affecting ratepayers. Moreover, while Xcel has been meeting its energy efficiency goals, the ALJ found that the Company had persuasively argued that meeting these goals would become more difficult in the future. Finally, the ALJ concluded that the record did not support a conclusion that decoupling would inevitably cause customer confusion.

In its May 8, 2015 *Findings of Fact Conclusions and Order*, the Commission concurred with the ALJ that revenue decoupling has substantial potential to align the Company's interests with the public's interest in conservation and energy efficiency.[18] The Commission authorized Xcel to implement revenue decoupling, as described below, effective January 1, 2015.

While the objecting parties did not persuade the Commission to reject revenue decoupling, they did identify room for improvement in Xcel's proposal.

Full vs Partial Decoupling

The weather influences the amount of energy an electric utility sells: all else being equal, hotter temperatures tend to increase energy sales while cooler temperatures tend to reduce them. A

[17] 13-868, *Findings of Fact, Conclusions of Law and Recommendations*, Office of Administrations (OAH), December 26, 2014.

[18] Id., Findings of Fact, Conclusions and Order (Xcel Rate Case Order), May 8, 2015.

RDM can either enable a utility to recover a customer group's nonfuel costs, and limit customer payment of nonfuel costs, to the levels found to be just and reasonable in a rate case regardless of the weather (so-called "full decoupling"), or the mechanism can be designed to leave the weather-related financial risks with the parties ("partial decoupling").

Parties disagreed about whether the Commission should authorize Xcel to pursue full or partial decoupling.

Xcel proposed a partial decoupling mechanism and justified its proposal by stating that avoiding weather-related risks was not part of Xcel's rationale. In addition Xcel stated that because it had limited experience with decoupling, it favored incremental steps—and incrementalism favors leaving weather-related risk with the utility.

The Department favored full decoupling on the theory that it could lead to cost reductions under some scenarios and that, when combined with Xcel's other incentives to promote conservation and efficiency, decoupling would improve the regulatory environment for promoting conservation. The Department argued that Xcel's proposed pilot program would provide an appropriate opportunity to explore a full-decoupling rate design.

CEI stated that it could support either full or partial decoupling.

The ALJ recommended that the Commission approve a full decoupling mechanism, adjusting Xcel's rates to provide recovery of nonfuel costs from the relevant customer groups regardless of weather. The ALJ noted that either rate design would reduce Xcel's disincentive to promote conservation and efficiency. But the ALJ cited the Department's analysis for the proposition that customers could expect lower rates under a full decoupling regime than under a partial regime, and that partial decoupling could result in customers being overcharged.

In the *Xcel Rate Case Order*, the Commission agreed with the Administrative Law Judge's recommendation to authorize the use of a full decoupling mechanism. The Commission authorized Xcel to implement full RDM for its residential and small business customers, because full revenue decoupling is simpler, more transparent, and potentially more beneficial than partial decoupling.

Hard vs Soft Cap

To guard against the possibility that unforeseen circumstances might cause the adjustment formula to produce inordinately large rate increases, all parties propose capping the size of the potential increase in any given year, but disagreed on the details of a cap. In particular, when a cap would exclude Xcel from recovering its full amount of nonfuel costs in a given year, should the Company have the opportunity to recover the excess via the following year's adjustment (a "soft cap") or not (a "hard cap")?

CEI and Xcel favored a soft cap. That is, whenever the amount of costs to be recovered in any year would cause the adjustment to exceed the capped level, Xcel would increase rates up to the level of the cap and would defer recovery of the remainder to the following year. Xcel argued that a cap provides ratepayers with assurance that the revenue decoupling mechanism could not produce rate swings large enough to provoke rate shock.

CEI and Xcel argued that a hard cap would undermine the goals of decoupling: It would leave a utility at risk of being unable to fully recover its nonfuel costs if it sells less energy than forecast, thus discouraging the utility from promoting conservation and efficiency. In its review of 25 electric decoupling mechanisms adopted in other states, Xcel found only two that used a hard cap—and most had no cap at all.

If the Commission were to authorize full revenue decoupling, Xcel would propose limiting the size of any upward rate adjustment to no more than 10% of the customer group's revenues, excluding revenues for energy and other riders. If the Commission were to authorize partial revenue decoupling, Xcel proposed a 5% cap. Xcel argues that full decoupling—designed to address fluctuations in the weather as well as other variables—would warrant a larger cap than partial decoupling.

CEI also favored setting a cap as a percentage of a customer group's revenues excluding revenues from riders, but did not advocate a specific cap size.

AARP, the Department, and the OAG favored a hard cap whereby Xcel would forgo recovery of any sums excluded from recovery by the adjustment cap. They noted that the Commission had approved hard caps for both MERC and CenterPoint revenue decoupling mechanism. In contrast, they opposed Xcel's soft-cap proposal and argued that a soft cap would fail to protect ratepayers from unforeseen circumstances triggering an inordinately large rate adjustment; it would merely spread the cost recovery over a longer period.

AARP, the Department, and the OAG opposed any proposal to set a cap greater than 3% of a customer group's revenues. In particular, they disputed Xcel's claim that full revenue decoupling would warrant a 10% cap. The Department's analysis showed that, if Xcel's standard residential group had operated with full revenue decoupling over the past ten years, the highest adjustment would have been less than 3%.

The Department recommended that the Commission limit any rate increase arising from the RDM to no more than 3% of the customer group's revenues, although the Department recommended that these revenues incorporate adjustments from the fuel clause and other riders. AARP favored setting the hard cap at 2% of customer group revenues, excluding revenues from riders such as the fuel clause. Finally, the OAG supported capping Xcel's decoupling adjustments at 1% of a customer group's revenues.

The ALJ recommended that the Commission modify Xcel's proposed revenue decoupling mechanism as proposed by the Department—that is, to include a 3% hard cap on all revenues, including fuel and applicable riders.

In the *Xcel Rate Case Order*, the Commission concurred with the ALJ and all parties that it would be beneficial to establish a cap on rate increases triggered by the RDM. The Commission capped the amount by which the RDM may increase a customer group's rates at 3% of the group's revenues, excluding revenues from the fuel clause and other riders. If the cap precludes Xcel from fully recovering its nonfuel costs through the RDM adjustment, the Commission stated it may authorize Xcel to recoup the unrecovered balance through the following year's RDM adjustment, if Xcel could demonstrate that its conservation efforts were a primary factor in reducing its energy sales, and hence its under-recovery of nonfuel costs.

In summary, the Commission approved Xcel's proposal with modifications in its *Xcel Rate Case Order*. In reaching this conclusion, the Commission made the following findings.

First, Xcel justified implementing a revenue decoupling mechanism for the customer groups in question, at least on a trial basis, and the Commission approved Xcel's proposed RDM with the following additions.

- *Customer education*: Xcel must file a plan to implement an education and outreach program for its customers explaining the goals and operations of its RDM program.
- *Start of energy-consumption measurement*: Xcel may begin calculating its over- or under-recovery of costs after the final compliance order authorizing implementation of final rates in this proceeding, but not before new rates take effect, and no sooner than January 1, 2016.
- *Annual report*: In the annual report Xcel proposes to file regarding its experience with the RDM, Xcel must include descriptions of factors other than the RDM that might have contributed to any change in conservation levels.

Second, the Commission directed Xcel to implement a full decoupling mechanism (omitting weather normalization) rather than a partial decoupling (adjusting data to compensate for abnormal weather).

Third, the Commission directed Xcel to cap any upward rate adjustment to 3% of the customer group's revenues, excluding revenues from the fuel clause or other riders. Where the cap prevents Xcel from fully recovering its deferred costs, the Commission will permit the Company to petition to recover these costs via the following year's adjustment. However, Xcel must first demonstrate that its demand-side-management programs and other company initiatives were a substantial contributing factor to the declining energy sales triggering the rate adjustment, and that other non-conservation factors were not the primary factors for the declining sales.

In its May 28, 2015 Petition for Reconsideration, Xcel requested the Commission clarify its ordered implementation plan for the decoupling mechanism. Xcel's request for clarification sought guidance on two items:

- Clarification regarding the data that should be used to calculate baseline fixed revenue per customer and baseline fixed energy charges, and

- Guidance regarding how the implementation schedule from the Order would function in light of the Company's intention to file a 2016 rate case with interim rates effective January 1, 2016, and with final rates effective in 2017.

Xcel stated it had proposed a decoupling implementation plan that was unopposed in parties' testimony and that plan called for use of 2015 test year data to calculate baseline fixed revenue per customer and baseline fixed energy charges.

According to Xcel, the schedule adopted by the Order appears to create ambiguity regarding the data that should be used to calculate baseline fixed revenue per customer and baseline fixed energy charges. Further, Xcel stated it seeks guidance regarding how the implementation schedule from the Order would function in light of the Company's intention to file a 2016 rate case with interim rates effective January 1, 2016, and with final rates effective sometime in 2017.

Xcel advised that the Commission could take several different routes to clarify the implementation plan.

1) Keep the January 1, 2016 start date for calculating decoupling deferrals and set the baseline fixed revenue per customer and baseline fixed energy charges using 2016 interim rate data;

2) Set the baseline fixed revenue per customer and baseline fixed energy charges using 2015 test year data from this case;

3) Adopt the Company's proposed implementation schedule.

Xcel stated that clarifying the ordered implementation plan will help the Company ensure that its calculation of final rates and implementation of the revenue decoupling mechanism will be consistent with the Commission's intent and also help ensure prompt implementations of final rates. In addition, because Xcel stated its intention to file its next rate case is in November of this year, clarification will help it prepare for its next rate case and implement decoupling within that context.

The Department stated that the appropriate data to use is the Commission-authorized revenue requirements and customer counts that are approved for the time when the deferral is being measured, and that eventually the Company must true-up the calculations using the final authorized revenue requirements and actual customer counts for the applicable period.

Under the Commission's approved implementation schedule for Xcel to begin collecting data on sales that occur after the Commission issues its final compliance order in this docket and the new rates take effect, but in no event sooner than January 1, 2016, the Department determined that Xcel would use the authorized revenues from whatever rates are in place, be that final rates from this rate case (if Xcel decides not to file another rate case) or interim rates from a future rate case (if Xcel files a rate case for 2016).

The Department did not support the June 1, 2015 implementation date because Xcel has not yet informed customers that the deferral process is occurring. The Department recommended that the Commission not change the January 1, 2016 implementation date.

In its August 31, 2015 *Order Reopening, Clarifying, and Supplementing May 8, 2015 Order*, the Commission did not alter the implementation dates it set in its May 8, 2015 order.[19] However, given Xcel's proposal to file a rate case by the end of the year, the Commission did incorporate this contingency into its decoupling instructions. On this basis, the Commission directed Xcel to implement revenue decoupling as follows:

- Xcel should set the *baseline fixed revenue per customer* and the *baseline fixed energy charges* on the basis of the authorized revenues from whatever rates are in effect. In the absence of a new rate case, Xcel would calculate these revenues and charges based on the final rates from the current rate case. But if Xcel files a new rate case for 2016, Xcel would calculate these revenues and charges based on final rates from that new case.

- Xcel must measure decoupling deferrals from January through December, 2016, once new rates take effect in 2017. While this date is indefinite, coordinating implementation of the decoupling mechanism with the new rates from the rate case will reduce the customer confusion that would be triggered by having two rate changes implemented in rapid succession.

- Xcel must calculate decoupling deferrals from January through December, 2017, for implementation as an adjustment to rates on April 1, 2018.

- Xcel must calculate decoupling deferrals from January through December, 2018, for implementation as an adjustment to rates on April 1, 2019.

[19] Id., Order Reopening, Clarifying, and Supplementing May 8, 2015 Order, August 31, 2015.

- **Finally, in 2020 Xcel must make its final adjustment to rates to offset any remaining over- or under-recovery of funds via the revenue decoupling mechanism and, absent any new Commission authorization, conclude this pilot program.**