## ➢ EXECUTIVE SUMMARY

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Department of Commerce, Division of Energy Resources our 2013-2015 Conservation Improvement Program Triennial Plan. The Plan proposes annual savings goals of 1.5% of retail sales for our electric portfolio and 1% for our natural gas portfolio. The Company respectfully requests that the DER approve this filing to guide our Minnesota electric and natural gas conservation and load management activities for 2013, 2014, and 2015.

With this Plan, we continue the momentum developed during our 2010-2012 Plan, where we greatly increased our electric savings and reached the 1.5% electric savings goal for the first time and well ahead of expectations. This extraordinary accomplishment was largely due to successful implementation of the growth strategies we outlined in the last Plan, as well as the introduction of a financial incentive mechanism that has proven effective at motivating utilities to increase energy savings through CIP.

Although the current financial incentive mechanism is under review, we have put forth this Triennial Plan in good faith that the incentive will remain strong enough to motivate continued performance at the 1.5% level, as is proposed in this Plan for our electric portfolio. With continuation of the current incentive framework, we are well positioned for ongoing success.

**Considerations for 2013-2015 Plan**

While we are continuing many of the same strategies and programs implemented as part of our previous Plan, there are a few notable factors that influenced the development of this Plan and prompted changes to our portfolio. We discuss these factors and changes below.

<u>Reduction in Avoided Costs</u>

Due to the decline in natural gas prices, as well as the decline in use per customer as homes and appliances become more efficient, the benefits created by CIP programs on a per kWh and Dth basis are lower than in recent years. Yet the costs to administer these programs have typically increased as we have pursued harder-to-reach customers and savings opportunities. As a result, some programs we currently offer are no longer cost-effective or are marginally cost-effective. To address this issue, in April 2012, the DER announced a policy for 2013-2015 CIP plans that requires portfolios to be cost-effective at the segment level, rather than the program level. Existing programs will be grandfathered in and allowed to be non-cost-effective, so long as the segment in which they reside still passes the Participant and Societal Tests. Programs new to this Plan, however, must be cost-effective. This agreement applies only to this planning cycle and will be revisited in future cycles. Bearing this in mind, we have included a few programs in this Plan that are not cost-effective as stand-alone programs. These are:

- Residential Energy Feedback (in 2013) – Due to the additional costs of converting this from a pilot to a program, the electric component of Energy Feedback does not pass in its first program year. It is predicted to pass in the second and third years of the Plan. The gas component passes in all years.
- Low-Income Home Energy Savings (in all years) – The high costs associated with delivering new appliances to low-income customers have caused the electric component of this program to be non-cost-effective in all Plan years.

- Low-Income Multi-Family Energy Savings (in all years) – The additional costs of delivering this program in the apartment sector at no cost to participants render the program non-cost-effective in all Plan years.
- Residential Water Heater Rebate (in all years) – Due to exceptionally low gas prices, as well as changes to product baselines, which have reduced deemed savings, the Water Heater Rebate program does not pass in 2013, 2014 or 2015.

A corollary impact of low gas prices is that customer payback periods are longer, particularly for gas efficiency projects. Additionally, in this tight economy, customers are having difficulties coming up with the capital necessary to pursue gas efficiency projects. Although we set gas goals at 789,925 Dth (1.12% of sales) for 2010 and 814,471 Dth (1.15% of sales) for 2011, we did not meet these goals in 2010 or 2011. Achievements for 2010 and 2011 were 1.0% and 1.06% of sales, respectively. Taking the challenges of lower gas prices, the tight economy, and that it has been difficult to meet our approved goals in recent years, we have proposed a more realistic goal of 1% of retail sales for each year of this Plan. We believe that these goals are more consistent with recent experience and our expectations of future performance.

Changing Lighting Efficiency Baselines

To comply with the Energy Security and Independence Act, which directs the national phase-out of standard incandescent bulbs, we are appropriately changing the baseline efficiency of the compact fluorescent light bulbs in our portfolio. The phase-out will reduce the savings we can capture per unit and the overall savings from our programs. Because so many of our programs offer a lighting component, this change is reducing the potential savings achievable portfolio-wide. In order to make up for these lost savings, we have changed our product lineups, as well as our marketing tactics. For example, we are expanding our LED offerings, discontinuing our online CFL sales, and promoting CFLs in new ways.

New Programmatic Approaches

To maintain high levels of savings in the face of the challenges described above, we have taken steps to engage hard-to-reach customers and improve our offerings. In the Business Segment, we are offering a new holistic program, Commercial Efficiency, that encourages long-term energy planning with our customers, as well as a more targeted program, Foodservice Equipment. We are also leveraging the success of our Process Efficiency program, as its savings contributions have increased every year since its inception in 2007. We are expanding the Turn Key Services and Self-Direct programs to help customers assess and overcome barriers to energy efficiency projects. In the Low-Income Segment, we propose to launch a new Multi-Family Energy Savings program which will serve the apartment sector. Finally, we have moved Energy Feedback from a pilot to an expanded Residential program.

Solar*Rewards Phase-Out from CIP

As part of the development of this Triennial Plan, we reevaluated the landscape for solar in Minnesota and contemplated its future role in CIP given current market conditions. Since launching the Solar*Rewards program in 2010, we have supported many diverse solar installations, including roof-top installations by the University of Minnesota and the City of Minneapolis and numerous homeowner and small business installations throughout the Twin Cities. We are proud of the role we have played in helping to enable solar power in Minnesota and have gained valuable information that will be useful as more solar is added and integrated into our system.

Given our experience over the last couple of years and the current market outlook, we believe this Plan provides an appropriate and opportune time to phase-out Solar*Rewards as a CIP program. Phasing out the program makes sense for several reasons, including:

- The cost of solar installations has fallen dramatically, requiring a reevaluation of all the incentives in the market for solar, including Solar*Rewards.
- Customers interested in solar have other subsidies available, including the federal tax incentive and the Minnesota Bonus Rebate program for panels manufactured in Minnesota.
- While the cost of solar has fallen, it is still an expensive new generation resource. With near-flat growth in customer demand, the addition of new, expensive generation no longer makes economic sense.
- With continued momentum behind our conservation programs, we can achieve our goals with more cost-effective measures than solar.
- We are collaborating with regulators and stakeholders on a comprehensive distributed generation strategy to establish an effective regulatory framework and provide value to customers.

As discussed in the Renewable Energy Segment, the phase-out will include a transition period in 2013, during which the program will be funded at $2.5 million and the one-time incentive amount will be $1.50 per Watt. Reducing the incentive amount and discontinuing the Solar*Rewards program after 2013 avoids $12.5 million in spending over 2013-2015 as compared to 2010-2012.

**Proposed Goals**

In this Plan, we continue our legacy of providing customers with nearly unlimited options for saving energy. The proposed plan establishes ambitious goals of saving 1,307 GWh, 315 MW, and 2,084,797 Dth over the three year period at a cost of $304 million. The proposed Plan also includes estimated budgets and energy savings from anticipated alternative filings. In the following sections, we discuss our proposed goals by fuel and by segment and overarching strategies for reaching the goals.

This plan is designed to achieve electric savings equal to 1.5% of retail sales and gas savings equal to 1.0% of retail sales in 2013, 2014, and 2015. Our proposal is consistent with the goal approved in our most recent resource plan in Docket No. E002/RP-07-1572 to strive to achieve the 1.5% savings goal over the planning horizon. The table below summarizes our proposed goals. The following tables provide proposed goals and budgets for each program and segment by year.

**Goals and Budgets as a Percent of Retail Sales**

| | Electric | | | | Gas | | | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Budget** | **Proposed Energy Savings (GWh)** | **Total Adjusted Sales (GWh)** | **Savings as % of Retail Sales** | **Budget** | **Proposed Energy Savings (Dth)** | **Total Adjusted Sales (Dth)** | **Savings as % of Retail Sales** |
| **2013** | $86,763,621 | 436 | 28,987 | 1.5% | $13,616,878 | 696,415 | 69,458,419 | 1.0% |
| **2014** | $86,057,389 | 436 | 28,987 | 1.5% | $14,389,693 | 691,908 | 69,458,419 | 1.0% |
| **2015** | $89,038,690 | 435 | 28,987 | 1.5% | $14,367,523 | 696,474 | 69,458,419 | 1.0% |

We request that the DER approve goals and budgets by segment. This is consistent with the DER's new policy to maintain portfolio cost-effectiveness at the segment, rather than the program-level. In addition, this approach will allow us greater flexibility to manage specific product performance within each segment, as well as the overall cost-effectiveness of our CIP Plan. The following tables provide the segment goals:

**2013 Segment-Level Goals**

| | Electric | | | | Gas | | |
|---|---|---|---|---|---|---|---|
| Segment | Participation | Budget | Gen kW | Gen kWh | Participation | Budget | Dth |
| Business | 72,162 | $41,556,765 | 53.167 | 286,545,465 | 2,775 | $4,269,785 | 430,500 |
| Residential | 1,485,313 | $20,378,392 | 40,845 | 109,575,754 | 581,243 | $5,265,055 | 242,281 |
| Low-Income | 4,146 | $2,321,035 | 477 | 2,602,248 | 2,050 | $1,656,980 | 23,635 |
| Planning | | $4,154,742 | | | | $1,010,746 | |
| Research, Evaluations, & Pilots | | $1,971,538 | | | | $682,862 | |
| Renewable Energy | | $2,500,000 | | | | | |
| Assessments | | $1,736,000 | | | | $345,600 | |
| EUI | | | | | | | |
| Total | 1,561,736 | $86,763,621 | 106,273 | 435,844,594 | 586,068 | $13,616,878 | 696,415 |

**2014 Segment-Level Goals**

| | Electric | | | | Gas | | |
|---|---|---|---|---|---|---|---|
| Segment | Participation | Budget | Gen kW | Gen kWh | Participation | Budget | Dth |
| Business | 77,185 | $43,198,901 | 53,088 | 296,888,998 | 2,902 | $4,644,432 | 490,913 |
| Residential | 1,560,397 | $20,730,713 | 39,869 | 101,190,600 | 573,836 | $5,573,531 | 177,360 |
| Low-Income | 4,346 | $2,568,863 | 498 | 2,633,067 | 2,050 | $1,636,181 | 23,635 |
| Planning | | $4,216,343 | | | | $1,029,794 | |
| Research, Evaluations, & Pilots | | $1,381,920 | | | | $671,305 | |
| Renewable Energy | | | | | | | |
| Assessments | | $1,736,000 | | | | $345,600 | |
| EUI | | | | | | | |
| Total | 1,641,928 | $86,057,359 | 104,455 | 435,712,665 | 578,788 | $14,389,693 | 691,908 |

**2015 Segment-Level Goals**

| | Electric | | | | Gas | | |
|---|---|---|---|---|---|---|---|
| Segment | Participation | Budget | Gen kW | Gen kWh | Participation | Budget | Dth |
| Business | 82,173 | $44,698,041 | 52,840 | 297,568,573 | 2,900 | $4,809,699 | 496,084 |
| Residential | 1,699,699 | $21,762,406 | 39,647 | 100,401,037 | 566,752 | $5,632,928 | 177,115 |
| Low-Income | 4,246 | $2,520,587 | 476 | 2,445,325 | 2,050 | $1,636,221 | 23,275 |
| Planning | | $4,290,268 | | | | $1,057,933 | |
| Research, Evaluations, & Pilots | | $1,805,988 | | | | $417,042 | |
| Renewable Energy | | | | | | | |
| Assessments | | $1,736,000 | | | | $345,600 | |
| EUI | | | | | | | |
| Total | 1,786,119 | $89,038,690 | 103,962 | 435,414,935 | 571,702 | $14,367,523 | 696,474 |

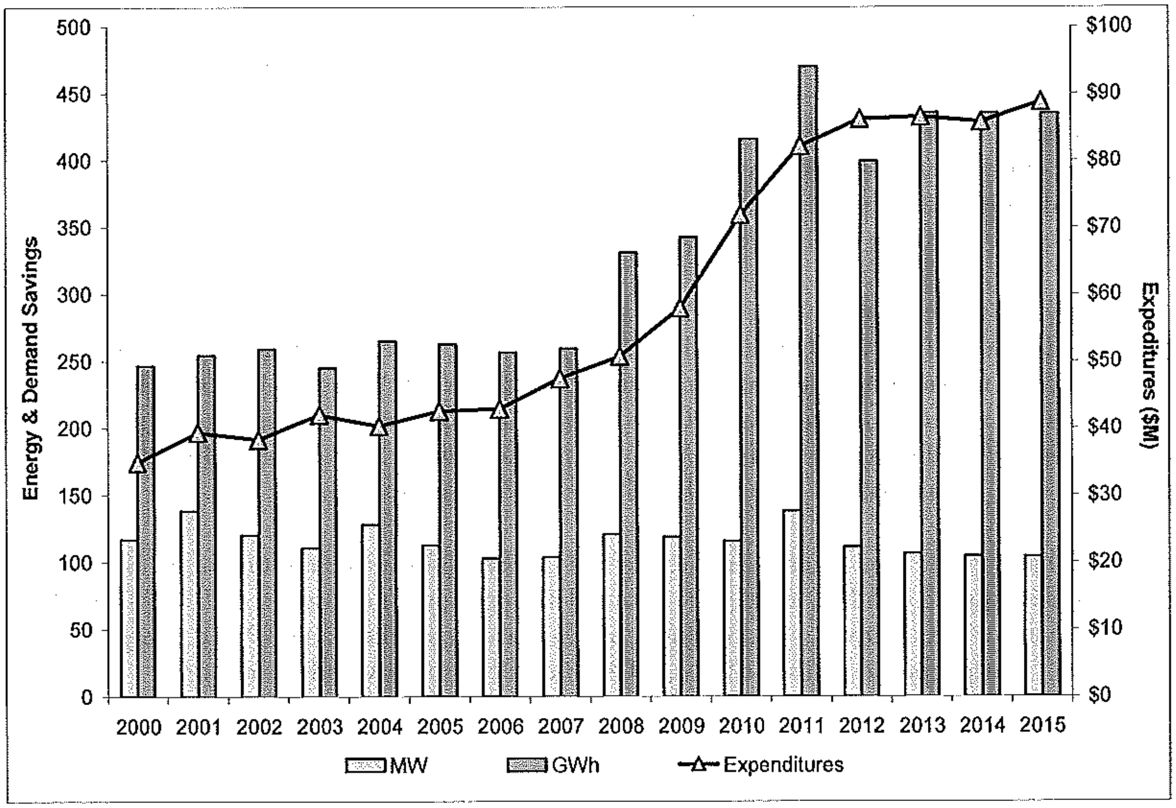
**Historical Achievements**

The 2013-2015 CIP Triennial Plan continues Xcel Energy's long-standing commitment to DSM. Although DSM activities in many states around the country have ebbed and flowed, Minnesota and Xcel Energy, as its largest utility, have generally maintained a consistent approach to DSM. This long-standing commitment and dedication to excellence in running cost-effective conservation and load management programs places the Company among the nation's top utilities in terms of energy and demand saved and most innovative programs.

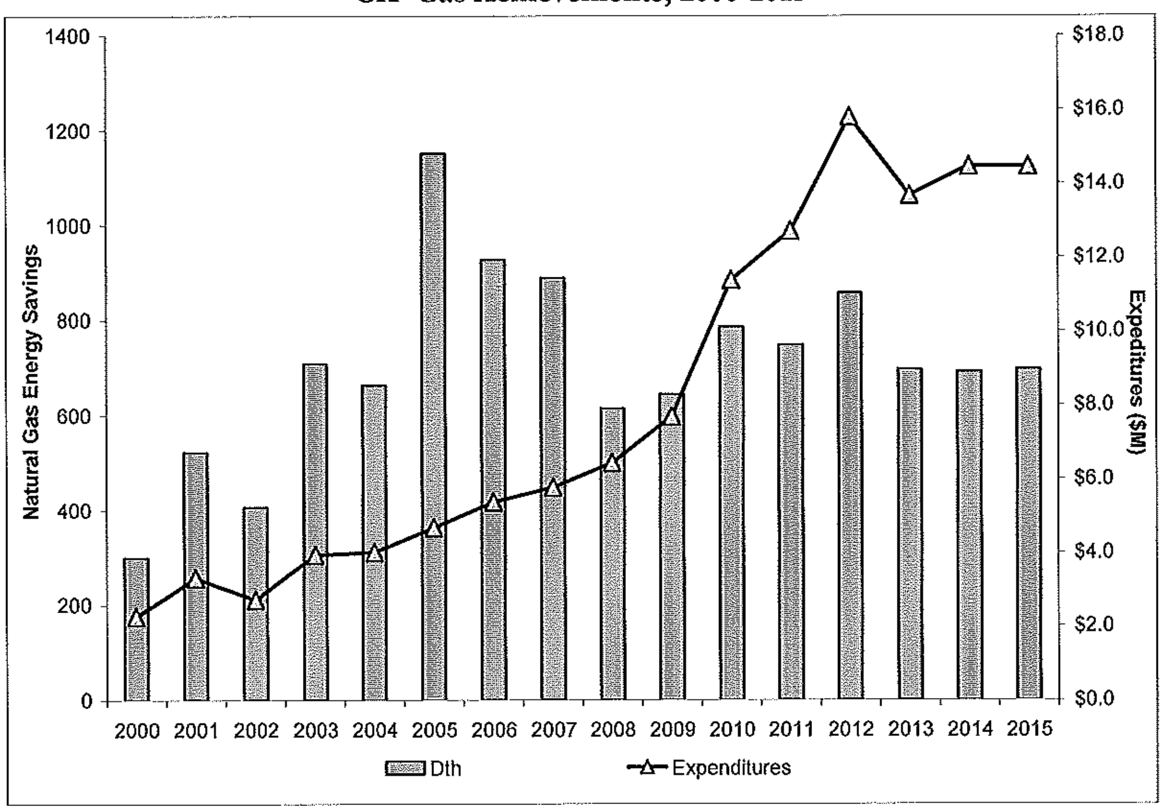
The Company has received many awards for its commitment to DSM. Most recently, we were awarded ENERGY STAR's 2012 Sustained Excellence Award, which is considered their most prestigious award, for our ongoing leadership across ENERGY STAR programs, including energy efficient products, services, new homes and buildings in the commercial, industrial and public sectors. This is the third year that ENERGY STAR has recognized Xcel Energy. In 2009 and 2011, the Company won Partner of the Year for Excellence in Program Delivery.

Between 1990 and 2011, Xcel Energy invested over $1 billion (nominal) resulting in 5,912 GWh of electric energy savings, 2,675 MW of electric demand savings and an estimated 10,992,937 MCF of natural gas savings. The following figures show our historical spending on CIP and energy savings achievements. Our proposed goals for 2013, 2014, and 2015 are provided for context.

## CIP Electric Achievements, 2000-2015




## CIP Gas Achievements, 2000-2015



## ➢ COMPLIANCE WITH RULES & STATUTES

The 2013-2015 Triennial Plan fulfills Xcel Energy's compliance with Minn. Stat. § 216B.241, subd. 2(a), which requires public utilities to file CIP plans by June 1 of the applicable year. In 2001, Xcel Energy received Department of Commerce approval to file a combined gas and electric CIP plan; we continue this approach with the current filing.

Minn. R. 7690.0500 contains the requirements and procedures for CIP filings. Minn. Stat. § § § 216B.2401, 216B.241, and 216B.2411 contain provisions the Company must meet in its CIP. This section provides all of the compliance order points required therein.

### Statutory Requirements

Minimum Spending Requirement

Minn. Stat. § 216B.241, requires that 2.0% of the Company's electric Gross Operating Revenues ("GOR") be spent on electric CIP and 0.5% of gas GOR be spent on gas CIP. The table below shows our spending in relation to our minimum spending requirement for 2013, 2014, and 2015.

**Minimum Spending Requirement 2013-2015**

| | 2011 Net Revenues (GOR – Exempt) | % of GOR | Minimum Spending Requirement | 2013 Proposed Budget | 2014 Proposed Budget | 2015 Proposed Budget |
|---|---|---|---|---|---|---|
| **Electric** | $2,636,308,672 | 2.0% | $52,726,173 | $86,763,621 | $86,057,389 | $89,038,690 |
| **Gas** | $526,755,700 | 0.5% | $2,633,778 | $13,616,878 | $14,389,693 | $14,367,523 |

Goals as a Percentage of Sales

Minn. Stat. § 216B.241, subd. 1c requires utilities to file a CIP Plan with no less than 1.0% goals and a statewide goal of 1.5%. The table below shows our proposed natural gas and electric goals annually, as percent of the previous three-year (2009, 2010 & 2011) weather-normalized sales, adjusted for exempt customers as of May 15, 2012. Should additional customers be approved for CIP exemption, we may request to modify the baseline to incorporate the effect of those exemptions.

**Goals as a Percent of Sales 2013-2015**

| | Electric | | | Gas | | |
|---|---|---|---|---|---|---|
| **Year** | **Energy Savings Proposed (MWh)** | **Total Adjusted Sales (MWh)** | **Savings as % of Retail Sales** | **Energy Savings Proposed (Dth)** | **Total Adjusted Sales (Dth)** | **Savings as % of Retail Sales** |
| **2013** | 435,845 | 28,987,234 | 1.5% | 696,415 | 69,458,419 | 1.0% |
| **2014** | 435,713 | 28,987,234 | 1.5% | 691,908 | 69,458,419 | 1.0% |
| **2015** | 435,415 | 28,987,234 | 1.5% | 696,474 | 69,458,419 | 1.0% |

Low-Income Goals

The 2007 Legislature approved an amendment to Minn. Stat. § 216B.241, subd. 7, which required utilities to spend 0.2% of their residential natural gas GOR on low-income gas programs and 0.1% of their residential electric GOR on low-income electric programs, unless otherwise approved by the Commissioner. The following table provides our proposed low-income spending in comparison to the spending requirement.

**Low-Income Spending Requirement 2013-2015**

| | Residential GOR | % of GOR | Low-Income Spend Requirement | 2013 Proposed LI Budget | 2014 Proposed LI Budget | 2015 Proposed LI Budget |
|---|---|---|---|---|---|---|
| **Electric** | $1,005,138,696 | 0.1% | $1,005,139 | $2,321,035 | $2,568,863 | $2,520,587 |
| **Gas** | $302,734,626 | 0.2% | $605,469 | $1,656,980 | $1,656,181 | $1,636,221 |

Research & Development Spending Cap

Minn. Stat. § 216B.241, subd. 2(c), limits spending on Research & Development ("R&D") to 10% of the minimum spending requirement. CIP R&D identifies, assesses, and develops new load management and energy efficiency products and services. This work enables Xcel Energy to identify and promote promising new energy saving opportunities for its customers. Market potential studies fall into this category. However, because we do not have any market potential studies planned for 2013-2015, the planned R&D spending is limited to Product Development. The following table provides our proposed R&D spending over the Plan period in comparison to the spending cap.

**Research & Development Spending Cap 2013-2015**

| | % of Min Spend | Min Spend | R&D Cap | 2013 Proposed R&D Budget | 2014 Proposed R&D Budget | 2015 Proposed R&D Budget |
|---|---|---|---|---|---|---|
| **Electric** | 10% | $52,726,173 | $5,272,617 | $807,000 | $807,000 | $807,000 |
| **Gas** | 10% | $2,633,778 | $263,378 | $227,972 | $227,972 | $227,972 |

Distributed Energy Resources Spending Cap

Minn. Stat. § 216B.2411, subd. 1 allows a utility to spend up to five percent of its minimum spending requirement on distributed generation projects. The Solar*Rewards program proposed in this filing currently falls under this cap.

**Distributed Generation Cap 2013-2015**

| | % of Min Spend | Min Spend | Distributed Resources Cap | 2013 Proposed Distributed Resources Budget | 2014 Proposed Distributed Resources Budget | 2015 Proposed Distributed Resources Budget |
|---|---|---|---|---|---|---|
| **Solar*Rewards** | 5% | $52,726,173 | $2,636,309 | $2,500,000 | N/A | N/A |