

February 16, 2021

Mr. Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E015/M-20-850

Dear Mr. Seuffert,

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Petition for Approval of Changes to Minnesota Power's Residential Rate Design

The petition was submitted on December 1, 2020 by:

Anne Rittgers  
Public Policy Advisor  
Minnesota Power  
30 West Superior Street  
Duluth, Minnesota 55802-2092

The Department recommends **approval** and is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN L. PEIRCE  
Rate Analyst Coordinator

/s/ MICHAEL ZAJICEK  
Public Utility Rate Analyst

SLP,MZ/ja  
Attachment



**Before the Minnesota Public Utilities Commission**  
**Comments of the Minnesota Department of Commerce**  
**Division of Energy Resources**

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Docket No. E015/M-20-850

**I. BACKGROUND**

On December 1, 2020, Minnesota Power (MP or the Company) submitted a compliance filing and proposal to transition its residential customer class from its existing inverted block rates to time-of-day rates (TOD). The Company's proposal is the result of numerous stakeholder meetings to consider TOD rate structures and a transition process as ordered by the Commission in its August 16, 2019 Order in Docket No. E015/M-12-233.<sup>1</sup>

**II. SUMMARY OF THE FILING**

MP currently has an inverted block rate (IBR) structure in place for its residential customers. Under the inverted block rate, energy rates increase over successive blocks of higher usage. Table 1, below, summarizes existing residential rates.

**Table 1: Current and Proposed Residential Rates**

Monthly Customer Charge	\$8.00
Energy Charge per kWh:	
0 – 400 kWh usage	\$0.05911
401-800 kWh usage	\$0.08255
801-1,200 kWh usage	\$0.10601
Over 1,200 kWh usage	\$0.13141
Proposed Flat Energy Charge	\$0.09693
Discount rate on 600 kWh	\$0.03622

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<sup>11</sup> *In the Matter of Minnesota Power's Compliance Report for its Temporary Rider for Residential Time-of-Day Rate for Participants of the Smart Grid Advanced Metering Infrastructure Pilot Project*, Order Accepting Compliance Report as Complete and Modifying Requirements for 2020 Annual Compliance Report, Docket No. E015/M-12-233.

In anticipation of its 2019 rate case filing, MP convened a stakeholder group to evaluate its residential rate design and used some of the group's findings to inform its rate case filing. The Commission's August 7, 2020 Order resolving MP's rate case<sup>2</sup> directed the Company to continue stakeholder group meetings on transitioning to a residential TOD rate. As part of its compliance reporting in its TOD Pilot Program, the Commission directed the Company to submit a proposal for one or more preferred TOD rate options, along with a discussion of various rate structure options discussed by the workgroup, and an implementation plan.<sup>3</sup>

On December 1, 2020, submitted its TOD compliance filing. MP's proposes to transition from its IBR to TOD rates with an interim step to a flat residential energy rate on July 1, 2021. Customers with the highest levels of usage will experience lower bills under the transition from the IBR rate structure to a flat rate. In order to mitigate the impact of a flat rate on lower usage customers, MP proposes to discount the first 600 kWh in monthly usage for the first year under the flat rate structure for customers with monthly average usage of 1,000 kWh or less. Starting in the second year of implementation of the flat rates, the discount on the initial 600 kWh would be limited to low-income customers eligible for the Low Income Heating Assistance Program (LIHEAP) or who self-certify to their income status, and who have monthly average usage of 1,000 kWh or less. MP proposes to adjust its flat rates for all customers to reflect fewer customers receiving a discount. Two years following implementation of the flat energy rates, customers would be transitioned to a TOD rate structure with 3 tiers of rates: peak, off-peak, and super-off peak periods, and a ratio of on-peak to super-off peak rates of approximately 2:1.

In this filing, MP requests that the Commission approve the following:

- residential rate changes from its current IBR structure to a flat rate over a two-year period;
- a discount rate for usage-qualified customers in the first year of the transition from IBR to a flat rate, and for low-income qualified, usage-qualified customers in the second year of the transition to a flat rate;
- proposed modifications to its residential rate schedules to reflect the transition to a flat rate;
- MP's proposed TOD rate schedule structure to include 3 tiers of TOD rates with an on-peak to off-peak ration of approximately 2:1; and
- a request to sunset the existing pilot rider for residential TOD service upon the transition from flat rates to TOD rates.

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<sup>2</sup> *In the Matter of the Application of Minnesota Power for Authority to Increase Electric Service Rates in Minnesota*, Order Approving Petition and Resolving Case with Conditions, Docket No. E015/GR-19-442, August 7, 2020.

<sup>3</sup> *In the Matter of Minnesota Power's Compliance Report for its Temporary Rider for Residential Time-of-Day Rate for Participants of the Smart Grid Advanced Metering Infrastructure Pilot Program*. Order Accepting Compliance Report as Complete and Modifying Requirements for 2020 Annual Compliance Report. Docket No. E015/M-12-233, August 16, 2019.

### III. DEPARTMENT ANALYSIS

#### A. TRANSITION FROM IBR TO FLAT RATES

The Department has reviewed MP's proposal to use an interim step from its current IBR structure to a flat rate structure before transitioning to TOD rates, and agrees that such an interim step is reasonable. Table 1, below, summarizes, at various levels of usage, customer bill impacts in the transition from IBR the proposed first year flat rate.

**Table 1: First Transition Year Residential Bill Comparison**

Mo. Usage	400 kWh		600 kWh		1,000 kWh		1,400 kWh		2,000 kWh	
	IBR	Flat	IBR	Flat	IBR	Flat	IBR	Flat	IBR	Flat
Customer Chg	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
Energy Chg										
0-400	\$33.16		\$33.16		\$33.16		\$33.16		\$33.16	
401-800			\$21.27		\$42.54		\$42.54		\$42.54	
801-1,200					\$25.96		\$51.92		\$51.92	
>1,200							\$31.04		\$124.16	
Flat Rate		\$48.29		\$72.43		\$120.72		\$169.01		\$241.44
Total w/out Discount	\$41.16	\$56.29	\$62.43	\$80.43	\$109.66	\$128.72	\$166.66	\$177.01	\$259.78	\$249.44
% Chg w/out Discount		36.8%		28.8%		17.4%		6.2%		-4.0%
Discount		\$14.49		\$21.73		\$21.73		\$21.73		\$21.73
Total w/ Discount	\$41.16	\$41.80	\$62.43	\$58.70	\$109.66	\$106.99	\$166.66	\$155.28	\$259.78	\$227.71
% Chg w/ Discount		1.6%		-6.0%		-2.4%		-6.8%		-12.3%

The move from the existing IBR rates to a flat rate will result in bill increases for lower usage customers, and bill decreases for higher usage customers, with the crossover point from bill increases to bill decreases occurring at approximately 1,000 kWh of monthly usage. To mitigate the bill impact on lower usage customers, the Company proposes to offer a discount in the first transition year on 600 kWh to all customers with average monthly usage of 1,000 kWh or less.

In the second transition year, the discount on 600 kWh would only be available to customers who qualify for the Low-Income Heating Assistance Program (LIHEAP) or who self-identify as low-income. Implementation of TOD rates would occur following the second transition year, in the 2023.

In addition to the transition from IBR to flat residential rates, MP expects to file a rate case in late 2021 necessitating the implementation of interim rates (typically applied as an across-the-board percentage increase), and final rates with the resolution of its rate case. Even with a discount on 600 kWh, lower usage customers are most likely to be affected by the combination of the transition to flat rates and the implementation of interim rates in a rate case over a fairly short period of time. While interim rates will also increase the bills of higher usage customers, they may remain below the levels paid under the IBR rate structure.

#### *B. TIME-OF-DAY RATES*

Following the second transition year, MP proposes to implement TOD rates with a 3-tier rate structure: (1) on-peak (3 pm – 8 pm weekdays); (2) super off-peak periods (11 pm – 5 am); and (3) off-peak (all other times). MP proposes to structure the rates so there is a ratio of 2:1 between the on-peak and super-off-peak rates. Appendix C to the Company's filing details its calculation of the TOD rates. The stakeholder group evaluated a number of different rate periods, including a targeted peak period that varied the peak and off-peak periods by season, but concluded that the proposed periods were most appropriate and would limit customer confusion in their implementation.

The Company and stakeholders also considered alternatives in the ratio of on-peak to super-off-peak rates. A higher ratio could provide added incentive to shift usage patterns to the super-off-peak period. Table 3, below, estimates 2020 rates based on the proposed ratio of 2:1, and an alternative with a ratio of 4:1.

**Table 3: Final Alternative TOD Rates for 2020 Bill Impact Analysis (cents/kWh)**

<b>Standard</b> <i>(Applicable to all customers not eligible for the Low-Income Usage Qualified Discount)</i>	<b>Updated 2019 Option 2</b> <b>(Ratio ~2:1)</b>	<b>Alt. w/ ~4:1 Ratio</b>
<b>Peak</b>	14.9	17.3
<b>Off-peak</b>	10.7	11.0
<b>Super off-peak</b>	7.6	4.7
<b>Peak period hours</b>	3:00 PM – 8:00 PM weekdays	3:00 PM – 8:00 PM weekdays
<b>Off-peak period hours</b>	All other times	All other times
<b>Super off-peak period hours</b>	11:00 PM – 5:00 AM	11:00 PM – 5:00 AM
<b>Low-Income Usage Qualified</b> <i>(Applicable to customers eligible for discount)</i>	<b>Updated 2019 Option 2</b>	<b>Alt. w/ ~4:1 Ratio</b>
<b>Peak (0-600 kWh)</b>	11.7	14.1
<b>Peak (601+ kWh)</b>	14.9	17.3
<b>Off-peak (0-600 kWh)</b>	7.5	7.8
<b>Off- Peak (601+ kWh)</b>	10.7	11.0
<b>Super off (0-600 kWh)</b>	4.3	1.5
<b>Super off (601+ kWh)</b>	7.6	4.7

*\*Rates include cost of fuel and purchased energy*

The Department notes that rates shown in Table 3 are for informational purposes only and will be updated following the two-year flat rate transition when TOD rates are being implemented. The rates in Table 3 were calculated based on the existing residential revenue requirements. The difference between the two options reflects differences in the allocation of demand/capacity revenues. MP proposes to structure its TOD rates using a 2:1 ratio. MP chose the 2:1 ratio because it offered less risk to customers, particularly those customers ineligible for the rate discount, of significant bill changes as a result of the move to flat rates.

MP currently has an existing Residential TOD Pilot program. The Company proposes to eliminate the Pilot at the time TOD rates are implemented. The Department agrees that the existing Residential TOD Pilot can be eliminated at the time new TOD rates are available.

The Department recommends approval of MP's proposed residential TOD rate structure, and its proposed two-year transition to flat rates before implementing TOD rates. The Department recommends the Commission require MP to submit annual updates on the status of the transition to flat rates, its outreach efforts to customers about the flat rates, and an analysis of customer bill impacts. In addition, the Department recommends the Commission order the Company to submit its proposed TOD rates and TOD tariff 60 days prior to its proposed implementation of the rates.

#### **IV. DEPARTMENT RECOMMENDATIONS**

The Department recommends that the Commission:

- approve MP's proposed residential flat rate structure and two-year transition from IBR rates to a flat rate structure for its residential customers, and approve the Company's proposed tariffs;
- approve MP's proposed TOD rate structure with peak, off-peak and super-off-peak rate periods and a peak to super-off-peak ratio of 2:1;
- approve MP's request to eliminate its existing Residential TOD Pilot program at the time the Company begins transitioning customers to the TOD rate;
- require MP to submit annual updates on the status of the transition to flat rates, its outreach efforts, and an analysis of actual customer bill impacts; and
- require MP to submit its proposed TOD rates and TOD tariff 60 days prior to its proposed implementation of the rates.

/ja

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Comments**

**Docket No. E015/M-20-850**

**Dated this 16<sup>th</sup> day of February 2021**

**/s/Sharon Ferguson**



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-850_M-20-850
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-850_M-20-850
David	Moeller	dmoeller@allte.com	Minnesota Power	30 W Superior St  Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_20-850_M-20-850
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-850_M-20-850
Anne	Rittgers	arittgers@mnpower.com	Minnesota Power	30 W Superior St  Duluth, MN 55802	Electronic Service	No	OFF_SL_20-850_M-20-850
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350  Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-850_M-20-850