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July 30, 2018

VIA ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: In the Matter of the Annual Service Quality Report for Minnesota Energy Resources Corporation for 2017, Docket No. G011/M-18-317

Reply Comments of Minnesota Energy Resources Corporation

Dear Mr. Wolf:

On July 16, 2018, the Minnesota Department of Commerce, Division of Energy Resources ("Department") filed Comments in the above-referenced docket recommending that the Minnesota Public Utilities Commission ("Commission") accept Minnesota Energy Resources Corporation's ("MERC's" or the "Company's") 2017 Annual Service Quality Report pending MERC's responses to various inquiries in Reply Comments. Specifically, the Department requested that the Company provide:

- Confirmation as to whether the number of customer deposits collected in 2017 is correct;
- An explanation for the elevated number of service interruptions caused by both MERC and third parties; and
- An explanation as to the aspects of MERC's Improved Customer Experience ("ICE") project that were expected to contribute to "continuous improvement" in its Performance Indicator Metrics, identification of the barriers to achieving continuous improvement in 2017, and an indication as to whether MERC expects to meet all performance metrics going forward.

MERC thanks the Department for its review and submits these Reply Comments in response to the Department's requests for additional information and in accordance with the Commission's June 27, 2018, Second Notice of Extended Comment Period.

1. *Customer Deposits*

First, with respect to customer deposits, the Department requested that MERC explain why the number of customer deposits assessed and retained in 2017 were out of line with historical averages. In late 2017, we discovered that we had collected deposits from too many residential customers after we reinitiated the customer deposit function earlier that year. Specifically, MERC had been collecting deposits from low-income customers in violation of our company policy, and the deposits collected were higher than allowed under our tariff. Upon realizing our mistake we refunded all residential deposits collected in 2017. Therefore, the number of residential deposits assessed in 2017, as reported in our May 1, 2017, Quality of Service filing was correct, but those deposits were all refunded to customers.

The number of deposits held, as reported in our May 1, 2018, filing, was correct. In 2017, we assessed 88 customer deposits for commercial service, and of those 88, we are currently holding 84. Because we refunded all customer deposits in 2016 to facilitate the conversion to ICE, the number of deposits retained will continue to be out of line with historical averages.

2. *Service Interruptions*

Second, with respect to service interruptions, the Department requested that MERC provide an explanation for the increase in the number of service interruptions caused by both the utility and others.

MERC responds that the data provided in Table 12 of the Department's Comments is incorrect with respect to 2016 and 2017 data. It appears that the table reflects the number of customers affected by interruptions rather than the number of interruptions that occurred in 2016 and 2017, while the comparison is to the number of outages for the prior periods. MERC modified the format of its reporting on service interruptions beginning in 2016 to separately report on the number of outages and number of affected customers. The following is a corrected version of Table 12:

Year	Caused by Utility	Caused by Others	Total Interruptions	Percent Caused by Utility
2010	7	41	48	14.5%
2011	8	145	156	5.1%
2012	17	136	153	11.1%
2013	5	129	134	3.7%
2014	1	154	155	0.6%
2015	22	155	177	12.4%
2016	44-35	184-162	225-197	18.2%-17.7%
2017	75-26	366-150	441-176	17.0%-14.7%

Based on these corrections, MERC’s 2017 service interruptions were in line with historic reporting.

3. ICE Performance Metrics

With respect to MERC’s ICE performance metric reporting, the Department notes that “MERC achieved its stated goal in six of ten categories – Residential First Call Resolution, Even Payment Plan Adoption, Electronic Bill Adoption, Electronic Payment Adoption, Field Service Appointments Kept, and IT/Security” – but that the Company “fell short of the level promised” with respect to four specific areas – Customer Transaction Satisfaction, Billing Accuracy, Billing Timeliness, and Net Write-Offs as a Percent of Revenue.

The Department concludes that additional context is necessary to appropriately evaluate MERC’s performance:

Given that this is the first time MERC is reporting on its ICE performance, additional context may be required to properly evaluate the Company’s performance. As such, the Department requests that, in *Reply Comments*, the Company explain how it has achieved continuous improvement in its Performance Indicator Metrics. Specifically, since in each of the categories, the stated 2017 Target Performance is continuous improvement to either 1st or 2nd Quartile performance, what aspects of ICE were expected to contribute to continuous improvement (for each metric), what were the barriers to achieving continuous improvement in 2017, and whether MERC expects to meet all performance metrics going forward.¹

¹ Department Comments at 20.

MERC disagrees with the Department's suggestion that MERC should retain only a portion of the \$500,000 because MERC achieved success in only a portion of categories. MERC, however, agrees with the Department that a determination of whether the Company has met the requirements to retain the \$500,000 in accordance with the Commission's October 31, 2016, Findings of Fact, Conclusions, and Order in Docket No. G011/GR-15-736, should appropriately take into consideration additional context regarding MERC's 2017 ICE metric achievements, the target performance for 2017, and factors outside of ICE that contribute to achievements to date.

First, the Department's assessment of MERC's 2017 ICE performance is too narrowly tailored and fails to take into account the achievements we have made not only in the metrics specific to ICE, but also the achievements in the general Quality of Service categories included in our annual report.

MERC's overall 2017 customer service performance demonstrates the effectiveness of the ICE Project in achieving improved customer service. In addition to the achievements MERC attained with respect to the specific ICE performance metrics, MERC demonstrated significant improvement in other areas included in the gas annual service quality report. For example, as the Department notes in its Comments, "the Company's average telephone response time for all months of 2017, other than October, November, and December, were the fastest since the data was tracked beginning in 2010."²

With respect to the ICE performance indicator metrics, the target performance of continuous improvement should be viewed in the context of each performance metric, taking into consideration the performance achievements that can be specifically attributed to the ICE Project as well as factors outside of the customer information system that impact results.

The Department suggests that the Company failed to meet the specified "target performance" in three of the ICE performance categories because the 2017 performance level was not above the level reported in 2016, and therefore did not constitute "continuous improvement."

At the outset, MERC disagrees with the Department's premise that each metric has to improve year after year, with no deviation, to demonstrate "continuous improvement." Because each of the metrics is affected by much more than just the ICE technology or platform, MERC could never achieve, much less guarantee, that year after year each metric would improve. Rather, "continuous improvement" can be achieved, and should be evaluated, over a longer period of time, starting with the 2013-2015 baseline performance. As a result, the Department's standard is unrealistic and too simplistic.

² Department Comments at 3.

Secondly, though it is true that our performance reported for 2017 was lower than in 2016 in three categories, the actual performance was a result of various factors, some of which were entirely unrelated to MERC's customer information system. MERC provides a discussion of each of these three metrics below.

A. Customer Transaction Satisfaction

First, with respect to Customer Transaction Satisfaction, as discussed in MERC's initial filing and the Department's Comments, MERC's 2017 performance of 78.5 percent was a significant improvement over the baseline performance of 62 percent.

Baseline 2013-2015 Performance	2016 Performance	1 st Quartile (Entry Point)	2 nd Quartile (Entry Point)	2017 Performance Target	2017 Performance
62%	83.6%	82%	72%	Continuous improvement driving toward first quartile performance	78.5%

While reported performance trended slightly down from 2016 (from 83.6 percent in 2016 to 78.5 percent in 2017), this downward trend occurred as a result of changes and improvements the Company made to the format of its customer satisfaction surveys in 2017 and as a result, the reduction from 2016 levels is not related to the ICE system improvements.

Prior to 2017, MERC utilized third-party phone surveys to measure customer transaction satisfaction. Based on customer feedback and after initial testing in 2017, those phone surveys were transitioned to e-mail surveys. By conducting surveys via e-mail, MERC is able to sample more customers, and a better representative group of customers, in a more efficient and cost-effective manner. Notably, MERC was able to survey more customers in 2017 compared to 2016, under the new survey method. The improved survey method, however, does not come without tradeoffs. Research demonstrates, and MERC's experience supports, that by conducting surveys via e-mail rather than telephone, survey responses tend to be more negative for a variety of reasons. For example, the presence of an interviewer for telephone interviews is known to garner more positive responses because respondents tend to avoid saying negative things to live people.

Demonstration of the effectiveness of the ICE system in improving customer transaction satisfaction is not undermined by the Company's shift in survey format. As discussed in

MERC's filing, that transition was designed to make participation easier for customers. While 2017 achievements in the customer transaction satisfaction metric were slightly lower than MERC's 2016 data, the comparison is not an apples-to-apples comparison. In light of the change in survey method, MERC's 2017 results demonstrate significant achievement with respect to customer transaction satisfaction, especially as compared to the 2013-2015 baseline performance.

B. Billing Accuracy

Second, with respect to Billing Accuracy, the Department notes that this metric saw a decrease from 2016 to 2017. As discussed in MERC's filing, however, the dip in 2017 results was unrelated to the ICE project and nothing related to MERC's customer information system could have contributed to additional improvement in this metric. Rather, the decrease was driven by meter reader staffing issues that were encountered in 2017. Turnover in meter reader staffing required that MERC supplement with staffing from temporary workers, who required additional training, resulting in more inaccurate meter reads and inaccurate bills in 2017.

Baseline 2013-2015 Performance	2016 Performance	1 st Quartile (Entry Point)	2 nd Quartile (Entry Point)	2017 Performance Target	2017 Performance
99.53%	99.77%	99.93%	99.79%	Continuous improvement toward second quartile performance	98.93%

In the absence of automatic meter reading ("AMR") or advanced metering infrastructure ("AMI"), MERC does not anticipate achieving first quartile performance with respect to this metric and meter reading staffing issues will likely continue to impact performance going forward until MERC's AMI project is implemented in 2019 and 2020. While replacement of MERC's outdated billing system created opportunities for improvements in billing accuracy and allowed for automation of more complex billing functions, factors unrelated to the customer information system have and will continue to impact performance with respect to this metric. Demonstration of the effectiveness of the ICE project with respect to billing is not, and should not be, undermined by staffing issues that are encountered with respect to meter reading.

C. Net Write-Offs as a Percent of Revenue

Finally, with respect to Net Write-Offs as a Percent of Revenue, the Department states that MERC's 2017 Target Performance goal was "continuous improvement within 2nd Quartile driving towards eventual 1st Quartile performance."³ The Department further notes that while MERC's 2017 performance of 0.58 percent was equal to the pre-ICE baseline, the Company indicated that it considers 2017 performance reflective of continuous improvement.⁴

Baseline 2013-2015 Performance	2016 Performance	1 st Quartile (Entry Point)	2 nd Quartile (Entry Point)	2017 Performance Target	2017 Performance
0.58%	0.73%	0.35%	0.52%	This metric is correlated to weather and environmental factors. Our goal is continuous improvement within 2 nd quartile, driving toward eventual 1 st quartile performance	0.58%

With respect to this performance measure, the Company was clear in its January 31, 2017, Compliance Filing that factors unrelated to ICE likely would impact achievements each year:

With respect to the proposed additional metric to measure accounts receivable aging improvements, MERC noted during the January 18, 2017, meeting that while ICE is intended to improve write-offs, gas prices and weather dominate the write-off impact. In particular, customer

³ Department Comments at 19.

⁴ Department Comments at 19.

payments are more impacted by higher or lower bills (whether because of gas costs or colder or warmer weather) than MERC’s collection activities. Because other outside factors have a significant impact on write-offs, it is difficult to measure improvements over time. Nevertheless, MERC agreed that reporting on write-offs could provide useful data and information and that the Company would attempt to provide a narrative explanation of factors outside of ICE that are or may be impacting this metric as part of the annual reporting. Currently, MERC is performing slightly below second quartile compared to others in the industry. In 2017 and beyond, MERC’s goal is to move toward second quartile performance and eventually achieve first quartile performance.⁵

Indeed, 2017 performance in this category was impacted by weather and overall customer bills. Though the ICE Project allowed for collections standardizations and improvements that may contribute to improved net write offs as a percentage of total revenues, factors unrelated to the ICE Project have and will continue to impact performance with respect to this metric. Demonstration of the effectiveness of the ICE Project with respect to collections is not undermined by impacts outside of the customer information system that affect customers’ payment of their bills.

D. Billing Timeliness

Additionally, the Department’s comments suggest that for a fourth factor, billing timeliness, MERC failed to meet its stated target performance because 2017 performance was 99.48 percent or 0.02 percent below the first quartile level. At such high performance levels, a 0.02 percent impact can occur based on any number of minor factors unrelated to the customer information system’s performance.

Baseline 2013-2015 Performance	2016 Performance	1 st Quartile (Entry Point)	2 nd Quartile (Entry Point)	2017 Performance Target	2017 Performance
99.89%	98.65%	99.50%	99.00%	Maintain 1 st Quartile performance	99.48%

⁵ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G011/GR-15-736, Compliance Filing at 10 (Jan. 31, 2017).

As discussed in MERC’s May 1, 2018 filing, MERC made significant achievements in ensuring timely bills for customers, particularly in the first year following system stabilization. The failure to achieve even higher performance in this metric in 2017 was unrelated to the ICE Project. Instead, the meter reading staffing issues that impacted the billing accuracy metric also negatively impacted this metric. For example, MERC has had to hold bills to avoid using multiple months of estimated reads, and those bills are delayed until the Company can obtain an actual read. Additionally, weather can impact billing timeliness by impacting meter reading if roads are closed and meters are inaccessible due to significant snowfalls or rainfalls. Finally, issues such as customer billing disputes can and do occasionally affect billing timeliness. Even a small number of bill issues could result in a shift from the first to second quartile, given the narrow margin of performance at those levels.

In light of the context surrounding the ICE performance metric achievements that the Department identifies as below the stated target performance relative to 2016 achievements or industry benchmarking, and considering other areas where the Company established improved performance in its standard service quality metrics, MERC has demonstrated that the benchmarks have been met for the Company to retain the \$500,000 in accordance with the Commission’s October 31, 2016, Findings of Fact, Conclusions, and Order.

4. Future ICE Performance

In its Comments, the Department requested that the Company explain in Reply Comments (1) what aspects of ICE were expected to contribute to continuous improvement (for each metric), (2) what were the barriers to achieving continuous improvement in 2017, and (3) whether MERC expects to meet all performance metrics going forward. MERC provides the following additional information regarding each of the reported ICE performance metrics:

	Aspects of ICE Contributing to Continuous Improvement	Barriers to Increased Achievement in 2017	Expectation for Future Performance
Customer Transaction Satisfaction	<ul style="list-style-type: none"> -improved customer service processes and systems -improved self-service options for customers -efficiency and effectiveness of our customer service identification and resolution process 	<ul style="list-style-type: none"> -Change from telephone to e-mail surveys (research indicates that while e-mail surveys result in higher response rates and more participation, overall satisfaction reported tends to be lower as customer have more time to consider and provide 	<ul style="list-style-type: none"> -Continued improvement from pre-ICE baseline levels, driving toward first quartile performance. -going forward, as the industry continues to evolve, we find different ways to measure and gain customer insights.

	Aspects of ICE Contributing to Continuous Improvement	Barriers to Increased Achievement in 2017	Expectation for Future Performance
	through improved Care Center tools.	<p>more candid feedback than they would to a person over the phone).</p> <p>-measurement can be very subjective and impacted by the mode of survey and other factors.</p>	<p>Our means to gauge customer feedback has changed and we are seeing a better sampling of our customer demographics and number of participants to survey.</p> <p>-Our focus is to improve performance while balancing other external and internal factors that may impact customer satisfaction. We do not measure our satisfaction with our CIS system only, we use this metric to identify process improvement opportunities and root causes to dissatisfaction. Items like gas prices, branding, internal processes, regulated processes, etc. can impact customer satisfaction.</p>
Residential First Call Resolution	<p>-improved customer service processes and systems</p> <p>-improved call escalation processes</p>	None	-Maintain achievements within second quartile, driving toward first quartile.
Billing Accuracy	<p>-replacement of outdated customer information system</p> <p>-system billing capabilities (compared to pre-ICE system)</p> <p>-system atomization capabilities (compared to pre-ICE system)</p>	<p>-Meter reading staffing issues unrelated to ICE (turnover in meter reader staff)</p> <p>-weather impacts on meter reading</p> <p>-some unavoidable level of human error (in the absence of AMR/AMI)</p>	-staffing, weather, and human error are all factors that will continue to impact this metric; MERC expects to maintain performance with slight improvements in 2018 and beyond, dependent upon other external factors.

	Aspects of ICE Contributing to Continuous Improvement	Barriers to Increased Achievement in 2017	Expectation for Future Performance
	-efficiency and effectiveness of our customer service identification and resolution process through improved Care Center tools.		-MERC's planned implementation of AMI in 2019 and 2020 is expected to result in improvements in billing accuracy in the future.
Billing Timeliness	-replacement of outdated customer information system -system billing capabilities (compared to pre-ICE system) -system atomization capabilities (compared to pre-ICE system)	-ICE system stabilization and continued monitoring/verification post-stabilization (2016 into 2017). MERC made significant achievements in ensuring timely bills for customers in 2017, particularly in the first year following system stabilization. -Narrow windows of the quartiles (at the 99.00 percent level) means that minor changes can greatly impact achievements in this metric. -meter reader staffing, weather, and human error affect billing timeliness in a similar manner as billing accuracy.	-staffing, weather, and human error are all factors that will continue to impact this metric; MERC expects to maintain performance with slight improvements in 2018 and beyond, dependent upon other external factors. -MERC's planned implementation of AMI in 2019 and 2020 is expected to result in improvements in billing timeliness in the future.
Even Payment Plan Adoption	-Proactive solicitation and automated enrollment into the even payment plan makes enrollment easier for customers	-customer education and interest	- Maintain achievements within second quartile, moving toward first quartile performance of 16.8 percent, -while MERC will continue to target continuous even payment plan adoption through customer education, participation

	Aspects of ICE Contributing to Continuous Improvement	Barriers to Increased Achievement in 2017	Expectation for Future Performance
			is optional and will depend on customer interest.
E-Bill Adoption	-makes electronic billing application more user-friendly for customers, increases mobile options, and allows customers to continue electronic billing if they move and transfer service to a new address.	None	-target maintaining first quartile performance -while MERC will continue to target continuous e-bill adoption through customer education, participation is optional and will depend on customer interest. -potential barrier to 2018 and future achievement with a planned web platform project, which could create temporary disruptions.
E-Payment Adoption	-makes electronic billing application more user-friendly for customers, increases mobile options, and allows customers to continue electronic billing if they move and transfer service to a new address.	None	-target maintaining first quartile performance -while MERC will continue to target continuous e-bill adoption through customer education, participation is optional and will depend on customer interest. -potential barrier to 2018 and future achievement with a planned web platform project, which could create temporary disruptions.
Field Service Appointments Kept	-improvements with the implementation of ICE, including improved mobile routing capabilities to the dispatch system, increases our ability to	None	-maintain first quartile performance. -MERC's 2017 achievements were 99.99 percent of field service appointments

	Aspects of ICE Contributing to Continuous Improvement	Barriers to Increased Achievement in 2017	Expectation for Future Performance
	<p>timely meet service appointments.</p> <p>-Integrated scheduling into the customer information system to streamline customer scheduling.</p>		kept.
Net Write Off as % of Revenue	<p>-improvements in collections</p> <p>-system enhancements to allow for additional atomization</p>	<p>-ICE system stabilization (i.e., temporary suspension of collection activities during transition and stabilization)</p> <p>-factors unrelated to customer information system and collection activities have a more significant impact on net write offs (e.g., weather, gas prices, other impacts on customer bills)</p>	<p>-MERC will continue to target performance within the second quartile driving toward eventual first quartile performance to the extent such performance is achievable in consideration of external factors affecting overall write offs.</p>
IT/Security	<p>-prior to ICE, MERC's customer information system did not have the capability to mask or tokenize customer information fields.</p> <p>-with ICE, customer data fields that are secured via masking or tokenization include bank account information, birthdate, drivers' license information, income, social security numbers, credit card information, and other person data.</p>	None	<p>-No changes anticipated in the near term (increases would only occur with future upgrades or modifications to the system).</p>

With respect to anticipated future performance related to the ICE performance metrics, MERC notes that there will be fluctuations in the identified metrics that are the result of

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internal and external factors and may or may not be related to the customer information system. As discussed in these Comments, MERC does not anticipate continued year-over-year improvements in all measurement areas as a result of the ICE project. Nevertheless, the achievements to date and anticipated future achievements have and will demonstrate a significant value to customers as a result of the ICE project.

MERC thanks the Department for its thorough review of our 2017 Gas Service Quality results and we look forward to the Department's evaluation of the information contained herein. Please contact me at (651) 322-8965 if you have any questions.

Sincerely yours,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

cc: Service List

In the Matter of the Annual Service Quality
Report for Minnesota Energy Resources
Corporation for 2017

Docket No. G011/M-18-317

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 30th day of July, 2018, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 30th day of July, 2018.

/s/ Kristin M. Stastny
Kristin M. Stastny

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