Staff Briefing Papers

Meeting Date	September 18, 2025	**Agenda Item 3***
Company	Minnesota Energy Resources Corp.	
Docket No.	G-011/M-25-52	
	In the Matter of Minnesota Energy Resources Corporation's 2024 Revenue Decoupling Mechanism Adjustment Calculation and Decoupling Evaluation Report	
Issues	Should the Commission accept Minnesota Energy Resources Corporation's 2024 Decoupling Evaluation Report and approve MERC's proposed adjustments to the revenue decoupling mechanism (RDM) factors effective June 1, 2025?	

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✓ **Relevant Documents**	**Date**
MERC - Initial Filing 2024 Revenue Decoupling Mechanism Adjustment Calculation and Decoupling Evaluation Report	May 30, 2025
Minnesota Department of Commerce, Division of Energy Resources - Comments	June 30, 2025
MERC - Reply Comments	July 8, 2025

I. Background

On May 30 2025, Minnesota Energy Resources Corporation (MERC) filed its 2024 Revenue Decoupling Mechanism (RDM) Evaluation Report and updated RDM rates with the Minnesota Public Utilities Commission (Commission). The filing fulfills MERC's tariff obligation to submit, by June 1 each year, both (i) a decoupling evaluation of the prior calendar year and (ii) new class-specific RDM adjustments that take effect on June 1 2025 bills.[1] The current submission reflects the Commission's November 14 2023 order extending MERC's pilot revenue-decoupling program through 2025.[2] This filing proposes surcharge factors, effective June 1, 2025,that will recover a net $7.85 million shortfall from 2024 across the three decoupled classes.[3] Table 1 shows the typical Residential customer will see an average monthly bill increase of $1.72, while C&I Firm Class 2 customers will face a larger average increase of $12.31 per month.

Table 1 - Summary of 2025 RDM Rate and Estimated Bill Impacts (Effective June 1, 2025)[4]

Customer Class	RDM Per Therm Surcharge/(Credit)	Average Use per Customer	Average Monthly Bill Impact	Average Annual Bill Impact
Residential	$0.03	741	$1.72	$20.62
C&I Firm Class 1	$0.03	732	$1.80	$21.60
C&I Firm Class 2	$0.02	6,670	$12.31	$147.69

Warmer-than-normal weather (heating-degree-days 12-14 % below normal) suppressed sales and drove most of the 2024 revenue shortfall. The year also marks the first time general-service C&I customers participated in decoupling, adding roughly $2.55 million to the surcharge pool.[5]

On June 30, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed its comments recommending that the Commission accept MERC's 2024 Decoupling Evaluation Report and approve the proposed RDM adjustment factors, effective June 1, 2025.

On July 8, 2025, MERC filed reply comments requesting that the Commission adopt the Department's recommendation.

[1] *In the Matter of Proposed Streamlining for Annual Revenue Decoupling Evaluation Reports*, March 8, 2021 Order, Docket Nos. G-008/M-19-558; G-004/M-20-335; G-011/M-20-332; E-002/M-20-180.

[2] *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, *Order Accepting Agreement Setting Rates and Updating Base Cost of Gas*, November 14, 2023 Order, Docket No. G-011/GR-22-504

[3] MERC Initial Filing, Attachment C.

[4] MERC Initial Filing at 25, Table B5(B).

[5] MERC Initial Filing at 21.

II. Legal Standard

Minnesota Statute § 216B.2412 authorizes the Commission to approve revenue-decoupling pilots that break the link between a utility's sales volume and its allowed revenues, thereby removing the disincentive to promote energy conservation. MERC's pilot was launched in 2013 and has been extended several times—most recently through 2025 by the Commission's November 14 2023 Order in Docket G011/GR-22-504, which also added C&I Firm Classes 1 & 2 to the program.[6]

Every Minnesota utility that uses revenue decoupling must file an annual report that (1) shows the energy savings it achieved and (2) explains how it calculated any decoupling surcharge or refund. The Department of Commerce reviews each report to ensure it contains all required information and that the calculations are accurate. The PUC also directs every current and future investor-owned utility with a Revenue Decoupling Mechanism (RDM) to include the following items in its yearly filing:[7]

Data and Narrative Regarding Energy Savings Achievements:

1. Brief overview of the Energy Conservation and Optimization (ECO) portfolio. Narrative discussing changes made in the most recent triennial ECO, including any changes in marketing.

2. Annual first-year energy savings, including a comparison of the utility's annual first-year energy savings of the past 5 years to the utility's average first-year energy savings for the three years preceding each utility's implementation of its RDM. Information will be presented on a total ECO basis and on a rate class basis, if possible, in a way that facilitates evaluation of the change in energy savings by customers in the rate classes that have decoupled rates.

3. Lifetime energy savings, including a presentation of the utility's lifetime energy savings for each of the past 5 years. Information will be presented on a total ECO basis and on a rate class basis, if possible, in a way that facilitates evaluation of the change in energy savings by customers in the rate classes that have decoupled rates.

4. Annual first-year energy savings for each year (beginning with three years before RDM implementation and ending with the year prior to RDM evaluation) presented as a percent of weather-normalized retail sales from non-ECO opt-out customers as specified in Minn. Stat. 216B.241 Subd. 1c. (b).

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[6] *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, *Findings of Fact, Conclusions, and Order*, July 13, 2012, Docket No. G-007, 011/GR-10-977.

[7] *In the Matter of Proposed Streamlining for Annual Revenue Decoupling Evaluation Reports*, Order, March 8, 2021, Docket Nos. G-008/M-19-558; G-004/M-20-335; G-011/M-20-332; E-002/M-20-180.

5. Comparison of the relevant average gas use per customer for each decoupled customer class for the three years before RDM implementation and the years after.

Data and Narrative Regarding RDM Deferral and Billing Adjustment Factors:

1. Brief explanation of how RDM over/under collection and RDM rates are calculated.

2. Annual amount of revenue over/under collected by customer class through the RDM during the evaluation period, before and after any adjustments to reflect the cap. Supporting detail includes monthly sales and number of customers and a description of how heating degree days ("HDD") varied from those assumed in the Company's last rate case.

3. Description of whether the approved cap has come into play for any decoupled class since RDM was implemented. The discussion includes identification of the time period(s), the customer class(es) affected, and what the RDM adjustment would have been without the cap.

4. Description of any changes to methods or calculations of the decoupling adjustment over the course of the pilot, including any such changes, their purpose, and impact on the deferral.

5. By rate class – the per therm rate charged, the overall rate surcharged/refunded, the annual gas use per customer, and the estimated bill impact on average customers. If there is a wide variation of consumption in the customer class, MERC may provide estimated bill impacts on customers with a range of consumption.

6. Discussion of whether MERC filed any rate cases during the RDM implementation period, and when. To the extent new base rates took effect during the pilot period, indicate when those new rates took effect and what impact the revised rates had on the methods and mechanics of the RDM over/under collection calculations.

7. A table showing the historical net surcharges/refunds for each decoupled class and for the utility as a whole.

8. Tables showing the calculation of all past RDM factors (including over/under collections of revenues and forecasted sales).

9. Include an updated RDM tariff sheet in redline and final format

III. Discussion

A. Minnesota Energy Resources Corporation Petition

1. Data And Narrative Regarding Energy Savings Achievements

a. Brief overview of ECO portfolio.

Minnesota Energy Resources Corporation's (MERC) Energy Conservation and Optimization (ECO) plan for 2024 outlines the utility's energy-efficiency programs for low-income, residential, and Commercial & Industrial (C&I) customers.[8] Key features include:

- Expanded low-income offerings. Dedicated low-income programs grew from three to four.
- Stable choice for other customers. Both the residential and C&I sectors continue to offer four program options each.
- Rebates and other incentives target customers, builders, and trade allies to drive energy-efficient savings.

Beyond the four stand-alone low-income programs, the plan folds extra incentives for low-income participants into several market-rate projects:

- Residential Audit Program – free home visits for qualifying households.
- Residential Rebates – enhanced incentives for affordable-housing rehab and new-construction projects.
- Home Energy Reports – specially tailored messages for low-income customers.
- Commercial New Construction – higher rebates for low-income multifamily developments.

b. Annual First-Year Energy Savings and Comparison with the three years preceding the implementation of RDM.

The Commission's October 31, 2016 Order in Docket No. G-011/GR-15-736 required MERC to demonstrate in its annual evaluations whether maintaining decoupling remains reasonable, particularly in light of evidence that Residential savings had declined. MERC was directed to compare average ECO savings over the past five years with results from the most recent year and to explain any differences, including the potential impact of decoupling. As shown in Table 2, MERC's overall ECO savings in 2024 were below pre-decoupling levels.

[8] *In the Matter of Minnesota Energy Resources 2024-2026 Energy Conservation and Optimization Triennial Plan*, Department Decision, December 1, 2023 Order, Docket No. G-011/CIP-23-98.

Table 2 - CIP/ECO First-Year Savings with Average Savings Method applied to Behavioral Program[9]

All Programs	2010	2011	2012	Base Years Average	2020	2021	2022	2023	2024	5 Yr Average	Change in 5 Yr Average over Base Yrs Average
Low Income Programs-PNG	8,337	6,009	5,710	6,685							
Low Income Programs-NMU	2,231	1,235	1,954	1,806	9,780	8,444	6,991	8,648	11,187	9,010	**6.1%**
Low Income Programs-Total	**10,567**	**7,244**	**7,664**	**8,492**							
Residential Programs-PNG	153,452	176,987	163,200	164,546							
Residential Programs-NMU	26,137	26,584	22,748	25,157	204,556	201,569	197,561	185,764	143,998	186,690	**-1.6%**
Residential Programs-Total	**179,590**	**203,571**	**185,948**	**189,703**							
C&I Programs-PNG	146,083	144,398	153,171	147,884							
C&I Programs-NMU	56,977	65,624	141,671	88,091	152,988	182,809	205,729	203,027	240,285	196,968	**-16.5%**
C&I Programs-Total	**203,060**	**210,022**	**294,842**	**235,975**							
Total Savings-PNG	307,872	327,393	322,081	319,115							
Total Savings-NMU	85,345	93,443	166,373	115,054	367,324	392,822	410,281	397,439	395,470	392,667	**-9.6%**
Total Savings	**393,217**	**420,837**	**488,454**	**434,169**							
Change Base Years Average to 2024:				**-38,699**	**-8.90%**						

Total first-year savings were 395,470 Dth, an 8.9% decrease from the 2010–2012 base-year average of 434,169 Dth. The five-year average (2020–2024) was also lower, showing a 9.6% decline from the base-year average. However, as reflected in Table 3, average Residential savings have risen slightly during the decoupling period, supporting the conclusion that maintaining decoupling for this class remains reasonable.

[9] MERC Initial Filing at 12, Table A2 (A).

Table 3. MERC Residential First-Year ECO Energy Savings[10]

Year	Residential First-Year ECO Savings (Dth)
2010	190,157
2011	210,815
2012	193,612
Pre-Decoupling Average	198,195
2013	219,278
2014	188,276
2015	217,718
2016	220,305
2017	170,770
2018	187,645
2019	215,529
2020	214,336
2021	210,013
2022	204,552
2023	194,412
2024	155,185
Post-Decoupling Average	199,835
% Increase over Pre-Decoupling	0.8%

c. Lifetime Energy Savings.

Over the past five years, MERC's average lifetime energy savings have been lower than the three-year average recorded before decoupling. In 2024, the Commercial & Industrial (C&I) sector achieved about 37,000 Dth more first-year savings than in 2023, yet its lifetime savings fell because the rebates went to measures with shorter useful lives.[11] During the same five-year span, the Residential sector slightly outperformed the C&I sector—opposite the pattern seen in the pre-decoupling years.

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[10] MERC Initial Filing at 14, Table A2(C).

[11] MERC Initial Filing at 16.

Table 4 - Lifetime Energy Savings[12]

Programs With Modified Residential Behavior Program	2010	2011	2012	Base Years Average	2020	2021	2022	2023	2024	5 Yr Average
Residential Programs-PNG	2,497,911	3,183,864	2,839,826	2,840,534	**3,184,385**	**3,362,962**	**3,131,404**	**2,891,540**	**2,274,526**	**2,968,963**
Residential Programs-NMU	390,771	429,749	385,395	401,972						
Residential Programs-Total	**2,888,682**	**3,613,613**	**3,225,221**	**3,242,505**						
C&I Programs-PNG	2,361,120	1,726,282	2,095,077	2,060,826	**2,197,206**	**2,505,589**	**2,179,970**	**3,222,683**	**3,072,636**	**2,635,617**
C&I Programs-NMU	557,135	1,045,860	2,222,509	1,275,168						
C&I Programs-Total	**2,918,255**	**2,772,141**	**4,317,585**	**3,335,994**						
Total Lifetime Savings-PNG	4,859,031	4,910,146	4,934,902	4,901,360	**5,381,591**	**5,868,551**	**5,311,374**	**6,114,223**	**5,347,162**	**5,604,580**
Total Lifetime Savings-NMU	947,906	1,475,609	2,607,904	1,677,139						
Total Lifetime Savings	**5,806,937**	**6,385,754**	**7,542,806**	**6,578,499**						

d. Annual First-Year Energy Savings

Across the three baseline years before revenue decoupling (2010 – 2012), MERC's first-year ECO savings averaged roughly 0.8 – 0.9 percent of weather-normalized ECO-eligible sales. Once decoupling began in 2013, that ratio edged higher and then held steady: the 2013–2019 period averaged about 1 percent, and the most recent five-year span (2020–2024) averaged 0.90 percent, with 2024 itself also coming in at 0.90 percent. Combining all post-decoupling years (2013–2024) yields an overall average of about 0.96 percent. Overall, the decoupling mechanism has preserved, and even modestly improved, MERC's conservation performance, keeping annual savings close to 1 percent of eligible sales despite weather swings and shifts in program mix.

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[12] MERC Initial Filing at 15.

Table 5 - ECO First-Year Savings as Achieved, as Percent of Weather-Normalized Sales (Dth)[13]

All Programs	First Year Energy Savings	Applicable 3-Yr Average, 20-Yr Weather Normalized Sales (Dth)	Energy Savings as Percent of Retail Sales	Average of Pre and Post Decoupling Period Savings Achievement
Base Year - 2010 (2010-2012 Triennial)	445,836	54,862,275	0.81%	0.87%
Base Year - 2011 (2010-2012 Triennial)	457,748	54,862,275	0.83%	
Base Year - 2012 (2010-2012 Triennial)	534,596	54,862,275	0.97%	
Post Year - 2013 (2013-2015 Triennial)	424,821	35,297,938	1.20%	0.96%
Post Year - 2014 (2013-2015 Triennial)	369,068	35,297,938	1.05%	
Post Year - 2015 (Ext of 2013-2015 Triennial)	493,382	43,175,948	1.14%	
Post Year - 2016 (Ext of 2013-2015 Triennial)	472,000	43,175,948	1.09%	
Post Year - 2017 (2017-2019 Triennial)	402,989	52,732,921	0.76%	
Post Year - 2018 (2017-2019 Triennial)	509,758	52,732,921	0.97%	
Post Year - 2019 (2017-2019 Triennial)	468,544	52,732,921	0.89%	
Post Year - 2020 (Ext of 2017-2019 Triennial)	367,324	42,070,269	0.87%	
Post Year - 2021 (2021-2023 Triennial)	392,822	44,047,006	0.89%	
Post Year - 2022 (2021-2023 Triennial)	410,281	44,047,006	0.93%	
Post Year - 2023 (2021-2023 Triennial)	397,439	44,047,006	0.90%	
Post Year - 2024 (2024-2026 Triennial)	395,470	43,866,491	0.90%	

Since revenue decoupling began, MERC's budget for ECO programs has risen sharply, as shown in Table 6,from about $7.5 million to a record $13.2 million in 2024, with post-decoupling average of $10.4 million. Spending is up across all customer groups, and funds for low-income programs have more than doubled. The growth reflects stricter state requirements to serve low-income customers, higher costs for contractors and materials, and the fact that easy, low-cost efficiency fixes are largely gone—so each new unit of energy savings now takes more work and money.

[13] MERC Initial Filing at 16.

Table 6 - ECO Spending[14]

All Programs	Expenditures	Average Spend
Base Year - 2010 (2010-2012 Triennial)	$7,549,259	$8,522,483
Base Year - 2011 (2010-2012 Triennial)	$8,067,174	
Base Year - 2012 (2010-2012 Triennial)	$9,951,017	
Post Year - 2013 (2013-2015 Triennial)	$8,630,240	$10,433,643
Post Year - 2014 (2013-2015 Triennial)	$7,360,832	
Post Year - 2015 (Ext of 2013-2015 Triennial)	$8,870,639	
Post Year - 2016 (Ext of 2013-2015 Triennial)	$9,198,728	
Post Year - 2017 (2017-2019 Triennial)	$10,666,998	
Post Year - 2018 (2017-2019 Triennial)	$11,777,435	
Post Year - 2019 (2017-2019 Triennial)	$12,115,461	
Post Year - 2020 (Ext of 2017-2019 Triennial)	$10,480,259	
Post Year - 2021 (2021-2023 Triennial)	$10,931,780	
Post Year - 2022 (2021-2023 Triennial)	$10,187,471	
Post Year - 2023 (2021-2023 Triennial)	$11,820,716	
Post Year - 2024 (2024-2026 Triennial)	$13,163,160	

e. Comparison of the Average Gas Use per Customer for Each Decoupled Customer

In the pre-decoupling period (2010–2012), Residential customers used an average of 816 therms per year. Post-decoupling (2013–2024), average usage increased to 867 therms, but recent results show a reversal, with usage declining to 780 therms in 2023 and 741 therms in 2024, as shown in Table 7.

[14] MERC Initial Filing at 17, Table A4 (C).

Table 7 - 2024 Average Gas Use per Customer Class[15]

<table>
<tr><th>Year</th><th>Residential Annual Usage (Therms)</th><th>Average Usage Pre and Post Decoupling</th><th>C&I Firm Class 1 Annual Usage (Therms)</th><th>C&I Firm Class 2 Annual Usage (Therms)</th></tr>
<tr><td>2010</td><td>848</td><td rowspan="3">816</td><td></td><td></td></tr>
<tr><td>2011</td><td>876</td><td></td><td></td></tr>
<tr><td>2012</td><td>723</td><td></td><td></td></tr>
<tr><td>2013</td><td>942</td><td rowspan="12">867</td><td></td><td></td></tr>
<tr><td>2014</td><td>1041</td><td></td><td></td></tr>
<tr><td>2015</td><td>770</td><td></td><td></td></tr>
<tr><td>2016</td><td>772</td><td></td><td></td></tr>
<tr><td>2017</td><td>818</td><td></td><td></td></tr>
<tr><td>2018</td><td>946</td><td></td><td></td></tr>
<tr><td>2019</td><td>968</td><td></td><td></td></tr>
<tr><td>2020</td><td>874</td><td></td><td></td></tr>
<tr><td>2021</td><td>801</td><td>796</td><td>6,973</td></tr>
<tr><td>2022</td><td>951</td><td>1,052</td><td>8,227</td></tr>
<tr><td>2023</td><td>780</td><td>758</td><td>7,362</td></tr>
<tr><td>2024</td><td>741</td><td>732</td><td>6,670</td></tr>
</table>

2. Calculation of RDM Deferral and Billing Adjustment Factor

a. *Explanation of Calculation of RDM Over/Under Collection and RDM Rates*

MERC recalculates its RDM each year by first taking the revenue target the Commission approved for each customer class and subtracting fixed monthly charges and Conservation Cost Recovery Charge (CCRC) dollars. It then looks at how much distribution revenue the average customer in that class actually generated each month and compares it with the baseline forecast from rate case Docket G-011/GR-22-504. Any monthly difference, whether MERC collected too much or too little, is logged as a deferral and accumulate over the year. Refunds or surcharges cannot exceed ten percent of the class's authorized distribution revenue once CCRC dollars are removed. In 2024, MERC ran this monthly calculation for three groups—Residential customers, Commercial & Industrial (C&I) Firm Class 1 (including farm-tap accounts), and C&I Firm Class 2 (also including farm-tap accounts). The year-end deferral totals for each group became the refund or surcharge rates that customers will see on their bills.

[15] MERC Initial Filing at 18, Table A5.

b. Annual Amount of Revenue Over/Under Collected by Customer Class

Weather in 2024 was much warmer than the weather assumed in MERC's most recent rate case.[16] For MERC-NNG, temperatures were about 13.5 percent warmer, with 6,681 heating-degree days (HDD) instead of the normal 7,722. For MERC-Consolidated, temperatures were 11.9 percent warmer, recording 8,190 HDD versus the normal 9,293. Fewer heating-degree days meant customers needed less gas for space heating, which affected MERC's revenues as shown in Table 8.

Table 8: MERC Under-Collected Revenue / (Over-Collected Revenue)[17]

Class	RDM Surcharge (Refund)	2022 Reconciliation Adjustment	Total Surcharge (Refund)	Forecasted Sales (Therms)	Surcharge (Refund) Rate, per therm
Residential	$5,718,314	($416,981)	$5,301,334	190,420,054	$0.02784
C&I Firm 1	$267,247	$0	$267,247	9,059,834	$0.02950
C&I Firm 2	$2,281,422	$0	$2,281,422	103,040,599	$0.02214

c. RDM Approved Cap

MERC's mechanism places a 10 percent cap on surcharges or refunds. Table 9 shows that the 10 percent cap was applied to Residential customer surcharges in 2015, 2016, and 2024, and to Residential customer refunds in 2014 and 2019. For Small C&I customers, the surcharge cap was in place in 2013 and 2016, while the refund cap applied in 2014. In 2024, the 10 percent cap also applied to both Firm Class 1 and Firm Class 2 customers.

Table 9 - Impact of Cap[18]

Period	Customer Class Affected	Actual Billed RDM Adjustment	RDM Adjustment Without Cap
2013	Small C&I	$0.01701	$0.02958
2014	Residential	($0.01936)	($0.03527)
2014	Small C&I	($0.01567)	($0.06334)
2015	Residential	$0.01936	$0.02440
2016	Residential	$0.02135	$0.02350
2016	Small C&I	$0.01930	$0.04265
2019	Residential	($0.02173)	($0.02233)
2024	Residential	$0.03003	$0.04059
2024	Firm Class 1	$0.02950	$0.05726
2024	Firm Class 2	$0.02214	$0.02721

16 Docket No. G-011/GR-22-504

17 MERC Initial Filing at 9, Table B2.

18 MERC Initial Filing at 22.

d. Changes to Decoupling Adjustments

Starting in 2013, MERC began reporting customer data at the company-wide level instead of by individual gas areas, without changing how the decoupling mechanism was calculated. From 2014 onward, MERC updated its sales and customer forecasts to match its most recent approved rate cases, ensuring the revenue margins used in decoupling matched approved rates.

In 2015, MERC added new customers from its acquisition of Interstate Power and Light. These were included in decoupling only if their usage differed from approved averages. In 2016, 2018, and 2023 MERC continued updating forecasts based on the latest rate cases. From 2019 through 2022, the Small C&I class was removed from decoupling as approved by the Commission.[19] In 2021, the RDM adjustment date shifted from March 1 to June 1.[20]

For 2024, MERC kept using the 2023 rate case forecasts and expanded the decoupling program to include C&I Firm Class 1 and 2, plus Farm Tap customers, with adjustments for these classes starting June 1, 2025.

e. Overall Rate Surcharge/Refund, Monthly Electric Use Per Customer, and Monthly RDM Impact

MERC calculated the per-therm surcharge/refund rates, and the resulting bill impacts for each customer class subject to decoupling. These rates will take effect June 1, 2025, and reflect the 2024 RDM adjustments combined with the reconciliation of any prior-year differences.

Table 10 - Summary of 2025 RDM Rate and Estimated Bill Impacts (Effective June 1, 2025)[21]

Customer Class	RDM Per Therm Surcharge/(Credit)	Average Use per Customer	Average Monthly Bill Impact	Average Annual Bill Impact
Residential	$0.03	741	$1.72	$20.62
C&I Firm Class 1	$0.03	732	$1.80	$21.60
C&I Firm Class 2	$0.02	6,670	$12.31	$147.69

[19] Docket No. G-011/GR-17-563, December 26, 2018 Order.

[20] Docket No. G-011/M-20-332, March 8, 2021 Order.

[21] MERC Initial Filing at 25, Table B5(B).

f. Rate Cases Filed During the RDM Implementation Period

Since its RDM took effect on January 1, 2013, MERC has filed four general rate cases[22] that each influenced how RDM over- and under-collections were calculated. In its 2014 Rate Case MERC updated the 2014 and 2015 RDM with approved sales, customer counts, and distribution rates. The 2016 Rate Case provided new sales and customer data for the 2016 and 2017 RDM, incorporating final distribution rates. In the 2018 Rate Case RDM calculations for 2018 through 2022 were updated, and the Small C&I customer class was removed from decoupling effective January 1, 2019, with its surcharge discontinued on May 1, 2022. Most recently, the 2023 Rate Case supplied updated data for the 2023 and 2024 RDM, extended the pilot through 2025, and expanded decoupling to include C&I Firm Classes 1 and 2 (including Farm Tap customers), with their first RDM adjustment to take effect on June 1, 2025.

g. Historical Net Surcharges/Refunds for Each Decoupled Class

MERC's Table 11 documents all net surcharges and refunds applied under the RDM since its launch in 2013. Residential customers have alternated between refunds (2014, 2018–2020, 2022) and surcharges (2015–2017, 2021, 2023, 2024). The GS-C&I Firm Class 1 (formerly Small C&I) received refunds from 2014 through 2020 before being removed from decoupling on January 1, 2019; its surcharge was discontinued on May 1, 2022. This class, along with GS-C&I Firm Class 2, was reintroduced to the RDM pilot beginning with calendar year 2024.

[22] Docket No. G011/GR-13- 617, Docket No. G011/GR-15-736, Docket No. G011/GR-17-563, and Docket No. G011/GR-22-504.

Table 11 - Historical RDM[23]

Year	Description	Residential	GS - Firm Class 1	GS - Firm Class 2
2013	Total Surcharge/(Refund)	$0	$0	
2014	Total Surcharge/(Refund)	($3,283,235)	($166,426)	
	Forecasted Sales	169,606,110	10,622,007	
	Surcharge/(Refund) Rate	($0.01936)	($0.01567)	
2015	Total Surcharge/(Refund)	$3,428,684	$131,034	
	Forecasted Sales	169,606,110	10,622,007	
	Surcharge/(Refund) Rate	$0.02022	$0.01234	
2016	Total Surcharge/(Refund)	$3,171,430	$164,052	
	Forecasted Sales	180,058,590	11,856,852	
	Surcharge/(Refund) Rate	$0.01761	$0.01384	
2017	Total Surcharge/(Refund)	$2,957,786	$210,369	
	Forecasted Sales	180,058,590	11,856,852	
	Surcharge/(Refund) Rate	$0.01643	$0.01774	
2018	Total Surcharge/(Refund)	($3,243,039)	$67,326	
	Forecasted Sales	183,783,848	9,089,669	
	Surcharge/(Refund) Rate	($0.01765)	$0.00741	
2019	Total Surcharge/(Refund)	($4,394,036)	$40,447	
	Forecasted Sales	183,783,848	9,089,669	
	Surcharge/(Refund) Rate	($0.02391)	$0.00445	
2020	Total Surcharge/(Refund)	($436,058)	$1,887	
	Forecasted Sales	183,783,848	9,089,669	
	Surcharge/(Refund) Rate	($0.00237)	$0.00021	
2021	Total Surcharge/(Refund)	$3,246,309	n/a	
	Forecasted Sales	183,783,848	n/a	
	Surcharge/(Refund) Rate	$0.01766	n/a	
2022	Total Surcharge/(Refund)	($3,040,322)	n/a	
	Forecasted Sales	183,783,848	n/a	
	Surcharge/(Refund) Rate	($0.01654)	n/a	
2023	Total Surcharge/(Refund)	$4,843,889	n/a	
	Forecasted Sales	190,420,054	n/a	
	Surcharge/(Refund) Rate	$0.02544	n/a	
2024	Total Surcharge/(Refund)	$5,301,334	$267,247	$2,281,422
	Forecasted Sales	190,420,054	9,059,834	103,040,599
	Surcharge/(Refund) Rate	$0.02784	$0.02950	$0.02214

23 MERC Initial Filing, Attachment C.

h. Calculation of all Past RDM Factors

MERC included, in Attachment C, a comprehensive table of all past RDM factors since the program's launch in 2013. The table provides calculation of all past RDM factors, including over/under collections of revenues, forecasted sales, and net surcharges/(refunds) for each decoupled class and for the utility as a whole. The data reflect how the RDM has been adjusted year by year, incorporating Commission-approved forecasted sales and customer counts from successive rate cases, as well as reconciliation adjustments where required.

i. Updated RDM Tariff Sheet in Redline and Final Format

MERC submitted both redlined and final versions of its RDM tariff sheets. The Company explained that, beginning in the first month the new RDM factors take effect, it will include the following bill message to inform customers of the change in their monthly bills:

> Effective June 1, 2025, a Decoupling Adjustment will be included on your bill at a rate of $0.02784 per Therm for all residential customers, $0.02950per Therm for all system sales firm Class 1 customers, and $0.02214 per Therm for all system sales firm Class 2 customers. The Decoupling Adjustment is a credit or surcharge that separate revenues from changes in energy sales, neutralizing the impact of reduced sales due to energy conservation.

B. The Department of Commence - Comments

1. Overview

The Minnesota Department of Commerce (the Department) recommends that the Minnesota Public Utilities Commission accept MERC's 2024 Decoupling Evaluation Report and approve MERC's proposed adjustments to the RDM factors, effective June 1, 2025.

2. Department Analysis

a. Annual First-Year Energy Savings (% of weather-normalized retail sales)

The Department reviewed MERC's Table 4, which tracks first-year ECO savings relative to weather-normalized, non-ECO exempt retail sales from 2010 through 2024. It found that post-decoupling savings percentages have generally exceeded pre-decoupling levels. MERC's 2024 result of 0.90% of sales was higher than the pre-decoupling average of 0.874%, showing that program investments continue to yield measurable savings. Based on these results, the Department concluded that MERC's energy savings performance as a share of retail sales supports the ongoing effectiveness of decoupling, and that the Company's investment in conservation programming continues to drive increased energy efficiency outcomes[24].

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[24] Department Comments, at 7.

b. Comparison of the Average Gas Use per Customer for Each Decoupled Customer Class

The average Residential usage during the base years (2010–2012) was 816 therms per customer, compared to 867 therms in the post-decoupling period (2013–present). The Department observes that residential gas use has generally increased since decoupling began, raising concerns about long-term conservation performance. However, this concern is tempered by recent results: average usage declined to 780 therms in 2023 and 741 therms in 2024, both below the pre-decoupling baseline. While overall post-decoupling usage remains higher, the Department finds the downward trend in the past two years encouraging and will continue monitoring both Residential and C&I usage in future filings[25].

c. RDM Calculations and Methodology

The Department reviewed MERC's calculations for the 2024 RDM filing to ensure consistency with Commission-approved methodology.

c. Tariff Sheets

The Department reviewed both the redlined and final tariff sheets submitted by MERC focusing on whether the revised tariff language correctly reflected the updated RDM factors and Commission-approved format. The sheets were consistent with Commission requirements and accurate in their presentation.

IV. Staff Comments

There are no disputed items between the Department and MERC in this docket. Staff reviewed MERC's 2024 Decoupling Evaluation Report and proposed adjustments to the revenue decoupling mechanism, finding the calculations reasonable. Staff concurs with the Department's recommendation that the Commission accept MERC's report and approve the proposed adjustments.

[25] Department Comments, at 8.

V. Decision options

1. Accept Minnesota Energy Resources Corporation’s 2024 Decoupling Evaluation Report. (MERC, Department)

2. Approve Minnesota Energy Resources Corporation’s proposed adjustments to the revenue decoupling mechanism (RDM) factors effective June 1, 2025. (MERC, Department)