Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: September 24, 2014 ....* Agenda Item # 5

Company:	Minnesota Energy Resources Corporation ("MERC", "Company")
Docket Nos.	G-007,011/GR-10-977
	In the Matter of the Application by Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota
Issue(s):	Should the Commission accept Minnesota Energy Resources Corporation's annual revenue decoupling evaluation report for 2013, and approve Minnesota Energy Resources Corporation's revenue decoupling rate adjustments?
Staff:	Jorge Alonso 651-201-2258

Relevant Documents

MERC 2013 Revenue Decoupling Report .... March 27, 2014
Minnesota Department of Commerce Comments .... May 27, 2014
MERC Reply Comments .... June 6, 2014
MERC 2013 Revenue Decoupling Supplemental Information .... June 30, 2014
Minnesota Department of Commerce Supplemental Comments .... September 9, 2014

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

Statement of the Issue

Should the Commission accept Minnesota Energy Resources Corporation's annual revenue decoupling evaluation report for 2013, and approve Minnesota Energy Resources Corporation's revenue decoupling rate adjustments?

Introduction

This is the Commission's first annual review of Minnesota Energy Resources Corporation's full revenue decoupling program.

The Company and the Department ("DOC") are in agreement on recommending that the Commission:

1. Approve MERC's Revenue Decoupling Evaluation Report ("Report").

2. Allow MERC to continue assessing its revenue decoupling adjustments and approve the Company's annual decoupling adjustment.

Background

Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

A. Reduce MERC's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.

B. Achieve energy savings, and

C. Not harm ratepayers.

Pilot Revenue Decoupling Program

On July 13, 2012, the Commission issued its Findings of Fact, Conclusions of Law, and Order ("Order") in Minnesota Energy Resources Corporation's 2010 General Rate Case. As part of this Order, the Commission authorized a three year pilot "full" decoupling mechanism ("RDM") that encompassed the Residential and the Small Commercial and Industrial Classes. In conjunction with the implementation of rates authorized as a result of the 2010 rate case, decoupling became effective on January 1, 2013.

As part of its compliance filing, MERC was required to file an annual Revenue Decoupling Evaluation. This is the Company's initial report for the Evaluation Period of January 1 to December 31, 2013.

MERC's pilot revenue decoupling program is scheduled to run through December 31, 2015.

Parties' Positions

Minnesota Energy Resources Corporation – Evaluation Report

On March 27, 2014, Minnesota Energy Resources Corporation submitted its initial evaluation report for the period of January 1 to December 31, 2013. The Report provides a large amount of information about the Company's various conservation programs, their costs and, ultimately, their overall results and energy savings. In an effort to eliminate duplication, Staff has deferred these plans' discussion to the section under DOC Comments.

The Report also includes the required monthly and annual data necessary to calculate the corresponding decoupling rate adjustment. When the initial adjustment goes into effect on April 1, 2014, both classes subject to decoupling will be receiving refunds. Residential customers will receive $2,098,119 and Small Commercial & Industrial customers will receive $151,404.

Department of Commerce – Comments

On April 29, 2014, the Department filed comments on MERC's Evaluation Report and recommended that the Commission allow MERC to continue assessing its decoupling adjustment and approve the Company's annual decoupling adjustment. The DOC also recommended that, in Reply Comments, MERC update Attachment 3, page 2, to remove reported negative sales and present the figures in a manner consistent with how sales were determined in the Company's pending general rate case.

The DOC's filing also provided analysis of several subjects.

MERC's Progress Towards attaining 1.5% Energy Savings Goals

The Department noted that MERC provided both qualitative and quantitative information showing changes in the results of MERC's Conservation Improvement Program. As discussed below, the DOC highlighted some of MERC's programs.

Addition of New Projects or New Measures in an Existing Project

The DOC pointed out that the Company implemented two new measures (either an energy saving technology or process change) and two new projects in 2013:

- A residential heating system tune-up was added to MERC's Residential Rebate project.
- A retro-commissioning measure was added to MERC's C&I Custom Rebate project.
- A multifamily Direct Install Plus project (launched in July 2013).

- A Small Business Direct Install Plus project (launched in August 2013).

With the exception of its Home Energy Reports project, MERC continued to implement its other projects. On a net basis, MERC offered more energy conservation options to its customers.

Changes in CIP spending

The Department noted that, although lower than 2012's expenditures, the Company's 2013 CIP spending was higher than the amounts spent in 2010 and 2011. A large portion of the 2013 decrease is attributable to some of MERC's largest customers opting out of the program at the start of 2013.

Changes in CIP energy savings

MERC's 2013 low-income residential and residential customer energy savings were, respectively, 132% and 110% (i.e., 32% and 10% higher) of the prior year's savings. Further, MERC's 2013 low-income residential and residential energy savings were, respectively, 146% and 112% (i.e., 46% and 12% higher) of the 2010-2012 (the base years) average energy savings for those customer groups. Based on that analysis, the DOC stated that, under decoupling, MERC improved its energy savings for the residential sector.

The Department noted that, when compared to prior years, the Company's 2013 C/I energy savings decreased; however, one has to take into account that, due to opt outs, in 2013 the Company had fewer C/I customers to market energy savings.

The table below provides a comparison summary of the 2010-2013 energy savings.

Comparison of Energy Savings (in MCF), with 2010-2012 Energy Savings to Reflect 3-Year Life of Residential Behavioral Savings Project[1,2]

Full Decoupling (RD Rider) (Over)/Under Recovery	2010	2011	2012	2010-2012 Average	2013	2013/ Average	2013/ 2012
Low-Income Projects	10,567	7,244	7,664	8,492	11,207	132%	146%
Residential Projects	179,590	203,571	185,948	189,703	208,071	110%	112%
C/I Projects	203,060	210,022	294,842	235,975	205,542	87%	70%
Total Savings	393,217	420,837	488,454	434,169	424,820	98%	87%

By reviewing the Company's energy savings as a percent of retail sales, the DOC presented an alternate look of MERC's progress in this area. In this analysis, the Department adjusted retail sales to account for customers that opted out in 2013 and concluded the Company's energy

[1] Table includes reductions to MERC's historical residential projects to recognize that the energy savings from behavior projects are now assumed to have a three-year life, instead of one year, and that a project that would have been assumed to save 300 MCF when the behavior projects were first approved are now assumed to save 100 MCF.

[2] Staff has adjusted the table to account for the addition errors in the table, as filed. Staff considers the discrepancies resulting from these errors to be minimal; therefore, they do not have a material effect on the DOC's analysis.

savings measured as a percent of non-opt out retail sales has increased. For that reason the DOC concluded that MERC's 2013 energy savings decrease was the result of large customers opting out. MERC's 2010-2013 energy savings as percent of retail sales is summarized in the next table.

MERC's Energy Saving Achievements as Percent of Retail Sales

Year	Energy Savings Achievements	Percent of Retail Sales
2010	449,441	0.82%
2011	457,747	0.83%
2012	534,596	0.97%
2013	394,948	1.12%

Revenue Deferral Adjustment for Each Rate Class

The Department analyzed MERC's filing and determined that the refunds, $2.1 million for Residential and $151,000 for Small C&I, were calculated using Commission approved methodology. The DOC pointed out that the Small C&I refund was curtailed by the approved 10% cap[3]. The Department noted that CenterPoint's newly approved full decoupling mechanism has no cap on refunds; therefore, the Commission may want to consider a similar feature for any future MERC decoupling mechanisms.

Calculation of Deferrals

The Department reviewed MERC's calculation of its deferrals and concluded that the Company's calculations followed the Commission-approved method; however, the attachments included with MERC's decoupling report show negative sales figures in certain months. The DOC highlighted that, as discussed in previous dockets, negative sales are the result of the Company rebilling sales when they find a billing error and how these billing adjustments were previously handled in the Company's billing system (whether sales are adjusted in the month they are discovered or the month(s) that the errors occurred).

Given that MERC's decoupling adjustment occurs on an annual basis, the Department concluded that there should be little, if any, effect on MERC's decoupling adjustment. However, the reason for negative sales is unclear since the Department had been under the impression that MERC changed its billing system and its method of accounting for unbilled sales and billing errors. The Department further noted that the Company adjusted historical sales in its current rate case sales forecast (Docket No. G011/GR-13-617) to account for rebilled sales in a manner that prevents the reporting of negative sales. Given this fact, the Department recommended that MERC update Attachment 3, page 2, to remove reported negative sales and present the figures in a manner consistent with how sales were determined in the Company's pending general rate case.

Future Filings

[3] Unlike Xcel's currently proposed "soft" cap, MERC has a "hard" cap; therefore, no excess above the cap carries forward.

Since it is gathering data on the impact of different forms of decoupling on electric and natural gas utilities, the Department requested that, by June 30, 2014, MERC provide 2009-2013 revenue estimates that would have been collected for each of MERC's rate customer classes, under the assumption of:

- No decoupling,
- Xcel's proposed partial revenue per customer decoupling mechanism, and
- Full decoupling.

The requested data should assume that the decoupling rate adjustment was implemented on a monthly and annual basis, and estimate the surcharge or deferral that would have been experienced by a customer using the average amount of natural gas for each customer class, a low amount and a high amount.

The Department also recommended that, in its next (2014) annual decoupling evaluation report, MERC provide the same information as requested above.

DOC Recommendations

The Department recommended that the Commission allow MERC to continue to assess its decoupling adjustment and approve the Company's annual decoupling adjustment.

Additionally, the DOC recommended that, in its reply comments, the Company restate Attachment 3, page 2 and remove negative sales.

As previously mentioned, the Department reaffirmed its request for additional analysis that evaluated how revenues for each of MERC's customer classes would have varied during the 2009-2013 under various decoupling assumptions.

Finally, the DOC recommended that the Commission require MERC to provide, in its 2014 Evaluation Report, an estimate of each class' revenues under the various decoupling assumptions previously discussed.

MERC – Reply Comments

In its June 10, 2014 reply comments, MERC provided the additional information requested by the Department of Commerce:

1. Regarding the DOC's request that the company provide an updated Attachment 3, page 2 from MERC's Decoupling Evaluation Report that removes the reported negative sales and present the figures in a manner consistent with how sales were determined in the pending rate case, MERC stated that no update/correction is necessary. The Company stated that the Attachment reflects the monthly amounts MERC actually books to its general ledger and that the negative values are a result of MERC's unbilled process. MERC added that, while it has revised its method for correcting customer bills for the purpose of its sales forecasts, it continues to account for billing adjustments in the months

the adjustment took place. The Company also noted that it has not changed its billing system nor has it made any changes to how it accounts for unbilled sales and billing errors. MERC pointed out that changes referenced by the Department only relate to sales forecasting.

2. The Company also acknowledged the Department's recommendations for expanded decoupling results for the 2009-2013 timeframe and confirmed that, in a supplemental filing, they will comply with the request in the allowed timeframe.

3. MERC also agreed to provide the same supplemental information for 2014 in its next annual Report.

Regarding the Department's proposal to remove the 10% cap, MERC stated that it is not opposed to the idea so long as the removal is symmetrical. The Company requested that any cap changes do not take effect until January 1, 2015.

Finally, MERC requested that, to coincide with its CIP Status Report, the Decoupling Evaluation report deadline be moved to May 1. The Company stated that, since much of the information is duplicative, the move would help streamline MERC's filings and ensure consistency across MERC's dockets.

The Department did not respond to MERC's Reply Comments.

MERC – Supplemental Filing

On June 30, 2014, MERC submitted its supplemental filing addressing the Department's request for additional analysis that evaluated how revenues for each of MERC's customer classes would have varied during the 2009-2013 time period under the following decoupling scenario assumptions:

- No decoupling,
- Xcel's proposed partial revenue per customer decoupling mechanism.
- Full decoupling.

The Company's compliance to the Department's request was made in an Xcel format; however, it did not include any analysis or comments.

Department of Commerce – Supplemental Comments

The Department reviewed MERC's 2009-2013 historical data supplemental filing and provided results' analysis by class.

Residential Customers

For the 5-year period the Department noted that, compared to traditional rate regulation, MERC's residential customers would have paid an additional $3.39 million under full decoupling and $1.97 million[4] under partial decoupling. A further breakdown by the DOC revealed that, from 2009-2012, residential customers' surcharges would have been $5.5 million and, due to the cold 2013-2014 winter, for 2013 they would have gotten a significant refund.

Small Commercial and Industrial

The Department concluded that small C&I customers' impact under either decoupling scenario would have been minimal.

Large Commercial and Industrial

The Department determined that, except for 2012 under full decoupling, large C&I customers would have received large annual refunds under either decoupling scenario.

All other customer classes

Due to the fact that weather has a minimal impact on interruptible and large classes, MERC only provided full decoupling date for those classes. The Department stated that full decoupling would have resulted in lower revenues paid by the Small Volume Interruptible and Super Large Volume Transport customer classes, while the other customer classes would have paid more in revenues.

The Department summarized 2009-2013 results for all classes for all classes in the following table:

[4] MERC's 2011-2013 data used by the Department is incorrect due to formula errors. As calculated by Staff, the correct amount should be approximately $3.36 million.

Comparing Full and Partial Decoupling with Traditional Rate Regulation for 2009-2013[5]

		2009-2013
Residential		
	Full minus Traditional	$3,387,684
	Partial minus Traditional	$1,963,736[6]
Small C&I		
	Full minus Traditional	$18,426
	Partial minus Traditional	$67,956
Large C&I		
	Full minus Traditional	($2,452,106)
	Partial minus Traditional	($4,952,627)
Small Volume Interruptible & Joint		
	Full minus Traditional	($345,497)
Large Volume Interruptible & Joint		
	Full minus Traditional	$11,083
Small Volume Transport		
	Full minus Traditional	$93,471
Large Volume Transport		
	Full minus Traditional	$426,703
Super Large Volume Transport		
	Full minus Traditional	($310,019)

Unbilled Sales

In response to MERC's assertion that it has revised its billing process for purposes of the sales forecast, but MERC continues to account for billing adjustments in the month the adjustment was made in the general ledger rather than the months when the billing readings occurred, the Department continues to be troubled by the MERC's negative sales and stated that it has concerns regarding the Company's unbilled sales approach and the decoupling adjustment rate calculation. The DOC stressed that, since MERC's unbilled sales approach accounts for billing adjustments in the month they are identified rather than the month(s) when they occurred, sales that occurred in a previous period may be included in the calculation of the current period's decoupling adjustment and sales that occurred in the current period may be used to calculate a future period decoupling adjustment.

[5] A positive number means ratepayers paid more than they would have under traditional regulation.
[6] See footnote 3

The Department pointed out that MERC's only justification for not adjusting its booked sales is that any adjusted sales would not accurately reflect the Company's sales and added that the Company did not provide specific evidence showing that adjusting sales in a manner similar to the sales forecast would be inappropriate or result in an incorrect application of the RDM adjustment. Furthermore, if adjusted sales are not an accurate reflection of MERC's sales, then it potentially raises the issue of whether the sales data used to set rates in a decoupling mechanism are reasonable.

Since the decoupling pilot has not concluded, the unbilled sales concerns should not impact ratepayers or MERC at this time; as such, the Department does not believe that it is necessary to hold up approval of the decoupling adjustment at this time. The DOC will continue working with MERC to reach an understanding on the most appropriate current sales number to estimate the RDM factor. Additionally, the Department recommends that the Company provide additional discussion and evidence supporting its decision not to provide a revised attachment accounting for negative booked sales.

Recommendations

The Department continued to recommend that the Commission allow MERC to continue to assess its decoupling adjustment and approve its annual decoupling adjustment.

Finally, the Department recommended that, in its next annual decoupling evaluation report, MERC be required to provide an estimate of the revenues that would have been collected from all of its customer classes in 2014 assuming:

a. No decoupling;
b. Partial revenue per customer decoupling; and
c. Full decoupling.

This data should assume that the decoupling rate adjustment is implemented on a monthly and annual basis, and estimate the surcharge or deferral that would have been experienced by a customer using the average amount of natural gas for each customer class, a low amount and a high amount.

Staff Analysis

In its analysis of the "back-cast" historical information, the Department provided a 5-year summary for each class' aggregate results under both full and partial decoupling. Staff provides additional analysis.[7]

Residential Class

[7] Staff verified data provided by the Company and, in general, Staff results were similar to MERC's. Staff determined that the minimal discrepancies are a result of different rounding and truncation within spreadsheet formulas. Staff used its calculations for the analysis.

Tables 1 and 2 show that, from 2009-2012, had either partial or full decoupling been in effect, MERC would have under-collected revenues and would have surcharged Residential customers every year. During that time, the 10% cap would have only applied in 2012 and, to the ratepayers' benefit, it would have reduced the surcharge amount by $2.6 million. Under full and partial decoupling, MERC would have surcharged Residential Customers $3,374,887 (net of the 10% cap) and $3,360,113. Staff points out that the fact that both amounts are similar is coincidental and no other conclusions should be drawn from them.

In 2013, full decoupling went "live" and MERC over-collected and owed the Residential Class a $2.1 million refund.

It is important to point out that, had partial decoupling been in effect in 2013, MERC, despite over-collecting $2.1M, would have surcharged Residential Class customers an additional $477,652.

Despite having under-collected $5,679,579 (subject to the 10% cap of $3,068,326) in 2012, had partial decoupling been in place, MERC would have surcharged Residential customers only $477,652.

The hypothetical partial decoupling's results in 2012 and 2013 are similar to those seen by CenterPoint in 2012 and highlight that partial decoupling might arguably yield irrational results.

Table 1 - Residential Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Residential	2009	$120,682	$2,930,228	$0	No One
Residential	2010	$1,740,286	$2,930,228	$0	No One
Residential	2011	$560,671	$3,068,326	$0	No One
Residential	2012	$5,679,579	$3,068,326	$2,611,253	Rate Payers
Residential	2013	($2,115,078)	$3,068,326	$0	No One
5-Year Totals		$5,986,141		$2,611,253	Rate Payers

Table 2 - Residential Class 2009-2013 Partial Decoupling Results[8]

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Residential	2009	$265,500	$2,930,228	$0	No One
Residential	2010	$1,626,742	$2,930,228	$0	No One
Residential	2011	$323,561	$3,068,326	$0	No One
Residential	2012	$666,658	$3,068,326	$0	No One
Residential	2013	$477,652	$3,068,326	$0	No One
5-Year Totals		$3,360,113		$0	No One

To finalize the analysis of Residential Class results, Staff has determined that, as shown on Table 3, the reason for the 2009-2013 persistent under-collection was the result of actual revenue per customer being lower than authorized revenue per customer.

Table 3 - Residential Class 2009-2013 Revenues per Customer

Class	Year	Allowed Revenue Per Customer	Actual Revenue Per Customer, Full Decoupling	Difference, Full Decoupling	Actual Revenue Per Customer, Partial Decoupling	Difference, Partial Decoupling
Residential	2009	$157.82	$157.17	($0.65)	$156.39	($1.43)
Residential	2010	$157.82	$148.45	($9.37)	$149.06	($8.76)
Residential	2011	$161.60	$158.67	($2.93)	$159.91	($1.69)
Residential	2012	$161.60	$131.90	($29.69)	$158.11	($3.49)
Residential	2013	$161.60	$172.65	$11.06	$159.10	($2.50)

Small Commercial and Industrial - Firm

Small Commercial and Industrial is the only other class subject to MERC's decoupling mechanism. Tables 4 and 5 summarize the Class' annual results under both scenarios.

Under full decoupling, the 10% cap would have been a factor in three of the five years. In 2009 it would have minimally favored MERC, in 2012 it would have substantially favored rate payers and in the program's first year of 2013 it moderately benefited the Company.

Under partial decoupling, the cap would have only applied in 2012 and its impact would have been substantial with ratepayers as the beneficiaries.

[8] As stated in footnote 3, Staff found an error in MERC's formulas used to calculate 2011-2013 Residential Class' Partial Decoupling Results. Staff has used its corrected results in this analysis.

The 5-year aggregate financial impact under either decoupling scenario would have been that MERC under-collected, and therefore surcharged, a small total amount.

Table 4 - Small Commercial & Industrial Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Small C&I	2009	($134,115)	$127,093	$7,022	MERC
Small C&I	2010	$20,206	$127,093	$0	No One
Small C&I	2011	$125,887	$151,404	$0	No One
Small C&I	2012	$1,085,018	$151,404	$933,614	Rate Payers
Small C&I	2013	($264,328)	$151,404	$112,924	MERC
5-Year Totals		$832,667		$813,667	Rate Payers

Table 5 - Small Commercial & Industrial Class 2009-2013 Partial Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Small C&I	2009	($120,317)	$127,093	$0	No One
Small C&I	2010	$18,152	$127,093	$0	No One
Small C&I	2011	$137,914	$151,404	$0	No One
Small C&I	2012	$997,447	$151,404	$846,043	Rate Payers
Small C&I	2013	($119,034)	$151,404	$0	No One
5-Year Totals		$914,162		$846,043	Rate Payers

Large Commercial and Industrial

As with all subsequent classes discussed in this section, Large Commercial and Industrial customers are not part of the current pilot decoupling program. Under full decoupling, from 2009-2013, this Class would have overpaid an aggregate total of $4,671,725; however, the 10% cap would have reduced their refunds by $2,224,915 – 2009's refund would have been reduced by $21,224 and 2012's by $2,203,692.

Under partial decoupling, Large C&I customers would have overpaid $6,134,408; however, due to the 10% cap, their refunds would have reduced been by $1,170,039 – 2009's by $27,984, 2012's by $99,601 and 2013's by $1,042,454.

Tables 6 and 7 show what the 5-year results would have been under full and partial decoupling.

Table 6 - Large Commercial & Industrial Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Large C&I	2009	($1,369,880)	$1,348,657	$21,224	MERC
Large C&I	2010	($388,564)	$1,348,657	$0	No One
Large C&I	2011	($188,883)	$1,367,150	$0	No One
Large C&I	2012	$846,443	$1,367,150	$0	No One
Large C&I	2013	($3,570,842)	$1,367,150	$2,203,692	MERC
5-Year Totals		($4,671,725)		$2,224,915	MERC

Table 7 - Large Commercial & Industrial Class 2009-2013 Partial Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
Large C&I	2009	($1,376,641)	$1,348,657	$27,984	MERC
Large C&I	2010	($586,357)	$1,348,657	$0	MERC
Large C&I	2011	($295,056)	$1,367,150	$0	MERC
Large C&I	2012	($1,466,751)	$1,367,150	$99,601	MERC
Large C&I	2013	($2,409,604)	$1,367,150	$1,042,454	MERC
5-Year Totals		($6,134,408)		$1,170,039	MERC

The Large Commercial and Industrial's theoretical results provide an interesting case study that underscores the importance of carefully weighing the specifics of any utility's decoupling formula. As seen in tables 8 and 9, MERC's total authorized revenues for the 5-year period was $67,987,631, under full decoupling actual revenues were $65,297,800 and under partial decoupling actual revenues were $66,624,628.

Despite the fact that MERC's full decoupling actual revenues were $2,689,831 lower than approved revenues, the formula would have shown that ratepayers would have received $2,446,810 in refunds. Similarly, under partial decoupling actual revenues were $370,383 lower than approved revenues and yet, based on the formula, ratepayers would have received $5,063,970 in refunds.

The reason for this seeming "disconnect" is that although revenues *per customer* were higher than those approved, customer counts were substantially less than those approved. In its most recent rate case, CenterPoint Energy addressed this possible issue when it redesigned the formula of its proposed decoupling mechanism.

Staff does not offer this analysis to advocate for any particular formula. As we continue learning new things under current pilot programs, Staff's intent is to make the Commission aware of yet another possible "irrational" decoupling outcome and the importance of carefully analyzing a utility's proposed decoupling formula prior to its approval.

Table 8 - Large Commercial & Industrial Class
2009-2013 Actual vs. Full Decoupling Results

Class	Year	Authorized Net Revenues	Actual Total Revenues, Full Decoupling	Under / (Over) Collection, Actual	Under / (Over) Collection, Full Decoupling
Large C&I	2009	$13,486,567	$13,566,980	($80,413)	($1,348,657)
Large C&I	2010	$13,486,567	$12,304,678	$1,181,889	($388,564)
Large C&I	2011	$13,671,499	$13,199,976	$471,523	($188,883)
Large C&I	2012	$13,671,499	$11,393,772	$2,277,727	$846,443
Large C&I	2013	$13,671,499	$14,832,394	($1,160,895)	($1,367,150)
5-Year Totals		$67,987,631	$65,297,800	$2,689,831	($2,446,810)

Table 9 - Large Commercial & Industrial Class
2009-2013 Actual vs. Partial Decoupling Results

Class	Year	Authorized Net Revenues	Actual Total Revenues, Partial Decoupling	Under / (Over) Collection, Actual	Under / (Over) Collection, Partial Decoupling
Large C&I	2009	$13,486,567	$13,573,083	($86,516)	($1,348,657)
Large C&I	2010	$13,486,567	$12,480,083	$1,006,484	($586,357)
Large C&I	2011	$13,671,499	$13,300,297	$371,202	($295,056)
Large C&I	2012	$13,671,499	$13,431,392	$240,107	($1,466,751)
Large C&I	2013	$13,671,499	$13,839,773	($168,274)	($1,367,150)
5-Year Totals		$67,987,631	$66,624,628	$1,363,003	($5,063,970)

Interruptible Classes

MERC only provided full decoupling data for its Small Volume (SV) and Large Volume (LV) and Super Large Volume (SLV) interruptible classes. During the 5-year period, the Company would have had net over-collections for all three classes; however, as a result of the 10% cap, each class' refund amount would have been drastically reduced. For the LV class, the cap's impact was such that even though MERC would have over-collected $452 thousand, it would have net surcharged ratepayers $11 thousand.

For interruptible classes, the cap would have regularly impacted results – SV and LV would have each been affected three times and SLV would have been affected four times. In the overwhelming majority of these cases, the Company would have been the cap's beneficiary.

Tables 10-12 summarize results for each interruptible class.

Table 10 – Small Volume Interruptible Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
SV Interruptible	2009	($454,568)	$250,504	$204,064	MERC
SV Interruptible	2010	$288,201	$250,504	$37,697	Rate Payers
SV Interruptible	2011	($134,574)	$222,502	$0	No One
SV Interruptible	2012	$12,061	$222,502	$0	No One
SV Interruptible	2013	($537,945)	$222,502	$315,443	MERC
5-Year Totals		($826,824)		$481,810	MERC

Table 11 – Large Volume Interruptible Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
LV Interruptible	2009	($41,379)	$28,279	$13,099	MERC
LV Interruptible	2010	$88,850	$28,279	$60,571	Rate Payers
LV Interruptible	2011	$12,437	$26,340	$0	No One
LV Interruptible	2012	$25,674	$26,340	$0	No One
LV Interruptible	2013	($537,945)	$26,340	$511,604	MERC
5-Year Totals		($452,363)		$464,133	MERC

Table 12 – Super Large Volume Interruptible Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
SLV Interruptible	2009	$209,763	$84,649	$125,113	Rate Payers
SLV Interruptible	2010	($79,694)	$84,649	$0	No One
SLV Interruptible	2011	($380,109)	$104,991	$275,117	MERC
SLV Interruptible	2012	($386,783)	$104,991	$281,791	MERC
SLV Interruptible	2013	($379,779)	$104,991	$274,788	MERC
5-Year Totals		($1,016,602)		$706,583	MERC

Transport Classes

As with its interruptible classes, MERC only provided full decoupling data for its Small Volume (SV) and Large Volume (LV) transport classes.

The SV class would have been subject to a cap impact in each of the five years. While MERC over-collected during the first two years and would have benefitted from the cap's impact, the exact opposite would have happened the following three years. The reason for these wide, annual discrepancies is the same: approved revenues per customer. In 2009 and 2010 actual revenues per customer exceeded approved by a factor of almost 50%. As a result of the Company's 2010 rate case, approved numbers were reset and, from 2011 through 2013, approved numbers exceeded actuals by almost 50%.

Under full decoupling, MERC's LV would have been subject to a surcharge the first four years and would have received a refund the final year. Since approved and actual revenues per customer were consistently within 10% of each other, the cap would have only been of relevance in 2012.

Tables 13 and 14 summarize results for each transport class.

Table 13 – Small Volume Transport Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
SV Transport	2009	($199,819)	$40,093	$159,726	MERC
SV Transport	2010	($151,353)	$40,093	$111,260	MERC
SV Transport	2011	$173,866	$57,885	$115,980	Rate Payers
SV Transport	2012	$226,840	$57,885	$168,954	Rate Payers
SV Transport	2013	$168,414	$57,885	$110,528	Rate Payers
5-Year Totals		$217,947		$124,477	Rate Payers

Table 14 – Large Volume Transport Class 2009-2013 Full Decoupling Results

Class	Year	Under / (Over) Collection	10% cap	Cap Impact	Cap Benefited
LV Transport	2009	$139,296	$210,314	$0	No One
LV Transport	2010	$83,649	$210,314	$0	No One
LV Transport	2011	$110,164	$190,356	$0	No One
LV Transport	2012	$271,791	$190,356	$81,435	Rate Payers
LV Transport	2013	($179,880)	$190,356	$0	No One
5-Year Totals		$425,021		$81,435	Rate Payers

Decision Alternatives

1. Should the Commission accept MERC's annual revenue decoupling evaluation report for 2013?

   a. Accept MERC's revenue decoupling evaluation report for 2013. (MERC, DOC)

   b. Do not accept MERC's revenue decoupling evaluation report for 2013.

2. Should the Commission approve CenterPoint's March 1, 2014 revenue decoupling rate adjustments?

   a. Accept MERC's revenue decoupling adjustment calculations and approve their implementation effective April 1, 2014. (MERC, DOC)

3. Should the Commission consider removing the 10% cap?

   a. Find that the 10% cap should be lifted for prospective refunds only. (DOC)

   b. Find that the 10% cap should be lifted got both prospective refunds and surcharges, i.e., symmetrical. (MERC)

   c. Take no action.

4. If the 10% cap is removed, when should it effective?

   a. Order that the removal of the 10% cap be effective January 1, 2015. (MERC)

   b. Order that the removal of the 10% cap be effective some other date.

5. Should the Annual Decoupling Evaluation Report compliance deadline be changed?

   a. To coincide with the Annual CIP Status Report, approve moving the Annual Decoupling Evaluation Report deadline to May 1. (MERC)

   b. Keep the Annual Decoupling Evaluation Report deadline at March 31.

General Compliance Items

As recommended by the DOC and agreed to by MERC, the Commission may want to instruct the Company that its next Annual Report include an estimate each class' revenues under the following decoupling scenarios:

- No decoupling.
- Partial decoupling.
- Full decoupling.