MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	April 25, 2019		Agenda Item 2**
Company	Minnesota Energy Resources Corporation		
Docket No.	**G-011/M-19-108**		
	In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Tariff Amendments to Remove Small and Large Volume Balancing Service and Modify the Residential Customer Deposit Provisions		
Issues	1. Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request to discontinue its optional small and large volume balancing services for small and large volume transportation customers? 2. Should the Commission approve MERC's request to increase the maximum allowable deposit for residential customers and eliminate a section of outdated tariff language?		
Staff	Eric Bartusch	eric.bartusch@state.mn.us	651-201-2259
	Sundra Bender	sundra.bender@state.mn.us	651-201-2247

✓ **Relevant Documents**	**Date**
MERC – Initial Filing	January 25, 2019
Department of Commerce – Comments	February 25, 2019

The attached materials are work papers 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.

✓ **Relevant Documents**	**Date**
MERC – Reply Comments	March 5, 2019
Department of Commerce – Response to Reply Comments	March 22, 2019

I. Statement of the Issues

- Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request to discontinue its optional small and large volume balancing services for small and large transportation customers?
- Should the Commission approve MERC's request to increase the maximum allowable deposit for residential customers and eliminate a section of outdated language?

II. Background

On January 25, 2019, Minnesota Energy Resources Corporation (MERC or the Company) filed a petition with the Minnesota Public Utilities Commission (PUC or the Commission) requesting to discontinue its volume balancing services to small and large transportation customers and to increase the maximum allowable deposit for residential customers.

On February 25, 2019, the Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval of MERC's request to discontinue volume balancing services and to eliminate a section of outdated language, however, the Department recommended that the Commission deny MERC's request to modify its residential customer deposit provisions.

On March 7, 2019, MERC filed reply comments, stating that its request to increase the maximum deposit is supported by the Commission's customer service rules and consistent with other utilities' practice.

On March 22, 2019, the Department filed comments to clarify and reaffirm its position.

III. Parties' Comments

A. MERC – Initial Filing

1. Proposal to Eliminate Balancing Service

MERC has proposed to eliminate its no-notice balancing service offered as an optional service to transportation customers. The Company does not have any customers enrolled in the service. One marketer expressed an interest in balancing services, but MERC reasons that even if that single customer utilized the service, the potential revenue from the customer does not justify the costs associated with offering the service. MERC has conducted outreach to marketers to gauge overall interest in balancing services, but none indicated having any interest in the service. Given the historical lack of interest and current lack of usage, the Company requests that it be allowed to discontinue the service.

2. Proposal to Increase Residential Customer Deposits

MERC also proposes to increase the allowable amount of cash deposit or surety bond that can be required for residential customers. Currently, residential customer deposits required are not to exceed the amount of the charge for one month's average usage based on annual normalized consumption. The Company proposes to increase this deposit requirement so that the deposit is not to exceed two months estimated gross bill or two months existing bill.

MERC justifies its request by noting that its proposal is consistent with Minnesota Rule 7820.4500, subpart 1, which states "…A deposit shall not exceed an estimated two months' gross bill or existing two months' bill where applicable…"Additionally, MERC seeks to increase its Minnesota residential customer deposits to align it with other utilities within the WEC Energy Group to help standardize processes. Finally, MERC notes that its proposed deposit policy is utilized by all other natural gas utilities in Minnesota.

B. Department – Comments

The Department focused its analysis on the need to make changes to existing offerings and policies, recommending that the Commission approve the Company's request to discontinue balancing service and deny MERC's request to modify its deposit policy.

1. Proposal to Eliminate Balancing Service

The Department agrees with MERC and recommends the Commission allow the Company to discontinue offering its balancing service. In response to a Department IR, MERC verified that none of its current transportation customers are now or were previously enrolled in either of the services. The limited potential for future revenues, given the apparent lack of customer interest, does not justify the cost of continuing to offer these programs.

Additionally, the Department noted that MERC's large and small volume transportation customers will no longer have the option to subscribe to balancing services which could potentially subject these customers to balancing penalties. However, because these same transportation customers have consistently chosen to not elect volume balancing services, MERC's customers have demonstrated a willingness to accept the risk of incurring penalties for being out-of-balance.

2. Proposal to Increase Maximum Allowed Amount of Residential Customer Deposits

The Department does not recommend approval of MERC's proposal to modify residential customer deposits. The Department's position is that MERC has not demonstrated a need for such a change. MERC is not obligated to align its residential customer deposit policy and practices with other Minnesota utilities or other utilities in the WEC Energy Group. The Department also notes that its current practices fully comply with Minnesota Rule 7820.4500.

The Department also expressed concerns with the impacts of MERC's proposal on residential customers. Residential customers with either poor credit or multiple disconnect notices could be subject to a deposit that is double what they pay under the current deposit policy.[1]

> Residential customers with multiple utility service disconnections, no established credit, or poor credit are, in general, customers with the least ability to pay deposits. Increasing the maximum deposit amount from one to two months'

[1] Department Comments, page 4

> worth of estimated or existing billings has the potential to place an additional, and seemingly unnecessary, burden on a vulnerable customer group.

Although the Department acknowledges that MERC requiring additional deposits could help alleviate some issues related to arrears and collections, the positive impact for the Company would be relatively small compared to the negative impact on the customers required to pay the additional deposits. Therefore, the Department concludes that MERC has not demonstrated its need to modify its residential customer deposit policy.

C. MERC – Reply Comments

MERC disagrees with the Department's comments indicating that an increase to the residential deposit policy would impact vulnerable customers. Because low income customers are excluded from the deposit requirement, MERC argues that there is no unreasonable burden to those customers. In the Company's experience, customers who are assessed a deposit are often those who can afford to pay but have poor payment practices. MERC assesses that customers would be influenced by a steeper deposit and would demonstrate better payment practices to get their deposit back or avoid being assessed a deposit in the first place.

The Company also reiterates that its proposal is justified and supported by Minnesota Rule 7820.4500. The intent of the modification is to promote timely customer payments and to prevent service disconnections for non-payment.

D. Department – Response to Reply Comments

The Department filed additional comments to clarify its argument, specifically noting that it does not have a generalized position that two months' estimated or actual bill is unreasonable, but rather, the Department does not believe MERC has successfully demonstrated that its proposal to increase residential deposits is justified.

The Department also disagrees with MERC's assertion that "customers who are assessed a deposit are often those who can afford to pay but have poor payment practices." The Department does not believe that statement is supported by the record and is not aware that MERC conducts income verification or can otherwise assess a customer's ability to pay.

IV. Staff Analysis

A. Discontinue Balancing Service

MERC currently offers balancing service to its large and small transportation customers that don't have telemetry equipment installed. As the Department noted, the Company previously proposed to eliminate balancing service, but the Commission denied the request.[2]

> …the Commission will not permit the Company to discontinue its balancing services as originally proposed. Small Volume Transportation customers may still find value in not having to comply with the balancing requirements in the

[2] Docket G-001,011/GR-08-835, Findings of Fact, Conclusions of Law, and Order, page 17

> Company's tariff and may want to continue to protect against the risk of incurring scheduling penalties by continuing to purchase this service.

MERC stated that the service is currently not utilized, except for a single marketer that asked whether the service was available, and conducted outreach to gauge interest. The Company does not believe that the potential revenues of one customer utilizing the service would justify the costs associated with maintaining the program and the Department agrees. The Department also noted that transportation customers have already demonstrated a willingness to accept risks associated with balancing penalty charges by not opting into the service.

In Docket 08-835, the Commission also allowed MERC to require telemetry without exception, noting that the equipment cost was not unreasonable and that MERC offered favorable financing terms. MERC has completed implementation of the telemetry requirement.

B. Increase Residential Customer Deposits

Minnesota Rule 7820.4500, subpart 1 states:

> When required, a customer may assure payment by submitting a deposit. ***A deposit shall not exceed an estimated two months' gross bill or existing two months' bill where applicable***. All deposits shall be in addition to payment of an outstanding bill or a part of such bill as has been resolved to the satisfaction of the utility except where such bill has been discharged in bankruptcy.
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> [Staff emphasis]

MERC's proposal contemplates the Commission allowing it to increase the Company's deposit provision, currently capped at one month's average usage based on annual normalized consumption, to the maximum allowable by Minnesota Rule 7820.4500. Under the Commission's rules, the Commission has the discretion to require the current deposit policy to remain in effect or to allow MERC's request to be granted.

The Department focused on whether an increase is justified. To that end, the Department does not believe MERC has substantiated the need to modify the existing deposit policy. There is a disagreement about whether the customers affected by the proposal include low-income or other vulnerable customers. The Department argues that the benefit of increasing the deposit amount does not justify the potential harm to impacted vulnerable ratepayers.

However, MERC believes the ratepayers impacted by the modification are those that can afford to pay but simply have poor payment practices. MERC assesses that an increase in the deposit requirement will encourage these customers to modify their behavior and improve their payment practices.

C. Removal of Outdated Exception Language

MERC has also proposed to eliminate the following language from its deposit provisions:[3]

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[3] MERC Initial Filing, Page 49, contains the proposed red-line revision with the quoted language removed

> EXCEPTION: Per order in Docket G-999/CI-05-1832, reconnection fees and deposit requirements are waived for customers receiving benefits through the federal Low-Income Home Energy Assistance Program (LIHEAP) effective December 1, 2005 through April 15, 2006.

Because this exception was only in effect during the aforementioned dates, the exception language is no longer relevant to current or future customers. No Party opposed eliminating this language.

V. Decision Options

Proposal to Discontinue Balancing Service

1. Approve MERC's proposal to eliminate volume balancing service and approve the Company's proposed revisions to its tariff sheets. (MERC, Department)

2. Require MERC to continue offering volume balancing service to its large and small transportation customers.

Proposal to Increase Residential Customer Deposits

3. Approve MERC's proposal to increase the maximum allowable deposit for residential customers and approve MERC's proposed revisions to its tariff sheets. (MERC)

4. Require MERC to maintain its current deposit policy for residential customers to not exceed the amount of the charge for one month's average usage based on annual normalized consumption. (Department)

Proposal to Eliminate Outdated Tariff Language

5. Approve MERC's request to remove the exception language in its tariff from the deposit provisions as provided on page 5 of these Staff Briefing Papers. (MERC, Department)

6. Reject MERC's proposed revision and require the Company to retain the exception language in the deposit provisions in its tariff.