MINNESOTA DEPARTMENT OF COMMERCE

85 7TH PLACE EAST, SUITE 500
SAINT PAUL, MINNESOTA 55101-2198
MN.GOV/COMMERCE
651.539.1500 FAX: 651.539.1547
AN EQUAL OPPORTUNITY EMPLOYER

May 27, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G007,G011/GR-10-977

Dear Dr. Haar:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) in the following matter:

> Minnesota Energy Resource Corporation's (MERC, Company) Decoupling Evaluation Report for Calendar Year 2013 regarding the Company's Revenue Decoupling Program.

The decoupling evaluation plan was filed on March 27, 2014 by:

> Michael J. Ahern
> Partner
> Dorsey & Whitney LLP
> Suite 1500
> 50 South Sixth Street
> Minneapolis, MN 55402-1498

Based on its review of MERC's evaluation report, the Department recommends that the Commission **allow MERC to continue assessing its decoupling adjustment and approve the Company's annual decoupling adjustment**.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Rates Analyst
651-539-1822

CTD/ja
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE, DIVISION OF ENERGY SERVICES

DOCKET NO. G007,G011/GR-10-977

I. BACKGROUND

On July 13, 2012, the Minnesota Public Utilities Commission (the Commission) issued its *Findings of Fact, Conclusions and Order (Rate Case Order)* in Minnesota Energy Resource Corporation's (MERC) 2010 General Rate Case.

As part of this *Rate Case Order*, the Commission authorized MERC to conduct a full decoupling program on a pilot basis for three years (aka Revenue Decoupling Mechanism (RDM) under Minnesota Statute § 216B.2412.1. Full decoupling means that MERC's actual sales are not adjusted to reflect sales under normal weather (or any other factor).

Page 14 of the *Rate Case Order* stated:

> The Commission recognizes that MERC may already have plans in effect to achieve a higher level of energy savings in its upcoming triennial CIP filing. However, to ensure that the implementation of decoupling does not hamper MERC's continued progress toward attaining the 1.5% savings goal, the Commission will condition approval of the revenue decoupling program on MERC making a demonstration of annual incremental progress towards achieving a 1.5% rate of annual energy savings.
>
> Accordingly, the Commission will require the Company to file annual reports to the Commission that specify the RDM adjustment to be applied to each rate class for the billing period

> and demonstrate annual progress toward achieving the 1.5% energy efficiency goal set forth in Minn. Stat.§ 216B.241.

In addition, Page 15 of the *Rate Case Order* stated:

> Approval of MERC's decoupling proposal will provide valuable data on whether an alternative form of rate decoupling – full decoupling – achieves continued and/or additional energy savings for the utility. No pilot program can guarantee a particular result in advance. The decoupling statute, however, does not require such a guarantee as a precondition for approving a pilot program.

Finally, paragraph 11 of the *Rate Case Order* stated, in part:

> 11. MERC's request for a full revenue decoupling pilot program in the form recommended by the Administrative Law Judge is approved with the following modifications or conditions.
>
> A. MERC shall file annual reports to the Commission that specify the Revenue Decoupling Mechanism (RDM) adjustment to be applied to each rate class for the billing period and demonstrate annual progress toward achieving the 1.5% energy efficiency goal set forth in Minn. Stat. § 216B.241.

On March 27, 2014, MERC submitted its *Compliance Filing Revenue Decoupling Evaluation Report for 2013 (2013 Decoupling Evaluation).*

Below, the Department evaluates MERC's *2013 Decoupling Evaluation* in light of the Commission's *Rate Case Order.*

II. DEPARTMENT ANALYSIS

A. MERC'S PROGRESS TOWARDS ATTAINING 1.5 PERCENT ENERGY SAVINGS GOAL

MERC's RDM went into effect on January 1, 2013 and thus was operative throughout the entire calendar year. In its 2013 Decoupling Evaluation, MERC provided both qualitative and quantitative information showing changes in the results of MERC's Conservation Improvement Program. Some of these are briefly highlighted below.

1. Addition of new projects, or new measures in an existing project

MERC implemented two new measures (either an energy saving technology or process change) and two new projects in 2013:

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

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

2. Changes in CIP spending

Table B1 (B) in the 2013 Evaluation Report indicates that MERC's CIP spending declined from 2012 to 2013. However, MERC's 2013 CIP spending is higher than the Company's 2010 and 2011 CIP spending. Further, a significant portion of the reduction in MERC's spending is because some of MERC's largest customers opted out of CIP, beginning in 2013.

3. Changes in CIP energy savings

Table 1 below summarizes the information presented by MERC in Tables B1 (C) and (D).

Table 1: Comparison of Energy Savings, with 2010-2012 Energy Savings to Reflect 3-Year Life of Residential Behavioral Savings Project[1]

	2010	2011	2012	Average 2010-2012	2013	2013/Avg	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	395,227	422,848	490,466	436,180	449,832	103%	92%

Table 1 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.

As can be seen in Table 1, MERC's 2013 total energy savings were only 92 percent of MERC's 2012 total energy savings. Notably, however, MERC's low-income residential and residential customer energy savings were 132 percent and 110 percent of the Company's 2012 energy savings. Further, MERC's 2013 low-income residential and residential energy savings were 146 percent and 112 percent higher than the average of those customer group energy savings for 2010-2012 (the base years). Thus, MERC improved its energy savings for the residential sector under decoupling, but not for the commercial/industrial customer class. However, the Department notes that when comparing the Company's 2013 C/I energy saving with MERC's C/I energy savings in previous years one has to take into account that in 2013 the Company had fewer C/I customers to market energy savings to due to opt outs. Another way to look at MERC's progress in energy savings is to review the Company's energy savings as a percent of retail sales.

Table 2 below shows MERC's energy savings as a percent of retail sales.

[1] Table 1 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

Table 2: MERC's Energy Saving Achievements as Percent of Retail Sales

	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%

A review of Table 2 indicates that MERC's energy savings increased when measured as a percent of retail sales. The 2013 percent of retail sales take into account the high increase in customers who were approved to opt out of CIP, thus reducing the throughput (denominator) on which the goal was calculated. Thus, even though MERC's total energy savings dropped significantly, the Company's energy savings measured as a percent of non-opt-out retail sales has increased. Thus, the Department concludes that the main reason for the decrease in MERC's energy savings in 2013 was the opt-out of some of MERC's large customers.

The Department will continue to monitor MERC's energy savings over time. The large increase in the Shared Savings DSM financial incentive for gas utilities in 2013 will mean that MERC has the appropriate incentives for increasing its energy savings for the Company's residential and GS-Small C/I customers.

B. REVENUE DEFERRAL ADJUSTMENT FOR EACH RATE CLASS

Table 3 below shows the monthly, annual, and cumulative revenue deferred by customer rate class in 2013.

Table 3: Monthly, Annual, and Cumulative Revenue Deferred by Customer Rate Class

	Residential		GS-Small C/I	
	Monthly	Cumulative	Monthly	Cumulative
Jan-13	($168,020)	($168,020)	($29,128)	($29,128)
Feb-13	$2,031,442	$1,863,422	$178,267	$149,139
Mar-13	$590,205	$2,453,627	$2,265	$151,404
Apr-13	$614,699	$3,068,326	$0	$151,404
May-13	$0	$3,068,326	$0	$151,404
Jun-13	$0	$3,068,326	$0	$151,404
Jul-13	($188,850)	$2,879,476	$0	$151,404
Aug-13	($118,602)	$2,760,874	$0	$151,404
Sep-13	($446,749)	$2,314,125	($12,971)	$138,433
Oct-13	($1,276,160)	$1,037,965	$12,971	$151,404
Nov-13	($68,348)	$969,617	$0	$151,404
Dec-13	$1,128,501	$2,098,119	$0	$151,404
Total-2013		$2,098,119		$151,404

Debits (positive numbers) reflect refunds to customers and credits (negative numbers) reflect customer surcharges.

Table 3 indicates that residential customers will be refunded approximately $2.1 million and GS-Small C/I customers will be refunded approximately $151,000, based on sales in 2013. (Positive numbers indicate a deferred refund, negative numbers indicate a deferred surcharge.) Note that the GS-Small C/I customer class encountered the cap of 10 percent of distribution revenues, which explains why there are so few recorded refunds or surcharges. The Department notes that CenterPoint Energy's newly approved full decoupling mechanism has no cap on refunds. The Commission may want to consider a similar feature for any future MERC decoupling mechanisms.

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

C. CALCULATION OF DEFERRALS

The Department reviewed MERC's calculation of its deferrals and concludes that the Company's calculations followed the method approved in MERC's rate case. However, the attachments included with MERC's decoupling report shows negative sales figures in certain months. The issue of negative sales was raised in MERC's 2010 rate case (Docket No. G007,011/GR-10-977) and discussed through the course of the rate case analysis and also in the Company's subsequent billing system audit (which is also included in the 2010 rate case record). The reported 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, there should be little, if any, effect on MERC's decoupling adjustment. However, it is not clear why these negative sales are reported in this report since the Department has been under the impression that MERC changed its billing system and its method of accounting for unbilled sales and billing errors. The Department further notes 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 recommends 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.

D. FUTURE FILINGS

The Department is gathering data on the impact of different forms of decoupling on electric and natural gas utilities. By June 30, 2014, the Department asks MERC to provide answers to the following question:

> For each of the five years 2009 to 2013, please estimate the revenues that would have been collected for each of MERC's rate customer classes, under the assumption of:
>
> a. No decoupling;
> b. Xcel's proposed partial revenue per customer decoupling mechanism; and
> c. Full decoupling.

Please provide the data assuming that 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.

The Department already received Xcel Electric's response to this request for data in Docket No. E002/GR-13-868. CenterPoint Energy has agreed to provide its response on May 29, 2014 in Docket No. G008/GR-08-1075. The Department appreciates the cooperation.

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

a. No decoupling;
b. Xcel's proposed partial revenue per customer decoupling mechanism; and
c. Full decoupling.

Please provide the data assuming 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.

E. RECOMMENDATIONS

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

In addition, the Department recommends that MERC update in Reply Comments 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 Department requests that, by June 30, 2014, MERC provide the following information:

> For each of the five years 2009 to 2013, please estimate the revenues that would have been collected for each of MERC's rate customer classes, under the assumption of:
>
> a. No decoupling;
> b. Xcel's proposed partial revenue per customer decoupling mechanism; and
> c. Full decoupling.

Please show the data assuming 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.

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

a. No decoupling;
b. Xcel's proposed partial revenue per customer decoupling mechanism; 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.

/ja

CERTIFICATE OF SERVICE

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

Minnesota Department of Commerce
Comments

Docket No. G007,011/GR-10-977

Dated this **27th** day of **May 2014**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	Yes	OFF_SL_10-977_Official
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_10-977_Official
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_10-977_Official
Michael	Auger	mauger@usenergyservices.com	U S Energy Services, Inc.	Suite 1200 605 Highway 169 N Minneaplis, MN 554416531	Electronic Service	No	OFF_SL_10-977_Official
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	Suite 4800 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	OFF_SL_10-977_Official
Kathleen M.	Brennan	kmb@mcgrannshea.com	McGrann Shea Carnival	Straughn & Lamb, Chartered 800 Nicollet Mall, Suite 2600 Minneapolis, MN 554027035	Electronic Service	No	OFF_SL_10-977_Official
Seth	DeMerritt	ssdemerritt@integrysgroup.com	Integrys Business Support	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	Yes	OFF_SL_10-977_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_10-977_Official
Richard	Eichstadt	richard.eichstadt@poet.com	Poet Biorefining - Preston	701 Industrial Dr N PO Box 440 Preston, MN 55965	Electronic Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_10-977_Official
David P.	Geschwind	dp.geschwind@smmpa.org	Southern Minnesota Municipal Power Agency	500 First Avenue SW Rochester, MN 55902	Electronic Service	No	OFF_SL_10-977_Official
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Electronic Service	No	OFF_SL_10-977_Official
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_10-977_Official
Richard	Haubensak	RICHARD.HAUBENSAK@CONSTELLATION.COM	Constellation New Energy Gas	Suite 200 12120 Port Grace Boulevard La Vista, NE 68128	Electronic Service	No	OFF_SL_10-977_Official
Annete	Henkel	mui@mnutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St.Paul, MN 55101	Electronic Service	No	OFF_SL_10-977_Official
Eric	Johnson	Eric.Johnson@ever-greenenergy.com	Ever-Green Energy	1350 Landmark Towers 345 St. Peter Street St. Paul, MN 55102	Electronic Service	No	OFF_SL_10-977_Official
David G.	Kult	dgkult@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St. NW Rosemount, MN 55068	Electronic Service	Yes	OFF_SL_10-977_Official
David	Kyto	djkyto@integrysgroup.com	Integrys Business Support	700 North Adams PO Box 19001 Green Bay, WI 543079001	Electronic Service	Yes	OFF_SL_10-977_Official
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Amber	Lee	alee@briggs.com	Briggs and Morgan	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_10-977_Official
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	No	OFF_SL_10-977_Official
Michael	Loeffler	mike.loeffler@nngco.com	Northern Natural Gas Co.	CORP HQ, 714 1111 So. 103rd Street Omaha, NE 681241000	Electronic Service	No	OFF_SL_10-977_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_10-977_Official
Thomas R.	Maus		Energy Associates, Inc.	254 Highway 33 North Cloquet, MN 557209403	Paper Service	No	OFF_SL_10-977_Official
Mike	McGlone	N/A	Heat Share - Salvation Army	2445 Prior Avenue Roseville, MN 55113	Paper Service	No	OFF_SL_10-977_Official
Brian	Meloy	brian.meloy@stinsonleonard.com	Stinson,Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Jeff	Sande		Bemidji State University	Box 1 Deputy Hall 1500 Birchmont Drive Bemidji, MN 566012699	Paper Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Paper Service	No	OFF_SL_10-977_Official
Andrew J.	Shea		McGrann Shea Anderson Carnival	Straughn & Lamb, Chartered 800 Nicollet Mall, Suite 2600 Minneapolis, MN 554027035	Paper Service	No	OFF_SL_10-977_Official
Steve	Sorenson	N/A	Constellation Energy	12120 Port Grace Blvd, Suite 200 La Vista, NE 68128	Paper Service	No	OFF_SL_10-977_Official
Byron E.	Starns	byron.starns@leonard.com	Leonard Street and Deinard	150 South 5th Street Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_10-977_Official
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW Rochester, MN 55901	Electronic Service	Yes	OFF_SL_10-977_Official
Casey	Whelan		U.S. Energy Services, Inc.	Suite 1200 605 Highway 169 North Minneapolis, MN 554416531	Paper Service	No	OFF_SL_10-977_Official
James P.	Zakoura	Jim@smizak-law.com	Smithyman & Zakoura Chartered	750 Commerce Plaza II 7400 West 110th Street Overland Park, KS 662102362	Paper Service	No	OFF_SL_10-977_Official