COMMERCE DEPARTMENT

June 30, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Commerce Department, Division of Energy Resources**
Docket No. G011/M-21-307

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Commerce Department, Division of Energy Resources (Department), in the following matters:

> In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of the 2020 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor.

The Petition was filed on April 30, 2021 by:

Joylyn C. Hoffman Malueg
Project Specialist 3
Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068
(651) 322-8901

The Department recommends that the Minnesota Public Utilities Commission (Commission) approve Minnesota Energy Resources Corporation's Petition. Department staff are available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ WILL NISSEN
Public Utilities Rates Analyst

WN/ar
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-21-307

I. INTRODUCTION

On January 27, 2010, the Minnesota Public Utilities Commission (Commission) issued its Order in Docket No. E,G999/CI-08-133 establishing utility performance incentives for energy conservation, incentive methodologies, compliance requirements, and evaluation procedures.

On October 28, 2014, the Commission issued its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-13-617 requiring Minnesota Energy Resources Corporation (MERC or the Company) to include annual compliance filings documenting that its Conservation Improvement Program (CIP)-exempt customers have been properly identified and are being properly billed in its future CIP tracker-account filings.

On August 5, 2016, the Commission issued its order adopting modifications to shared savings demand-side management financial incentive plans in Docket No. E,G999/CI-08-133. This Order implemented changes to incentive calculations for electric and gas utilities in Minnesota.

On February 20, 2020, the Commission issued its Order in Docket No. E,G999/CI-08-133 extending the existing utility performance incentive formula and encouraging discussions for future revisions, and approved the demand-side management DSM financial incentive mechanism for 2020 with the same parameters as 2019.

On August 18, 2020, the Commission issued its Order in Docket No. G011/M-20-457 approving MERC's 2019 CIP tracker account, DSM financial incentive, and conservation cost recovery adjustment (CCRA) factor.

On April 30, 2021, MERC filed a petition for approval of its 2020 CIP tracker account, DSM financial incentive, and CCRA factor (Petition). The Department provides the following analysis and recommendations.

II. THE COMMISSION'S 2019 ORDER AND 2014 BILLING COMPLIANCE ORDER

A. COMMISSION'S 2019 ORDER

In its August 18, 2020 Order in Docket No. G011/M-20-457, the Commission approved MERC's 2019 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved MERC's 2019 DSM financial incentive of $1,771,381 to be included in the Company's CIP tracker account no sooner than the issue date of this Order;

2. Approved MERC's 2019 CIP tracker account activities as summarized in Table 1 of the Department of Commerce comments;

3. Approved the revised gas CCRA of $0.00062 per therm for all of MERC's Minnesota customer classes, to be effective no sooner than the issue date of this Order. The approval is conditioned on the Company submitting, with 10 days of the issue date of this Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations; and

4. Required MERC to include the following bill message (with the appropriate date) following the date of this Order:

> Effective January 1, 2021, the CCRA (conservation cost recovery adjustment) has been revised to $0.00062 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

On August 21, 2020, MERC filed an updated tariff page to reflect the approved recovery rate.

B. COMPLIANCE REQUIRED BY THE COMMISSION'S 2014 ORDER

Order Point 13 in the Commission's October 28th, 2014 Findings of Fact, Conclusions, and Order in Docket No. G011/GR-13-617 (13-617 Order) stated:

> MERC shall include, in future CIP tracker-account filings, annual compliance filings documenting that its CIP-exempt customers have been properly identified and are being properly billed.

The Department notes that MERC included the required information in its Petition, as discussed further below.

III. THE DEPARTMENT'S ANALYSIS

A. MERC'S PROPOSED 2020 DSM FINANCIAL INCENTIVE

1. Background

The Shared Savings DSM financial incentive plan was initially approved in the Commission's January 27, 2010 Order in Docket No. E,G999/CI-08-133. The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016 Order in Docket No. E,G999/CI-08-133. The new mechanism, which began January 1, 2017, is triggered when electric utilities achieve energy savings of one percent, and gas utilities achieve energy savings of 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.[1] The Commission's August 5, 2016 Order included the following:

1. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.

   A. For electric utilities, the plan is modified to do the following:

      1. Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
      2. For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
      3. For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
      4. For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

   B. For gas utilities, the plan is modified to do the following:

      1. Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
      2. For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
      3. For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
      4. For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

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[1] Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes 216B.241, Subd. 1a(b).

C. For all utilities, set the following Net Benefits Cap:

   1. 13.5 percent in 2017,
   2. 12.0 percent in 2018, and
   3. 10.0 percent in 2019.

D. For all utilities, set the following Conservation Improvement Plan Expenditure Caps:

   1. 40 percent in 2017,
   2. 35 percent in 2018, and
   3. 30 percent in 2019.

2. The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

   A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

   B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

   C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

   D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

   E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments, University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

   F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

4. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

The Commission extended the financial incentive mechanism for 2017-2019 to 2020 in its February 20, 2020 Order in Docket No. E,G999/CI-08-133. As such, the 2020 electric and gas incentives are capped at 10.0 percent of net benefits and 30 percent of CIP expenditures. Under the extended Shared Savings DSM financial incentive plan approved by the Commission, MERC may request Commission approval of a performance incentive based on the percent of net benefits that the Company achieves under its approved gas CIP portfolio. The financial incentive is based upon the Company's performance in achieving cost-effective conservation.

2. MERC's Proposed 2020 DSM Financial Incentive and the Department's Review

The Department has completed its CIP technical review of the Company's 2020 CIP Status Report filed on April 30, 2021 in Docket No. G011/CIP-16-120.04. In the Proposed Decision filed on June 24, 2021 in that docket, Department staff recommended that the Deputy Commissioner approve the Company's 2020 Status Report, so the analysis in the instant docket assumes that MERC's claimed 2020 energy savings are correct as filed. If the Deputy Commissioner of Commerce subsequently approves changes to MERC's energy savings claims that impact either recovery of CIP budgets or levels of Share Savings DSM financial incentives, those changes can be incorporated in the Company's 2021 filing, which will be made by May 1, 2022.[2] MERC's reported energy savings level is 367,324 dekatherms (Dth), and so the Department used this figure in reviewing the instant docket.

With respect to net benefits, MERC provided in its Petition the benefits and cost results of the revenue requirements test associated with the Company's 2020 CIP performance. According to the Company, MERC's 2020 CIP activities resulted in an estimated $17,827,298 of net benefits before the requested incentive.[3] MERC also stated that its CIP activities achieved 2020 energy savings of 367,324 Dth.[4] Based on the terms and conditions of its approved DSM incentive plan, MERC requested approval of a 2020 financial incentive of $1,345,674.[5]

MERC stated that it excluded Next Generation Energy Act assessments in the amount of $165,282 from the calculation of net benefits consistent with the Commission's August 5, 2016 Order in Docket No. E,G999/CI-08-133. In addition, MERC excluded net benefits associated with the Company's low-income programs from the calculation of net benefits consistent with Minn. Stat. § 216B.241, subd. 7(3), and consistent with the Commission's August 18, 2020 Order in Docket No. G011/M-20-457 in which the Commission approved a similar request for MERC's 2019 DSM financial incentive.

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[2] The Department notes that the Deputy Commissioner approved MERC's 2019 energy savings as filed in Docket No. G011/CIP-16-120.03, thus, no adjustment is needed through the instant proceeding.
[3] Petition, Attachment B, Page 2. The full calculations of net benefits can be found along with the Company's 2020 CIP StatusReport in Docket No. G011/CIP-16-120.04.
[4] *Ibid.*
[5] *Ibid.*

The Department notes that 367,324 Dth of energy savings equates to 0.87 percent of the Company's reported average non-CIP-exempt retails sales of 42,070,269 Dth, which exceeds the threshold of 0.7 percent to receive a financial incentive. Additionally, the financial incentive of $1,345,674 is approximately 7.5 percent of net benefits achieved, and therefore does not violate the 2020 Net Benefits Cap of 10.0 percent. Similarly, the proposed financial incentive is 12.8 percent of 2020 CIP expenditures, and therefore does not violate the 2020 CIP Expenditure Cap of 30 percent.[6]

The Department has verified the calculation of MERC's 2020 financial incentive. The Department recommends that the Commission approve MERC's proposed 2020 DSM financial incentive of $1,345,674 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's Order in the instant docket.

B. MERC'S 2020 CIP TRACKER ACCOUNT

In its Petition, MERC provided a report on its 2020 recoveries and expenditures in the Company's CIP tracker account.

1. Department Review of MERC's 2020 CIP Tracker Account

In its Petition, MERC requested approval of its report on recoveries and expenditures in the Company's gas CIP tracker account during 2020. Table 1 below provides a summary of activity in MERC's 2020 CIP tracker account.

Table 1. Summary of MERC's 2020 CIP Tracker Account Activity[7]

Description	Time Period	Amount
Beginning Balance	January 1, 2020	$(4,267,774.23)
CIP Expenditures	January 1 through December 31, 2020	$10,480,260.37
CIP Recoveries (CCRC + CCRA)	January 1 through December 31, 2020	$(8,812,422.58)
Regular Carrying Charges	January 1 through December 31, 2020	$(143,148.53)
2019 DSM Incentive	August 2020	$1,771,381
Ending Balance	December 31, 2020	$(971,703.96)

The Petition indicates that the 2019 financial incentive, which was approved on August 18, 2020, was booked during August of 2020.[8] The Company implemented a CCRA adjustment of $0.00953 per therm on January 1, 2020 in accordance with the Commission's July 19, 2019 Order in Docket No. G011/M-19-301.

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[6] Total reported 2020 CIP expenditures equaled $9,072,339. Petition, Attachment B, Page 2.

[7] Petition, Page 4.

[8] Petition, Attachment A, Page 1.

The Department has reviewed the Company's proposed tracker account and recommends that the Commission approve MERC's 2020 gas CIP tracker account activity, as provided in the Company's Petition and summarized in Table 1 above, resulting in a December 31, 2020 tracker balance of ($971,703.96), showing an over-recovery.

C. MERC'S PROPOSED CCRA

1. CCRA Calculation

Minn. Stat. § 216B.16, subd. 6b(c) states that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements." This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment or CCRA.

In its Petition, MERC proposed a change in the CCRA from the current $0.00062 per therm that was implemented January 1, 2021, to $0.00046 per therm effective January 1, 2022. Table 2 below demonstrates how the proposed CCRA was calculated.

Table 2. Calculation of MERC's Proposed CCRA[9]

Description	Amount
Forecasted Beginning Balance as of January 1, 2022	($1,227,459)
Proposed CIP Expenditures January-December, 2022	$12,529,248
Forecasted 2020 Incentive (pending approval)	$1,345,674
Forecasted 2021 Incentive (based on 2021-2023 CIP Plan)	$1,126,799
Forecasted CCRC recovery January-December, 2022	($13,456,198)
Projected carrying charges for 2022	($109,837)
Forecasted December 2022 Balance	$208,227
Projected 2022 Sales less CIP-exempt Sales (therms)	455,678,904
Proposed CCRA ($/therm) beginning January 1, 2022	$0.00046

The Department notes that the forecasted December 2022 balance listed in Table 2 above, which is listed in Attachment C of the Petition, differs from the forecasted December 2022 figure of $207,703 indicated on pages 9 and 10 of the Company's Petition. The Department requests that MERC address this discrepancy in reply comments in the instant docket.

The Department has reviewed the calculation and, upon resolution of the forecasted December 2022 balance discrepancy described above, recommends that the Commission approve a CCRA of $0.00046 per therm for all of MERC's customer classes to be effective no sooner than the issue date of the Commission's Order in the instant docket. Within 10 days of the issue date of the Order, the Company

[9] Petition, Attachment C.

should submit a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.

2. *Customer Notification*

In its current Petition, MERC proposed the following customer notification language:

> Effective January 1, 2022, the CCRA (conservation cost recovery adjustment) has been revised to $0.00046 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

The Department recommends that the Commission approve the Company's proposed notification language.

D. MERC'S CIP-EXEMPT CUSTOMER BILLING REVIEW

The Department reviewed MERC's Petition to ensure that the Company complies with the Commission's October 28, 2014 Order in Docket No. G011/GR-13-617. MERC stated that the Company has continued to conduct monthly reviews of a sample of customer bills, across all billing classes, to ensure proper billing of CIP charges. MERC stated that the Company will review all CIP-exempt rate codes on a quarterly basis to ensure that customers who are treated as CIP-exempt have received an exemption. Based on the Company's review, MERC found that all customers on the CIP-exempt rate codes have a valid exemption on file, and that no additional billing issues were identified.[10]

The Department concludes that MERC's Petition complies with the Commission's October 28, 2014 Order in Docket No. G011/GR-13-617.

E. MERC'S HISTORICAL CIP ACTIVITIES

In its comments filed June 15, 2020 in Docket No. G011/M-20-457, the Department provided a historical summary of MERC's CIP activities from 2011-2019. In Attachment A to these comments, the Department adds 2020 CIP activities to that summary to provide a historical summary of MERC's CIP activities from 2011-2020.

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[10] Petition, Page 10.

IV. CONCLUSIONS AND RECOMMENDATIONS

The Department requests that MERC address the forecasted December 2022 balance discrepancy describe above in its reply comments in the instant docket. Based on the analysis provided above, the Department recommends that the Commission:

1. **Upon resolution of the discrepancy regarding the forecasted December 2022 balance discussed above:**

   a.) Approve MERC's 2020 DSM financial incentive of $1,345,674 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's Order in the instant docket;

   b.) Approve MERC's 2020 CIP tracker account activities as summarized in Table 1 above;

   c.) Approve the revised gas CCRA of $0.00046 per therm for all of MERC's Minnesota customer classes, to be effective no sooner than the issue date of the Commission's Order in the instant docket. The approval is conditioned upon the Company submitting a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations within 10 days of the issue date of the Order; and

2. **Require MERC to include the following bill message (with the appropriate date) following the date of the Order in the instant docket:**

   Effective January 1, 2022, the CCRA (conservation cost recovery adjustment) has been revised to $0.00046 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

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Attachment A, Table 1. MERC's Historical CIP Achievements, Incentives, and Tracker Balance
2011-2020

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (Dth)	CIP Expenditures	DSM Financial Incentive	Incentive + CIP Expenditures	Net Benefits	Carrying Charges	Year-End Tracker Balance	Average Cost per first year Dth Saved[1]	Average cost per Dth Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2011	457,747	$7,870,823	$2,587,948	$10,458,771	$34,530,422	$592,929	$10,086,519	$17.19	$22.85	32.88%	7.49%	7.53%	128.15%
2012	534,596	$9,951,018	$2,729,531	$12,680,549	$34,567,212	$496,537	$11,633,350	$18.61	$23.72	27.43%	7.90%	4.99%	116.91%
2013	424,827	$8,630,283	$2,492,730	$11,123,013	$17,668,017	$424,887	$14,781,047	$20.31	$26.18	28.88%	14.11%	4.92%	171.27%
2014	369,068	$7,360,832	$2,093,158	$9,453,990	$15,081,932	($154,344)	$115,423	$19.94	$25.62	28.44%	13.88%	-2.10%	1.57%
2015	493,382	$8,870,639	$3,392,001	$12,262,640	$26,416,176	($51,228)	$1,269,151	$17.98	$24.85	38.24%	12.84%	-0.58%	14.31%
2016	472,000	$9,198,728	$3,245,000	$12,443,728	$25,948,259	($45,726)	($158,238)	$19.49	$26.36	35.28%	12.51%	-0.50%	-1.72%
2017	402,989	$10,666,999	$1,694,489	$12,361,488	$16,561,396	($56,497)	($601,531)	$26.47	$30.67	15.89%	10.23%	-0.53%	-5.64%
2018	509,758	$11,777,435	$1,892,566	$13,670,001	$18,463,890	($221,377)	($4,540,350)	$23.10	$26.82	16.07%	10.25%	-1.88%	-38.55%
2019	468,544	$12,115,461	$1,771,381	$13,886,842	$23,113,258	($221,699)	($4,267,774)	$25.86	$29.64	14.62%	7.66%	-1.83%	-35.23%
2020	367,324	$9,072,339	$1,345,674	$10,418,013	$17,827,298[3]	($143,149)	($971,704)	$24.70	$28.36	14.83%	7.55%	-1.58%	-10.71%

[1] The average cost per Dth Saved equals CIP expenditures ($) divided by achieved energy savings (Dth).
[2] The 2019 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by MERC in their Petition.
[3] Per Minn. Stat. 216B.241, subd. 7(e), Net Benefits in 2019 does not include the cost or benefits of low-income programs.