

**STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Nancy Lange, Chair
Dan Lipschultz, Commissioner
Matt Schuerger, Commissioner
Katie Sieben, Commissioner
John Tuma, Commissioner**

**In the Matter of the Application of Otter
Tail Power Company for Authority to
Increase Rates for Electric Service in
Minnesota
Docket No. E017/GR-15-1033**

COMMENTS OF FRESH ENERGY

June 25, 2018

Fresh Energy submits these comments regarding Otter Tail Power's ("OTP" or "the Company") Decoupling Report filed on March 30, 2018, in this docket.¹ In these comments, we recommend that Otter Tail Power address the issues with its underlying rate structure and develop and propose a revenue decoupling mechanism of its choosing based on an updated rate structure in its next rate case, and that the Company details its view on and plans for residential time-of-use rates in reply comments in this docket.

Overview

As discussed in the Company's report, Fresh Energy developed and submitted a revenue decoupling proposal for consideration by the Commission as described in Dr. Mark Lowry's direct testimony in this docket.² Ultimately, the Commission rejected the proposal in its Order in the case but did require the Company to file updated information that is reflected in the Company's report and subsequent June 20, 2018 supplemental filing.

Fresh Energy would like to correct the record portrayed in the Company's report that certain agreements were found between Otter Tail Power and Fresh Energy. Specifically, page 1 of the Company's report highlights several areas that the Company indicates the two parties jointly agree to, envision, and anticipate regarding process and expectations in this docket. As confirmed with Otter Tail Power staff in discussions following submission of the report, Fresh Energy and OTP did not reach any of the agreements listed in the report and are using the Commission's May 1, 2017 rate case order and the information provided in the Company's report in this docket as the basis for ongoing discussions.³

¹ Otter Tail Power Compliance Filing - Decoupling Report, Docket No. E017/GR-15-1033, March 30, 2018.

² Dr. Mark Lowry Direct Testimony on behalf of Fresh Energy, Docket No. E017-GR-15-1033, August 16, 2016.

³ Commission Findings of Fact, Conclusions and Order, Docket No. E-017/GR-15-1033, May 1, 2017.

Minnesota's Progress on Revenue Decoupling

Minnesota has taken significant steps to advance revenue decoupling as a fundamental energy savings and rate design policy for investor-owned utilities. As shown in Table 1, since enabling legislation passed in 2007 the Commission has considered and approved eight revenue decoupling proposals with a ninth mechanism pending approval.

Table 1. Minnesota Revenue Decoupling Mechanisms

Utility	Rate case docket	Commission approved
CenterPoint Energy (gas)	G-008/GR-08-1075	January 11, 2010
Minnesota Energy Resources Corporation (gas)	G-007,011/GR-10-977	July 13, 2012
CenterPoint Energy (gas)	G-008/GR-13-316	June 9, 2014
Xcel Energy (electric)	E-002/GR-13-868	May 8, 2015
Great Plains Natural Gas (gas)	G-004/GR-15-879	September 6, 2016
Minnesota Energy Resources Corporation (gas)	G-011/GR-15-736	October 31, 2016
Xcel Energy (electric)	E-002/GR-15-826	June 12, 2017
CenterPoint Energy (gas)	G-008/GR-17-285	May 10, 2018 hearing (order pending)
Minnesota Energy Resources Corporation (gas)	G-011/GR-17-563	(ALJ report pending)

Clearly, the Commission, Minnesota's investor-owned utilities, the Department of Commerce, and other stakeholders have significant experience considering and debating different facets of revenue decoupling and their importance in Minnesota's energy policy.

Notably, the Commission has recognized the value of revenue decoupling in both promoting and supporting related energy policies, such as driving energy efficiency as a resource and limiting the need to increase customer charges to promote revenue stability. Recent rate case orders for Xcel Energy and CenterPoint Energy highlight the Commission's strong support of the policy as a whole:

The Commission concludes that on this record, directing the modified full-decoupling proposal be implemented as a pilot program best serves the Commission's statutory mandates. These mandates include establishing just and reasonable rates that to the maximum reasonable extent encourage energy conservation, and assessing the merits of rate decoupling to promote energy efficiency and conservation...

...The [Administrative Law Judge] found that full decoupling “would reduce the Company’s disincentive to promote energy efficiency.” The Commission agrees with this finding. [CenterPoint Energy] established that, more likely than not, it has a throughput incentive, and decoupling will fully separate the Company’s revenue from changes in energy sales. The Commission concludes that full decoupling has substantial potential to align the Company’s interests with the public’s interest in energy efficiency.⁴

And:

The Commission also concludes that a customer-charge increase for these classes would place too little emphasis on the need to set rates to encourage conservation. This is particularly true where the Commission has approved a revenue decoupling mechanism that will largely eliminate the relationship between Xcel [Energy]’s sales and the revenues it earns. As several parties have argued, decoupling removes the need to increase customer charges to ensure revenue stability.⁵

Finally, in its Order in this rate case requiring the Company to file its report and rejecting Fresh Energy’s revenue decoupling proposal, the Commission specifically stated:

The issue before the Commission is not the merits of revenue decoupling generally, but as applied to Otter Tail in the current docket.⁶

Given this record of experience with revenue decoupling and stated support from the Commission, consideration of revenue decoupling moving forward for Otter Tail Power should focus on implementation, best practices, and improving the “ability to anticipate future growth rates”⁷ to lessen the magnitude of decoupling adjustments.

With this foundation in mind, Fresh Energy appreciates the information provided in Otter Tail Power’s March 30, 2018 report and subsequent June 20, 2018 supplemental filing.

Otter Tail Power’s Report

To summarize the Company’s March 30, 2018 report, Otter Tail Power provided information in two categories: lessons learned from a selected group of utilities in Minnesota and other

⁴ Commission Findings of Fact, Conclusions and Order, Docket No. G-008/GR-13-316, June 9, 2014, at 47-48.

⁵ Commission Findings of Fact, Conclusions and Order, Docket No. E-002/GR-13-868, May 8, 2015, at 88.

⁶ Commission Findings of Fact, Conclusions and Order, Docket No. E-017/GR-15-1033, May 1, 2017, at 69.

⁷ *Id.* at 70.

states; and, examination of the Company's rates, revenues, and billing determinants in the context of Fresh Energy's proposed revenue decoupling mechanism.

Lessons Learned

The Company highlights several lessons learned and conceived best practices from its research on revenue decoupling mechanisms in Minnesota and in other states on page 10 of its report:

- 1) Determine the reason for implementing decoupling;
- 2) Make sure all stakeholders want decoupling and understand what the impact will be;
- 3) Have the proper starting point as it relates to sales and associated revenues;
- 4) Have the right mechanism for both the customer and the company; and
- 5) Present a relatively innocuous and benign change to customers and the company.⁸

These are commendable goals for establishing a successful revenue decoupling mechanism. Though not exhaustive, Fresh Energy agrees with these goals except for making sure all stakeholders want decoupling. While consensus is certainly laudable, good public policy should not rely on consensus to move forward. The purpose of a public policy forum and process like the Public Utilities Commission is to hear viewpoints and arguments from a variety of stakeholders and interests, then make the decision that is most in the public interest and consistent with Minnesota statute. Many of the revenue decoupling mechanisms approved by the Commission have not had full support from all stakeholders yet have resulted in clear public benefits. Fresh Energy does not believe moving forward with a revenue decoupling mechanism for OTP should rely on having full support from all stakeholders.

Fresh Energy believes that Minnesota statute, previous evidentiary records and Commission decisions, and broadly accepted objectives for revenue decoupling have established a clear reason for implementing the policy. Similarly, Fresh Energy believes many stakeholders understand broadly what the impact of revenue decoupling will be and that utility-specific proposals will provide analysis of the impact within that utility's service territory. However, as discussed below, Fresh Energy agrees with Otter Tail Power that given the Company's current rate structure as it relates to sales and associated revenues this may not be an appropriate time to implement revenue decoupling. That said, Fresh Energy believes that Minnesota's experience with different types of decoupling mechanisms, as well as that of other states, provides a significant record of the right type of decoupling mechanism that works for both the customer and the company. Finally, with an improved underlying rate structure and adequate caps on surcharges to customers, many revenue decoupling mechanisms result in little to no negative impacts to customers and the company while yielding the full benefits of the policy.

⁸ Otter Tail Power Compliance Filing – Decoupling Report, Docket No. E017/GR-15-1033, March 30, 2018, at 10.

Otter Tail Power's Rate Structure

As shown in the Company's report and subsequent filing, it is clear that the Company's underlying rate structure is not adequately matched with the revenues needed to provide reliable service, with many years seeing significant under-recovery and thus a theoretical need for a substantial revenue decoupling surcharge to match current revenues with approved revenues, often more than the proposed cap on surcharges.

The purpose of revenue decoupling is not to account for extreme swings in utility revenues due to underlying problems with the utility's sales forecast, rate structure, billing determinants, or class revenues. Importantly, the statutorily defined purpose of revenue decoupling in Minnesota is to "reduce a utility's disincentive to promote energy efficiency."⁹ This includes separating a utility's revenue from changes in energy sales as well as minimizing the portion of a customer's energy bill that is fixed from month to month. Notably, a utility's revenues will often not decrease by more than a few percentage points due to significant achievements in energy efficiency. But wide swings in revenues due to inaccurate sales forecasts, for example, can result in significant changes in revenue.

In other words, revenue decoupling is only as effective as the approved revenues and rate structure from a utility's last rate case. As such, a flawed rate structure must first be accounted for before a revenue decoupling mechanism can be seriously considered. Therefore, Fresh Energy recommends that Otter Tail Power address its revenue and rate structure and develop and propose a revenue decoupling mechanism of its choosing for consideration by the Commission and other stakeholders in its next rate case.

Otter Tail Power's Conservation Improvement Programs

As stated above, a foundational goal and purpose of revenue decoupling is to remove the disincentive for a utility to invest in and pursue energy efficiency. Otter Tail Power has performed admirably in its Conservation Improvement Programs ("CIP") over the last several years, consistently exceeding the statutory goal of 1.5 percent of gross annual retail energy sales.¹⁰ Notably, the Company reported achieving 3.02 percent energy savings in its 2017 CIP Annual Report.¹¹ Based on this level of achievement, the Commission questioned the need for revenue decoupling for Otter Tail Power in its order in this docket.¹²

⁹ Minn. Stat. § 216B.2412, Subdivision 1.

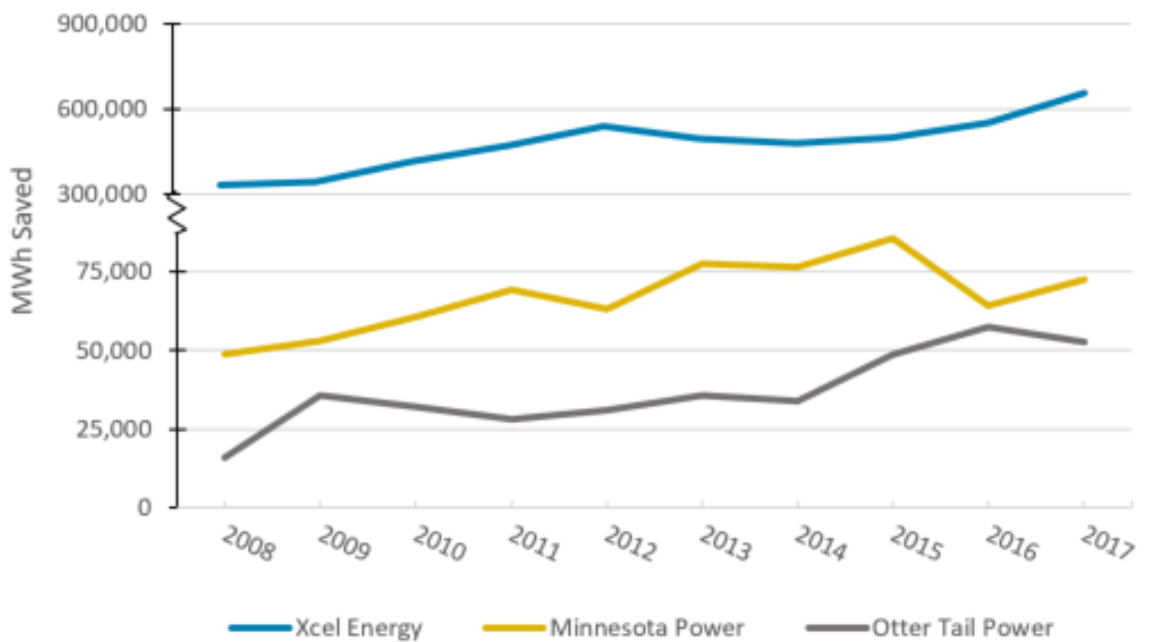
¹⁰ Minn. Stat. § 21B.241, Subdivision 1c, paragraph (b).

¹¹ Otter Tail Power 2017 Conservation Improvement Project Status Report, Docket No. E017/CIP-16-116.01, March 30, 2018.

¹² Commission Findings of Fact, Conclusions and Order, Docket No. E-017/GR-15-1033, May 1, 2017, at 70.

While the Company’s performance should be applauded, it is important to note that while OTP achieved energy savings over 3.0 percent of sales in 2017—an increase in the percent-of-sales achievement over 2016—the actual MWh amount of savings achieved *declined* from 2016 levels as shown in Figure 1. This difference between an increase in the percent-of-savings and the actual amount of savings was largely due to a large customer opting out of the program and reducing the energy sales (denominator) portion of the percent savings goal.

Figure 1. Investor-owned utility CIP performance 2008-2017



In addition, Minnesota Statute clearly identifies energy savings as a preferred resource in the state, prioritizing its procurement to the maximum cost-effective extent. Specifically:

The legislature finds that energy savings are an energy resource, and that cost-effective energy savings are preferred over all other energy resources. The legislature further finds that cost-effective energy savings should be procured systematically and aggressively in order to reduce utility costs for businesses and residents, improve the competitiveness and profitability of businesses, create more energy-related jobs, reduce the economic burden of fuel imports, and reduce pollution and emissions that cause climate change.¹³

Therefore, the 1.5 percent statutory energy savings goal should not be seen as a maximum or average level of performance to strive for, it should be seen as a benchmarked floor to continually exceed. Furthermore, provided they are cost-effective, energy savings should be

¹³ Minn. Stat. § 216B.2401.

pursued to the maximum reasonable extent within each utility's service territory. Revenue decoupling can help OTP maintain and exceed its recent energy savings performance in its Minnesota service territory.

Finally, it's important to note that the Department of Commerce's CIP Potential Study process will release energy savings potential analysis in its final report due later in 2018. That information will prove informative of the extent to which Otter Tail Power can expand its energy efficiency program achievements moving forward.

Alternative Rate Designs

The Commission's Order in the rate case specifically stated that "the Commission will accept Otter Tail's offer to research alternative rate design—and to work with stakeholder groups in this effort—culminating in an alternative rate design proposal."¹⁴ However, the Company did not file any alternative rate design proposals in its report and specifically stated that it "[does] not have an alternative rate design to propose at this time" in its response to the Department of Commerce's Information Request 331.

Notably, although no specific proposal was entered on the record, OTP, the Office of the Attorney General, and Fresh Energy all broadly supported advancing time-of-use rates in the Company's rate case as a way to meet the varying objectives of effective rate design. Progress on time-of-use rates in Xcel Energy's service territory¹⁵ as well as an upcoming September 1, 2018 filing from Minnesota Power on its time-of-use rate pilot¹⁶ highlights significant interest from the Commission and stakeholders in time-of-use rates in Minnesota. Fresh Energy respectfully requests that the Company provide more detail regarding its views on and plans for residential time-of-use rates in reply comments in this docket.

Recommendations

Based on the comments above, Fresh Energy recommends that:

- Otter Tail Power address the issues with its underlying rate structure and develop and propose a revenue decoupling mechanism of its choosing based on an updated rate structure for consideration by the Commission and other stakeholders in its next rate case.

¹⁴ Commission Findings of Fact, Conclusions and Order, Docket No. E-017/GR-15-1033, May 1, 2017, at 70.

¹⁵ Staff Briefing Papers (order pending from May 31, 2018 hearing), Docket No. E002/M-17-775, May 24, 2018.

¹⁶ Commission Order Accepting Compliance Report and Requiring Additional Reports, Docket No. E-015/M-12-233, February 13, 2018.

- Otter Tail Power further detail its views on and plans for residential time-of-use rates in reply comments in this docket.

Please reach out at the information below with any questions.

Sincerely,

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