COMMERCE DEPARTMENT

June 26, 2020

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-20-332

Dear Mr. Seuffert:

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

Minnesota Energy Resources Corporation (MERC) 2019 Revenue Decoupling Mechanism Adjustment, and
MERC 2019 Revenue Decoupling Evaluation Report.

The Petition and Report were filed on February 28, 2020 and May 8, 2020, respectively, by:

Joylyn Hoffman Malueg
Project Specialist 3
Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC's revenue decoupling adjustments and accept MERC's revenue decoupling evaluation report. The Department also recommends that the Commission approve MERC's Small Commercial and Industrial customer class reconciliation proposal, with the exception of the associated deferred accounting request.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-20-332

I. INTRODUCTION

On July 13, 2012, the Minnesota Public Utilities Commission (Commission) issued its *Findings of Fact, Conclusions and Order* (*2012 Rate Case Order*) in Minnesota Energy Resources Corporation's (MERC) 2010 General Rate Case (G007,011/GR-10-977).

As part of the *2012 Rate Case Order*, the Commission authorized MERC to conduct a full decoupling program (a/k/a Revenue Decoupling Mechanism or RDM) on a pilot basis for three years under Minnesota Statutes § 216B.2412, subd.1. Full decoupling means that MERC's actual sales are not adjusted to reflect sales under normal weather (or any other factor); instead, the level of sales for any given year is compared to the level of sales approved in the most recent rate case.

Order Point 11.A.of the *2012 Rate Case Order*[1] required MERC to file annual reports with the Commission that specify the RDM adjustment to be applied to each rate class for the 12-month billing period and demonstrate annual progress toward achieving the 1.5 percent energy efficiency goal set forth in Minnesota Statutes § 216B.241. The Commission's December 21, 2012 Order in Docket No. G007,011/GR-10-977 approved MERC's proposed RDM tariff language. MERC's RDM tariff language requires that an evaluation report be filed annually no later than May 1.

On September 26, 2014, in Docket No. G011/GR-10-977, the Commission issued an Order accepting MERC's 2013 Revenue Decoupling Evaluation and requiring that MERC's next annual report include an estimate of each class' revenues under three decoupling scenarios: (1) no decoupling, (2) partial decoupling, and (3) full decoupling.

On October 31, 2016, the Commission issued its *Findings of Fact, Conclusions, and Order* in Docket No. G011/GR-15-736 (2015 Rate Case Order), authorizing MERC to continue its pilot RDM for an additional three years and requiring MERC to include additional information in its future annual decoupling evaluation reports. In particular, Order Point 15.c. and d. of the Commission's 2015 Rate Case Order stated:

[1] July 13, 2012.

- MERC shall address the merits of extending its revenue-decoupling mechanism to other customer classes as follows:

  i. In its annual decoupling filings, MERC shall include an analysis of the financial consequences for ratepayers and MERC of extending the decoupling program to all customer classes with more than 50 customers. MERC may also include an analysis of the financial consequences of extending its decoupling program to any other combination of customer classes.
  ii. In its next rate case, MERC shall demonstrate why extending its decoupling program to other rate classes with more than 50 members would not be reasonable.

- MERC shall address the decline in energy conservation from the Residential class as follows:

  i. In its annual decoupling filings, MERC shall include an analysis demonstrating the reasonableness of maintaining MERC's decoupling program given evidence that the level of savings generated by the Residential customer class has declined while the program has been in effect. MERC shall include (1) data showing its average Conservation Improvement Program (CIP) savings for the previous five years compared to the savings of its most recent complete year, and (2) an explanation for any differences in the CIP savings, including the likely impact of decoupling.
  ii. In its decoupling evaluation report or in its initial filing of its next rate case, MERC shall include an analysis demonstrating the reasonableness of maintaining MERC's decoupling program given the evidence that the level of savings generated by the Residential customer class has declined while the program has been in effect.

On March 1, 2017, MERC submitted its 2016 Revenue Decoupling Adjustment Calculation (2016 Calculation). On March 31, 2017, the Department submitted comments on MERC's 2016 Calculation. In our comments, the Department stated:

> The Department concludes that MERC's calculation complies with the Commission-approved tariffs in MERC's 2015 rate case as follows:
>
> - For residential customers, a surcharge of $3,171,430.13 and an RDM factor of $0.01761 per Therm; and
> - For small C&I [commercial and industrial] customers, a surcharge of $164,052.04 and an RDM factor of $0.01384 per Therm.

> In addition, the Department recommends that in Reply Comments, the Company provide an estimate of the impact of the RDM customer classes' surcharges on rates and average bills.

On April 19, 2017, MERC submitted its estimate of the impact of the RDM customer classes' surcharges on rates and average bills.

On May 1, 2017, MERC submitted its 2016 Annual Evaluation Decoupling Report (2016 Evaluation Report). On December 1, 2017, the Commission released its order in this matter, making the following disposition:

- Accepted the 2016 revenue decoupling evaluation report from Minnesota Energy Resources Corporation (MERC);
- Accepted MERC's RDM adjustment calculations and approved their implementation effective March 1, 2017; and
- Ordered MERC to include in its 2017 Evaluation Report an analysis of how extending the RDM to other customer classes would have impacted overall rates for the period 2013-2017.

On August 30, 2017, MERC filed a new rate case, Docket No. G011/GR-17-563. In its rate case, MERC recommended that if the Commission approves MERC's new customer classes, MERC proposed to extend its full RDM to the following two groupings of 27 customer classes:

- Residential and Residential Farm Tap; and
- C&I Firm Class 1 and C&I Farm Tap Class 1.

MERC proposed to not extend its RDM to any other classes.

In the May 4, 2018 Direct Testimony of Mr. Christopher T. Davis in Docket No. G011/GR-17-563, the Department recommended the following:

1. Due to MERC's misclassification of C&I customers, the Commission should not approve MERC's revenue decoupling mechanism for any of its C&I customer classes at this time.
2. In its next rate case, the Commission should require MERC to include an analysis of the impact on customers of extending its RDM to all customer classes with 50 or more customers.

In its December 26, 2018 *Order Findings of Fact, Conclusions, and Order* (2017 Rate Case Order) the Commission agreed that as of January 1, 2019, none of MERC's C&I customer classes would be included in MERC's RDM.

On March 1, 2018, MERC submitted its 2017 Revenue Decoupling Mechanism Adjustment Calculation (2017 Adjustment) in Docket Nos. G011/GR-10-977 and G011/GR-15-736.

On May 1, 2018, MERC submitted its 2017 Decoupling Annual Evaluation Report (2017 Evaluation).

On June 11, 2018, the Department submitted comments on MERC's 2017 Adjustment and 2017 Evaluation.

On February 6, 2019 the Commission issued the following disposition on MERC's 2017 Adjustment and 2017 Evaluation:

1. Approved the Company's proposed revenue decoupling mechanism adjustment of $0.01643 per therm for its Residential customers and $0.01774 per therm for its Small C&I customers, as proposed in the Company's 2016 Calculation filed March 1, 2018.
2. Approved the Company's 2017 Annual Decoupling Evaluation Report.
3. Ordered the Company to file all future Annual Decoupling Evaluation Reports in separate dockets.

On March 1, 2019, MERC submitted its 2018 Revenue Decoupling Mechanism Adjustment Calculation (2018 RDM Adjustment) in Docket No. G011/M-19-201.

On May 1, 2019, MERC submitted its 2018 Revenue Decoupling Annual Evaluation Report (2018 Evaluation Report).

On September 9, 2019, the Department submitted comments on MERC's 2018 RDM Adjustment and 2018 Evaluation Report.

II. COMMISSION ORDER REQUESTING MERC TO STREAMLINE ITS FUTURE DECOUPLING EVALUATION PLANS

On December 5, 2019, the Commission approved MERC's proposed 2019-2020 RDM factors and accepted the Company's 2018 decoupling evaluation report in Docket No. G011/M-19-201. The Commission's Order included the following five points:

1. Accepted Minnesota Energy Resources Corporation's (MERC) 2018 revenue decoupling evaluation report;
2. Approved MERC's revenue decoupling rate adjustment factors;
3. Required MERC to make a compliance filing describing the remaining reconciliation adjustment for the Small C&I class by January 15, 2020;
4. Required MERC to work with the Department and other stakeholders, and to request the involvement of other utilities, on the development of a more streamlined Annual Evaluation Report; and
5. Required MERC to make a compliance filing detailing proposed changes to the Annual Evaluation Report by July 31, 2020.

In response to Points 4 and 5 of the Commission's Order, MERC participated in a Department-led stakeholder group that is proposing a streamlined revenue decoupling evaluation filing on July 1, 2020 for the Commission's consideration.

III. DEPARTMENT ANALYSIS

A. MERC'S FULL RDM

The purpose behind MERC's RDM is to eliminate the Company's throughput incentive and thus eliminate any Company disincentive to encourage its customers to invest in energy savings. Under its RDM, MERC is allowed to recover its authorized revenues for non-fuel costs, regardless of causes in variation (including weather, changes in economic factors, etc.), up to the approved, symmetrical 10 percent revenue cap.[2] MERC's RDM applied to the Company's Residential and General Service Small Commercial and Industrial classes in 2018. Beginning in January 1, 2019, MERC only applied its RDM to its Residential customer class.

MERC calculates its RDM adjustment annually, based on the class revenue requirements after removing the fixed charge portion and conservation cost recovery charge (CCRC) revenues from the final revenue apportioned to the customer class, based on actual customer counts. Each month, MERC calculates the RDM deferral for a customer group as the difference between the monthly baseline revenue and the revenue collected under the volumetric rates from those customers. Every 12 months, MERC incorporates the cumulative deferral (over- or under-recovery) for each customer group into customer rates for the following year by dividing the deferral amount by the forecast of sales to that customer group.

B. MERC'S COMMITMENT TO INCREASED ENERGY SAVINGS

Table 1 below compares MERC's pre-decoupling (2010-2012) energy savings with the Company's last five years of post-decoupling (2015-2019) energy savings.**[3]**

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[2] MERC's RDM has a cap on surcharges and refunds equal to ten percent of customer class authorized distribution revenue less the Conservation Cost Recovery Charges (CCRC).

[3] MERC modified its pre-decoupling energy savings to reflect the Department's Average Savings Methodology (ASM) for measuring behavioral project energy savings. The reductions to MERC's historical residential projects recognize that the Department now assumes that energy savings from behavioral projects have a three-year life, instead of one year, and that a project that was assumed to save 300 Dth when the behavioral projects were first approved is now assumed to save 100 Dth.

Table 1:
Comparing MERC's Last Five Years of Total CIP Savings Post-Decoupling Implementation to Three Years of Total CIP Savings Pre-Decoupling

	Year	First-Year Energy Savings (Dth)	Non-CIP-Exempt Retail Sales (Dth)	Energy Savings as Percent of Retail Sales
Pre-Decoupling	2010	393,217	54,862,275	0.72%
	2011	420,837	54,862,275	0.77%
	2012	488,454	54,862,275	0.89%
	Average (2010-2012)	434,169		0.79%
Post-Decoupling	2015	493,382	43,175,948	1.14%
	2016	472,000	43,175,948	1.09%
	2017	402,989	52,732,921	0.76%
	2018	509,758	52,732,921	0.97%
	2019	468,544	52,732,921	0.89%
	Average (2013-2019)	469,335		0.96%

A review of Table 1 above indicates that MERC's average post-decoupling first-year dekatherm (Dth) savings are higher than the average of pre-decoupling energy savings, both when measured as an annual amount and as a percent of retail sales. The Department calculates that average post-decoupling Dth savings are eight percent higher than the average pre-decoupling Dth savings. Although MERC's 2019 Dth savings are lower than its 2018 Dth savings,[4] the 2019 Dth savings are still 8 percent higher than the average pre-decoupling Dth savings.

Table 2 below compares MERC's pre-decoupling (2010-2012) first-year Dth savings for its residential, total C&I, and small C&I customer classes with the Company's last five years of post-decoupling (2015-2019) energy savings for the same customer classes.

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[4] In 2018, MERC achieved its highest first-year Dth savings to date.

Table 2:
Comparing MERC's Last Five Years of Total CIP Savings Post-Decoupling Implementation to Three Years of Total CIP Savings Pre-Decoupling

	Total Residential	Total C&I	Small C&I
2010	179,590	203,060	N/A
2011	203,571	210,022	N/A
2012	185,948	294,842	N/A
Pre-Decoupling Average 2010-2012	189,703	235,975	N/A
2015	209,604	275,664	N/A
2016	211,918	238,173	13,523
2017	158,514	226,344	5,874
2018	181,707	317,388	4,725
2019	232,188	246,721	6,294
Post-Decoupling Average 2010-2012	198,786	260,858	9,699

The average of MERC's residential 2015-2019 post-decoupling average energy savings of 198,786 first-year Dth is five percent higher than the Company's pre-decoupling 2010-2012 average savings of 189,703 first-year Dth. MERC's 2019 residential Dth savings of 232,188 was an impressive 22 percent higher than the Company's average pre-decoupling residential energy savings of 189,703 first-year Dth.

Table 3 below compares MERC's lifetime energy savings on a pre-decoupling and a post-decoupling basis by residential and customer classes and total classes (combined residential and customer classes.)

Table 3: Comparing MERC's Lifetime Savings Achievements For Post-Decoupling (2015-2019) to Pre-Decoupling (2010-2012)

	Year	Residential Lifetime Savings (Dth)	C&I Lifetime Savings (Dth)	Total Lifetime Savings (Dth)
Pre-Decoupling	2010	2,888,682	2,918,255	5,806,937
	2011	3,613,613	2,772,141	6,385,754
	2012	3,225,221	4,317,585	7,542,806
	Average (2010-2012)	3,242,505	3,335,994	6,578,499
Post-Decoupling	2015	3,789,697	3,631,203	7,420,900
	2016	3,994,962	2,835,370	6,830,332
	2017	2,962,037	3,593,757	6,555,794
	2018	3,089,170	5,075,013	8,164,183
	2019	3,319,527	3,563,788	6,883,315
	Average (2013-2019)	3,431,079	3,739,826	7,170,905

Comparing the last five years of post-decoupling to pre-decoupling:

- MERC's residential lifetime Dth savings increased 6 percent;
- MERC's C&I lifetime Dth savings increased 12 percent; and
- MERC's total lifetime Dth savings increased 9 percent.

In addition, comparing 2019 only to the 2010-2012 pre-decoupling period:

- MERC's residential lifetime Dth savings increased 2 percent;
- MERC's C&I lifetime Dth savings increased 7 percent; and
- MERC's total lifetime Dth savings increased 5 percent.

As the Department has stressed in the past, there are many components of Minnesota's regulatory structure that incent utility investment in encouraging its customers to invest in energy conservation. Minnesota has a state energy savings goal of 1.5 percent of retail sales for non-CIP-opt-out customers, revenue decoupling can be implemented to remove the disincentive for utilities to invest in conservation, investor-owned utilities (IOUs) recover all of their approved CIP expenses, and Minnesota's Shared Savings financial incentive mechanism is one of the most lucrative performance incentives in the country. Given all of the elements of a favorable climate for IOU investment in energy conservation, it is not possible to state that one of the parts—revenue decoupling—is responsible for a specific amount of an IOU's commitment to energy savings. However, the Department's review of

MERC's CIP energy savings indicates that the Company's energy savings are higher post-revenue decoupling than pre-revenue decoupling.

C. MERC'S HISTORICAL SURCHARGES/(REFUNDS)

Table 4 below shows MERC's 2013-2019 historical surcharges/(refunds) for its residential and small C&I (SCI) customer classes. Note that beginning January 1, 2019, the SCI class is no longer decoupled.

Table 4: Historical Surcharges/Refunds

	Residential Surcharges/(Refunds)	SCI Surcharges/(Refunds)	Total RDM Surcharges/(Refunds)
2013	($2,099,620)	($151,404)	($2,251,024)
2014	($3,283,235)	($166,426)	($3,449,661)
2015	$3,283,235	$59,398	$3,342,633
2016	$3,844,071	$228,814	$4,072,885
2017	$2,164,099	$151,347	$2,315,446
2018	($3,152,862)	$42,301	($3,110,561)
2019	($3,994,174)	$0	($3,994,174)
2013-2019	($3,238,486)	$164,030	($3,074,456)

Over the 7 years of MERC's RDM, the residential customer class has received net refunds of $3.2 million while the SCI class has been surcharged $164 thousand. Overall, MERC's customers have received net refunds of approximately $3 million.

D. MERC'S RDM CALCULATIONS

Table 5 below shows how MERC calculated its RDM adjustments for 2020-2021.

Table 5: MERC's 2020-2021 Residential and SCI Customer Class RDM Calculations

	Residential	**Small C&I**
2019 RDM Surcharge/(Refund)	($3,994,174)	$0
2017[5] Reconciliation Adjustment	($399,861)	$40,447
Total Surcharge/(Refund)	($4,394,036)	$40,447

[5] See discussion of the surcharge calculation for the SCI class, including time period, in section III.E below.

March 2020 - February 2021 Forecasted Sales	183,783,848	9,089,669
Surcharge/(Refund) Rate per therm	($0.02391)	$0.00445

MERC based its calculations on MERC's final distribution rates approved in Docket No. G011/GR-17-563. The distribution rates incorporate the 2018 impacts of the Tax Cuts and Jobs Act (TCJA), consistent with the Commission's December 5, 2018 *Order Responding to Changes in Federal Tax Law* in Docket No. E,G999/CI-17-895.[6]

The Department concludes that MERC correctly calculated the surcharges/(refunds) and recommends that the Commission approve a refund of $0.02391 per therm for the Company's Residential customer class and a surcharge of $0.00445 per therm for its SCI customer class.

MERC calculated refunds and surcharges shown in Table 5 by dividing the net of the 2019 RDM deferrals and the 2017 regulatory assets (the amount of under-collection from 2017 that still wasn't collected as of December 31, 2019) by the forecasted sales approved for the period in Docket No. G011/GR-15-736.

Table 6 below shows the Company's estimates of the residential and SCI customer class bill impacts assuming approval of the proposed surcharges and refunds shown in Table 5 above.

Table 6: Bill Impacts of MERC's Proposed RDM Factors

Customer Class	RDM Per Therm Credit	Average Usage	Monthly Bill Impact of RDM Credit	Annual Estimated Bill Impact
Residential	($0.02391)	874	($1.74)	($20.89)
Small C&I	$0.00445	999	$0.37	$4.45

E. RECONCILIATION ADJUSTMENT FOR THE SCI CLASS

The Commission's December 5, 2018 Order in Docket No. G011/M-19-201 required MERC to make a compliance filing describing the remaining reconciliation adjustment for the SCI class by January 15, 2020. MERC submitted its compliance filing on January 15, 2020.

Although the 2019/2020 RDM adjustment surcharge of $0.00741 per therm that was in place through February 28, 2020 for calendar year 2018 sales reflected the last year that the Small C&I (now Firm 1) customer class was subject to decoupling, future reconciliation adjustments for calendar years 2017 and 2018 are necessary to account for differences in forecasted and actual sales.

[6] See Order Point 12 A. 2.

MERC stated:

> Under MERC's Commission-approved tariffs, the Reconciliation Adjustment (RA) is the dollar amounts due the Company or the customers arising from RDM adjustments that were under-billed or over-billed to each Rate Schedule Group in the Billing Period.[2] The Reconciliation Adjustment is a true-up to account for sales being greater than or less than the forecasted customer class sales used to calculate the per-therm adjustment charge.
>
> To close out the remaining over- or under-collection amounts for the Small C&I class for 2017 and 2018, MERC proposes the following, consistent with the Company's revenue decoupling mechanism tariffs:
>
> - To calculate a 2017 Reconciliation Adjustment refund/surcharge to be effective on Small C&I (now Firm Class 1) bills March 1, 2020 through February 28, 2021 for calendar year 2017 and
>
> - To calculate a 2018 Reconciliation Adjustment refund/surcharge to be effective on Small C&I (now Firm Class 1) bills March 1, 2021 through February 28, 2022 for calendar year 2018.
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> Following completion of the 2018 Reconciliation Adjustment, MERC proposes to track and defer any remaining over- or under- recovery amounts that result from the 2018 per therm Reconciliation Adjustment being applied to actual sales that are greater or less than forecasted sales to be addressed in the Company's next general rate case. The residual over- or under-recovered amount resulting from the application of a per therm charge based on forecasted sales is expected to be relatively small and cannot be calculated until 2022, when the 2018 Reconciliation Adjustment refund/surcharge has been completed. Addressing the remaining residual through a general rate case proceeding avoids the significant burden of programming individual customer credits within MERC's billing system for what is anticipated to be small residual charges or refunds.

The Department supports MERC's proposed reconciliation adjustment methodology for the SCI class, with the exception of its deferred accounting request. The Department discusses MERC's deferred accounting request below.

1. Deferred Accounting

The Commission has broad authority under Minn. Stat. Section 216B.10 to address the necessary accounting, reporting, and auditing of public utilities under the Commission's jurisdiction. Additionally, Minn. Rule 7825.0300, Subparts 1 and 2 confirm the adoption of the Federal Energy

Regulatory Commission (FERC)[7] Uniform System of Accounts (USofA), with some clarifications. The USofA FERC Account 182.3 – *Other Regulatory Assets* allows for deferred accounting to create regulatory assets that result from the ratemaking actions of regulatory agencies.

The Department notes that utilities have occasionally framed deferred accounting as an exception to the USofA under Minn. Rule 7825.0300, Subpart 4. Because the USofA – specifically, FERC Account 182.3 – does provide a mechanism for deferred accounting, the Department does not believe an exception to the USofA is needed. Nevertheless, the Code of Federal Regulations necessitates that utilities justify requests to use deferred accounting and obtain approval from the appropriate regulatory agency (in this instance, the Commission) in order to defer expenses and investments for possible future rate recovery under FERC Account 182.3.

Deferred accounting is special accounting treatment that is an exception to balanced and fair ratemaking. The Commission authorizes rates to allow a utility a reasonable opportunity to recover from consumers representative costs of providing utility service. Those rates remain in effect until the utility files a new rate case. Until then, utilities are not entitled to dollar-for-dollar recovery of all actual costs between rate cases; similarly, ratepayers receive no benefit when a utility reduces costs between rate cases. Instead, utilities are expected to make reasonable decisions to ensure that the funds they receive from consumers are spent prudently. Thus, normal ratemaking and allowing utilities to recover representative costs set in rate cases is the Commission's primary tool to ensure that utilities act in a prudent manner and that rates are just and reasonable, as required by Minnesota Statutes, §216B.03.

Deferred accounting, by contrast, allows a utility to postpone, or defer, the standard accounting treatment that would otherwise be required for the financial item or transaction in question. For example, for financial accounting purposes, a utility normally recognizes expenses as they are incurred, even if the expenses are incurred outside of a rate case test year and are not expressly included in established base rates. This approach is consistent with the ratemaking principles described above. Under deferred accounting, however, a utility would suspend the recognition of the relevant expense, record the expense in a separate deferral account (FERC Account 182.3 – *Other Regulatory Assets*), and subsequently seek recovery from ratepayers of the expense, typically over some amortization period, in a future rate case.

[7] The Federal Power Commission is the predecessor of the Federal Energy Regulatory Commission.

While an explicit statutory or rule-based test does not exist to evaluate public utility deferred accounting requests[8], the Commission has previously described certain criteria and circumstances under which deferred accounting may be appropriately applied.[9] A prior Commission order addressing deferred accounting summarized some of these criteria and circumstances with the following statement: [10]

> Deferred accounting is a regulatory tool used primarily to hold utilities harmless when they incur out-of-test-year expenses that, because of their nature or size, should be eligible for possible rate recovery as a matter of public policy. Traditionally, deferred accounting has been reserved for costs that are unusual, unforeseeable, and large enough to have significant impact on the utility's financial condition. Deferred accounting has also sometimes been permitted when utilities have incurred sizeable expenses to meet important public policy mandates.

The Department agrees with the Commission that deferred accounting treatment can be a valuable regulatory tool when applied using strict standards, and we believe that it can be useful in addressing extraordinary circumstances that call for a departure from standard accounting principles. The Department supports granting deferred accounting when a utility meets its burden of demonstrating that it has met the criteria applied by the Commission in various prior proceedings to determine whether the costs for which deferred accounting is requested are (1) unusual, unforeseeable, and/or extraordinary (2) financially significant in amount, (3) related to

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[8] The Commission has previously addressed its process for reviewing deferred accounting requests by stating that "While the Commission has allowed deferred accounting of manufactured-gas-plant cleanup costs in the past, these prior decisions do not bind the Commission. Rather, in each case the Commission must decide whether the specific facts and circumstances support a finding of good cause to allow cost fluctuations occurring outside of a rate-case test year to be accounted for in a future rate proceeding." Commission's October 17, 2018 *Order*, at 4, Docket No. G002/M-17-894, *In the Matter of the Petition of Northern States Power Company for Approval of Deferred Accounting for Manufactured-Gas-Plant Cleanup Costs.* In reference to deferred accounting decisions, the Commission has also stated that "Each decision is unique, and must be based on the particular set of facts present before the Commission." Commission's January 10, 2017 *Order*, Docket No. E015/M-16-648, at 5, *In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery*.

[9] Regarding its evaluation criteria for deferred accounting requests, the Commission has previously noted that "In the 1990s, the Commission permitted deferral of manufactured-gas-plant cleanup cost accounting in cases involving Minnegasco, Interstate Power Company, and Xcel. The Commission's rationale varied from case to case, but the most important factors were that the costs involved were (1) unusual and unforeseen, (2) substantial, (3) related to utility operations, and (4) likely to provide a ratepayer benefit." Commission's October 17, 2018 *Order*, Docket No. G002/M-17-894, at 2, footnote 1.

[10] Commission's October 17, 2018 *Order*, Docket No. G002/M-17-894, at 2. *Cleanup Costs.* In reference to deferred accounting decisions, the Commission has also stated that "Each decision is unique, and must be based on the particular set of facts present before the Commission." Commission's January 10, 2017 *Order*, Docket No. E015/M-16-648, at 5, *In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery*.

utility operations, and (4) likely to provide or did provide ratepayer benefit.[11] Using a specific set of criteria to evaluate utility requests for deferred accounting is likely to result in more consistent analyses and outcomes across time and among proceedings than evaluations that are made without considering a set of criteria. The Department is also aware of circumstances in which the Commission has approved deferred accounting for significant expenses incurred pursuant to public policy mandates;[12] as the Commission has previously stated, these approvals have "…generally been in cases where the Commission itself mandated the expenditure."[13]

The Department notes that the wording and description of the criteria used in evaluating deferred accounting requests sometimes varies among the records in previous dockets. Thus, the Department emphasizes that its analysis of the applicable criteria in the instant docket is not intended to either capture every prior iteration or one specific instance of evaluating deferred accounting requests. Instead, our objective is to present the Commission with an analysis that captures the core ideas and considerations previously used and potentially relevant to the deferred accounting decision before the Commission in the current Petition.

2. *Department Evaluation of MERC's Deferred Accounting Request*

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[11] For example, while the Commission's evaluation criteria differed among the following listed dockets, the factors of primary importance were that the relevant costs were a combination of (1) unusual, unforeseen, and/or extraordinary (2) significant or substantial in amount, (3) related to utility operations, and (4) likely to provide or did provide ratepayer benefit:

- Commission's July 16, 2012 *Order* in Docket No. E002/M-11-1263, *In the Matter of Xcel Energy's Petition for Deferred Accounting for Property Tax Costs*;
- Commission's January 10, 2017 *Order* in Docket No. E015/M-16-648 *In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery*;
- Commission's November 30, 2017 *Order* in Docket No. G011/M-17-409, *In the Matter of a Petition by the Minnesota Energy Resources Corporation for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting.* At pages 9 – 10 of this Order, the Commission explained that in addition to meeting the other criteria, the relevant costs were intended to serve public policy goals and would be subject to review for reasonableness and prudence in a future rate case. The Department notes however, that the process of creating a regulatory asset through deferred accounting automatically provides for a future opportunity for regulators to review the relevant costs for reasonableness and prudence, as recovery of these deferred costs are approved through a separate proceeding, such as a general rate case.

[12] For example, the Commission approved deferred accounting in the following dockets for utility costs incurred pursuant to a Commission mandate:

- Commission's February 25, 2005 *Order* in Docket No. E002/M-03-1462, *In the Matter of Northern States Power Company's Petition for Approval of Deferred Accounting for Costs Incurred for the Web Tool and Time-of-Use Pilot Project*. At page 5 of this *Order* the Commission not only considered the fact that Xcel incurred costs to meet a Commission mandate, but the Commission also found that the "costs incurred were reasonable" and this was "not a case where the Company…should have foreseen [incurring these costs] in its last rate case."
- Commission's January 20, 1994 *Order* in Docket No. G011/M-91-989, *In the Matter of Peoples Natural Gas Company's Request to Establish a Tariff for Repairing and Replacing Farm-Tap Lines*. In this Order, deferred accounting was granted in lieu of the current cost recovery requested by the utility for costs incurred in implementing a Commission-required safety inspection program.

[13] Commission's October 17, 2018 *Order*, Docket No. G002/M-17-894, at 5.

The Department evaluated MERC's deferred accounting request to determine whether the relevant EV pilot costs are unusual, unforeseeable, and/or extraordinary, financially significant in amount, related to utility operations, and likely to provide or did provide ratepayer benefit.

a) Unusual, unforeseeable, and/or extraordinary expenses

The Department concludes that the expenses could be labeled unusual and extraordinary because they result from the termination of revenue decoupling for a customer class. However, the expenses were not unforeseeable since the Company has known the revenue decoupling for the SCI class would end since the Commission's December 26, 2018 Order.

b) Financially significant in amount

At the end of MERC's last RDM evaluation period, only $40,447 of undercollected revenues remained. Given that MERC will continue to collect some amount of funds until February 28, 2022 to true up the undercollected revenues, and the amount of remaining undercollected revenues is expected to be miniscule (essentially, a reconciliation of a reconcilation), the amount of funds is not financially significant.

c) Related to utility operations

Utility operations are not impacted by the existence of MERC's RDM; the RDM is merely a financial mechanism intended to eliminate MERC's throughput incentive and thus eliminate any Company disincentive to encourage its customers to invest in energy savings. Notably, the end of decoupling for the SCI class was the direct result of MERC's misallocation of customers to their respective classes, rendering it impossible to establish the baseline revenue for the class in the Company's last rate case. Thus, it is unlikely that any extremely small over or under recoveries resulting from discontinuing the RDM for the SCI class would affect MERC's throughput incentive.

d) Provide ratepayer benefit

The amounts at issue are an extremely small subset of ratepayer costs and benefits of MERC's RDM. Approval or denial of the deferred accounting request will not impact the overall purpose of MERC's RDM or its level of achievement.

e) Conclusion

Consequently, the Department recommends that, at the conclusion of MERC's application of the RDM adjustment for the SCI class February 28, 2022 (the 2018 Reconciliation Adjustment), MERC no longer track and defer any remaining over- or under- recovery amounts for the SCI customer class.

IV. TRACK AND DEFER ANY REMAINING OVER- OR UNDER- RECOVERY AMOUNTS THAT RESULT FROM THE 2018 PER THERM RECONCILIATION ADJUSTMENT CONCLUSION AND RECOMMENDATIONS

The Department recommends that the Commission approve MERC's proposed 2019/2020 RDM Adjustment of ($0.02391) per therm for its Residential customers and $0.00445 per therm for its SCI customers, as proposed in the Company's 2019 RDM Adjustment filing. The Department also recommends that the Commission accept MERC's 2019 Annual Decoupling Evaluation Report.

The Department recommends that the Commission approve MERC's proposal for reconciling the over/under recoveries for the SCI customer class occurring during the years 2017 and 2018, to be included in the RDM adjustments for 2020/2021 and 2021/2022, but deny MERC's request for deferred accounting for any remaining residual amounts.

/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. G011/M-20-332

Dated this **26th** day of **June 2020**

/s/Sharon Ferguson

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