MINNESOTA
PUBLIC UTILITIES COMMISSION

# Staff Briefing Papers

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| Meeting Date | January 31, 2019 | Agenda Item *3 |
| Company | Minnesota Energy Resources Corporation (MERC, Company) | |
| Docket No. | **G-011/GR-10-977 & G-011/GR-15-736**<br>In the Matter of an Application by Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota | |
| Issues | Should the Commission accept MERC's annual revenue decoupling report for the period ended December 31, 2017, and approve MERC's revenue decoupling rate adjustments? | |


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| ✓ **Relevant Documents** | **Date** |
|---|---|
| MERC – 2017 Revenue Decoupling Adjustment Calculation | March 1, 2018 |
| MERC – 2017 Annual Decoupling Evaluation Report | May 1, 2018 |
| Minnesota Department of Commerce – Comments | June 11, 2018 |
| MERC – Reply Comments | June 19, 2018 |

# Table of Contents

## I. Statement of the Issues

Should the Commission accept MERC's annual revenue decoupling evaluation report for the period ended December 31, 2017, and approve MERC's revenue decoupling rate adjustments?

## II. Introduction

This is the Commission's fourth annual review of Minnesota Energy Resources Corporation's (MERC's) full revenue decoupling program.

The Company and the Department of Commerce ("Department") are in agreement on recommending that the Commission:

1. Approve MERC's Revenue Decoupling Evaluation Report ("Evaluation" or "Report") for calendar-year 2017.
2. Allow MERC to continue assessing its revenue decoupling adjustments in the future and approve the Company's annual decoupling rate adjustments proposed in this report.

## I. Background

### A. Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

1. Reduce MERC's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.
2. Achieve energy savings, and
3. Not harm ratepayers.

### B. Pilot Revenue Decoupling Program

On July 13, 2012, the Commission issued its Findings of Fact, Conclusions of Law, and Order ("Order") in Minnesota Energy Resources Corporation's 2010 general rate case, in docket 10-977. As part of the Order, the Commission authorized a three year "full" revenue decoupling mechanism ("RDM") pilot that encompassed the Residential and the Small Commercial and Industrial customer classes. In conjunction with the implementation of rates authorized as a result of the 2010 rate case, MERC's revenue decoupling pilot program became effective on January 1, 2013. MERC's pilot was scheduled to run through December 31, 2015; however, it has subsequently been extended several times, most recently through the end of 2019.[1]

[1] Commission Order, October 31, 2016, Docket No. G-011/GR-15-736.

One of the conditions of the Commission's approval of MERC's revenue decoupling mechanism was that MERC was required to file an annual Revenue Decoupling Evaluation. This is the Company's fifth annual Evaluation and it encompasses the period of January 1 to December 31, 2017.

## III. Parties' Comments

### A. MERC 2017 Revenue Decoupling Adjustment Calculation

On March 1, 2017 MERC filed its Revenue Decoupling Mechanism (RDM) adjustment calculations for the RDM adjustment effective March 1, 2018. Table 1, below, shows the calculation of the Residential and Small Commercial and Industrial RDM and the remaining 2015 regulatory assets divided by the forecasted sales (i.e. class revenue) approved in Docket No. G-011/GR-15-736.

**Table 1: MERC Revenue Decoupling Mechanism Adjustment Calculation for Rates Effective March 1, 2018[2]**

| | Residential | Small C&I |
|---|---|---|
| 2017 RDM Surcharge/(Refund) | $ 2,164,098.54 | $ 151,346.88 |
| 2015 Reconciliation Adjustment | $ 793,687.75 | $ 59,022.26 |
| Total Surcharge/(Refund) | $ 2,957,786.29 | $ 210,369.14 |
| Forecasted Sales | $180,058,590 | $11,856,852 |
| Surcharge/(Refund) Rate (per therm) | $0.01643 | $0.01774 |

Additionally, as shown in Table 2 below, MERC provided the summary of estimated rate and bill impacts from the proposed RDM factors.

**Table 2: Estimated Rate and Bill Impacts from Proposed RDM Factors Effective March1, 2018**

| Customer Class | RDM per Therm Surcharge | Average Usage | Monthly Bill Impact of RDM Surcharge | Annual Estimated Bill Impact |
|---|---|---|---|---|
| Residential | $0.01643 | 818 | $1.12 | $13.44 |
| Small C&I | $0.01774 | 948 | $1.40 | $16.82 |

### B. MERC 2017 Revenue Decoupling Evaluation Report

On May 1, 2018, MERC filed its full 2017 Annual Decoupling Evaluation Report for the period from January 1, 2017 to December 31, 2017. The Evaluation consists of a large amount of information regarding the Company's revenue decoupling in comparison to its Conservation Improvement Programs (CIP) in terms of costs and energy savings. This information is discussed in these briefing papers under DOC comments. The Evaluation Report also includes attachments with the data necessary to calculate the decoupling rate adjustment, which was filed on March 1, 2017.

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[2] 2017 Revenue Decoupling Mechanism Adjustment Calculation Docket Nos. G011/GR-10-977 and G011/GR-15-736, March 1, 2017

As can be seen in Table 1 above, the 2017 RDM adjustment calculation resulted in surcharges to both customer classes subject to revenue decoupling. Residential customers' surcharges totaled $2,164,099 while the Small Commercial and Industrial customers' surcharges was $151,347. Neither of these amounts was impacted by the 10% cap. When the 2015 Reconciliation Adjustment is added – $793,688 for Residential and $59,022 for Small C&I – then the total surcharges were $2,957,786 and $210,369 respectively. When divided by forecast sales, the result is a surcharge rate per therm of $0.01643 for Residential customers and $0.01774 for Small C&I customers.

### C. Minnesota Department of Commerce Comments

On June 11, 2018, the Department submitted its comments addressing both the 2017 RDM Adjustment Calculation, filed by MERC on March 1, 2018 and the 2017 Annual Decoupling Evaluation Report recorded May 1, 2018.

In its analysis, the DOC first stated that since the issue of whether MERC's RDM should be extended to other customer classes was being discussed in the Company's current rate case, this issue was not discussed in these comments. Rather, the Department compared MERC's post-decoupling energy savings to pre-decoupling energy savings for the residential customer class and evaluated the Company's RDM deferral calculation.

#### 1. MERC RDM Energy Savings versus CIP Performance

As seen in Table 3 below, MERC's pre-decoupling (2010-2012) energy savings were compared with the Company's post-decoupling (2013-2017) energy savings.[3]

[3] Pre-decoupling energy savings were modified 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 would have been assumed to save 300 MCF when the behavioral projects were first approved is now assumed to save 100 MCF.

**Table 3: MERC's Total CIP Savings as a Percent of Non-CIP-Exempt Weather – Normalized Retail Sales[4]**

| | Year | First-year Energy Savings (Dth) | Non-CIP-Exempt Retail Sales (Dth) | Energy Savings as Percent of Retail Sales (Dth) |
|---|---|---|---|---|
| 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% |
| | Weighted Average (2013-2017)[5] | 434,169 | 54,862,275 | 0.79% |
| Post-Decoupling | 2013 | 424,821 | 35,297,938 | 1.20% |
| | 2014 | 369,068 | 35,297,938 | 1.05% |
| | 2015 | 493,382 | 43,175,948 | 1.14% |
| | 2016 | 472,000 | 43,175,948 | 1.09% |
| | 2017 | 402,989 | 52,732,921 | 0.76% |
| | Weighted Average (2013-2017) | 433,215 | 47,681,088 | 1.03% |

The post-decoupling weighted average first year energy savings of 433,215 shows little difference over the pre-decoupling average of 434,169.

MERC also compared its pre- and post-decoupling energy savings by customer class, as shown in Table 4, below. Savings on the Small C&I customers is only available for 2016 and 2017.

[4] Department of Commerce Comments, Page 5, Table 1, June 11, 2018.

[5] Staff notes that since the weighting (Non-CIP-Exempt Retail Sales) does not vary, this is the same as a simple average.

**Table 4: Comparing Pre-Decoupling to Post-Decoupling Energy Savings by Decoupled Customer Classes[6]**

| Year | Total Residential[7] | 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 (2013-2017)[8] | 189,703 | 235,975 | N/A |
| 2013 | 208,071 | 205,542 | N/A |
| 2014 | 180,137 | 180,792 | N/A |
| 2015 | 209,604 | 275,664 | N/A |
| 2016 | 211,918 | 238,173 | 13,523 |
| 2017 | 158,514 | 226,344 | 5,874 |
| Post-Decoupling Average (2013-2017) | 193,649 | 225,303 | 9,699 |

Looking at Residential energy savings, the 2017 total of 158,514 is only 84 percent of the pre-decoupling Residential average of 189,703. However, when comparing the Residential averages, the post-decoupling amount of 193,649 is fully 2 percent higher than the pre-decoupling average of 189,703 exceeding the Commissions goal of 1.5% savings.

There is limited data for comparison of the Small C&I customer class. The 2017 result of 5,874 is significantly lower than 2016's 13,523, a decline of 57 percent.

### 2. MERC RDM Calculations

The Department concluded that the amounts shown in Table 1 of these briefing papers correctly calculate MERC's surcharges and adjustment factors and recommended they be approved. The Department also recommended that the Commission approve MERC's 2017 Annual Decoupling Evaluation Report.

### D. MERC Reply Comments

MERC thanked the Department for its analysis and review and agreed that no open issues remain. MERC requested that the Commission accept the Department's recommendations.

## IV. Staff Analysis

Staff verified that MERC's calculations are correct and, since the average post-decoupling Residential customer class energy savings of 2 percent exceeds the Commission's energy savings goal of 1.5 percent, Staff concurs with the Department's recommendations. Staff also

[6] Source: DOC Comments, Page 6, Table 2, June 11, 2018.

[7] Per DOC: Residential first-year energy savings were modified to reflect the Department's Average Savings methodology for measuring behavioral project energy savings.

[8] Staff notes that since the weighting (Non-CIP-Exempt Retail Sales) does not vary, this is the same as a simple average.

shares the Department's concerns regarding the Company's downward energy savings trend over the last two years.

Staff points out that these Annual Decoupling Evaluation Reports are under the 2010 and 2015 rate case dockets and, due to the multiple reoccurring compliance filings made in those dockets, that practice makes it difficult to isolate decoupling-related filings. In the recent Great Plains and CenterPoint decoupling filings, Staff has recommended, and the Commission has ordered, that those companies file all future Reports in their own separate dockets. Consistent with that practice, the Commission may want to instruct MERC to do the same starting with its 2018 Report.

## V. Decision Options

<u>2017 Annual Decoupling Evaluation Report (Year 5)</u>

1. Accept MERC's 2017 (Year 5) revenue decoupling evaluation report. (MERC, DOC) **<u>OR</u>**

2. Reject MERC's 2017 (Year 5) revenue decoupling evaluation report.

<u>2017 Annual Decoupling Evaluation Report (Year 5)</u>

3. Approve MERC's revenue decoupling rate adjustment factors. (MERC, DOC) **<u>OR</u>**

4. Reject MERC's revenue decoupling rate adjustment factors and determine alternative adjustment factors.

<u>Future Annual Decoupling Evaluation Reports</u>

5. Order MERC to file all future Annual Decoupling Evaluation Reports in their own separate docket. (Staff)