COMMERCE DEPARTMENT

July 3, 2017

Daniel P. Wolf
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. G011/M-17-340

Dear Mr. Wolf:

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

> In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2016 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor.

The *Petition* was filed on May 1, 2017 by:

> Amber S. Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> 1995 Rahncliff Court, Suite 200
> Eagan, MN, 55122
> (651) 322-8965
> ASLee@minnesotaenergyresources.com

As discussed in greater detail in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the Company's *Petition***. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/lt
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-17-340

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 1, 2017, Minnesota Energy Resources Corporation (MERC or the Company) submitted a filing in the present docket entitled *In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of the 2016 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor* (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC or PUC). The Company's *Petition* included:

- a proposed 2016 Demand Side Management (DSM) financial incentive of $3,245,000;

- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2016; and

- a proposed change to the Conservation Cost Recovery Adjustment (CCRA).

MERC does not file its CIP Status Report in the same document as its DSM financial incentive, CIP tracker, and CCRA proposal. Instead, MERC's 2016 CIP Status Report can be found in Docket No. G011/CIP-12-548.04.

II. THE COMMISSION'S 2015 ORDER and 2014 BILLING COMPLIANCE ORDER

A. COMMISSION'S 2016 ORDER

On August 30, 2016, the Commission issued its Order in Docket No. G011/M-16-385 approving MERC's 2015 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved MERC's 2015 DSM financial incentive of $3,392,001 to be included in the Company's CIP tracker account no sooner than the issue date of this Order.

2. Approved MERC's 2015 CIP tracker account activities as summarized in Table 1 of the [Minnesota Department of Commerce's (Department)] July 26, 2016 comments.
3. Approved the revised gas CCRA of $0.00750 per therm for all of MERC's Minnesota customer classes, to be effective January 1, 2017, or on the first billing cycle in the next full month after Commission approval, whichever is later. The approval is conditioned on the Company submitting, within 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, or January 1, 2017, whichever is later:

   > Effective [insert date], a CCRA (conservation cost recovery adjustment) has been included in your bill. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses. Effective [insert date], the CCRA rate will be $0.00750 per therm.

On September 19, 2016, MERC filed an updated tariff page to reflect the approved recovery rate. The Minnesota Department of Commerce (Department) filed a compliance sign-off form on June 9, 2017. MERC's approved rate went into effect January 16, 2016.

A. COMPLIANCE REQUIRED BY THE COMMISSION'S 2014 ORDER

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

> 13. 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 more fully discussed below.

III. THE DEPARTMENT'S ANALYSIS

The Department's analysis of MERC's *Petition* is presented below in the following sections:

- in Section III.A, MERC's proposed 2016 DSM financial incentive;

- in Section III.B, MERC's proposed 2016 CIP tracker account;
- in Section III.C, MERC's CCRA proposal;
- in Section III.D, MERC's CIP-Exempt Customer Billing Review; and
- in Section III.E, a review of MERC's CIP activities for the period 2010 through 2016.

A. MERC'S PROPOSED 2016 DSM FINANCIAL INCENTIVE

1. Background and Summary of MERC's Proposed 2015 DSM Financial Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On December 20, 2012 the Commission issued its *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives* (Modification Order). The Shared Savings approach emphasizes a 1.5 percent energy savings goal, and ties the incentive earned by the utility to pursuit of the 1.5 percent savings goal. The incentive mechanism sets a specific dollar amount per unit of energy saved that each utility will earn at energy savings equal to 1.5 percent of annual non-CIP-exempt retail sales. That dollar amount is referred to as the incentive calibration. The higher the calibration, the higher the incentive will be at all energy savings levels; however, the incentive calibration does not take effect until a specified energy savings threshold is reached. Each electric utility's incentive is calibrated so that when the utility achieves energy savings equal to 1.5 percent of retail sales, electric utilities will earn an incentive equal to $0.07 per kWh saved and gas utilities will earn $9 per thousand cubic feet (Mcf) saved. The Commission's Modification Order stated, in part:

> *The Commission hereby adopts the Department's proposal for the continuation of the new shared savings financial incentive with the following:*
>
> A. A threshold set at half of the utility's average achievements from 2007 to 2011 for utilities with triennial CIPs beginning in 2013, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest. For utilities with triennial Conservation Improvement Programs beginning in 2014, the threshold shall be set at half of the utility's average achievements from 2008 to 2012, removing both the maximum and minimum achievements, or at 0.4 percent of retail sales, whichever is lowest.
> B. The calibration at 1.5 percent of retail sales for each utility set as follows: (1) $9.00 per Mcf for natural gas utilities, and (2) $0.07 per kWh for electric utilities.

C. A utility may not modify its incentive to correct for non-linear benefits.
D. The incentive shall be capped at 20 percent of net benefits for all utilities except for Minnesota Power. The Commission will defer a decision on the application of the 20 percent cap of net benefits for Minnesota Power until 2013 to allow for the consideration of updated avoided cost information for this utility.
E. The existing cap of 125 percent of a utility's 1.5 percent calibration level for the electric utilities ($0.0875 per kWh) and a cap of 125 percent of the 1.0 percent target calibration for gas utilities ($6.875) per Mcf are continued.
F. The percentage of net benefits to be awarded to each utility at different energy savings levels will be set at the beginning of each year.
G. The CIP-Exempt Class shall not be allocated costs for the new shared savings incentive. Sales to the CIP-Exempt Class shall not be included in the calculation of utility energy savings goals.
H. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.
I. If a utility elects to include a third-party project, the project's net benefits and savings will be included in calculation of the percentage of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post CIP year calculations of net benefits and energy savings achieved and incentive awarded. In any case, the energy savings will count toward the 1.5 percent savings goal.
J. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive, but will not change the percent of net benefits awarded at different energy savings levels.
K. The costs of any mandated, non-third-party projects (*e.g.*, Next Generation Energy Act assessment, University of Minnesota Institute for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits awarded at specific energy savings levels (calculated before the CIP year begins) and in the post-CIP year calculations of net benefits and energy savings achieved and incentive awarded.

L. Costs, energy savings, and energy production from Electric Utility Infrastructure Projects (EUIC), solar installation and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
M. The Department shall file a recommendation with the Commission on the application of a net benefits cap for Minnesota Power's incentive by October 1, 2013. The recommendation should be filed in Docket No. E,G-999/CI-08-133.
N. No adjustment will be made at this time to the calibration of the incentive mechanism for utilities that have Commission-approved decoupling mechanisms.
O. The new shared savings DSM incentive shall be in operation for the length of each utility's triennial CIP plan.

Further, the Commission approved a net benefits cap of 30 percent for Minnesota Power on November 19, 2013.

Under the 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. The plan links the incentive to the Company's performance in achieving cost effective conservation.

With respect to net benefits, MERC provided in its *Petition* the benefit/cost results of the revenue requirements test associated with the Company's 2016 CIP. According to the Company, MERC's 2016 CIP activities resulted in an estimated $25,948,259 of net benefits before the requested incentive.[1] MERC also stated that its CIP activities achieved energy savings in 2016 of 472,000 dekatherms (Dth) of natural gas. Based on the terms and conditions of its approved DSM incentive plan, MERC requested approval of a 2016 financial incentive of $3,245,000.

On August 5, 2016 the Commission's *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan* in Docket No. E,G-999/CI-08-133 changed the way DSM Financial Incentives would be calculated in the future, beginning with the next Triennial plan, which for MERC would go into effect starting with the 2017 DSM Financial Incentive.

[1] *Petition*, Attachment B, Pages 4-5. The full calculations of net benefits can be found along with the Company's CIP Status Report in Docket No. G011/CIP-12-548.04.

2. The Department's Review of MERC's Proposed 2016 DSM Financial Incentive

The Department's CIP Engineering Staff review of the Company's claimed demand and energy savings that underpin MERC's proposed 2016 DSM financial incentive has been completed and is awaiting a final decision from the Department's Deputy Commissioner. While a final decision is not likely to be issued before the fall of 2017, the Department's CIP Engineering Staff recommended that the Deputy Commission approve MERC's 2016 Status Report.

As was done last year, the Department's analysis assumes that MERC's claimed 2016 energy savings are correct as filed. If the Deputy Commissioner of the Department subsequently approves changes to MERC's energy savings claims that impact either recovery of CIP budgets or levels of Shared Savings DSM financial incentives, those changes can be incorporated in the Company's 2017 filing, which will be made by May 1, 2018.

MERC's reported energy savings level is 472,000 Dth, and so the Department used this figure in reviewing this docket.

The Department notes that 472,000 Dth of energy savings equates to 1.09 percent of the Company's reported average non-CIP-exempt retail sales of 43,175,948 Dth. MERC indicated that it receives approximately 1.29481 percent of the net benefits created by its 2016 CIP investments for every 0.1 percent of sales saved above 0.2.[2] This results in a financial incentive of 12.86008 percent of net benefits achieved, for a total incentive of $3,336,966. However, this incentive yields a cost per Mcf savings of $7.07/Mcf, violating the approved $6.875/Mcf saved cap. Thus, the Company proposed a financial incentive of $3,245,000, which meets both the percentage of net benefits achieved cap and the $/Mcf savings cap. This figure equates to 12.51 percent of net benefits achieved.

The Department verified the calculation of the financial incentive. The Department recommends that the Commission approve MERC's proposed 2016 DSM financial incentive of $3,245,000 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

[2] *Petition*, Attachment B.

B. MERC'S 2016 CIP TRACKER ACCOUNT

In its *Petition,* MERC provided a report on its 2016 recoveries and expenditures in the Company's CIP tracker account.

1. Background and Summary of MERC's 2016 CIP Tracker Account

In 2000, the operations of Peoples Natural Gas (PNG) and Northern Minnesota Utilities (NMU) were merged under MERC. Prior to the operations merger, each utility maintained its own CIP, and so after the merger, MERC continued to maintain separate CIP trackers, naming the trackers MERC-PNG and MERC-NMU. In a 2010 Rate Case, MERC proposed consolidating both tracker accounts.[3] Beginning July 2013, MERC began consolidating the two accounts by opening up a third account, MERC-Consolidated.[4] All 2014 CIP expenses were recorded in MERC-Consolidated, and remaining balances from MERC-PNG and MERC-NMU were rolled into MERC-Consolidated. Effective January 1, 2015, all accounts were consolidated into MERC-Consolidated, and MERC-Consolidated was renamed "MERC CIP Tracker." MERC's 2016 filing for the Company's 2015 CIP tracker was the first year in which a single tracker was submitted since consolidation began. MERC's 2015 CIP tracker also incorporated the balance of the Interstate Power and Light (IPL) Tracker Account, as ordered in Docket No. G001/M-15-325**,** following MERC's acquisition of IPL's Minnesota gas holdings.

2. Department Review of MERC's 2016 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 2016. Table 1 below provides a summary of activity in MERC's CIP tracker account during 2016.

[3] Docket No. G-007,011/GR-10-977.
[4] MERC requested approval of a consolidated CIP tracker and CCRA with its 2013 Petition in Docket G-011/M-14-369.

Table 1: Summary of MERC's 2016 CIP Tracker Account Activity

Description	Time Period	Amount
Beginning Balance	January 1, 2016	$1,269,151.31
CIP Expenditures[5]	January 1 through December 31, 2016	$9,198,728.06
Recovery via Base Rates (CCRC)	January 1 through December 31, 2016	($14,059,910.48)
Regular Carrying Charges	January 1 through December 31, 2016	($45,725.51)
Recoveries due to CCRA Adjustment	January 2016	$87,518.07
2015 DSM Incentive	August 2016	$3,392,001.00
Ending Balance	December 31, 2015	$(158,237.55)

The *Petition* indicates that the 2015 financial incentive, which was approved on August 30, 2016, was booked during August of 2016. The Company made a CCRA adjustment in January to account for differences between projected and actual recoveries during 2015.

The Department recommends that the Commission approve MERC's 2016 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2016 tracker balance of $(158,237.55).

C. MERC'S PROPOSED CCRA

1. CCRA Calculation

Minn. Stat. §216B.16, subd. 6b(c) states in relevant part 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.

In its *Petition*, MERC proposed an increase in the CCRA, from $0.00750/Dth in 2017 to $0.01024/Dth in 2018.

[5] CIP Expenditures include the Next Generation Energy Act of 2007 (NGEA) assessments of $185,133 (*Petition*, Pages 4-5).

Table 2: Calculation of MERC's Proposed CCRA

Description	Amount
Forecasted Beginning Balance as of January 1, 2018	($3,461,377.07)
CIP Expenditures January-December, 2018	$12,233,774.00
Estimated Base Rate Recoveries January-December, 2018	($11,015,934.28)
Estimated Carry Charges January-December	($71,761.45)
Estimated 2016 DSM Financial Incentive	$3,245,000.00
Estimated 2017 DSM Financial Incentive	$3,147,996.00
Total to be Recovered Through CCRA	$4,077,697.20
Projected Sales less CIP-exempt Sales (Dth)	398,118,333
Proposed CCRA ($/Dth)	$0.01024

Table 3 provides information about the percentage change of the proposed CCRA:

Table 3: Comparison of MERC's Existing and Proposed CCRAs

Company	Current CCRA	Proposed MERC Consolidated CCRA	Percent Change
MERC Consolidated CCRA	$0.00750	$0.01024	36.5%

As indicated in Table 3, the revised CCRA represents a 36.5 percent increase from the current CCRA rate charged to MERC customers. The Department recommends that the Commission approve a CCRA of $0.01024 per therm for all of MERC's customer classes, to be effective January 1, 2018 or on the first billing cycle in the next full month after Commission approval, whichever is later. The Company should submit, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations.

2. Customer Notification

With respect to customer notification, the Department suggests a minor revision to the proposed customer message included on Page 10 of MERC's *Petition*. The Department recommends that the Commission require MERC to include the following bill message in the billing month immediately following the date of the *Order* in the present docket:

> Effective [Insert date], a <u>revised</u> CCRA (conservation cost recovery adjustment) has been included on your bill. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses. Effective [Insert date], the CCRA rate will be $0.01024 per therm.

D. MERC'S CIP-EXEMPT CUSTOMER BILLING REVIEW

The Department reviewed MERC's *Petition* to ensure that the Company was in compliance with the Commission's October 28, 2014 Order. 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 they 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.[6]

The Department concludes that MERC is in compliance with the Commission's October 28, 2014 Order.

E. REVIEW OF MERC'S GAS DSM AND CIP ACTIVITIES (2010-2016)

In Attachment 1 the Department presents a historical comparison of MERC's DSM and CIP activities during the period 2010 through 2016. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment 1 indicates that, between 2010 and 2016, the Company's energy savings grew 5.02 percent, the Company's expenditures grew 21.85 percent, and the Company's incentives grew 39.71 percent. CenterPoint's tracker balance was ($158,238) at the end of 2016; this compares with a high of $14,781,047 in 2013 and is lower than the previous low of $115,423 in 2014. In the last seven years, CenterPoint's carrying charges have ranged from $616,967 to ($154,344), but have been reduced the last two years as the Commission, in its December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges* in Docket No. G-011/M-14-369,changed how the carrying charge was calculated by requiring the Company to apply its short-term cost of debt rate instead of its cost of capital.

[6] *Petition* page 8.

III. THE DEPARTMENT'S RECOMMENDATIONS

Based on the analysis provided above, the Department recommends that the Commission:

1) approve MERC's 2016 DSM financial incentive of $3,245,000 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;

2) approve MERC's 2016 CIP tracker account activities as summarized in Table 1 above;

3) approve the revised gas CCRA of $0.01024 per therm for all of MERC's Minnesota customer classes, to be effective January 1, 2018, or on the first billing cycle in the next full month after Commission approval, whichever is later. The approval is conditioned on the Company submitting, within 10 days of the issue date of the *Order* in the present docket, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations; and

4) require MERC to include the following bill message (with the appropriate date) following the date of the *Order* in the present docket, or January 1, 2018, whichever is later:

> Effective [insert date], a revised CCRA (conservation cost recovery adjustment) has been included on your bill. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses. Effective [insert date], the CCRA rate will be $0.01024 per therm.

Table 1: History of MERC's CIP Achievements, Expenditures, and Incentives

	2010	2011	2012	2013	2014	2015	2016[1]
DSM Financial Incentive	$2,322,658	$2,587,948	$2,729,531	$2,492,730	$2,093,158	$3,392,001	$3,245,000
Incentive as a % of CIP Expenditures	31%	33%	27%	29%	28%	38%	35%
Carrying Charges	$ 616,967	$ 592,929	$ 496,537	$ 424,887	($154,344)[2]	($51,228)	($45,726))
Carrying Charges as a % of CIP Expenditures	8%	8%	5%	5%	2%	0.6%	0.5%
Year-End Tracker Balances	$12,686,756	$10,086,519	$11,633,350	$14,781,047	$115,423	$1,269,151	($158,238)
CIP Expenditures (as reported in status report)	$7,549,257	$ 7,870,823	$ 9,951,018	$ 8,630,283	$7,360,832	$8,870,639	$9,198,728
Achieved Energy Savings (MCf)	449,441	457,747	534,596	424,827	369,068	493,382	472,000
Average Cost per Mcf Saved	$ 16.80	$ 17.19	$ 18.61	$ 20.31	$ 19.94	$17.98	$19.49

[1] The DSM financial incentive, CIP expenditures, and CIP tracker account balances for 2016 listed in Table 1 are proposed by MERC in the present docket.

[2] Parentheses indicate the Company owes ratepayers for previous over-recoveries.