MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	March 4, 2021		Agenda Item 2*
Company	Minnesota Energy Resources Corporation (MERC, Company)		
Docket No.	**G-011/M-20-332** **In the Matter of 2019 Annual Revenue Decoupling Evaluation Report and Revenue Decoupling Mechanism Adjustment Calculation**		
Issues	Should the Commission accept MERC's 2019 annual revenue decoupling report for the evaluation period ending on December 31, 2019 and approve MERC's revenue decoupling rate adjustments?		
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✓ **Relevant Documents**	**Date**
MERC – Revenue Decoupling Mechanism Adjustment Calculation	February 28,2020
MERC – 2019 Revenue Decoupling Report	May 8, 2020
Minnesota Department of Commerce - Comments	June 26, 2020
MERC - Reply Comments	July 10, 2020
MERC – Compliance Filing: Streamlined Annual Decoupling Evaluation Report	July 31, 2020

✓ **Relevant Documents** | **Date**

Relevant Documents	**Date**
MERC – Letter Clarifying Timelines	January 7, 2021

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I. Statement of the Issues

Should the Commission accept MERC's annual revenue decoupling report for the evaluation period ended December 31, 2019 and approve MERC's revenue decoupling rate adjustments?

II. Introduction

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

The Company and the Minnesota Department of Commerce, Division of Energy Resources ("Department") are in agreement on recommending that the Commission:

1. Approve MERC's 2019 Annual Decoupling Evaluation Report ("Evaluation" or "Report").

2. Approve MERC's 2019/2020 RDM Adjustment as proposed in the Company's 2019 RDM Adjustment Filing.

3. Approve MERC's proposal for reconciling the over/under recoveries for the Small Commercial and Industrial (SCI) customer class occurring during the years 2017 and 2018, with the exception MERC's associated deferred accounting request.

The Department has not commented on the following item proposed by MERC:

4. Approve MERC's request to extend the 2020 RDM factors through a "bridge period" of March 1, 2022 through May 31, 2022 to adjust for the changed timing required by the new streamlined Annual Decoupling Evaluation Report format.[1]

III. 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 a utility's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.

2. Achieve energy savings, and

[1] The matter of streamlining the Annual Decoupling Evaluation Report for all decoupled utilities will also be heard at this agenda meeting.

3. Not harm ratepayers.

B. MERC's 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 only. 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.[2]

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 seventh annual Evaluation and it encompasses the period of January 1 to December 31, 2019.

IV. Parties Comments

A. MERC 2019 Revenue Decoupling Adjustment Calculation

On February 28, 2020 MERC filed its Revenue Decoupling Mechanism (RDM) adjustment calculations for the adjustment effective March 1, 2020. Table 1, below, shows the calculation of the Residential and Small Commercial and Industrial RDM and the remaining 2017 regulatory assets/liabilities 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, 2020[3]

	Residential	Small C&I
2019 RDM Surcharge/(Refund)	($3,994,174.37)	Not Applicable
2017 Reconciliation Adjustment	($399,861.47)	$40,447.21
Total Surcharge/(Refund)	($4,394,035.84)	$40,447.21
Forecasted Sales (therms)	183,783,848	9,089,669
Surcharge/(Refund) Rate (per therm)	($0.02391)	$0.00445

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

[2] Commission Order, February 6, 2019, Docket No. G-011/GR-10-977; G-011/GR-15-736.

[3] 2020 Revenue Decoupling Mechanism Adjustment Calculation Docket No. G-011/M-20-332, Table 1, page 3, February 28, 2020.

Table 2: Estimated Rate and Bill Impacts from Proposed RDM Factors Effective March1, 2019[4]

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

MERC noted that, consistent with the Commission's December 5, 2018, Order Responding to Changes in Federal Tax Law,[5] the 2018 impacts of the TCJA were incorporated into the Company's RDM adjustment calculations.

B. MERC 2019 Revenue Decoupling Evaluation Report

On May 8, 2020, MERC filed its full 2019 Annual Decoupling Evaluation Report (Evaluation Report) for the period from January 1, 2019 to December 31, 2019. The Evaluation provides 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.

As can be seen in Table 1 above, the 2019 RDM adjustment calculation resulted in refunds totaling $3,994,174.37 to the Residential class and, starting this year, no RDM applicable to the Small commercial and Industrial class. The Residential class amount was not impacted by the symmetrical 10% cap on RDM adjustments. When the 2017 Reconciliation Adjustment is included – ($399,861.47) for Residential and $40,447.21 for Small C&I – then the total amounts become a Residential refund totaling $4,394,035.84 and a Small C&I surcharge totaling $40,447.21. When divided by forecast sales, the result is a refund rate per therm of ($0.02391) for Residential customers and a surcharge rate per therm of $0.00445 for Small C&I customers.

C. Minnesota Department of Commerce Comments

On June 26, 2020 the Department filed comments on MERC's 2019 RDM Adjustment recommending that the Commission approve MERC's proposed revenue decoupling adjustments and accept the Company's revenue decoupling evaluation report. Additionally, the Department also recommended that the Commission approve MERC's Small Commercial and Industrial customer class reconciliation proposal, except for the associated deferred accounting request.

[4] Ibid, Table 2, page 3, February 28, 2020.

[5] Docket No. E,G-999/CI-17-895

1. 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. Ordering points 4 and 5 of the Commission's Order were as follows:

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 these points, MERC participated in a Department-led stakeholder group that resulted in DOC's July 1, 2020 proposed streamlined revenue decoupling evaluation filing.

2. MERC's Full RDM

The Department stated that the purpose of MERC's full RDM is to remove its throughput incentive to eliminate any disincentive for its customers to invest in energy savings. MERC is allowed to recover its authorized revenues for non-fuel costs, no matter the cause of any variation (weather, economics, etc.), up to a symmetrical cap of 10 percent.[6] The Company's RDM applied to both Residential and General Service Small Commercial and Industrial classes through 2018 but, starting on January 1, 2019, the RDM only applied to MERC's Residential customer class.

Each month MERC calculates the deferral per customer class (either surcharge or refund) and every 12 months, MERC accounts for the cumulative deferral for each class into rates for the next year by dividing the deferred amount by the forecast of sales for that customer class.

[6] 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's Commitment to Increased Energy Savings

The Department's 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.[7]

Table 3: Comparing MERC's Last Five Years of Total CIP Savings Post-Decoupling Implementation to Three Years of Total CIP Savings Pre-Decoupling[8]

	Year	First-Year Energy Savings	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%

The Department stated that, as shown in Table 3 above, 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. Further, the Department calculated 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,[9] the 2019 Dth savings are still 8 percent higher than the average pre-decoupling Dth savings.

[7] 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.

[8] Instant docket, Department Comments, June 6, 2020, Department Table 1, p. 6.

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

Table 4, below, shows MERC's first-year Dth savings for its decoupled customer classes.

Table 4: Comparing MERC's Last Five Years of Total CIP Savings Post-Decoupling Implementation to Three Years of Total CIP Savings Pre-Decoupling[10]

Year	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	13,253
2017	158,514	226,344	5,874
2018	181,707	317,388	4,725
2019	232,188	246,721	6,294
Post-Decoupling Average (2013-2019)	198,786	260,858	9,699

The Department said that MERC's average residential energy savings of 198,786 first-year Dth is five percent higher than the Company's pre-decoupling average savings of 189,703. MERC's 2019 residential Dth savings of 232,188 was 22 percent higher than the Company's average pre-decoupling residential energy savings of 189,703 first-year Dth.

[10] Instant docket, Department Comments, June 6, 2020, Department Table 2, p. 7.

Below, Table 5 compares MERC's lifetime energy savings by residential and customer classes and total classes (combined residential and customer classes.)

Table 5: Comparing MERC's Lifetime Savings Achievements For Post-Decoupling (2015-2019) to Pre-Decoupling (2010-2012)[11]

	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

The Department made the following point in comparing the average of the last five years of post-decoupling to the three years of 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

Also, when comparing only 2019 to the pre-decoupling average:

- 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.

The Department again stressed that:

> *. . . there are many components of Minnesota's regulatory structure that incent utility investment in encouraging its customers to invest in energy conservation. 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*

[11] Instant docket, Department Comments, June 6, 2020, Department Table 3, p. 8.

indicates that the Company's energy savings are higher post-revenue decoupling than pre-revenue decoupling.[12]

4. MERC's Historical Surcharges/(Refunds)

Table 6, below, shows 2013-2019 surcharges/(refunds) for its decoupled customer classes. Also note that, as of January 1, 2019, the Small Customer and Industrial (Small C&I) class in no longer decoupled.

Table 6: Historical Surcharges/(Refunds)[13]

	Residential Surcharges/(Refunds)	Small C&I Surcharges/(Refunds)	Total RDM Surcharged/(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)

The Department noted that, over the 7 years of MERC's RDM, the residential class has received net refunds of $3.2 million while the Small C&I class has been surcharged $164 thousand. Overall, MERC's customers have received net refunds of approximately $3 million.

5. MERC's RDM Calculations

See Tables 1 and 2 in Section IV. A. MERC 2019 Revenue Decoupling Adjustment Calculation, above, for the Company's RDM calculations and bill impacts.

The Department stated that MERC based its calculations on the Company's final distribution rates approved in its last rate case.[14] DOC also noted that the distribution rates incorporate the 2018 impacts of the Tax Cuts and Job Act (TCJA), consistent with Commission's 2018 Order.[15]

[12] Ibid, p. 8-9.

[13] Ibid, Department Table 4, p.9.

[14] Docket No. G-011/GR-17-563.

[15] Docket No. E,G-999/CI-17-895, *Order Responding to Changes in Federal Tax Law*, December 5, 2018, Order Point 12. A. 2.

The Department concluded that MERC correctly calculated the surcharges/(refunds) and recommended that the Commission approve the residential class refund of $0.02391 per therm and the Small C&I class surcharge of $0.00445 per therm.

6. Reconciliation Adjustment for the Small C&I Class

The Commission's December 5, 2018 order in MERC's most recent RDM docket[16] required the Company to make a compliance filing proposing a resolution for the remaining reconciliation adjustment for the Small C&I class and MERC submitted the filing on January 15, 2020.

The Department said that although the 2019/2020 RDM adjustment for the Small C&I class was in place through February 28, 2020 (reflecting 2018 sales), future reconciliation adjustments for calendar years 2017 and 2018 are needed to account for differences between forecast and actual sales.

To close-out the future reconciliation adjustments, MERC proposed the following:

- 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.

MERC stated the following:

> *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 said that it supports MERC's proposed adjustment methodology, except for the Company's deferred accounting request, discussed below.

[16] Docket No. G-011/M-19-201.

a. Deferred Accounting

The Department pointed out that:

> *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 stated that:

> *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.*

The Department explained that, while a statutory or rule-based test does not exist, the Commission, in a previous order[17] has previously described certain criteria for appropriate deferred accounting treatment, stating that:

> *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.*

[17] Docket No. G-002/M-17-894, Commission Order, October 17, 2018,

The Department said that it supports deferred accounting requests when a utility can demonstrate that it has met the following criteria applied by the Commission in prior proceedings:

1. Costs are unusual, unforeseeable, and/or extraordinary;
2. financially significant in amount;
3. related to utility operations; and,
4. likely to provide ratepayer benefit

The Department's conclusions under those criteria:

i. Costs are unusual, unforeseeable, and/or extraordinary

The Department concluded that, although the costs could be labeled as unusual and extraordinary since they arose from the discontinuation of a decoupled class, they were not unforeseeable as of the Commission's December 26, 2018 Order.

ii. Financially significant in amount

The Department pointed out that at the end of MERC's last RDM period (2018) only $40,447 on under-collected revenues remained for the Small C&I class. Given that MERC will continue to collect through February 28, 2022 then the remaining under-collected revenues is expected to be miniscule. Therefore, the Department concluded that they are not financially significant.

iii. Related to utility operations

The Department stated that utility operations are not impacted by MERC's RDM, which is merely a financial mechanism, intended only to modify any Company disincentive to encourage customer investment in energy savings. The Department concluded that small over of under recoveries weren't likely to affect the overall throughput incentives.

iv. Likely to provide ratepayer benefit

The Department concluded that the amounts at issue are a small subset of ratepayer costs and benefit and, therefore, the denial of the deferred accounting impact would not impact the overall RDM purpose.

In its final analysis, the Department recommended that, at the end of MERC's application of the RDM adjustment process for the SCI class in February 28, 2022, the Company no longer track and defer any remaining SCI class over or under recoveries.

7. Department Recommendations

The Department recommended 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.
- The Commission accept MERC's 2019 Annual Decoupling Evaluation Report.

- The Commission approve MERC's proposal for reconciling the over/under recoveries for the SCI customer class occurring during the 2017 and 2018, to be included in the RDM adjustments for 2020/2021 and 2021/2022.

- The Commission deny MERC's request for deferred accounting for any residual SCI customer amounts.

D. MERC Reply Comments

On July 10, 2020, MERC submitted reply comments thanking the Department for its thorough review and supporting the Department's recommendations in its June 26, 2020 Comments.

With respect to MERC's proposal for deferred accounting treatment of the residual RDM over or under recoveries for the SC&I customer class:

> *MERC agrees with the Department that any residual amounts are likely to be small and comprise a small subset of ratepayer costs and benefits of MERC's RDM. Given this, MERC does not object to the Department's recommendation that, at the conclusion of MERC's application of the RDM adjustment for the SC&I class on February 28, 2022 (the 2018 Reconciliation Adjustment), MERC no longer track and defer any remaining over- or under- recovery amounts for the SC&I customer class.*

Finally, with respect to Order Points 4 and 5[18] of the Commission's December 5, 2019 in Docket No. G-011/M-19-201:

> *On July 1, 2020, the Department filed Comments regarding the proposed streamlined revenue decoupling evaluation report in that docket. As required by the Commission in Order Point 5 of its December 5, 2019 Order in Docket No. G011/M-19-201, MERC will submit a compliance filing on or before July 31, 2020 detailing the proposed changes to the annual evaluation report and responding to the Department's July 1, 2020 Comments.*

E. MERC Streamlined Annual Evaluation Report Compliance Filing

On July 31, 2020, MERC filed the above-captioned document and, as discussed below, is in agreement with the Department in its recommendation that the Commission approve the proposed streamlined Annual Decoupling Evaluation Report in the instant docket. Specifically, MERC is in agreement with the following:

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[18] "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."

A. <u>Filing Date:</u> MERC agrees to the proposal of submitting its streamlined Annual Decoupling Evaluation Report on June 1 of each year, starting on June 1, 2021. This first streamlined filing would include MERC's 2020 Revenue Decoupling Mechanism ("RDM") surcharge or credit factors, which would be effective from June 1, 2021 through May 31, 2022.

B. <u>Data and Narrative Regarding Energy Savings Achievements:</u> MERC agrees to the proposal of submitting the following information as part of the streamlined Annual Decoupling Evaluation Report:

1. Brief overview of the Conservation Incentive Program ("CIP") portfolio. Narrative discussing changes made in the most recent triennial CIP, including any changes in marketing.

2. Annual first-year energy savings including a comparison of the utility's annual first-year energy savings of the past 5 years to the utility's average first-year energy savings for the three years preceding each utility's implementation of its RDM. Information will be presented on a total CIP basis and on a rate class basis, if possible, in a way that facilitates evaluation of the change in energy savings by customers in the rate classes that have decoupled rates.

3. Lifetime energy savings including a presentation of the utility's lifetime energy savings for each of the past 5 years. Information will be presented on a total CIP basis and on a rate class basis, if possible, in a way that facilitates evaluation of the change in energy savings by customers in the rate classes that have decoupled rates.

4. Annual first-year energy savings for each year (beginning with three years before RDM implementation and ending with the year prior to RDM evaluation) presented as a percent of weather-normalized retail sales from non-CIP-out customers as specified in Minn. Stat. 216B.241 Subd. 1c. (b)

5. Comparison of the relevant average gas use per customer for each decoupled customer class for the three years before RDM implementation and the years after.

C. <u>Data and Narrative Regarding RDM Deferral and Billing Adjustment Factors:</u> MERC agrees to the proposal of submitting the following information as part of the streamlined Annual Decoupling Evaluation Report:

1. Brief explanation of how RDM overcollection/under collection and RDM rates are calculated.

2. Annual amount of revenue over/under collected by customer class through the RDM during the evaluation period, before and after any adjustments to reflect the cap. Supporting detail would include monthly sales and number of customers and MERC would include a description of how heating degree days ("HDD") varied from those assumed in the last rate case.

> *3. Description of whether the approved cap has come into play for any decoupled class since RDM was implemented. The discussion would include identification of the time period(s), the customer class(es) affected, and what the RDM adjustment would have been without the cap.*
>
> *4. Description of any changes to methods or calculations of the decoupling adjustment over the course of the pilot including any such changes, their purpose, and impact on the deferral.*
>
> *5. By rate class – the per therm rate charged, the overall rate surcharge/refund, the annual gas use per customer, and the estimated bill impact on average customers. If there is a wide variation of consumption in the customer class, MERC may provide estimated bill impacts on customers with a range of consumption.*
>
> *6. A discussion of whether MERC filed any rate cases during the RDM implementation period, and when. To the extent new base rates took effect during the pilot period, indicate when those new rates take effect and what impact the revised rates had on the methods and mechanics of the RDM over/under collection calculations.*
>
> *7. A table showing the historical net surcharges/refunds for each decoupled class and for the utility as a whole.*
>
> *8. Tables showing the calculation of all past RDM factors (including over/under collections of revenues and forecasted sales).*

Additionally:

> *MERC notes that the RDM surcharge or credit factor is not currently displayed in its tariff, therefore updated tariff sheets would not be required in MERC's Annual Decoupling Evaluation Report.*[19] *Additionally, MERC agrees with the Department in that the above proposal lists the minimum amount of narrative and data that is to be included in the Annual Decoupling Evaluation Report, and does not preclude MERC from including additional information that it believes to be beneficial or warranted as part of the annual filing.*

Regarding timing, MERC noted that its 2019 RDM factors in this docket are in effect for the 12-months of March 1, 2020 through February 28, 2021. Thus, with a proposed filing date of June 1, 2021 for the streamlined report, there will need to be a three month "bridge period" between the end of MERC's 2019 RDM factors and the start of the 2020 RDM factors. MERC proposed that the Commission allow the Company to extend the currently authorized 2019 RDM factors for an addition three month, through May 31, 2021 to cover the "Bridge period".

[19] MERC noted that at page 8 of the Department's Letter, filed in Docket No. G-011/M-20-332 on July 1, 2020, the Department's proposal includes Item #9: If the IOU includes the RDM adjustment per unit of energy in its tariff/rider, include an updated RDM Tariff Sheet in redline and final format.

F. MERC Clarification Regarding Timelines for Proposed Streamlined Annual Evaluation Report

On January 7, 2021, MERC filed a letter clarifying its proposed timeline based on the proposed Streamlined Annual Decoupling Evaluation Report and Revenue Decoupling Mechanism Adjustment Calculations.

The Company noted that it had recently been made aware that a Commission decision on the proposed streamlined reporting process may not occur until March or April of 2021.

MERC pointed out that, without a Commission order approving extension of current RDM rates before February 28, 2021, the Company is required to adhere to its current tariffs and Commission Orders; to file its calculation of the 2020 RDM factors on March 1, 2021. Those factors would be for the 12-month period from March 1, 2021 through February 28, 2022. MERC still intends to file the streamlined evaluation report on June 1, 2021.

MERC requests Commission approval to extend the 2020 RDM factors through the "bridge period" of March 1, 2022 through May 31, 2022, with a streamlined Annual Decoupling Evaluation Report and RDM factors to be filed June 1, 2022 for the period of June 1, 2022 through May 31, 2023.

V. Staff Comments

Staff appreciates the Departments rigorous and thorough analysis of MERC's RDM filings, particularly its analysis of MERC's commitment to energy savings. Staff concurs with the Department's recommendations and notes MERC's agreement with same, including the Company's withdrawal of its request for deferred accounting on what should be small reconciling amounts resulting from the withdrawal of the Small C&I customer class from the RDM. Staff recommends that the Commission approve MERC's proposal to extend the 2020 RDM factors through the three month "bridge period" to adapt to the timing of the streamlined RDM reporting process.

VI. Decision Alternatives

Revenue Decoupling Mechanism Adjustment

1. Approve MERC's proposed 2019/2020 RDM Adjustments as stated in the Company's February 28, 2020 filing.[20] (DOC, MERC)

2. Accept MERC's 2019 Annual Decoupling Evaluation Report. (DOC, MERC)

Reconciling the Close-Out of the SCI Customer Class

3. Approve MERC's proposal for reconciling the over/under recoveries for the SCI customer class occurring the years 2017 and 2018, to be included in the RDM adjustments for 2020/2021 and 2021/2022. (DOC, MERC)

4. Deny MERC's request for deferred accounting for any remaining residual amounts. (DOC, MERC agreed)

Streamlined Annual Evaluation Report

5. Accept MERC's Streamlined Annual Evaluation Report Compliance Filing of July 31, 2020. (MERC)

Bridge Period

6. Approve MERC's request to extend the 2020 RDM factors through the "bridge period" of March 1, 2022 through May 31, 2022, with a streamlined Annual Decoupling Evaluation Report and RDM factors to be filed June 1, 2022 for the period of June 1, 2022 through May 31, 2023. (MERC)

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[20] $0.02391 refund per therm for the Residential customer class and $0.00445 surcharge per them for the Small C&I customer class.