

June 11, 2018

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 Nos. G011/GR-10-977, G011/GR-15-736

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matters for Minnesota Energy Resource Corporation (MERC, the Company):

2017 Revenue Decoupling Mechanism Adjustment Calculation

2017 Annual Decoupling Evaluation Report.

The adjustment calculation was filed on March 1, 2018 and the decoupling evaluation report was filed on May 1, 2018 by:

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068

Based on our review, the Department recommends **approval** of MERC's decoupling calculations.

The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/lt
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket Nos. G011/GR-10-977, G011/GR-15-736

I. BACKGROUND

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 Resource Corporation's (MERC) 2010 General Rate Case.

As part of the *2012 Rate Case Order*, the Commission authorized MERC to conduct a full decoupling program on a pilot basis for three years (a/k/a Revenue Decoupling Mechanism or RDM) 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. required MERC to file annual reports with the Commission that specify the RDM adjustment to be applied to each rate class for the billing period and demonstrate annual progress toward achieving the 1.5 percent energy efficiency goal set forth in Minnesota Statutes § 216B.241, and an evaluation plan similar to the one used in CenterPoint Energy's decoupling pilot.

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, 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 October 31, 2016 Order stated:

- c. 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.

- d. 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 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 that its full RDM would be extended 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, 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.

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).

II. DEPARTMENT ANALYSIS

The issue of whether MERC's RDM should be extended to other customer classes is being debated in MERC's present rate case, Docket No. G011/GR-17-563. On pages 17-18 of his Direct Testimony, Mr. Davis stated:

As Department Witness Mr. Sachin Shah discusses in his Direct Testimony, the Department discovered late in the discovery process that a significant portion of MERC's C&I customers are misclassified. For example, based on the Department's review of data provided by MERC, it appears that approximately 24 percent of the Company's LC&I class customers should have been classified as SC&I customers. DOC Ex. ____ (Shah Direct). Until this misclassification is rectified, the Department concludes that the appropriate revenue-per-customer (RPC) baseline needed to calculate deferrals for MERC's C&I customers cannot be calculated. DOC Ex. ____ (Shah Direct). Consequently, I recommend that until the Company's next rate case, MERC's RDM should be restricted to its residential customer class.

Given that this issue is being discussed in the rate case, the Department does not discuss this issue in these comments. Instead, the Department:

- Compares MERC’s post-decoupling energy savings to pre-decoupling energy savings for the residential customer class; and
- Evaluates the Company’s RDM deferral calculations.

A. MERC’S POST-DECOUPLING CIP PERFORMANCE

Table 1 below compares MERC’s pre-decoupling (2010-2012) energy savings with the Company’s post-decoupling (2013-2017) energy savings.¹

Table 1: MERC’s Total CIP Savings as a Percent of Non-CIP-Exempt Weather-Normalized Retail Sales

	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)	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 annual energy savings of 433,215 first-year Dth are approximately the same as the pre-decoupling weighted average annual energy savings of 434,169.

¹ 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.

In addition, MERC compared the list of Small Commercial and Industrial (C&I) customers covered by the RDM to all C&I activity in its CIP program and identified energy savings from the Small C&I customer class. The Small C&I customer class energy savings has been listed separately for 2016 and 2017 in Table 2 below.²

Table 2: Comparing Pre-Decoupling to Post-Decoupling Energy Savings, Focusing on Decoupled Customer Classes
Dth

	Total Residential ³	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
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 2010-2012	193,649	225,303	9,699

² See also Table B1 of MERC’s 2016 Evaluation Report.

³ Residential first-year energy savings were modified to reflect the Department’s Average Savings methodology for measuring behavioral project energy savings.

MERC's 2017 residential first-year energy savings were only 84 percent of the Company's pre-decoupling first-year energy savings. However, since implementing its RDM, MERC's first-year energy savings for its residential customers have averaged 193,649 Dth, two percent higher than before the RDM was implemented.

Because MERC did not start monitoring Small C&I energy savings until 2016, no comparison between pre- and post-decoupling implementation can be made. An evaluation of the data provided in Table 2 above indicates that the Company's energy savings for the Small C&I customer class fell 57 percent between 2016 and 2017. Although the Small C&I customer class energy savings appear low, the Department calculates that MERC's 2016 and 2017 first-year energy savings were 1.28 percent of actual 2016 and 2017 retail sales to the customer class.

B. MERC'S RDM CALCULATIONS

In its March 1, 2018 RDM Adjustment filing, MERC proposed the following surcharges/(refunds) for the March 1, 2018 to February 28, 2019 decoupling deferral period.

Table 3: MERC's 2018/2019 Proposed Revenue Decoupling Adjustment

	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

MERC calculated surcharges shown in Table 3 by dividing the net of the 2017 RDM deferrals and the 2015 regulatory assets (the amount of under collection from 2015 that still wasn't collected as of December 31, 2017) by the forecasted sales approved for the period in Docket No. G011/GR-15-736.

The Department concludes that MERC correctly calculated the surcharges for its decoupled customer classes and recommends that the Commission approve a residential surcharge of \$0.01643 per therm for the Company's Residential customer class and \$0.01774 per therm for its Small C&I customer class.

III. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission approve MERC's proposed RDM 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. The Department also recommends that the Commission approve MERC's 2017 Annual Decoupling Evaluation Report.

/lt

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/GR-10-977 and G011/GR-15-736

Dated this 11th day of June 2018

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_10-977_Official
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_10-977_Official
Michael	Auger	N/A	U S Energy Services, Inc.	Suite 1200 605 Highway 169 N Minneapolis, MN 554416531	Paper Service	No	OFF_SL_10-977_Official
James J.	Bertrand	james.bertrand@stinson.com	Stinson Leonard Street LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Kathleen M.	Brennan	kmb@mcgrannshea.com	McGrann Shea Carnival, Straughn & Lamb, Chartered	800 Nicollet Mall Ste 2600 Minneapolis, MN 554027035	Electronic Service	No	OFF_SL_10-977_Official
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_10-977_Official
Seth	DeMerritt	ssdemerritt@integrysgroup.com	MERC (Holding)	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_10-977_Official
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_10-977_Official
Richard	Eichstadt	richard.eichstadt@poet.com	Poet Biorefining - Preston	701 Industrial Dr N PO Box 440 Preston, MN 55965	Electronic Service	No	OFF_SL_10-977_Official
Darcy	Fabrizius	Darcy.fabrizius@constellation.com	Constellation Energy	N21 W23340 Ridgeview Pkw Waukesha, WI 53188	Electronic Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_10-977_Official
David P.	Geschwind	dp.geschwind@smmpa.org	Southern Minnesota Municipal Power Agency	500 First Avenue SW Rochester, MN 55902	Electronic Service	No	OFF_SL_10-977_Official
Kimberly	Hellwig	kimberly.hellwig@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Annete	Henkel	mui@mnuutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St. Paul, MN 55101	Electronic Service	No	OFF_SL_10-977_Official
Eric	Johnson	N/A	Ever-Green Energy	1350 Landmark Towers 345 St. Peter Street St. Paul, MN 55102	Paper Service	No	OFF_SL_10-977_Official
David G.	Kult	dgkult@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2685 145th St. NW Rosemount, MN 55068	Electronic Service	No	OFF_SL_10-977_Official
David	Kyto	djkyto@integrysgroup.com	Integrays Business Support	700 North Adams PO Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_10-977_Official
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2685 145th St W Rosemount, MN 55068	Electronic Service	No	OFF_SL_10-977_Official
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Loeffler	mike.loeffler@nngco.com	Northern Natural Gas Co.	CORP HQ, 714 1111 So. 103rd Street Omaha, NE 681241000	Electronic Service	No	OFF_SL_10-977_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_10-977_Official
Thomas R.	Maus		Energy Associates, Inc.	254 Highway 33 North Cloquet, MN 557209403	Paper Service	No	OFF_SL_10-977_Official
Mike	McGlone	N/A	Heat Share - Salvation Army	2445 Prior Avenue Roseville, MN 55113	Paper Service	No	OFF_SL_10-977_Official
Brian	Meloy	brian.meloy@stinson.com	Stinson, Leonard, Street LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Jeff	Sande		Bemidji State University	Box 1 Deputy Hall 1500 Birchmont Drive Bemidji, MN 566012699	Paper Service	No	OFF_SL_10-977_Official
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	7400 Lyndale Ave S Ste 190 Richfield, MN 55423	Electronic Service	No	OFF_SL_10-977_Official
Byron E.	Starns	byron.starns@stinson.com	Stinson Leonard Street LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_10-977_Official
Casey	Whelan	cwhelan@usenergyservices.com	U.S. Energy Services, Inc.	605 Highway 169 N Ste 1200 Plymouth, MN 55441	Electronic Service	No	OFF_SL_10-977_Official
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Elizabeth	Brama	ebrama@briggs.com	Briggs and Morgan	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-736_Official CC List
Jeanne	Cochran	Jeanne.Cochran@state.mn.us	Office of Administrative Hearings	P.O. Box 64620 St. Paul, MN 55164-0620	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Darcy	Fabrizius	Darcy.fabrizius@constellation.com	Constellation Energy	N21 W23340 Ridgeview Pkwy Waukesha, WI 53188	Electronic Service	No	OFF_SL_15-736_Official CC List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Kimberly	Hellwig	kimberly.hellwig@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-736_Official CC List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2685 145th St W Rosemount, MN 55068	Electronic Service	No	OFF_SL_15-736_Official CC List
Peter	Madsen	peter.madsen@ag.state.mn.us	Office of the Attorney General-DOC	Bremer Tower, Suite 1800 445 Minnesota Street St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Joseph	Meyer	joseph.meyer@ag.state.mn.us	Office of the Attorney General-RUD	Bremer Tower, Suite 1400 445 Minnesota Street St Paul, MN 55101-2131	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	No	OFF_SL_15-736_Official CC List
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	7400 Lyndale Ave S Ste 190 Richfield, MN 55423	Electronic Service	Yes	OFF_SL_15-736_Official CC List
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-736_Official CC List
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-736_Official CC List