Minnesota Department of Commerce
85 7th Place East, Suite 500
Saint Paul, Minnesota 55101-2198
mn.gov/commerce
651.539.1500 FAX: 651.539.1547
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September 9, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G007,G011/GR-10-977

Dear Dr. Haar:

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

> Minnesota Energy Resource Corporation's (MERC, Company) Decoupling Evaluation Report for Calendar Year 2013 regarding the Company's Revenue Decoupling Program.

In the attached Comments, the Department responds to the Company's Reply Comments. The Department continues to recommend that the Commission **allow MERC to continue assessing its decoupling adjustment and approve the Company's annual decoupling adjustment**.

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

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Rates Analyst
651-539-1822

CTD/lt
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY SERVICES

DOCKET NO. G007,G011/GR-10-977

I. BACKGROUND

On July 13, 2012, the Minnesota Public Utilities Commission (the Commission) issued its *Findings of Fact, Conclusions and Order (Rate Case Order)* in Minnesota Energy Resource Corporation's (MERC) 2010 General Rate Case.

As part of this *Rate Case Order*, the Commission authorized MERC to conduct a pilot full decoupling program (aka Revenue Decoupling Mechanism or RDM) under Minnesota Statute §216B.2412.1

On March 27, 2014, MERC submitted its *Compliance Filing Revenue Decoupling Evaluation Report for 2013 (2013 Decoupling Evaluation).*

On May 27, 2014, the Department made the following recommendations:

> The Department recommends that the Commission allow MERC to continue to assess its decoupling adjustment and approve the Company's annual decoupling adjustment.
>
> In addition, the Department recommends that MERC update in Reply Comments Attachment 3, page 2, to remove reported negative sales and present the figures in a manner consistent with how sales were determined in the Company's pending general rate case.

> The Department requests that, by June 30, 2014, MERC provide the following information:
>
> For each of the five years 2009 to 2013, please estimate the revenues that would have been collected for each of MERC's rate customer classes, under the assumption of:
>
> a. No decoupling;
> b. Xcel's proposed partial revenue per customer decoupling mechanism; and
> c. Full decoupling.
>
> Please show the data assuming that the decoupling rate adjustment is implemented on a monthly and annual basis, and estimate the surcharge or deferral that would have been experienced by a customer using the average amount of natural gas for each customer class, a low amount and a high amount.
>
> Finally, the Department recommends that the Commission require MERC to provide, in its next annual decoupling evaluation report, an estimate of the revenues that would have been collected from all of its customer classes in 2014 assuming:
>
> a. No decoupling;
> b. Xcel's proposed partial revenue per customer decoupling mechanism; and
> c. Full decoupling.
>
> This data should assume that the decoupling rate adjustment is implemented on a monthly and annual basis, and estimate the surcharge or deferral that would have been experienced by a customer using the average amount of natural gas for each customer class, a low amount and a high amount.

On June 6, 2014, MERC submitted reply comments and on June 30, 2014, the Company provided a spreadsheet providing an estimate of revenues that would have been collected for each year 2009-2013 for each of MERC's rate customer classes under the assumption of full decoupling, partial decoupling, and no decoupling.

The Department provides below additional information regarding MERC's June 6, 2014 and June 30, 2014 filings.

II. DEPARTMENT ANALYSIS

A. MERC'S REVENUE DECOUPLING SCENARIO ANALYSIS

The Department used the data provided by MERC on June 30, 2014 to analyze the different levels of revenues that the Company would have collected from each of its customer classes under full or partial decoupling as compared to traditional rate regulation. The analysis provided here covers five years, ranging from 2009-2013 and thus covers a variety of economic conditions and weather conditions, both of which impact sales. As the Commission evaluates various decoupling pilot projects, the Department will continue to aggregate information so that all parties can use it to make recommendations to the Commission. The Department notes that MERC's data covers 2013, which includes part, but not all, of the cold winter of 2013-2014. MERC's 2014 Decoupling Evaluation, due in 2015, will reflect the rest of the very cold 2013-2014 winter.

Attachment A provides a summary of how revenues that MERC would have collected under full and partial decoupling compare to revenues that would have been collected under traditional rate regulation. The analysis was for years 2009-2013. Table 1 below shows the differences for the combination of 2009-2013. A positive number means ratepayers paid more than they would have under traditional regulation.

Table 1: Comparing Full and Partial Decoupling with Traditional Rate Regulation for 2009-2013

		2009-2013
Residential		
	Full minus Traditional	$3,387,684
	Partial minus Traditional	$1,963,736
Small C&I		
	Full minus Traditional	$18,426
	Partial minus Traditional	$67,956
Large C&I		
	Full minus Traditional	($2,452,106)
	Partial minus Traditional	($4,952,627)
Small Volume Interruptible & Joint		
	Full minus Traditional	($345,497)
Large Volume Interruptible & Joint		
	Full minus Traditional	$11,083
Small Volume Transport		
	Full minus Traditional	$93,471
Large Volume Transport		
	Full minus Traditional	$426,703
Super Large Volume Transport		
	Full minus Traditional	($310,019)

1. Residential Customers

Table 1 indicates that for 2009-2013, MERC's residential customers paid significantly higher revenues under full decoupling ($3.39 million) compared to traditional rate regulation and would have paid higher revenues under partial decoupling ($1.97 million) compared to traditional rate regulation.[1] Attachment 1 shows a breakdown of the revenues by year. For the period 2009-2012, residential customers paid significantly higher revenues under full decoupling ($5.5 million) rather than traditional ratemaking, but would have refunded money during 2013, due to the very cold 2013-2014 winter. Under partial decoupling, residential customers would have paid higher revenues every year, although a significantly lesser amount than under full decoupling, and the surcharges for 2011-2013 would have been minimal.

2. Small C&I

Table 1 indicates that for 2009-2013, both partial and full decoupling would have had minimal impacts. A review of Attachment 1 indicates small C&I customers would have received refunds in both 2009 and 2013, and paid surcharges for 2010-2012. (Note that partial decoupling is not shown for this and other interruptible and large classes since weather has a minimal impact on such classes.)

3. Large C&I

Table 1 indicates that MERC's large C&I customer class (not currently included under MERC's decoupling pilot program) would have received large refunds under full and partial decoupling. The refunds would have occurred every year, except for 2012 under full decoupling.

[1] The following hypothetical example illustrates how a utility's total collection of money under traditional ratemaking, partial decoupling and full decoupling when sales are lower in the year following a rate case, and half of the decrease is due to unusually warm weather.

	Annual Revenue Collected	*Traditional Ratemaking*	*Partial Decoupling*	*Full Decoupling*
a	Rate Case	$1,000,000	$1,000,000	$1,000,000
b	Year 1 (Sales < RC)	$900,000	$900,000	$900,000
c	Year 2 (Sales = RC)	$1,000,000	$1,000,000	$1,000,000
d	Adjustment for Year 1	-	$50,000	$100,000
e	Total Recovery, Year 2	$1,000,000	$1,050,000	$1,100,000
	Total Recovery, Years 1 and 2 (b+e)	$1,900,000	$1,950,000	$2,000,000

4. All other customer classes

Table 1 indicates that for 2009-2013, full decoupling would have resulted in lower revenues paid by the Small Volume Interruptible and Super Large Volume Transport customer classes, while the other customer classes would have paid more in revenues.

B. UNBILLED SALES

In its *Reply Comments*, the Company responded to the Department's request for a revised Attachment 3, Page 2, which corrected for the negative sales values reported in this attachment. The Company stated that a revised attachment would be inappropriate because the negative values are the result of MERC's unbilled sales process. The Company stated that it has revised its billing process for purposes of the sales forecast, but MERC continues to account for billing adjustments in the month the adjustment was made in the general ledger rather than the months when the billing readings occurred. The Company further stated that to modify actual sales for the purposes of the decoupling mechanism to reflect anything other than the amounts actually booked would not accurately depict MERC's sales. The Company concluded that a revised Attachment 3, Page 2, would be inappropriate.

The Department reviewed the information filed in this docket, along with the sales data in the Company's 2010 rate case, and continues to be troubled by the Company's report of negative sales and has concerns regarding the Company's unbilled sales approach and the calculation of the decoupling adjustment rate. Since MERC's unbilled sales approach accounts for billing adjustments in the month they are identified rather than the month(s) when they occurred, sales that occurred in a previous period may be included in the calculation of the current period's decoupling adjustment and sales that occurred in the current period may be used to calculate a future period decoupling adjustment.

In the absence of a decoupling adjustment, this sales mis-match is not a concern. In the long term the total revenue is the same; it just happens that certain sales and revenues are logged in different periods. However, for this pilot program, if unbilled sales are not accurately identified for each decoupling period, the results of the decoupling pilot may be skewed especially unless it can be shown that MERC's unbilled sales are fully consistent over time.

In the Company's pending rate case, the Department and MERC have agreed that the base sales figure in the RDM calculation will be updated to reflect the new rate case sales forecast. As noted in the Company's *Reply Comments*, MERC's sales forecasting data is corrected such that billing errors, or adjustments, are accounted for in the month that they occurred and not when they were identified. The only justification that the Company provided in its *Reply Comments* for not adjusting its booked sales, even though negative sales were reported, is a statement that any adjusted sales would not accurately reflect the Company's sales. MERC did not provide specific evidence showing that adjusting sales in a manner similar to the sales forecast would be inappropriate or result in an incorrect application of the RDM adjustment. In addition, if adjusted sales are not an accurate reflection of MERC's sales, then it potentially raises the issue of whether the sales data used to set rates in a decoupling mechanism are reasonable.

As noted above, the unbilled sales issue under a pilot decoupling program can become a concern at the end of the review period. Since the decoupling pilot has not reached its conclusion, the unbilled sales concerns should not impact ratepayers or MERC at this time; as such, the Department does not believe that it is necessary for the Commission to hold up approval of the decoupling adjustment at this time. The Department will continue to work with MERC to reach an understanding on the most appropriate current sales number to estimate the RDM factor. In addition, the Department recommends that the Company provide additional discussion and evidence supporting its decision not to provide a revised attachment accounting for negative booked sales.

C. RECOMMENDATIONS

The Department recommends that the Commission allow MERC to continue to assess its decoupling adjustment and approve the Company's annual decoupling adjustment.

The Department will continue to work with MERC to reach an understanding on the most appropriate current sales number to estimate the RDM factor.

Finally, the Department recommends that the Commission require MERC to provide, in its next annual decoupling evaluation report, an estimate of the revenues that would have been collected from all of its customer classes in 2014 assuming:

a. No decoupling;
b. Partial revenue per customer decoupling; and
c. Full decoupling.

This data should assume that the decoupling rate adjustment is implemented on a monthly and annual basis, and estimate the surcharge or deferral that would have been experienced by a customer using the average amount of natural gas for each customer class, a low amount and a high amount.

/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
Supplemental Comments

Docket No. **G007,011/GR-10-977**

Dated this 9th day of September 2014

/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	Yes	OFF_SL_10-977_Official
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	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	mauger@usenergyservices.com	U S Energy Services, Inc.	Suite 1200 605 Highway 169 N Minneaplis, MN 554416531	Electronic Service	No	OFF_SL_10-977_Official
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200 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, Suite 2600 Minneapolis, MN 554027035	Electronic Service	No	OFF_SL_10-977_Official
Seth	DeMerritt	ssdemerritt@integrysgroup.com	Integrys Business Support	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	Yes	OFF_SL_10-977_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	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

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 500 Saint Paul, MN 551012198	Electronic Service	Yes	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
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Electronic Service	No	OFF_SL_10-977_Official
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_10-977_Official
Annete	Henkel	mui@mnutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St.Paul, MN 55101	Electronic Service	No	OFF_SL_10-977_Official
Eric	Johnson	Eric.Johnson@ever-greenenergy.com	Ever-Green Energy	1350 Landmark Towers 345 St. Peter Street St. Paul, MN 55102	Electronic Service	No	OFF_SL_10-977_Official
David G.	Kult	dgkult@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St. NW Rosemount, MN 55068	Electronic Service	Yes	OFF_SL_10-977_Official
David	Kyto	djkyto@integrysgroup.com	Integrys Business Support	700 North Adams PO Box 19001 Green Bay, WI 543079001	Electronic Service	Yes	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
John	Lindell	agorud.ecf@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

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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
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@stinsonleonard.com	Stinson,Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 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	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Paper Service	No	OFF_SL_10-977_Official
Andrew J.	Shea		McGrann Shea Anderson Carnival	Straughn & Lamb, Chartered 800 Nicollet Mall, Suite 2600 Minneapolis, MN 554027035	Paper Service	No	OFF_SL_10-977_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Steve	Sorenson	N/A	Constellation Energy	12120 Port Grace Blvd, Suite 200 La Vista, NE 68128	Paper Service	No	OFF_SL_10-977_Official
Byron E.	Starns	byron.starns@leonard.com	Leonard Street and Deinard	150 South 5th Street Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_10-977_Official
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
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW Rochester, MN 55901	Electronic Service	Yes	OFF_SL_10-977_Official
Casey	Whelan		U.S. Energy Services, Inc.	Suite 1200 605 Highway 169 North Minneapolis, MN 554416531	Paper Service	No	OFF_SL_10-977_Official
James P.	Zakoura	Jim@smizak-law.com	Smithyman & Zakoura Chartered	750 Commerce Plaza II 7400 West 110th Street Overland Park, KS 662102362	Paper Service	No	OFF_SL_10-977_Official