MINNESOTA DEPARTMENT OF COMMERCE

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July 26, 2016

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-16-385

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 2015 Conservation Improvement Program Tracker Account, DSM Financial Incentive, and Conservation Cost Recovery Adjustment Factor

The *Petition* was filed on May 2, 2016 by:

> Amber S. Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> 1995 Rahncliff Court, Suite 200
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> (651) 322-8965
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As discussed in greater detail in the attached Comments, the Department recommends that the Commission **approve the Company's *Petition***. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/ja
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/M-16-385

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 2, 2016, 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 2015 Conservation Improvement Program Tracker Account, DSM 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 2015 Demand Side Management (DSM) financial incentive of $3,392,001;
- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2015; 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 2015 CIP Status Report can be found in Docket No. G011/CIP-12-548.03.

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

A. COMMISSION'S 2015 ORDER

On August 31, 2015, the Commission issued its Order in Docket No. G011/M-15-420 approving MERC's 2014 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved MERC's 2014 DSM financial incentive of $2,093,158 to be included in the Company's CIP tracker account no sooner than the issue date of this Order.

2. Approved MERC's 2014 CIP tracker account activities as summarized in Tables 1, 2, and 3 of the Department's comments.

3. Approved the revised gas CCRA of $0.00865 per therm for all of MERC's Minnesota customer classes, to be effective January 1, 2016, 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.

4. Required MERC to include the following bill message (with the appropriate date) following the date of this Order, or January 1, 2016, 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 $0.00865 per therm.

5. Required MERC to correct its method for calculating carrying charges going forward.

On September 10, 2015, 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 September 22, 2015. MERC's approved rate went into effect January 16, 2016.

B. 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 discussion 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 2015 DSM financial incentive;
- in Section III.B, MERC's proposed 2015 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 2009 through 2015.

A. MERC'S PROPOSED 2015 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.

With respect to net benefits, MERC provided in its *Petition* the benefit/cost results of the revenue requirements test associated with the Company's 2015 CIP. According to the Company, MERC's 2015 CIP activities resulted in an estimated $26,416,176 of net benefits before the requested incentive.[1] MERC also stated that its CIP activities achieved energy savings in 2015 of 493,382 dekatherms (Dth) of natural gas. Based on the terms and conditions of its approved DSM incentive plan, MERC requested approval of a 2015 financial incentive of $3,392,001.

2. The Department's Review of MERC's Proposed 2015 DSM Financial Incentive

The Department's CIP Engineering Staff review of the Company's claimed demand and energy savings that underpin MERC's proposed 2015 DSM financial incentive is on-going. In all likelihood, it will not be completed before the fall of 2016. This lag between the Company's request for recovery of the incentive and completion of the Department CIP Engineering Staff review is a recurring phenomenon.

As was done last year, the Department's analysis assumes that MERC's claimed 2015 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 2016 filing, which will be made by May 1, 2017.

MERC's reported energy savings level is 493,382 Mcf in the Company's 2015 *Petition,* and so the Department used this figure in reviewing this docket.

The Department notes that 493,382 Dth of energy savings equates to 1.143 percent of the Company's reported average non-CIP-exempt retail sales of 43,175,948 Dth.[2] MERC indicated that it receives approximately 1.36871 percent of the net benefits created by its 2015 CIP investments for every 0.1 percent of sales saved above 0.2.[3] This results in a financial incentive of 12.90320% of net benefits achieved, for a total incentive of $3,408,532. However, this incentive yields a cost per Mcf savings of $6.909/Mcf, violating

[1] *Petition*, Attachment B, Page 6. The full calculations of net benefits can be found along with the Company's CIP Status Report in Docket No. G011/CIP-12-548.03.
[2] The Company's originally filed retail sales numbers did not match those originally approved by the Department in Docket No. G011/CIP-16-109. In response to Department inquiries, the Company provided the updated, approved figures. This did not affect the Company's average non-CIP-exempt retail sales figure.
[3] *Petition*, Attachment F.

the approved $6.875/Mcf saved cap. Thus, the Company has proposed a financial incentive of $3,392,001, which meets both the percentage of net benefits achieved cap and the $/Mcf savings cap. This figure equates to 12.84 percent of net benefits achieved.

The Department verified the calculation of the financial incentive. The Department recommends that the Commission approve MERC's proposed 2015 DSM financial incentive of $3,392,001to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

B. MERC'S 2015 CIP TRACKER ACCOUNT

In its *Petition,* MERC provided a report on its 2015 recoveries and expenditures in the Company's CIP tracker account.

1. Background and Summary of MERC's 2015 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.[4] Beginning July 2013, MERC began consolidating the two accounts by opening up a third account, MERC-Consolidated.[5] 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 is the first year in which a single tracker was submitted since consolidation began.

2. Department Review of MERC's 2015 CIP Tracker Account

Table 1 below provides a summary of activity in MERC's CIP tracker account during 2015.

[4] Docket No. G-007,011/GR-10-977.
[5] 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 2015 CIP Tracker Account Activity

Description	Time Period	Amount
Beginning Balance	January 1, 2015	$115,423.21
IPL CIP Tracker Acquisition	May 1 through June 30, 2015	$66,180.00
CIP Expenditures[6]	January 1 through December 31, 2015	$8,870,639.08
Recovery via Base Rates (CCRC)	January 1 through December 31, 2015	($12,249,784.23)
Regular Carrying Charges	January 1 through December 31, 2015	($51,228.15)
Recoveries due to Adjustments	January, March, April 2015	$2,431,107.08
Carrying Charges due to Adjustments	January, March, April 2015	(6,343.69)
2014 DSM Incentive	August 2015	$2,093,158
Ending Balance	December 31, 2015	$1,269,151.31

MERC's CIP Tracker appears to show a 2015 beginning balance of ($1,816,398.99)[7]. However, this figure erroneously reflects the 2015 beginning balance of $115,423.21, plus the Cumulative Carrying Cost of $1,931,822.20. The Cumulative Carrying Cost was an unnecessary component of MERC's CIP Tracker that was recorded until July of 2015. The Department addressed this last year:

> Rather than having carrying charges be based off the total monthly tracker balance and including those carrying charges in the next month's balance, the Company instead based its carrying charges on the tracker balance minus the cumulative monthly carrying charges. Essentially, MERC has been maintaining two trackers in the account, one that tracked the balance without carry charges, and another that tracked carrying charges based off the first. This resulted in MERC incorrectly calculating carrying charges because the Company did not base its carrying charges on the monthly tracker balance, but instead based them on the tracker balance minus past carrying charges.[8]

The Department recommended that MERC adjust this process for future filings, and the Commission ordered the Company to change this practice. MERC has appeared to have stopped this practice beginning August 2015, as shown in the Company's 2015 CIP Tracker, thus complying with the Commission's order.

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[6] CIP Expenditures include Next Generation Energy Act of 2007 (NGEA) assessments of $241,168 (*Petition*, Page 7).
[7] *Petition* Attachment A.
[8] Page 8, Department Comments submitted June 29, 2015, Docket No. G-011/M-15-420.

MERC's 2015 CIP Tracker contains the following adjustments:

a. Northshore Mining Adjustments
b. Iowa LDC Adjustments
c. MERC-PNG Tracker True-Up Adjustment
d. CCRC Adjustments
e. Interstate Power and Light (IPL) Acquisition Adjustment

The Department addresses the validity of each of these adjustments in the following sections. A table of all adjustments appearing in MERC's 2015 CIP Tracker can be found in Attachment A, Table 1.

a. Northshore Mining Adjustments

Northshore Mining is an industrial customer of MERC's that was incorrectly billed by MERC as CIP-exempt from July 2006 through December 2013. The billing error became apparent during a general rate case in 2013.[9] When the error was found, Northshore Mining applied for CIP-exempt status and was approved, effective January 1, 2014. On October 28, 2014, the Commission ordered MERC to credit the CIP tracker for the CCRC and CCRA amounts not collected from Northshore, including a one-time carrying charge adjustment that reflected the Company's overall rate of return during that time.[10] MERC booked these Northshore adjustments into both its MERC-PNG and MERC-Consolidated CIP Trackers in June of 2014.

In its October 28th Order, the Commission also ordered MERC to conduct a review of its CIP billing processes and make a compliance filing reporting the Company's findings.[11] In January 2015, MERC submitted a compliance filing in Docket No. G011/GR-13-617 stating that it found three errors with its initial Northshore adjustments, which in turn created carrying charge errors. In response to Department inquiries, the Company provided explanations and proposed revised calculations to the CIP Tracker. The Department concluded that MERC's revised calculations were correct, and recommended that the Commission require MERC to make the appropriate adjustments in both its MERC-PNG CIP Tracker and MERC-Consolidated CIP Tracker. The Commission's March 18th Order approved the adjustments and required the Company to submit an updated CIP Tracker. To comply, the Company submitted an updated CIP Tracker on April 10, 2015. The Department agreed with the Company's calculations, and the Commission approved the Company's updated CIP Tracker on May 12, 2015. To see how final Northshore adjustments were calculated, please see Attachment B.[12]

For the present docket, the Department has verified that the originally approved Northshore adjustments matched those in MERC's proposed 2015 CIP Tracker.

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[9] Administrative Law Judge Report- *Findings of Fact, Summary of Public Testimony, Conclusions of Law and Recommendation*, #588. August 13, 2014, Docket No. G011/GR-13-617.
[10] Order Point 7, Commission Order, October 28, 2014, Docket No. G011/GR-13-617.
[11] Order Point 12, Commission Order, October 28, 2014, Docket No. G011/GR-13-617.
[12] The calculations in Attachment B were originally provided by MERC in its February 13, 2015 filing entitled "Compliance Filing—Corrections to 30-Day Compliance Filing", Schedule 2 in Docket No. G011/GR-13-617.

b. Iowa LDC Adjustments

"Iowa Local Distribution Company" (Iowa LDC) refers to an Iowa customer of MERC's who buys gas from MERC and resells the gas to its own 11 Iowa retail customers. MERC was billing the Iowa LDC at Minnesota retail rates because the customer's three meters are physically located in Minnesota; and because the CCRC is embedded in the Minnesota retail rate, the Iowa LDC was being charged for CIP. However, MERC had not explicitly identified the Iowa LDC as CIP-applicable, and so the Iowa LDC was not being charged the CCRA.[13] MERC identified this discrepancy its February 13, 2015 Compliance filing, which was made to satisfy the previously-mentioned Commission Order requiring MERC to review its CIP billing processes. In its March 18, 2015 Order, the Commission determined that, "there has been no demonstration by substantial evidence in the record that CIP and [Gas Affordability Program] factors are not applicable to the Iowa local distribution company." Therefore, MERC was held responsible for making up the under-recovery of the CCRA, along with associated carrying charges. To comply, the Company submitted its Iowa LDC adjustments and updated CIP Tracker on April 10, 2015. The Department agreed with the Company's calculations, and the Commission approved the Company's updated CIP Tracker on May 12, 2015.

For the present docket, the Department has verified that the originally approved Iowa LDC adjustments matched those in MERC's proposed 2015 CIP Tracker.

c. MERC-PNG Tracker True-Up Adjustment

In its December 13, 2013 Order in Docket No. G011/M-13-369, the Commission ordered MERC-PNG to suspend the collection of MERC-PNG's CCRA once the balance reached zero. In August 2014, MERC determined that the MERC-PNG tracker account reached a negative balance of approximately $1.8 million. This was a result of CCRA collections during 2014, as well as adjustments for uncollected CCRC and CCRA amounts attributed to Northshore Mining. On September 15, 2014 MERC made a compliance filing to inform the Commission that it had stopped collecting the CCRA from MERC-PNG customers and proposed to refund non-exempt MERC-PNG customers the entire over-collection amount in the MERC-PNG tracker. On May 28, 2015 MERC submitted a filing stating that the Company had refunded a total of $1,964,069 to these customers in November and December 2014.[14] In April 2015, a final true-up adjustment of $10,663 was made to MERC-Consolidated to close out the remaining balance in MERC-PNG. In last year's CIP Tracker filing, the Department verified this adjustment and its effect on the proposed CCRA, and the Commission approved MERC's CCRA that accounted for this adjustment.[15]

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[13] MERC was also not billing the Iowa LDC for the Gas Affordability Program charge. These discrepancies came about because MERC was billing the customer for both customer and distribution charges, which includes the CCRC factor "and the related cost of gas factors for gas delivered to each meter under Rate Schedule GS-1" (Briefing Papers, Docket No G011/GR-13-617, submitted on March 12, 2015).
[14] MERC Filing, May 29, 2015, Docket No. G011/M-15-420.
[15] Commission Order, August 31, 2015, Docket No. G011/M-15-420.

For the present docket, the Department has verified that the Company's MERC-PNG Tracker True-Up Adjustment included in last year's CCRA calculation matched the MERC-PNG Tracker True-Up Adjustment in MERC's proposed 2015 CIP Tracker.

d. CCRC Adjustments

In last year's petition, MERC submitted information stating that the Company had found an error in the amount of CCRC recovery recorded in the tracker for October 2014 through March 2015. This error occurred when MERC transferred a number of CIP-exempt customers to new CIP-exempt rate codes; all customers were billed correctly during this time period, but were coded incorrectly in the Company's internal records, resulting in MERC over-reporting the amount of CCRC revenue collected. In last year's petition, the Company stated that the adjustment for the CCRC revenue was $2,116,257.91, plus carrying charges, to be booked in the 2015 Tracker. In last year's proceeding, the Department verified this adjustment and its effect on the proposed CCRA, and the Commission approved MERC's CCRA that accounted for these adjustments.[16]

Since last year's filing, MERC indicated that revenues from one additional customer were incorrectly included in the tracker due to the coding error, and that the final adjustment booked in the 2015 Tracker was $2,098,856.74, plus carrying charges. Upon request from the Department, the Company provided the documentation for this update, which can be found in Attachment C.

For the present docket, the Department has verified that the Company's CCRC Adjustments included in last year's CCRA calculation matched the CCRC Adjustments in MERC's proposed 2015 CIP Tracker. The Department has also verified that the updated adjustment and associated carrying charges are accurately accounted for in MERC's 2015 CIP Tracker.

e. IPL Acquisition Adjustment

On December 8, 2014, the Commission approved the sale of Interstate Power and Light Company's (IPL) MN natural gas distribution system assets. On May 1, 2015, customers were transitioned to MERC's rates and tariffs, including MERC's CIP. MERC's tracker balance was transferred in May of 2015.

On June 22, 2015 in Docket No. G001/M-15-325, the Commission issued an Order approving IPL's gas DSM financial incentive of $76,476 to be included in IPL's CIP tracker. The Order also required IPL to explain how CIP tracker account activity, CCRA, and financial incentive would be used by IPL or MERC. On July 1, 2015 in that same docket, IPL and MERC submitted comments stating that IPL's approved CCRA would not be implemented, as the customers were already transferred to MERC, that the IPL tracker balance would be transferred to MERC in May 2015, and that the DSM financial incentive of $76,476 would be added to MERC's CIP Tracker in June 2015.

[16] Commission Order, August 31, 2015, Docket No. G011/M-15-420.

The Company provided the Department with a spreadsheet showing IPL's CIP Tracker, a copy of which is provided in Attachment D. It appears the transfer did not occur as MERC and IPL initially said it would. Instead of booking the financial incentive after the incentive was approved, it appears that the $76,476 financial incentive was added to IPL's CIP tracker in April of 2015, as CIP expenditures for that month are recorded as $103,693.95, with the corresponding equation (20,473.62+6,744.33+76,476).[17] It appears that IPL's final CIP tracker balance acquired by MERC, including the 2014 incentive, was $66,180.[18] This was recorded as two separate adjustments in MERC's 2015 CIP Tracker: ($12,883.00) in May 2015 and $79,063.00 in June 2016 (see Table 1 in Attachment A).

Table 2: Summary of IPL's 2015 CIP Tracker Account Activity, as Acquired by MERC

Description	Time Period	Amount
Beginning Balance	January 1, 2015	$94,531
CIP Expenditures	January 1 through April 30, 2015	$104,736
Recovery via Base Rates (CCRC)	January 1 through April 30, 2015	($174,701)
Carrying Charges	January 1 through April 30, 2015	$36
Recoveries via CCRA	January 1 through April 30, 2015	($34,898)
2014 DSM Incentive	April 2015	$76,476
Ending Balance	April 30, 2015	$66,180

The Department notes that although IPL should not have added the financial incentive to its tracker until the incentive was approved, MERC appropriately incorporated IPL's tracker balance, including IPL's financial incentive. Thus, the Department concludes that MERC's IPL Acquisition Adjustments in the Company's 2015 CIP Tracker are accurate.

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 a decrease in the CCRA, from $0.00865/Dth in 2016 to $0.00750/Dth in 2017.

[17] See cell S411 in Attachment D.
[18] See cell AD411 in Attachment D.

Table 3: Calculation of MERC's Proposed CCRA

Description	Amount
Forecasted Beginning Balance as of January 1, 2017	($2,513,833.23)
CIP Expenditures January-December, 2017	$11,000,000
Estimated Base Rate Recoveries January-December, 2017	($11,401,297)
Estimated Carry Charges January-December	($151,605.54)
Estimated 2015 DSM Financial Incentive	$3,392,001
Estimated 2016 DSM Financial Incentive	$2,763,174
Total to be Recovered Through CCRA	$3,088,439.23
Projected Sales less CIP-exempt Sales (Dth)	412,045,454
Proposed CCRA ($/Dth)	$0.00750

Table 4 provides information about the percentage change of the proposed CCRA:

Table 4: Comparison of MERC's Existing and Proposed CCRAs

Company	Current CCRA	Proposed MERC Consolidated CCRA	Percent Change
MERC Consolidated CCRA	$0.00865	$0.00750	-13.3%

As indicated in Table 4, the revised CCRA represents a 13.3 percent decrease from the current CCRA rate charge to MERC customers. The Department recommends that the Commission approve a CCRA of $0.00750 per therm for all of MERC's 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 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 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 $0.0.00750 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 described its review process as such:

> As described in that filing [Docket No. G011/GR-13-617], MERC reviewed all CIP-exempt customers to ensure that they were properly categorized as CIP-exempt. MERC also ran queries in its billing and customer information system to confirm that non-exempt customers were paying the correct CIP surcharge. Additionally, MERC reviewed several unique accounts and services—master and deduct meters, sale for resale accounts, and transport scenarios—to ensure these customers were paying the surcharge or are on a non-exempt rate code so the surcharge will be assessed if there is gas usage in a billing period. Finally, MERC reviewed a sample of non-exempt customers to ensure the Company was accurately billing those customers for CIP and that no CIP-exempt customers were being charged.[19]

In the review conducted earlier this year, the Company identified that the Iowa LDC was being inaccurately charged, as discussed above. The Department finds MERC in compliance with the Commission's October 28, 2014 Order.

E. REVIEW OF MERC'S GAS DSM AND CIP ACTIVITIES (2009-2015)

In Attachment E, Table 1, the Department presents a historical comparison of MERC's DSM and CIP activities during the period 2009 through 2015. 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 E, Table 1 indicates that, between 2009 and 2015, the Company's energy savings grew 269.4 percent, the Company's expenditures grew 184.1 percent, and the Company's incentives grew 492.7 percent. CenterPoint's tracker balance was $1,269,151.31 at the end of 2015; this compares with a high of $14,781,047 in 2013 and a low of $115,423 in 2014. In the last seven years, CenterPoint's carrying charges have ranged from $616,967 to ($154,344).

III. THE DEPARTMENT'S RECOMMENDATIONS

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

[19] *Petition* pages 10-11.

1) approve 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 the Commission's *Order* in the present docket;

2) approve MERC's 2015 CIP tracker account activities as summarized in Table 1 above;

3) approve the revised gas CCRA of $0.00750 per therm for all of MERCs 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 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, 2017, 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 $0.00750 per therm.

/ja

Table 1: Adjustments Appearing in MERC's 2015 CIP Tracker

Adjustment Category	Adjustment	Amount	Date	Commission Approval Reference
North Shore –Related Adjustments	Adjustment to CCRC CCRA for North Shore (PNG)	$322,210	January 2015	Adjustments approved 3/18/2015, Tracker approved 5/12/2015, G011/GR-13-617
	One-Time Carry Charge Adjustment (PNG)	($43,074)	January 2015	Adjustments approved 3/18/2015, Tracker approved 5/12/2015, G011/GR-13-617
	Monthly Carry Charge Adjustment (PNG)	$14,705.71	January 2015	Adjustments approved 3/18/2015, Tracker approved 5/12/2015, G011/GR-13-617
	One-Time Carry Charge Adjustment (CONSOL)	($15,221)	January 2015	Adjustments approved 3/18/2015, Tracker approved 5/12/2015, G011/GR-13-617
Iowa LDC Related Adjustments	One-Time Adjustment – Emmons IA CCRA	**[TRADE SECRET DATA HAS BEEN EXCISED]**	March 2015	Tracker approved 5/12/2015, G011/GR-13-617
	One-Time Carry Charge Adjustment-Emmons IA	**[TRADE SECRET DATA HAS BEEN EXCISED]**	March 2015	Tracker approved 5/12/2015, G011/GR-13-617
MERC-PNG Tracker True-Up Adjustment	Refund of PNG CCRA expense-final true up	$10,662.73	April 2015	Tracker approved 8/31/2015, G011/M-15-420
CCRC Adjustments	One-Time Adjustment –CCRC (Jan-Mar)	$2,098,856.74	April 2015	Initial adjustment approved by Commission 8/31/2015, G011/M-15-420, **adjusted amount to be approved in present docket**
	One-Time Carry Charge Adjustment CCRC (Jan-Mar)	$37,367.41	April 2015	Initial adjustment approved by Commission 8/31/2015, G011/M-15-420, **adjusted amount to be approved in present docket**
IPL Acquisition Adjustment	Acquired IPL Tracker Balance	($12,883.00)	May 2015	IPL Financial Incentive and 2014 CIP Tracker approved by Commission 6/22/2015 in G001/M-15-325, **final adjustment to be approved in present docket**
	Acquired IPL Tracker Balance	$79,063.00	June 2015	IPL Financial Incentive and 2014 CIP Tracker approved by Commission 6/22/2015 in G001/M-15-325, **final adjustment to be approved in present docket**