May 29, 2019

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-19-301

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 2018 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor.

The *Petition* was filed on May 1, 2019 by:

> Mary L. Wolter
> Director – Gas Regulatory Planning & Policy
> Minnesota Energy Resources Corporation
> 2685 145th Street West
> Rosemount, MN, 55068
> (651) 322-8901

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

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-19-301

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 1, 2019, Minnesota Energy Resources Corporation (MERC or the Company) submitted a filing in the present docket entitled *In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of the 2018 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor* (*Petition*) to the Minnesota Public Utilities Commission (Commission, MPUC or PUC). The Company's *Petition* included:

- a proposed 2018 Demand Side Management (DSM) financial incentive of $1,892,566;
- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2018; 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 2018 CIP Status Report can be found in Docket No. G011/CIP-16-120.02.

II. THE COMMISSION'S 2018 ORDER AND 2014 BILLING COMPLIANCE ORDER

A. COMMISSION'S 2017 ORDER

On September 4, 2018, the Commission issued its Order in Docket No. G011/M-18-117 approving MERC's 2017 DSM financial incentive, CIP tracker account, and CCRA as follows:

1. Approved MERC's 2017 DSM financial incentive of $1,694,489 to be included in the Company's CIP tracker account no sooner than the issue date of this Order;

2. Approved MERC's 2017 CIP tracker account activities as summarized in Table 1 of the [Minnesota Department of Commerce's] May 31, 2018 comments;

3. Approved the revised gas CCRA of $0.00000 per therm for all of MERC's Minnesota customer classes, to be effective on the first billing cycle in the next full month after the issue date of this Order. The approval is conditioned on the Company submitting, within 10 days of the issue date of this Order, a compliance filing with the relevant tariff sheets and necessary calculations that comply with the Commission's determinations; and

4. Required MERC to include the following bill message (with the appropriate date) following the issue date of this Order:

   Effective [insert date], the CCRA (conservation cost recovery adjustment) has been reduced to $0.00000 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

On September 9, 2018, MERC filed an updated tariff page to reflect the approved recovery rate.

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 (13-617 Order) stated:

> 13. MERC shall include, in future CIP tracker-account filings, annual compliance filings documenting that its CIP-exempt customers have been properly identified and are being properly billed.

The Department notes that MERC included the required information in its *Petition*, as more fully discussed below.

III. THE DEPARTMENT'S ANALYSIS

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

- in Section III.A, MERC's proposed 2018 DSM financial incentive;
- in Section III.B, MERC's proposed 2018 CIP tracker account;
- in Section III.C, MERC's 2019/2020 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 2011 through 2018.

A. *MERC'S PROPOSED 2018 DSM FINANCIAL INCENTIVE*

1. *Background*

The Shared Savings DSM financial incentive plan was initially approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010.[1]

The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan,* Docket No. E,G999/CI-08-133. The new mechanism, which began January 1, 2017, is triggered when electric utilities achieve energy savings of 1 percent, and gas utilities achieve 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.[2] For 2018, the electric and gas incentives are capped at 12.0 percent of net benefits and 35 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

1. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.

   A. For electric utilities, the plan is modified to do the following:

      1) Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
      2) For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
      3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
      4) For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

   B. For gas utilities, the plan is modified to do the following:

      1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
      2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.

[1] For more, see the Commission's December 20, 2012 *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives.*
[2] Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes 216B.241, Subd. 1a(b).

3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

C. For all utilities, set the following Net Benefit Caps:
1) 13.5 percent in 2017,
2) 12.0 percent in 2018, and
3) 10.0 percent in 2019.

D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
1) 40 percent in 2017,
2) 35 percent in 2018, and
3) 30 percent in 2019.

2. The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments, University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

4. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

Under the Shared Savings DSM financial incentive plan approved by the Commission, MERC may request Commission approval of a performance incentive based on the percent of net benefits that the Company achieves under its approved gas CIP. The plan links the incentive to the Company's performance in achieving cost effective conservation.

2. MERC's Proposed 2018 DSM Financial Incentive and the Department's Review

The Department's CIP Engineering Staff review of the Company's claimed demand and energy savings that underpin MERC's proposed 2018 DSM financial incentive has yet to be completed.

As was done last year, the Department's analysis assumes that MERC's claimed 2018 energy savings are correct as filed. If the Department's Deputy Commissioner 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 2019 filing, which will be made by May 1, 2020.[3] MERC's reported energy savings level is 509,758 dekatherms (Dth), and so the Department used this figure in reviewing this docket.

With respect to net benefits, MERC provided in its *Petition* the benefit/cost results of the revenue requirements test associated with the Company's 2018 CIP. According to the Company, MERC's 2017 CIP activities resulted in an estimated $18,463,890 of net benefits before the requested incentive.[4] MERC also stated that its CIP activities achieved energy savings in 2018 of 509,758 Dth of natural gas. Based on the terms and conditions of its approved DSM incentive plan, MERC requested approval of a 2018 financial incentive of $1,892,566.

The Department notes that 509,758 Dth of energy savings equates to 0.97 percent of the Company's reported average non-CIP-exempt retail sales of 52,732,921 Dth, which exceeds the threshold of 0.7 percent to receive a financial incentive. Additionally, the financial incentive of $1,892,566 is approximately 10.25 percent of net benefits achieved ($18,463,890 x .1025 =$1,892,566), and therefore does not violate the Net Benefits Cap for 2017 of 12.0 percent.[5]

[3] The Department notes that the Deputy Commissioner approved MERC's 2017 energy savings as filed in Docket No. G011/CIP-16-120.01, thus, no adjustment is needed through the instant proceeding.
[4] *Petition*, Attachment B, Page 2. The full calculations of net benefits can be found along with the Company's CIP Status Report in Docket No. G011/CIP-16-120.02.
[5] The proposed financial incentive is 16.07 percent of 2018 CIP expenditures, and therefore does not violate the CIP Expenditure Cap for 2018 of 35 percent.

The Department verified the calculation of the financial incentive. The Department recommends that the Commission approve MERC's proposed 2018 DSM financial incentive of $1,892,566 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.

B. MERC'S 2018 CIP TRACKER ACCOUNT

In its *Petition,* MERC provided a report on its 2018 recoveries and expenditures in the Company's CIP tracker account.

1. Background

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.[6] Beginning July 2013, MERC began consolidating the two accounts by opening up a third account, MERC-Consolidated.[7] All 2014 CIP expenses were recorded in MERC-Consolidated, and the remaining balances from MERC-PNG and MERC-NMU were rolled into MERC-Consolidated. Effective January 1, 2015, all accounts were consolidated into MERC-Consolidated, and MERC-Consolidated was renamed "MERC CIP Tracker." MERC's 2016 filing for the Company's 2015 CIP tracker was the first year in which a single tracker was submitted since consolidation began. MERC's 2015 CIP tracker also incorporated the balance of the Interstate Power and Light (IPL) Tracker Account, as ordered in Docket No. G001/M-15-325**,** following MERC's acquisition of IPL's Minnesota gas holdings.

2. Department Review of MERC's 2018 CIP Tracker Account

In its *Petition*, MERC requested approval of its report on recoveries and expenditures in the Company's gas CIP tracker account during 2018. Table 1 below provides a summary of activity in MERC's CIP tracker account during 2018.

[6] Docket No. G-007,011/GR-10-977.

[7] 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 2018 CIP Tracker Account Activity

Description	Time Period	Amount
Beginning Balance	January 1, 2018	$(601,530.90)
CIP Expenditures[8]	January 1 through December 31, 2018	$11,777,435.56
CIP Recoveries (CCRC + CCRA)	January 1 through December 31, 2018	$(17,189,366.45)
Regular Carrying Charges	January 1 through December 31, 2018	$(221,377.14)
2017 DSM Incentive	August 2018	$1,694,489.00
Ending Balance	December 31, 2018	$(4,540,349.93)

The *Petition* indicates that the 2017 financial incentive, which was approved on September 4, 2018, was booked during September of 2018.[9] The Company made a CCRA adjustment in September 1, 2018 in accordance with the Commission's Order in Docket No. G011/M-18-117.

The Department recommends that the Commission approve MERC's 2018 gas CIP tracker account activity, as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2018 tracker balance of $(4,540,349.93).

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 (CCRA).

In its *Petition*, MERC proposed a decrease in the CCRA, from $0.00000/Dth implemented September 1, 2018 to ($0.00953/Dth) effective January 1, 2020.

[8] CIP Expenditures exclude the Next Generation Energy Act of 2007 (NGEA) assessments of $162,115 (*Petition*, Page 4).
[9] *Petition*, Attachment A, Page 1.

Table 2: Calculation of MERC's Proposed CCRA

Description	Amount
Forecasted Beginning Balance as of January 1, 2020	($6,842,663.38)
CIP Expenditures January-December, 2020	$12,246,800.00
Estimated Base Rate Recoveries January-December, 2020	($13,730,388.57)
Estimated Carrying Charges January-December	($310,126.14)
Estimated 2018 DSM Financial Incentive	$1,892,566
Estimated 2019 DSM Financial Incentive	$2,314,153
Total to be Recovered Through CCRA	($4,429,658.56)
Projected Sales less CIP-exempt Sales (therms)	464,964,056
Proposed CCRA ($/therm)	($0.00953)

The Department recommends that the Commission approve a CCRA of ($0.00953) per therm for all of MERC's customer classes, to be effective January 1, 2020 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*

In its current *Petition*, MERC proposed the following customer notification language:

> Effective [Insert date], the CCRA (conservation cost recovery adjustment) has been reduced to ($0.00953) per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

The Department recommends that the Commission approve the Company's proposed notification language.

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 13-617 Order. MERC stated that the Company has continued to conduct monthly reviews of a sample of customer bills, across all billing classes, to ensure proper billing of CIP charges. MERC stated that they will review all CIP-exempt rate codes on a quarterly basis to ensure that customers who are treated as CIP-exempt have received an exemption. Based on the Company's review, MERC found that all customers on the

CIP-exempt rate codes have a valid exemption on file, and that no additional billing issues were identified.[10]

The Department concludes that MERC is in compliance with the Commission's 13-617 Order.

E. REVIEW OF MERC'S GAS DSM AND CIP ACTIVITIES (2011-2018)

In Attachment 1 the Department presents a historical comparison of MERC's DSM and CIP activities during the period 2011 through 2018. This table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment 1 indicates that, between 2011 and 2018, the Company's energy savings increased 11.36 percent, the Company's expenditures grew 49.63 percent, and the Company's incentives declined 26.87 percent. The decline in incentives is due to the reduction of net benefits awarded by the Commission in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan,* Docket No. E,G999/CI-08-133. In that Order, the Commission determined that incentives were too high and could be reduced, while producing similar energy savings.

MERC's tracker balance was ($4,540,349.93) at the end of 2018; this compares with a high of $14,781,047 in 2013 and the previous low of ($601,531) in 2017.[11] In the last seven years, MERC's carrying charges have ranged from $592,929 to ($221,377), but have been reduced the last several years as the Commission, in its December 17, 2014 *Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges* in Docket No. G-011/M-14-369, changed how the carrying charge was calculated by requiring the Company to apply its short-term cost of debt rate instead of its cost of capital.

VI. THE DEPARTMENT'S RECOMMENDATIONS

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

1) approve MERC's 2018 DSM financial incentive of $1,892,566 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 2018 CIP tracker account activities as summarized in Table 1 above;

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[10] *Petition,* page 8.

[11] Note that a positive tracker balance reflects amounts "owed" to the utility and a negative tracker balance reflects amounts "owed" to ratepayers. The lowest tracker balance, whether positive or negative, was $115,423 in 2014.

3) approve the revised gas CCRA of ($0.00953) per therm for all of MERC's Minnesota customer classes, to be effective January 1, 2020, 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, 2020, whichever is later:

> Effective [Insert date], the CCRA (conservation cost recovery adjustment) has been reduced to ($0.00953) per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

/ja

Attachment A, Table 1. MERC's Historical CIP Achievements, Incentives, and Tracker Balance 2011-2018

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (Dth)	CIP Expenditures	DSM Financial Incentive	Incentive + CIP Expenditures	Net Benefits	Carrying Charges	Year-End Tracker Balance	Average Cost per first year Dth Saved[1]	Average cost per Dth Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2011	457,747	$7,870,823	$2,587,948	$10,458,771	$34,530,422	$592,929	$10,086,519	$17.19	$22.85	32.88%	7.49%	7.53%	128.15%
2012	534,596	$9,951,018	$2,729,531	$12,680,549	$34,567,212	$496,537	$11,633,350	$18.61	$23.72	27.43%	7.90%	4.99%	116.91%
2013	424,827	$8,630,283	$2,492,730	$11,123,013	$17,668,017	$424,887	$14,781,047	$20.31	$26.18	28.88%	14.11%	4.92%	171.27%
2014	369,068	$7,360,832	$2,093,158	$9,453,990	$15,081,932	($154,344)	$115,423	$19.94	$25.62	28.44%	13.88%	(2.10%)	1.57%
2015	493,382	$8,870,639	$3,392,001	$12,262,640	$26,416,176	($51,228)	$1,269,151	$17.98	$24.85	38.24%	12.84%	(0.60%)	14.31%
2016	472,000	$9,198,728	$3,245,000	$12,443,728	$25,948,259	($45,726)	($158,238)	$19.49	$26.36	35.28%	12.51%	(0.50%)	(1.72%)
2017	402,989	$10,666,999	$1,694,489	$12,361,488	$16,561,396	($56,497)	($601,531)	$26.47	$30.67	15.89%	10.23%	(0.53%)	(5.64%)
2018[2]	509,758	$11,777,435	$1,892,566	$13,670,001	$18,463,890	($221,377)	(4,540,350.)	$23.10	$26.82	16.07%	10.25%	(1.88%)	(38.55%)

[1] The average cost per Dth Saved equals CIP expenditures ($) divided by achieved energy savings (Dth)

[2] The 2018 DSM Financial Incentive, Carry Charges, and Tracker Balance are shown as proposed by MERC in their *Petition.*