COMMERCE DEPARTMENT

April 1, 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 Nos. G011/M-19-201

Dear Mr. Wolf:

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

2018 Revenue Decoupling Mechanism Adjustment Calculation.

The adjustment calculation was filed on March 1, 2019 by:

Seth DeMerritt
Senior Project Specialist
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/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-19-201

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, Docket No. G011/GR-10-977.

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 actual, unadjusted 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 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. The instant filing refers only to MERC's revenue decoupling mechanism (RDM) adjustment calculation. MERC will submit its RDM evaluation on May 1, 2019, which will include a narrative discussing MERC's Conservation Improvement Program achievements and the Department will respond to that filing afterwards.

On March 1, 2019, MERC submitted its 2018 Revenue Decoupling Mechanism Adjustment Calculation (2018 RDM Calculation).

II. DEPARTMENT ANALYSIS

A. MERC'S FULL RDM

The purpose behind MERC's RDM is to eliminate the Company's throughput incentive and thus eliminate any Company disincentive to encourage its customers to invest in energy savings. Under its RDM, MERC is allowed to recover its authorized revenues for non-fuel costs, regardless of causes in variation (including weather, changes in economic factors, etc.), up to the approved, symmetrical 10 percent revenue cap.[1] MERC's RDM applies to the Company's Residential and General Service Small Commercial and Industrial classes.

MERC calculates its RDM adjustment annually, based on the class revenue requirements after removing the fixed charge portion and conservation cost recovery charge (CCRC) revenues from the final revenue apportioned to the customer class, based on actual customer counts. Each month, MERC calculates the RDM deferral for a customer group as the difference between the monthly baseline revenue and the revenue collected under the volumetric rates from those customers. Every 12 months, MERC incorporates the cumulative deferral (over or under recovery) for each customer group into customer rates for the following year by dividing the deferral amount by the forecast of sales to that customer group.

B. MERC'S RDM CALCULATIONS

In its March 1, 2019 RDM Adjustment filing, MERC proposed the following surcharges/(refunds) for the March 1, 2019 to February 29, 2020 decoupling deferral period.

[1] MERC's RDM has a cap on surcharges and refunds equal to ten percent of customer class authorized distribution revenue less the Conservation Cost Recovery Charges (CCRC).

Table 1: MERC's Proposed 2019/2020 Revenue Decoupling Mechanism Adjustment

	Residential	Small C&I
2018 RDM Surcharge/(Refund)	($3,152,862)	$42,301
2016 Reconciliation Adjustment[2]	($90,177)	$25,025
Total Surcharge/(Refund)	($3,243,039)	$67,326
March 2019 - February 2020 Forecasted Sales	183,783,848	9,089,669
Surcharge/(Refund) Rate per therm	($0.01765)	$0.00741

MERC based its calculations on MERC's final distribution rates approved in Docket No. G011/GR-17-563. The distribution rates incorporate the 2018 impacts of the Tax Cuts and Jobs Act (TCJA), consistent with the Commission's December 5, 2018 Order Responding to Changes in Federal Tax Law in Docket No. E,G999/CI-17-895.[3]

MERC calculated surcharges shown in Table 1 by dividing the net of the 2018 RDM deferrals and the 2017 regulatory assets (the amount of under collection from 2017 that still wasn't collected as of December 31, 2018) by the forecasted sales approved for the period in Docket No. G011/GR-15-736.

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

[2] The 2016 reconciliation adjustment is included in this filing because the 2016 decoupling reports were not finalized until March 2, 2018, three days after March 2018 billing rates were set on February 27, 2018. Similarly, the 2017 decoupling reports were not finalized until March 4, 2019, which is after the March 2019 billing rates were set in February. Therefore, the 2017 reconciliation adjustment will be included along with the 2019 decoupling surcharge/refund.
[3] See Order Point 12 A. 2.

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 2018 Calculation filed March 1, 2019.

The Department also recommends that the Commission approve MERC's 2018 Annual Decoupling Evaluation Report.

/ja

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/M-19-201

Dated this 1st day of April 2019

/s/Sharon Ferguson

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