September 10, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. 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 matters for Minnesota Energy Resources Corporation:

2018 Revenue Decoupling Mechanism Adjustment Calculation

2018 Annual Decoupling Evaluation Report

The decoupling adjustment calculation was filed on March 1, 2019 and the decoupling evaluation report was filed on May 1, 2019 by:

Mary L. Wolter
Director, Gas, Regulatory Planning & Policy
2685 145th Street West
Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission **approve MERC's revenue decoupling adjustments and accept MERC's revenue decoupling evaluation report.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/CHRISTOPHER T. DAVIS
Analyst Coordinator

CD/ar
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. INTRODUCTION

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 Resources Corporation's (MERC) 2010 General Rate Case (G007,011/GR-10-977).

As part of the *2012 Rate Case Order*, the Commission authorized MERC to conduct a full decoupling program (a/k/a Revenue Decoupling Mechanism or RDM) on a pilot basis for three years 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.of the *2012 Rate Case Order*[1] 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. The Commission's December 21, 2012 Order in Docket No. G007,011/GR-10-977 approved MERC's proposed RDM tariff language. MERC's RDM tariff language states that the annual report will include an evaluation plan.

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 (2015 Rate Case Order), 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 2015 Rate Case Order stated:

[1] July 12, 2012.

- 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.

- 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 [commercial and industrial] 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 to extend its full RDM 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 in Docket No. G011/GR-17-563, 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.

In its December 26, 2018 *Order Findings of Fact, Conclusions, and Order* (2017 Rate Case Order) the Commission agreed that as of January 1, 2019, none of MERC's C&I customer classes would be included in MERC's RDM.

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).

On June 11, 2018, the Department submitted comments on MERC's 2017 Adjustment and 2017 Evaluation.

On February 6, 2019 the Commission issued the following disposition on MERC's 2017 Adjustment and 2017 Evaluation:

1. Approved the Company's proposed revenue decoupling mechanism 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.

2. Approved the Company's 2017 Annual Decoupling Evaluation Report.

3. Ordered the Company to file all future Annual Decoupling Evaluation Reports in separate dockets.

On March 1, 2019, MERC submitted its 2018 Revenue Decoupling Mechanism Adjustment Calculation (2018 RDM Adjustment) in Docket No. G011/M-19-201.

On April 1, 2019, the Department submitted comments on MERC's 2018 Adjustment, recommending that the Commission approve MERC's proposed RDM adjustments for its Residential and Small C&I (SCI) customers.

On May 1, 2019, MERC submitted its 2018 Revenue Decoupling Annual Evaluation Report (2018 Evaluation Report).

The Department provides the following analysis clarifying our April 1, 2019 comments on MERC's 2018 Adjustment, and discussing MERC's 2018 Evaluation Report.

II. DEPARTMENT ANALYSIS

In our April 1, 2019 comments on MERC's 2018 RDM Adjustment, the Department evaluated the Company's proposed RDM adjustments for its Residential and SCI customer classes and recommended that the Commission approve MERC's proposed surcharges and refunds. On page 3 of our comments, the Department included Table 1, which showed MERC's correct calculation of a 2019/2020 RDM adjustment refund of ($0.01765) per therm for its Residential customer class (based on a calculated over-collection of $3,243,039), and an RDM adjustment surcharge of $0.00741 per therm for its SCI class (based on an under-collection of $67,326). However, the Department's actual recommendation on page 3 and on page 4 of our comments included the wrong surcharge/(refund) amounts. To clarify the record, the Department repeats its analysis of MERC's RDM adjustments below, including the correct recommendation, followed by a brief analysis of MERC's 2018 Annual RDM Evaluation Report.

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.[2] MERC's RDM applied to the Company's Residential and General Service Small Commercial and Industrial classes in 2018. Beginning in January 1, 2019, MERC will only apply its RDM to its Residential customer class.

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 surcharges/(refunds) for the March 1, 2019 to February 29, 2020 decoupling deferral period shown in Table 1 below.[3]

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[2] 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).

[3] In accordance with the Commission's Orders and MERC's tariffs, no later than March 1 of each year MERC is required to file annually with the Commission a calculation of the RDM adjustments, as well as any applicable reconciliation adjustment calculations, to be effective for each customer class. Adjustments shall be effective with bills rendered on or after March 1 and shall continue for 12 months. MERC's RDM adjustment calculations for the RDM adjustment became effective March 1, 2019 and will continue until February 29, 2020 unless the Commission orders a modification.

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[4]	($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.[5]

MERC calculated refunds and 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. Based on its proposed RDM adjustments, MERC projected that its average Residential customer should receive a refund of $15.42 over a 12-month period, and its average SCI customer should be surcharged $7.40 over a 12-month period.

The Department concludes that MERC correctly calculated the surcharges/(refunds) for its decoupled customer classes and recommends that the Commission approve a refund of $0.01765 per therm for the Company's Residential customer class and a surcharge of $0.00741 per therm for its SCI customer class.

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[4] 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.

[5] See Order Point 12 A. 2.

C. MERC'S EVALUATION REPORT

As mentioned in the *Introduction* above, MERC's 2018 RDM Evaluation Report was filed on May 1, 2019. MERC's evaluation report, and the evaluation reports for the other utilities with approved RDMs, are quite extensive. In recent years, the Department has primarily focused on the part of the evaluation report that focuses on the utilities' CIP energy savings achievements because Minnesota Statutes § 216B.2416, subd. 1 states that the purpose of decoupling is to reduce a utility's disincentive to promote energy efficiency. No other party has been commenting on other parts of the evaluation plans. For administrative efficiency the Department will consult with the utilities that have decoupling and Commission Staff to see if there is an agreement on whether there are parts of the evaluation reports that can be eliminated, and if so, present proposed reporting requirement modifications for future evaluation reports to the Commission.

Table 1 below compares MERC's pre-decoupling (2010-2012) energy savings with the Company's post-decoupling (2013-2018) energy savings.[6]

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 (2010-2012)	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%
	2018	509,758	52,732,921	0.97%
	Weighted Average (2013-2018)	445,336	43,735,602	1.02%

[6] MERC modified its pre-decoupling energy savings 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 was assumed to save 300 Dth when the behavioral projects were first approved is now assumed to save 100 Dth.

MERC's post-decoupling weighted average annual energy savings of 445,336 first-year Dth are approximately three percent higher than the Company's pre-decoupling weighted average annual energy savings of 434,169 Dth. MERC's 2018 CIP energy savings, its highest ever, were 17 percent higher than the Company's pre-decoupling weighted average annual energy savings. MERC stated that the larger savings for its C&I customers in 2018 were primarily due to the results of a very large custom rebate project.

In addition, MERC compared the list of SCI customers covered by the RDM to all C&I activity in its CIP program and identified energy savings from the SCI customer class. The SCI customer class energy savings is listed separately for 2016-2018 in Table 2 below.[7]

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

	Total Residential	Total C&I	SCI
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
2018	187,645	322,113	4,725
Post-Decoupling Average 2013-2018	192,648	241,438	9,699

MERC's 2018 residential first-year energy savings were 1 percent higher than the Company's pre-decoupling first-year energy savings. Since implementing its RDM, MERC's first-year energy savings for its residential customers have averaged 192,648 Dth, 4 percent higher than before the RDM was implemented.

Because MERC did not start monitoring SCI energy savings until 2016, the Department is unable to make a comparison of energy savings to this customer class pre- and post-decoupling implementation. An evaluation of the data provided in Table 2 above indicates that the Company's energy savings for

[7] See also Table B1 (C) on page 14 of MERC's 2018 Evaluation Report. This analysis assumes application of the Department's Average Savings Method applied to behavioral programs.

the SCI customer class fell 65 percent between 2016 and 2018. Table 3 below shows the SCI customer class energy savings as a percent of the customer class' retail sales.[8]

Table 3:
MERC's SCI Energy Savings as a Percent of Retail Sales

	Energy Savings (Dth)	Annual Retail Sales	Percent of Retail Sales
2016	13,523	8,309,497	1.63%
2017	5,874	8,309,497	0.71%
2018	4,725	8,309,497	0.57%
2016-2018	24,122	24,928,490	0.97%

Table 3 indicates that the Company's energy savings for the SCI customer class have dropped significantly both on a Dth basis and measured as a percent of retail sales. The average of 2016-2018, however, was close to 1 percent. On page 16 of its 2018 Evaluation Report, MERC stated:

> MERC and its implementation contractor found through direct experience that Small C&I customers covered by the RDM are truly "hard to reach." They are busy, seldom have sufficient staff to be concerned about energy efficiency, and energy costs do not comprise a significant part of their overall operating expenses. In addition, many rent their facility from a landlord and so are unable or unwilling to make building investments to increase energy efficiency. Despite these obstacles, in 2018, 4,725 Dth of savings resulted from their participation in MERC's CIP programs, down from 5,874 in 2017.

The Department does not believe that it is possible to determine the exact causes of why a utility's energy savings increase or decrease. Minnesota has strong regulatory policies that promote utility energy savings, including the State's energy savings goal, the Shared Savings DSM financial incentive mechanism, and decoupling. Other variables such as the economy, weather, and changes in energy codes also have impacts. MERC's 2018 Residential energy savings were slightly below the average of its Residential energy savings during the pre-decoupling years, (2010-2012).[9] The average of MERC's post decoupling (2013-2018) Residential energy savings (192,648 Dth) was only slightly higher than MERC's pre-decoupling annual Residential energy savings average of 189,948 Dth. Thus, the Department does not believe that an evaluation of MERC's CIP lends conclusive support for continuing or discontinuing the Residential RDM.

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[8] The Department calculated annual retail sales by averaging the actual SCI customer class volumes for 2016-2018.
[9] On page 31 of its Report, the Company states: "As mentioned in previous reports, with the multiple programmatic changes, it is extremely difficult, if not impossible, to isolate the impact of decoupling on Residential energy savings. Nevertheless, MERC believes its decoupling program has proven successful at effectively removing the disincentive to promote energy efficiency. Many tactics have been put into place or expanded since decoupling was implemented."

MERC's energy savings for its SCI customer class dropped significantly from 2016 to 2018. However, the Company does not have pre-decoupling energy savings to which the 2016 to 2018 data can be compared. In compliance with the 2017 Rate Case Order, MERC discontinued the SCI RDM adjustment as of January 1, 2019.[10]

For its next rate case, the Commission is requiring MERC to include an analysis of the impact on customers of extending its RDM to all customer classes with 50 or more customers. The Department will evaluate the merits of decoupling for MERC's customer classes at that time.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

The Department recommends that the Commission approve MERC's proposed 2019/2020 RDM Adjustment of ($0.01765) per therm for its Residential customers and $0.00741 per therm for its SCI customers, as proposed in the Company's 2018 RDM Adjustment filing. The Department also recommends that the Commission accept MERC's 2018 Annual Decoupling Evaluation Report.

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[10] However, the Department still recommends approval of the SCI surcharge for 2019/2020 to recover under-collections from previous years.

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 **10th** day of **September 2019**

/s/Sharon Ferguson

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