MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	November 22, 2019	Agenda Item *4

Company Minnesota Energy Resources Corporation (MERC, Company)

Docket No. **G-011/M-19-201**

In the Matter of the 2018 Annual Decoupling Evaluation Report and Revenue Decoupling Mechanism Adjustment Calculation

Issues

1. Should the Commission accept MERC's 2018 Annual Revenue Decoupling Evaluation Report and approve MERC's revenue decoupling rate adjustments?

2. Should MERC's Revenue Decoupling Mechanism become a permanent part of the Company's rate design?

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✓ **Relevant Documents**	**Date**
MERC – 2018 Revenue Decoupling Adjustment Calculation	March 1, 2019
Minnesota Department of Commerce Initial Comments	April 1, 2019
MERC – 2018 Annual Decoupling Evaluation Report	May 1, 2019
Minnesota Department of Commerce – Comments	September 10, 2019
MERC – Reply Comments	September 18, 2019

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I. Statement of the Issues

Should the Commission accept MERC's annual revenue decoupling evaluation report for the period ended December 31, 2018, and approve MERC's revenue decoupling rate adjustments?

Should MERC's Revenue Decoupling Mechanism become a permanent part of the Company's rate design?

II. Introduction

This is the Commission's sixth annual review of Minnesota Energy Resources Corporation's (MERC's) full revenue decoupling program.

The Company and the Minnesota Department of Commerce, Division of Energy Resources ("Department") are in agreement on recommending that the Commission:

1. Approve MERC's Revenue Decoupling Evaluation Report ("Evaluation" or "Report") for calendar-year 2018.

2. Allow MERC to continue assessing its revenue decoupling adjustments in the future and approve the Company's annual decoupling rate adjustments proposed in this report.

III. Background

A. Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

1. Reduce a utility's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.

2. Achieve energy savings, and

3. Not harm ratepayers.

B. MERC's Pilot Revenue Decoupling Program

On July 13, 2012, the Commission issued its Findings of Fact, Conclusions of Law, and Order (Order) in Minnesota Energy Resources Corporation's 2010 general rate case, in docket 10-977. As part of the Order, the Commission authorized a three year "full" revenue decoupling mechanism (RDM) pilot that encompassed the Residential and the Small Commercial and Industrial customer classes only. In conjunction with the implementation of rates authorized as a result of the 2010 rate case, MERC's revenue decoupling pilot program became effective on January 1, 2013. MERC's pilot was scheduled to run through December 31, 2015; however, it has subsequently been extended several times, most recently through the end of 2019.[1]

[1] Commission Order, February 6, 2019, Docket No. G-011/GR-10-977; G-011/GR-15-736.

One of the conditions of the Commission's approval of MERC's revenue decoupling mechanism was that MERC was required to file an annual Revenue Decoupling Evaluation. This is the Company's sixth annual Evaluation and it encompasses the period of January 1 to December 31, 2018.

IV. Parties' Comments

A. MERC 2018 Revenue Decoupling Adjustment Calculation

On March 1, 2019 MERC filed its Revenue Decoupling Mechanism (RDM) adjustment calculations for the adjustment effective March 1, 2019. Table 1, below, shows the calculation of the Residential and Small Commercial and Industrial RDM and the remaining 2016 regulatory assets/liabilities divided by the forecasted sales (i.e. class revenue) approved in Docket No. G-011/GR-15-736.

Table 1: MERC Revenue Decoupling Mechanism Adjustment Calculation for Rates Effective March 1, 2019[2]

	Residential	Small C&I
2018 RDM Surcharge/(Refund)	($3,152,861.69)	$42,301.05
2016 Reconciliation Adjustment	($90,177.27)	$25,025.41
Total Surcharge/(Refund)	($3,243,038.96)	$67,326.46
Forecasted Sales (therms)	183,783,848	9,089,669
Surcharge/(Refund) Rate (per therm)	($0.01765)	$0.00741

Additionally, as shown in Table 2 below, MERC provided the summary of estimated rate and bill impacts from the proposed RDM factors.

Table 2: Estimated Rate and Bill Impacts from Proposed RDM Factors Effective March1, 2019[3]

Customer Class	RDM per Therm Surcharge	Average Usage	Monthly Bill Impact of RDM Surcharge	Annual Estimated Bill Impact
Residential	($0.01765)	874	($1.28)	($15.42)
Small C&I	$0.00741	999	$0.62	$7.40

MERC noted that, consistent with the Commission's December 5, 2018, Order Responding to Changes in Federal Tax Law,[4] the impacts of the TCJA were incorporated into the Company's RDM adjustment calculations.

[2] 2019 Revenue Decoupling Mechanism Adjustment Calculation Docket No. G-011/M-19-292, Table 1, page 3, March 1, 2019

[3] 2019 Revenue Decoupling Mechanism Adjustment Calculation Docket No. G-011/M-19-292, Table 2, page 3, March 1, 2019.

[4] Docket No. E,G-999/CI-17-895

B. MERC 2018 Revenue Decoupling Evaluation Report

On May 1, 2019, MERC filed its full 2018 Annual Decoupling Evaluation Report (Evaluation Report) for the period from January 1, 2018 to December 31, 2018. The Evaluation consists of a large amount of information regarding the Company's revenue decoupling in comparison to its Conservation Improvement Programs (CIP) in terms of costs and energy savings. This information is discussed in these briefing papers under DOC comments. The Evaluation Report also includes attachments with the data necessary to calculate the decoupling rate adjustment.

As can be seen in Table 1 above, the 2018 RDM adjustment calculation resulted in refunds totaling $3,152,861.69 to the Residential class and surcharges totaling $42,301.05 to the Small commercial and Industrial class. Neither of these amounts was impacted by the symmetrical 10% cap on RDM adjustments. When the 2016 Reconciliation Adjustment is included – ($90,177.27) for Residential and $25,025.41 for Small C&I – then the total amounts become a Residential refund totaling $3,243,038.96 and a Small C&I surcharge totaling $67,326.46. When divided by forecast sales, the result is a refund rate per therm of ($0.01765) for Residential customers and a surcharge rate per therm of $0.00741 for Small C&I customers.

C. Minnesota Department of Commerce Comments

On April 1, 2019 the Department filed comments on MERC's 2018 RDM Adjustment and recommended that the Commission approve the Company's proposed surcharges and refunds.

On September 10, 2019, the Department submitted its comments addressing both the 2018 RDM Adjustment and the 2018 Annual Decoupling Evaluation Report.

1. MERC's Full RDM

The Department stated that the purpose of MERC's full RDM is to remove its throughput incentive to eliminate any disincentive for its customers to invest in energy savings. MERC is allowed to recover its authorized revenues for non-fuel costs, no matter the cause of any variation (weather, economics, etc.), up to a symmetrical cap of 10 percent.[5] The Company's RDM applied to both Residential and General Service Small Commercial and Industrial classes through 2018 but, starting on January 1, 2019, the RDM will only apply to MERC's Residential customer class.

Each month MERC calculates the deferral per customer class (either surcharge or refund) and every 12 months, MERC accounts for the cumulative deferral for each class into rates for the next year by dividing the deferred amount by the forecast of sales for that customer class.

[5] A symmetrical cap means that both surcharges and refunds are subject to a limit, in this case equal to 10% of authorized revenue (net of the Conservation Cost Recovery Charges).

2. MERC's RDM Calculations

The Department observed that MERC based its calculations on its final distribution rates approved in Docket No. G-011/GR-17-563 and those rates included the 2018 impacts of the Tax Cut and Jobs Act (TCJA).[6]

In its review, the Department projected that MERC's average Residential customer would receive a 12-month refund of $15.42 while an average SCI customer would receive a 12-month surcharge of $7.40.

The Department concluded that MERC correctly calculated its decoupled surcharges/(refunds) and recommended that the Commission approve a Residential customer class refund of $0.01765 per therm and a Small Commercial and Industrial class surcharge of $0.00741 per therm.

3. MERC's Evaluation Report

The Department stated that MERC's evaluation report is quite extensive, as are revenue decoupling evaluation reports for other utilities. The DOC goes on to observe:

> 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.

[6] This is consistent with the Commission's December 5, 2018 Order Responding to Changes in Federal Tax Law, Docket No. E,G-999/CI-17-895.

As seen in Table 3 below, MERC's pre-decoupling (2010-2012) first year energy savings were compared with the Company's post-decoupling (2013-2018) energy savings.[7]

Table 3: MERC's Total CIP Savings as a Percent of Non-CIP-Exempt Weather – Normalized Retail Sales[8]

	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)	449,046[9]	43,735,602	1.03[10]%

The post-decoupling weighted average first year energy savings of 449,046 is about three percent higher than the pre-decoupling average of 434,169. At the same time, MERC's 2018 CIP energy savings were its highest ever, amounting to 17 percent higher than the Company's pre-decoupling weighted average annual energy savings.

[7] 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 would have been assumed to save 300 Dth when the behavioral projects were first approved is now assumed to save 100 Dth.

[8] Department of Commerce Comments, September 10, 2019, Table 1 at page 7.

[9] Staff corrected to reflect the weighted average. It should be noted that this minor change did not impact the DOC analysis.

[10] *Id.*

MERC also compared its pre- and post-decoupling energy savings by customer class, as shown in Table 4, below. Savings on the Small C&I customers is only available for 2016 - 2018.

Table 4: Comparing Pre-Decoupling to Post-Decoupling Energy Savings by Decoupled Customer Classes[11]

Year	Total Residential[12] (Dth)	Total C&I (Dth)	Small C&I (Dth)
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	8,041[13]

Looking at residential first year energy savings, the 2018 total of 187,645 was about one percent higher than pre-decoupling residential first year average of 189,703. There is limited data for comparison of the Small C&I customer class. The 2018 result of 4,725 is 65 percent lower than 2016's 13,523.

Table 5, below, shows MERC's SCI customer class energy savings as a percent of the customer class' retail sales (for the years of post-decoupling data available).

Table 5: MERC's SCI Energy Savings as a Percent of Retail Sales[14]

	Energy Savings (Dth)	Annual Retail Sales (Dth)	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 Totals	24,122	24,928,490	0.97%

The table above shows that MERC's SCI customer class energy savings have significantly declined on a dekatherm basis and as measured as a percent of retail sales. The average was close to 1 percent.

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[11] Source: DOC Comments, September 10, 2019, Table 2 at page 8.

[12] Per DOC: Residential first-year energy savings were modified to reflect the Department's Average Savings methodology for measuring behavioral project energy savings.

[13] Staff corrected average to include 2018. This change does not impact the analysis.

[14] Source: DOC Comments, September 10, 2019, Table 3 at page 9.

Effective January 1, 2019, and in compliance with the 2017 General Rate Case Order, the Company discontinued its Small Commercial and Industrial RDM.[15]

Overall, the Department stated that it "does not believe that it is possible to determine the exact causes of why a utility's energy savings increase or decrease".[16] The Company's 2018 average post-decoupling Residential energy savings of 192,648 dekatherms was slightly higher than its pre-decoupling energy savings of 189,703 dekatherms. Accordingly, the Department does not "believe that an evaluation of MERC's CIP lends conclusive support for continuing or discontinuing the Residential RDM".[17]

In conclusion, the Department continued to recommend that the Commission approve the Company's proposed 2019/2020 RDM adjustments: a refund of ($0.01765) per dekatherm for its Residential class and a surcharge of $0.00741 per dekatherm for its Small Commercial & Industrial class. DOC also recommended acceptance of MERC's 2018 Annual Decoupling Evaluation Report.

D. MERC Reply Comments

MERC thanked the Department for its thorough analysis and welcomed the opportunity to work with the Department and Commission Staff to streamline decoupling evaluation reporting. The Company reported that it was in agreement with the Department and agreed that no open issues remain.

MERC did note, regarding its Small C&I class (now Firm Class 1), that although the instant RDM adjustment reflects the final year that class will be decoupled, it will be necessary to continue to calculate RDM refund/surcharge rates into the future to account for any applicable reconciliation adjustments for calendar years 2017 and 2018.

MERC ended its comments by stating that it will propose extending its current decoupling program until completion of the Company's next rate case.

V. Staff Analysis

Staff verified that MERC's calculations are correct. Staff concurs with the Department's concerns regarding the Company's downward energy savings trend over the last three years.

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

[16] Source: DOC Comments, September 10, 2019, at page 9.

[17] *Id.,* 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."

Additionally, staff supports the Department suggestion that the revenue decoupling reporting format could benefit from simplification. The Commission may wish to ask utilities subject to revenue decoupling to participate with the Department and Commission staff in developing a process and plan to review evaluation reporting requirements.

As previously stated, MERC's decoupling pilot expires on December 31, 2019. Since MERC no longer plans to file a 2019 rate case, this pilot program's future will remain unaddressed without Commission action, meaning it will terminate at year's end. At various times over the years, MERC has proposed to extend to extend the RDM indefinitely or permanently; therefore Staff assumes that MERC may be interested in extending the pilot for at least another year. For that reason, if the Commission sees merit in an extension, then it may want to ask the Company and the Department if they think that the pilot should be extended at least through December 31, 2020.

Finally, as previously indicated, the Small C&I Class is not subject to decoupling in 2019; however, from March 1, 2019 through February 29, 2020, MERC will be volumetrically collecting the $67,326.46 surcharge. Since actual sales during the collection period are likely to be different that the forecasted 183,783,848, a "true-up of the true-up" for this class will be necessary. Since MERC has not indicated how it will handle collecting that final amount, the Commission may want to order that, by January 15, 2020, the Company make a compliance filing explaining how it plans to unwind any remaining balance for the Small C&I Class.

VI. Decision Alternatives

2018 Annual Decoupling Evaluation Report (Year 6)

1. Accept MERC's 2018 (Year 6) revenue decoupling evaluation report. (*MERC, DOC*) **<u>or</u>**

2. Reject MERC's 2018 (Year 6) revenue decoupling evaluation report.

2018 Annual Revenue Decoupling Mechanism (Year 6)

3. Approve MERC's revenue decoupling rate adjustment factors. (*MERC, DOC*) **<u>or</u>**

4. Reject MERC's revenue decoupling rate adjustment factors and determine alternative adjustment factors.

Small C&I Class Final True-Up

5. Require MERC to make a compliance filing explaining how it plans to unwind any remaining balance for the Small C&I Class by January 15, 2020. (*Staff*)

Pilot Expiration

6. Authorize MERC to extend the Revenue Decoupling Pilot Program through December 31, 2020. (Staff) **<u>or</u>**

7. Allow MERC's Revenue Decoupling Pilot to expire on December 31, 2019.

Future Changes to the Evaluation Report

8. Require MERC to work with the Department and other stakeholders on the development of a more streamlined Annual Evaluation Report. (*DOC*) **and**

9. Require MERC to make a compliance filing detailing proposed changes to the Annual Evaluation Report by July 31, 2020 (*Staff*).

Staff Note: The decision alternatives that have the word "staff" in parentheses at the end of them means the decision alternative is offered for the Commission's consideration by staff and is not taken from the record based on one of the parties' positions. It does not necessarily mean that it is a PUC staff recommendation.