MINNESOTA
PUBLIC UTILITIES COMMISSION

# Staff Briefing Paper

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| Meeting Date | July 15, 2021 | Agenda Item 7* |
| Company | Minnesota Energy Resources Corporation | |
| Docket Nos. | **G-011/M-20-456**<br>**In the Matter of Minnesota Energy Resources Corporation's Natural Gas Service Quality Report for 2019**<br><br>**G-011/M-19-303**<br>**In the Matter of Minnesota Energy Resources Corporation's Natural Gas Service Quality Report for 2018** | |

Issues

1. Should the Commission accept Minnesota Energy Resources Corporation's (MERC's) Natural Gas Service Quality Report for 2019?
2. Should the Commission allow MERC to retain the $500,000 performance incentive set-aside?
3. Should the Commission terminate MERC's ongoing monitoring and set-aside requirements?

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| ✓ **Relevant Documents** | **Date** |
|---|---|
| MERC Compliance Filing re: EFVs and SOVs (19-303) | December 6, 2019 |
| *Order Accepting Report and Setting Future Reporting Requirements* | January 7, 2020 |

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

| Relevant Documents | Date |
|---|---|
| (19-303) | |
| *Order Setting Reporting Requirements* (19-303) | January 7, 2020 |
| MERC: Service Quality Report for 2019 (20-456) | May 1, 2020 |
| Department: Comments (20-456) | November 20, 2020 |
| MERC: Reply Comments (20-456) | December 14, 2020 |
| Department: Comments re: Excess Flow Valve Reporting (19-303) | May 10, 2021 |

# I. Statement of the Issues

1. Should the Commission accept Minnesota Energy Resources Corporation's (MERC's) Natural Gas Service Quality Report for 2019?
2. Should the Commission allow MERC to retain the $500,000 performance incentive set-aside?
3. Should the Commission terminate MERC's ongoing monitoring and set-aside requirements?

# II. Background

**On May 1, 2020**, MERC submitted its Natural Gas Service Quality Report for calendar-year 2019 (*Report*).

**On November 20, 2020**, the Department of Commerce (Department) filed comments.

**On December 14, 2020**, MERC filed reply comments.

# III. Introduction

The Commission requires five Minnesota natural gas utilities[1] to file annual service quality reports, and Staff has prepared Briefing Papers to address each of the five 2019 submissions. Those Briefing Papers focus on the content of the reports and their sufficiency, going toward the ultimate question as to whether the Commission should accept the reports.

This Briefing Paper focuses on MERC's *Report*. The *Report* comprises approximately 25 pages of discussion supported by approximately 75 pages of numerical tables.

# IV. Parties' Comments

## A. MERC's *Report*

### 1. Roadmap

The following table provides a roadmap through the *Report* and the Department's comments. For the most part the *Report* focuses on calendar-year 2019. As part of its comments the Department has tabulated figures from, in some cases, as far back as 2010. Staff has not duplicated those tables in this Briefing Paper. In subsequent sections Staff has highlighted several metrics of particular interest to the Commission in recent years. The Department is the only party to file comments in response to the *Report*.

[1] Xcel Energy, CenterPoint Energy, MERC, Greater Minnesota Gas, and Great Plains Natural Gas.

| Table 1: Location of Discussion in MERC *Report* and Department Comments | | |
|---|---|---|
| **Quality Metrics** | **Location of Discussion in Record** | |
| | **MERC** | **Department** |
| **Call Center Response Time** | pp. 3-4 and Attachment 1; Reply, pp. 2-4 | pp. 3-5 |
| **Meter Reading Performance** | pp. 4-5 and Attachments 2 and 2A; Reply, pp. 4-5 | pp. 5-6 |
| **Involuntary Service Disconnections** | pp. 5-6 and Attachment 3 | pp. 7-8 |
| **Service Extension Requests** | pp. 6-7 and Attachment 4 | pp. 8-9 |
| **Customer Deposits** | p. 7 | pp. 9-10 |
| **Customer Complaints** | pp. 7-8 and Attachment 5 | pp. 10-11 |
| **Gas Emergency Telephone Calls** | p. 8 and Attachment 6 | p. 12 |
| **Gas Emergency Response Times** | p. 16 and Attachment 6 | pp. 12-13 |
| **Mislocates** | p. 9 and Attachment 7 | pp. 13-14 |
| **Damaged Gas Lines** | p. 9 and Attachment 8; Reply, pp. 5-8 | pp. 14-15 |
| **Service Interruptions** | p. 9 and Attachments 9, 9A and 10; Reply, pp. 8-9 | pp. 15-16 |
| **Customer-Related O&M Expenses** | p. 16 and Attachment 12 | p. 17 |
| **MNOPS Reportable Events** | pp. 9-11 and Attachment 10 and 10A | p. 16 |
| **Integrity Performance Measures** | pp. 10-12 and Attachment 12 | pp. 21-23 |
| **Excess Flow Valves (EFVs)** | pp. 11-12 | pp. 22-23 |
| **Improved Customer Experience (ICE) Project** | pp. 17-26 and Attachment 13; Reply, pp. 10-15 | pp. 17-20 |

### 2. MN Office of Pipeline Safety (MNOPS) Events

MERC was not cited by MNOPS for any emergency response violations in 2019 and MERC received from MNOPS four notices of probable violation for locating underground facilities.[2] MERC provides detail regarding those events in its Attachment 10.

### 3. Integrity Management Plans

With respect to transmission and distribution integrity management plans (TIMP and DIMP) MERC reported leak counts for Above Ground Facilities (1,643), Mains (97) and Services (1,948).[3] MERC reports leak counts broken down by facility type, material and cause. MERC operated approximately 5,100 miles of pipe in 2019.[4] MERC served, on average, approximately 212,000 residential accounts in 2019.[5]

[2] MERC *Report*, p. 11.
[3] MERC *Report*, pp. 12-14 and Attachment 11.
[4] MERC *Report*, Attachment 8.
[5] MERC *Report*, Attachment 3.

### 4. Excess Flow Valves (EFVs)

On January 7, 2020, the Commission ordered MERC to file:

d. The uniform reporting metrics for installation of excess flow valves and manual service line shut-off valves to be developed as follows: By December 6, 2019, after consultation with the other gas utilities obligated to report EFV metrics, MERC shall provide recommendations for uniform reporting of annual and overall EFV and manual shutoff valve installation on its distribution system. The recommendation could include:

   i. A uniform definition of the number of customers suitable for EFV;

   ii. A uniform definition of the number of customers suitable for manual shut-off valves;

   iii. A uniform metric to be reported as a percentage of customers with installations of both;

   iv. Metrics for the number of customers receiving installations upon request prior to a system upgrade that would require the installation of EVs.[6]

MERC submitted its compliance filing on December 6, 2019, and it reported the EFV and shut-off valve (SOV) data sought by the Commission in its May 1, 2020 *Report*.[7]

MERC defined the number of customers suitable for EFVs:

> [A] customer is suitable for an EFV if they fall under the installation requirements of 49 CFR § 192.383, which requires the service line to be operated at least 10 pounds per square inch gauge and to serve a customer load not greater than 1,000 standard cubic feet per hour ("SCFH"). However, we note that the actual number of services eligible for installation of an EFV may vary since an engineering analysis is required, on a case-by-case basis, to determine actual technical feasibility.[8]

MERC defined the number of customers suitable for SOVs:

> [A] customer is suitable for a manual shut-off valve if they do not meet the requirements of 49 CFR § 192.383.[9]

[6] Docket 19-303.
[7] Docket 20-456.
[8] Compliance Filing, December 6, 2019, Docket 19-303.
[9] Compliance Filing, December 6, 2019, Docket 19-303.

Note that MERC consulted Xcel, CPE, and Great Plains in developing the recommended definitions and reporting format and the four utilities are consistent in their recommendations.[10]

MERC reported that 224,891 of its customers are suitable for EFV installation and that it has installed 55,837 EFVs (an increase from 2018 of 5,414). MERC reported that 4,771 of its customers are suitable for SOV installation and that 195 SOVs have been installed (an increase from 2018 of 71).[11]

### B. Improved Customer Experience (ICE) Project

The Commission reviewed the ICE project in MERC's 2015 General Rate Case and described the origin of the ICE project as follows:

> Since 2006, MERC has used a third-party vendor, Vertex, to handle customer billing and payment processing, operate a call center for customer inquiries, and manage installation and repair crews. Vertex's system became outdated, however, and no longer provided modern levels of customer service, or met needed data-protection, security, or accuracy standards. MERC's agreement with Vertex was ended in July 2016.
>
> Over the last several years, MERC's former parent company, Integrys, developed what it described as a modern, full-service customer-relations and billing department—the Improved Customer Experience (ICE) project—designed by an Integrys subsidiary. The ICE program was designed to replace Vertex's system and the other legacy Integrys utility systems, and to obtain internal efficiencies and provide necessary services to all six of Integrys's regulated utilities. The ICE system platform handles billing, credit and collections, payments, and service-order processing, as well as replacing the utilities' telephone systems, web-based self service, and customer data-security systems[12]

In the 2015 General Rate Case the Commission found that:

> MERC has not demonstrated that the full increased costs of the ICE project it seeks to recover from MERC's ratepayers are reasonable and prudently incurred. MERC and Integrys did not fully investigate a MERC-only option or obtain any bids to evaluate the cost of a comparable MERC-only solution. The Commission therefore will allow MERC cost recovery of the ICE project based on MERC's share (approximately $9.84 million) of the updated total ICE project budget, but only if MERC demonstrates that the ICE project is effective and meets appropriate customer-service benchmarks … .[13]

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[10] See the December 6, 2019, filings in Dockets 19-300 (CPE), 19-280 (Great Plains) and 19-305 (Xcel).

[11] MERC *Report*, p. 15 and MERC's report from 2018, p. 12.

[12] Order in Docket 15-736, October 31, 2016, p. 12.

[13] Order in Docket 15-736, October 31, 2016, p. 16.

The Commission ordered that:

10. MERC may recover costs of the ICE project based on MERC's share (approximately $9.84 million) of the updated total ICE project budget.
11. MERC shall refund $500,000 from the ICE program budget to ratepayers for 2016. On an annual basis starting in 2017, MERC shall place $500,000 from ratepayers into an account.
    a. By February 2017 MERC shall develop a tool or survey to measure the effectiveness over time of the ICE project as it relates to the customer services that were intended to be improved by the project. Any survey, consultant, program, or tool to measure project effectiveness must be adopted in consultation with the Department and the OAG.
    b. The Company, after consultation with the Department and the OAG, shall set annual ICE-project customer-service benchmarks to be reached by the end of 2017. The Company may modify these benchmarks and shall report annually unless the Commission determines ongoing monitoring is no longer necessary and that the $500,000 no longer needs to be set aside as a performance incentive.
    c. The Company shall report performance towards these benchmarks annually at the same time they do their service-quality reporting. At that time the Commission will determine whether the benchmarks for retention of the $500,000 have been met.[14]

MERC reports that it has worked with DOC and OAG to develop ten performance measures:[15]

- Customer Transaction Satisfaction
- Residential First Call Resolution
- Billing Accuracy
- Billing Timeliness
- Even Payment Plan Adoption
- Electronic Bill Adoption
- Electronic Payment Adoption
- Field Service Appointments Kept
- IT/Security
- Net Write-Off as Percentage of Revenue

MERC states that:

> When considering the overall Performance Indicators associated with the ICE Project, MERC has continued to meet or exceed many of the identified metrics for calendar year 2019, continuing to demonstrate the overall effectiveness of the ICE

[14] Order in Docket 15-736, October 31, 2016, p. 55.
[15] MERC *Report*, pp. 17-26.

> Project in achieving improved customer service and delivering on the specific areas of customer service intended to be improved by the ICE Project.[16]

And,

> MERC has demonstrated that the benchmarks have been met for the Company to retain the $500,000 and requests that the Commission issue an Order authorizing the Company to retain the $500,000 set aside … .
>
> Additionally, because MERC's 2017 through 2019 ICE performance metrics indicate that the ICE Project has achieved its stated objectives in improving customer service, MERC requests that the Commission determine that ongoing monitoring and reporting is no longer necessary, and that the $500,000 no longer needs to be set aside as a performance incentive.[17]

## C. DOC Comments

### 1. General Comments

The Department recommends the Commission accept the *Report* pending MERC's response in reply comments. The Department has concerns regarding several metrics:

- The increase in call-center response time has increased from 15 seconds in 2017, to 20 seconds in 2018, to 22 seconds in 2019 (annual weighted average response time),[18]
- The increase in meters-not-read has increased while the number of hours charged to meter reading has declined and the number of contract positions has increased,[19]
- The increase in gas line damages (relative to miles of line) over the past ten years, and[20]
- The number service interruptions caused by employees was higher in 2019 than in previous years.[21]

### 2. Comments Regarding ICE

The Department stated that MERC improved upon its past performance in every category except (1) Billing Accuracy, (2) Billing Timeliness, and (3) Net Write-Off as a Percent of Revenue. The Department points out the decline in Billing Accuracy from 98.93% in 2017, to 98.85% in

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[16] MERC *Report*, p. 26.
[17] MERC *Report*, p. 26.
[18] Department Comments, pp. 3-4.
[19] Department Comments, pp. 5-6.
[20] Department Comments, pp. 14-15.
[21] Department Comments, pp. 15-16.

2018, to 98.47% in 2019.[22] The Department has asked MERC to comment on how the increased reliance on contracted meter reading may affect billing accuracy.

The Department further references the decline in Billing Timeliness from 99.48% in 2017, to 99.37% in 2018, to 99.13% in 2019.[23] The Department has asked MERC to comment on strategies it might use to mitigate the decline.

The Department also points out the increase in Net Write-Offs as a Percentage of Revenue from .73% in 2016 to .80% in 2019.[24] The Department agrees with MERC's statement that Net Write-Offs are more impacted by higher or lower gas bills, due to rates and weather, than by MERC's collection activities.

Focusing on the declines in Billing Accuracy and Billing Timeliness, noting that MERC has substantial control of these factors, the Department withholds its recommendation regarding whether MERC should be able to retain the $500,000 set-aside for 2019.

With respect to ongoing reporting of the ICE metrics the Department recommends the Commission continue to require MERC to report those metrics. Further, the Department recommends the Commission deny MERC's request to discontinue setting aside the $500,000 performance incentive in the future. The Department refers here to the declining Billing Accuracy and Billing Timeliness figures.

### D. MERC Reply Comments

With respect to Call Center Response Time, MERC points to the large call volume in September and October due to cold weather. MERC states that, excluding those months, its average response time would have been 13 seconds, rather than 22 seconds for the whole year. MERC argues that the decline in the metric for the year does not represent a systemic issue and the issue was addressed with a demonstrative improvement in November and December.[25]

Responding to the Department, MERC stated that its increased use of contract readers was temporary due to some internal company meter readers leaving the Company. Currently, MERC only uses contract readers for the central region of the state. MERC states that it does not have drive-by meter reading technology, thus requiring readers to walk to each meter. The record snowfall and the blizzards of February and March 2019 hampered its ability to read meters.[26]

With respect to gas-line damages MERC notes that its increasing right-of-way replacement projects since 2015 and its obsolete-materials replacement work does not increase its line-mileage but can increase the number of leaks, thus inflating leaks/mile figures. Further, MERC

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[22] MERC *Report*, p. 21 and Department Comments, p. 19.
[23] MERC *Report*, p. 21 and Department Comments, p. 19.
[24] MERC *Report*, p. 25 and Department Comments, pp. 25-26.
[25] MERC Reply Comments, pp. 2-4.
[26] MERC Reply Comments, pp. 4-5.

states, increasing construction by the Company and others has contributed to increased damages. MERC notes that the higher number of damages in 2019 is primarily due to mislocates and incorrect facility mapping. MERC also points out that service interruptions "caused by the utility" in 2019 is due largely to incorrect facility mapping. To mitigate the damages and service interruptions due to incorrect mapping MERC proposes to undertake a GIS service line mapping project in 2021.[27]

With respect to ICE performance metrics, MERC addresses Billing Accuracy and Billing Timeliness. In addition to the weather conditions mentioned above MERC points out that a turnover in experienced meter-reading staff has affected accuracy as it trains new internal staff and external (contract) staff. MERC anticipates that with its deployment of advanced metering infrastructure (AMI) that it will reduce the number of estimated bills and their accuracy.[28] MERC also expects that its deployment of AMI will improve billing timeliness. Currently, MERC will intentionally hold some bills to obtain actual reads if the estimates are questionable.[29]

In sum, MERC states that it continues to meet or exceed many of the ICE project metrics and has demonstrated the overall effectiveness of its efforts to improve customer service. MERC asks the Commission to allow it to retain the $500,000 set-aside and to find that ongoing monitoring and reporting of the ICE metrics is no longer necessary.

## V. Staff Analysis

Staff believes that MERC has met the Commission's reporting requirements and recommends the Commission accept MERC's *Report*.

With respect to the ICE performance project, Staff recommends the Commission allow MERC to retain the $500,000 set-aside as a 2019 performance incentive.

MERC maintained or improved upon all but three metrics (Billing Accuracy, Billing Timeliness, and Net Write-Off as a Percentage of Revenue) although its failure to meet those three benchmarks may be due to weather and/or staff turnover. Net Write-Offs may be impacted more by higher or lower gas bills, due to rates and weather, than by MERC's collection activities.

The Commission's Consumer Affairs Office (CAO) received 61 complaints from MERC's customers in 2019. Complaints focused on billing errors, bills based on estimated consumption, inflexibility regarding payment plans, poor customer service and delays on reconnection.

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[27] MERC Reply Comments, pp. 5-9.

[28] MERC Reply Comments, pp. 10-12.

[29] MERC Reply Comments, pp. 12-13.

## VI. Decision Options

1. Accept MERC's *Report*.

2. Do not accept MERC's *Report*.

3. Allow MERC to retain the $500,000 set-aside as an ICE performance incentive.

4. Do not allow MERC to retain the $500,000 set-aside as an ICE performance incentive.

5. Find that that ICE-related ongoing monitoring and reporting is no longer necessary, and that the $500,000 no longer needs to be set aside as a performance incentive.

6. Continue to require MERC to monitor and report its ICE Project metrics and to continue to retain $500,000 as a set-aside performance incentive.