

**BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 350
St Paul, MN 55101-2147**

**In the Matter of the Application of
Minnesota Power for Authority to
Increase Rates for Electric Service in
Minnesota**

**PUC Docket No. E015/GR-16-664
OAH Docket No. 5-2500-34078**

DIRECT TESTIMONY OF

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On Behalf of

Clean Energy Organizations

May 31, 2017

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Schedule 2	<i>Revenue Regulation and Decoupling: A Guide to Theory and Application</i> (Nov. 2016, Regulatory Assistance Project).
Schedule 3	<i>Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling</i> , Docket No. E,G-999/CI-08-132 (June 19, 2009).
Schedule 4	Nissen et al., <i>The Link between Decoupling and Success in Utility-led Energy Efficiency</i> (2016, The Electricity Journal).
Schedule 5	Supporting documents for Clean Energy Organizations’ proposed revenue decoupling mechanism.

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Will Nissen, I am the Director of Energy Performance at Fresh Energy,
4 located at 408 Saint Peter Street, Suite 220, St. Paul, MN 55102.

5 **Q. Did anyone assist you in preparing this testimony?**

6 A. Yes. Ben Bratrud, a policy fellow at Fresh Energy, assisted me with this testimony.

7 **Q. On whose behalf are you testifying in this rate case proceeding?**

8 A. My testimony is sponsored by the Clean Energy Organizations.¹

9 **Q. Mr. Nissen, what is your education and professional background?**

10 A. I have a Master of Public Policy from the University of Minnesota and a Bachelor of Arts
11 from Carleton College. I have worked at Fresh Energy since December 2012 and have
12 intervened in proceedings at the Minnesota Public Utilities Commission (Commission)
13 related to rate design, standby rates, utility energy efficiency programs, demand side
14 management financial incentives, and integrated resource planning. Recently, I provided
15 testimony on residential customer charges on behalf of Fresh Energy in CenterPoint
16 Energy's 2015 rate case, docket No. G-008/GR-15-424, and Otter Tail Power's 2015 rate
17 case, docket no. E-017/GR-15-1033.

¹ The Clean Energy Organizations include Fresh Energy, Minnesota Center for Environmental Advocacy, Sierra Club, and Wind on the Wires.

1 **Q. Please describe Mr. Bratrud's education and professional background.**

2 A. Mr. Bratrud's position with Fresh Energy is as an Energy Policy Research Fellow. He has
3 been in this position with Fresh Energy since September of 2016. In this time he has
4 mainly focused on financial analysis and data analysis of energy efficiency programs
5 throughout Minnesota. He has a Bachelor of Arts in Economics from the University of
6 Minnesota Duluth.

7 **Q. What issues does your testimony address?**

8 A. In the following testimony we propose a utility revenue decoupling mechanism
9 applicable to Minnesota Power residential and commercial customers.

10 **Q. Please summarize your findings and recommendations.**

11 A. As explained below, the revenue decoupling mechanism we propose achieves several
12 Minnesota statutory and policy objectives. We find that our proposed revenue decoupling
13 mechanism:

- 14 1. Meets Minnesota statute, regulatory guidelines, and previous Commission orders
15 governing revenue decoupling;
- 16 2. Furthers the state's goals related to energy efficiency and conservation;
- 17 3. Removes the potential disincentive for Minnesota Power to maintain its strong
18 Conservation Improvement Program performance and goals, even in the face of
19 declining financial incentives;
- 20 4. Meets the Commission's draft rate design principles and objectives; and
- 21 5. Will not adversely impact customer bills.

22 We recommend that the Commission adopt our proposed revenue decoupling mechanism
23 for Minnesota Power residential and commercial customers.

1 **II. REVENUE DECOUPLING**

2 **Q. What is revenue decoupling?**

3 A. Revenue decoupling is a regulatory tool that seeks to address the shortcomings with
4 traditional cost-of-service ratemaking related to a variety of factors now facing the
5 electric utility industry. The problem with traditional cost-of-service ratemaking is
6 summarized by the Brattle Group as follows:

7 A cornerstone of traditional cost-of-service ratemaking is being questioned
8 as to how well it fits in the “utility of the future.” This cornerstone is
9 volumetric (per kWh) rates that change only at general rate cases while
10 collecting the majority of the fixed costs of residential and small
11 commercial customers. The modern problem with this cornerstone has two
12 sides. The first is how to address the regulated company’s throughput
13 incentive for greater sales when it directly conflicts with the regulatory
14 policies for the company to promote energy efficiency and distributed
15 generation. The second is how to address stagnant or falling revenues from
16 stagnant or falling kWh sales from more general changes in technology
17 and the economy.²

18 To address these problems, revenue decoupling is “intended to break the link between
19 how much energy a utility delivers and the revenue it collects.”³ In doing so, revenue
20 decoupling reduces the throughput incentive⁴ for greater sales by truing-up actual utility
21 revenues with allowed revenues approved by regulators. This is beneficial to ratepayers
22 because in years where the utility over-collects revenues, and thus collects more revenue
23 than approved by regulators to provide service, that money is returned back to ratepayers.

² Vilbert et al., *Effect on the Cost of Capital of Ratemaking that Relaxes the Linkage between Revenue and kWh Sales: An Updated Empirical Investigation of the Electric Industry* at 40 (Nov. 2016, Brattle Group) attached as Schedule 1.

³ *Revenue Regulation and Decoupling: A Guide to Theory and Application* at 2 (Nov. 2016, Regulatory Assistance Project) attached as Schedule 2.

⁴ After regulators set rates in a rate case, these volumetric rates are fixed even though customer use fluctuates. Under these circumstances, where the utility knows how much revenue it will recover per kWh sold, the utility has a financial incentive to increase sales to maximize returns and resist reducing sales. This is typically known as the throughput incentive.

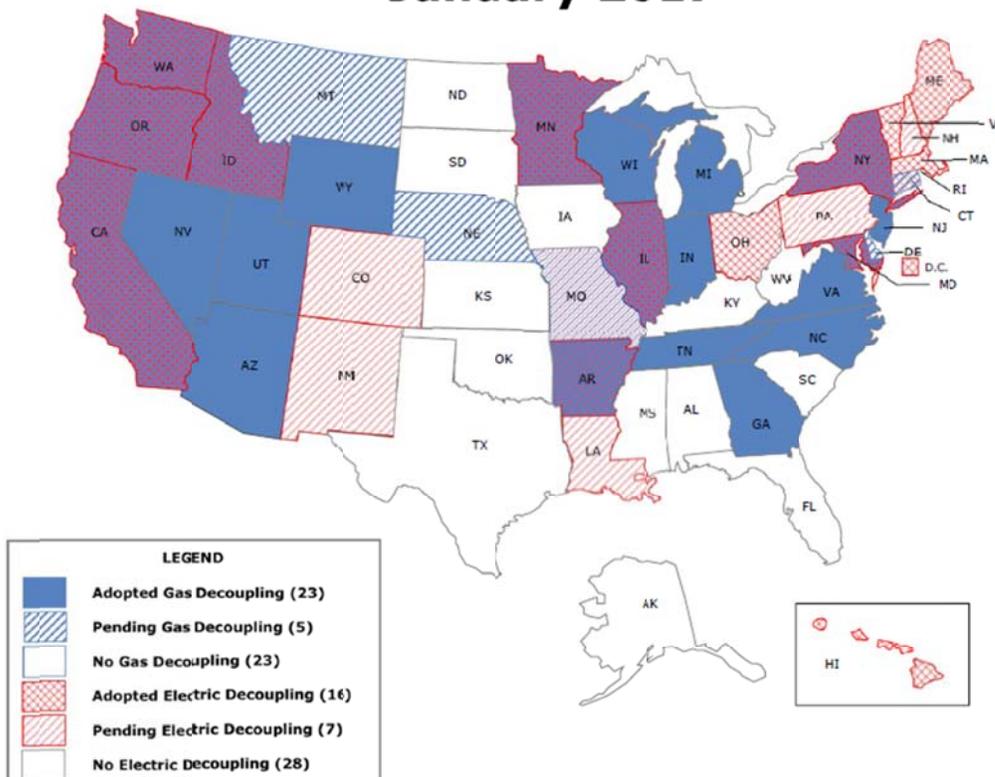
1 At the same time, revenue decoupling makes the utility whole in years where the utility
 2 under-collects revenues due to energy efficiency, distributed generation, and other
 3 factors. This can relieve financial stress on the utility and reduce disincentives to invest in
 4 energy efficiency programs and other sales-reducing technologies. Under revenue
 5 decoupling, utilities are allowed to recover the approved costs of providing service, no
 6 more and no less, even in the face of revenue instability and declining sales.

7 **Q. Is revenue decoupling common among electric and gas utilities in the U.S.?**

8 A. Yes. As shown in Figure 1, as of January 2017, according to the Natural Resources
 9 Defense Council, 23 states across the country have adopted decoupling for natural gas
 10 utilities, and 16 states have adopted decoupling for electric utilities.

11 **Figure 1. Prevalence of Revenue Decoupling in the U.S.**

**Electric and Gas Decoupling in the U.S.
 January 2017**



1 **Q. Does Minnesota have experience with revenue decoupling?**

2 A. Yes. In 2007, the Minnesota Legislature passed legislation providing definitions and
3 processes with which the Minnesota Public Utilities Commission can approve pilot
4 revenue decoupling proposals. Specifically, Minnesota Statute section 216B.2412 states:

5 **Subdivision 1. Definition and purpose.** For the purpose of this section,
6 “decoupling” means a regulatory tool designed to separate a utility’s
7 revenue from changes in energy sales. The purpose of decoupling is to
8 reduce a utility’s disincentive to promote energy efficiency.

9 **Subdivision 2. Decoupling criteria.** The commission shall, by order,
10 establish criteria and standards for decoupling. The commission may
11 establish these criteria and standards in a separate proceeding or in a
12 general rate case or other proceeding in which it approves a pilot program,
13 and shall design the criteria and standards to mitigate the impact on public
14 utilities of the energy-savings goals under section 216B.241 without
15 adversely affecting utility ratepayers. In designing the criteria, the
16 commission shall consider energy efficiency, weather, and cost of capital,
17 among other factors.

18 **Subdivision 3. Pilot programs.** The commission shall allow one or more
19 rate-regulated utilities to participate in a pilot program to assess the merits
20 of a rate-decoupling strategy to promote energy efficiency and
21 conservation. Each pilot program must utilize the criteria and standards
22 established in subdivision 2 and be designed to determine whether a rate-
23 decoupling strategy achieves energy savings. On or before a date
24 established by the commission, the commission shall require electric and
25 gas utilities that intend to implement a decoupling program to file a
26 decoupling pilot plan, which shall be approved or approved as modified by
27 the commission. A pilot program may not exceed three years in length.
28 Any extension beyond three years can only be approved in a general rate
29 case, unless that decoupling program was previously approved as part of a
30 general rate case. The commission shall report on the programs annually
31 to the chairs of the house of representatives and senate committees with
32 primary jurisdiction over energy policy.⁵

33 Following passage of this statute, the Minnesota Public Utilities Commission opened a
34 docket to establish criteria and standards for revenue decoupling in the state.⁶ Following
35 workshops and record development, the Commission released the statute-required criteria

⁵ Minn. Stat. § 216B.2412.

⁶ Docket No. E,G-999/CI-08-132.

1 and standards through an Order.⁷ Those criteria and standards are summarized below in
 2 relation to our Minnesota Power-specific proposal.

3 Since its June 19, 2009 Order, the Commission has approved six three-year revenue
 4 decoupling pilot programs in Minnesota for three natural gas utilities and one electric
 5 utility. Table 1 highlights the utilities, rate cases, and dates of Commission approval for
 6 each pilot.

7 **Table 1. Minnesota Three-Year Revenue Decoupling Pilot Programs**

Utility	Rate case docket	Commission approved
CenterPoint Energy (gas)	G-008/GR-08-1075	January 11, 2010
Minnesota Energy Resources Corporation (gas)	G-007,011/GR-10-977	July 13, 2012
CenterPoint Energy (gas)	G-008/GR-13-316	June 9, 2014
Xcel Energy (electric)	E-002/GR-13-868	May 8, 2015
Great Plains Natural Gas (gas)	G-004/GR-15-879	September 6, 2016
Minnesota Energy Resources Corporation (gas)	G-011/GR-15-736	October 31, 2016
Xcel Energy (electric)	E-002/GR-15-826	(order pending on extension of existing pilot)

8 Each revenue decoupling pilot approved by the Commission includes detailed annual
 9 reporting requirements, resulting in a robust record of data on the impacts of revenue
 10 decoupling in Minnesota. Notably, no utility implementing a revenue decoupling pilot
 11 has requested to discontinue a pilot, and the Commission has never terminated a pilot
 12 before its three-year completion date.

⁷ *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling*, Docket No. E,G-999/CI-08-132 (June 19, 2009) [hereinafter “Decoupling Standard Order”] attached as Schedule 3.

1 **III. MINNESOTA POWER’S CONSERVATION IMPROVEMENT PROGRAMS**

2 **Q. As stated in Minnesota Statute, one primary purpose of revenue decoupling is to**
3 **reduce a utility’s disincentive to promote energy efficiency. Does Minnesota Power**
4 **offer programs promoting and implementing energy efficiency?**

5 A. Yes. Minnesota Power offers Conservation Improvement Programs (CIP) designed to
6 help customers reduce energy use as required by state law. Minnesota Statute section
7 216B.241 specifically states that “each individual utility and association shall have an
8 annual energy-savings goal equivalent to 1.5 percent of gross annual retail energy sales.”⁸
9 As shown in Table 2, if CIP-exempt retail sales are not included, Minnesota Power has
10 exceeded a 1.5 percent annual energy savings goal each year since 2010.⁹

⁸ Minn. Stat. § 216B.241, subd. 1c(b) (2016).

⁹ Minn. Stat. § 216B.241, which governs the state’s Conservation Improvement Programs, prohibits sales to a CIP-exempt customer from contributing to the gross annual retail sales number used to determine percent savings. As of December 31, 2016, Minnesota Power has 15 large industrial customers that have received CIP-exempt status, representing a significant portion of the Company’s annual retail sales and thus reducing the total kWh savings the Company must achieve to meet the 1.5 percent CIP savings requirement. It is important to note that while Minnesota Statute section 216B.241 governs energy savings through Conservation Improvement Programs, Minnesota Statute sections 216B.2401 and 216C.05 dictate energy savings of at least 1.5 percent of annual retail energy sales without any restrictions on total retail sales. Accordingly, in its Order in the Company’s 2013-2027 Integrated Resource Plan (Docket No. E-015/RP-13-53), the Commission stated the following:

The Commission agrees with the Environmental Intervenors that the energy savings goals described in Minn. Stat. § 216B.2401 and 216C.05 do not exclude consideration of savings that may be achieved by Minnesota Power’s CIP-exempt customers. A significant amount of demand on Minnesota Power’s system comes from CIP-exempt customers, but Minnesota Power’s resource plans—which must consider energy conservation as an energy resource—serve CIP and CIP-exempt customers alike. Accordingly, resource planning should reflect the possibility of energy conservation among all of Minnesota Power’s customers.

Therefore, the energy savings achieved through the Company’s CIP efforts should not be considered what is achievable across the Company’s entire service territory.

1

Table 2. Minnesota Power CIP Achievements since 2010

Year	Energy Savings (kWh)	Percent Savings¹⁰
2010 ¹¹	60,503,220	1.8 percent
2011 ¹²	69,091,422	2.1 percent
2012 ¹³	63,159,196	1.9 percent
2013 ¹⁴	77,630,645	2.37 percent
2014 ¹⁵	76,338,363	2.53 percent
2015 ¹⁶	85,701,641	2.84 percent
2016 ¹⁷	64,117,319 (reported)	2.1 percent (reported)

2 The Clean Energy Organizations commend Minnesota Power for its efforts and
3 achievements in meeting and exceeding the statutory savings goal of 1.5 percent.

4 **Q. Is the Company allowed to recover the costs associated with implementing CIP**
5 **programs that help customers save energy and money?**

6 A. Yes. Minnesota Statute states that:

7 The commission shall allow a utility to recover expenses resulting from a
8 conservation improvement program required by the department and
9 contributions and assessments to the energy conservation account, unless

¹⁰ As a percentage of the three-year average weather-normalized retail electricity sales, excluding sales to exempt customers. For example, the Company's 2010-2012 Triennial Plan year achievements use 2007-2009 average weather-normalized retails electricity sales, excluding sales to exempt customers, as the denominator in determining the percent savings.

¹¹ The Department of Commerce annually reviews, amends, and approves reported utility energy savings and spending numbers. These are Department-approved energy savings numbers from Docket No. 08-610.02.

¹² Department-approved energy savings from Docket No. 10-526.01.

¹³ Department-approved energy savings from Docket No. 10-526.02.

¹⁴ Department-approved energy savings from Docket No. 10-526.03.

¹⁵ Department-approved energy savings from Docket No. 13-409.01.

¹⁶ Department-approved energy savings from Docket No. 13-409.02.

¹⁷ Minnesota Power's reported energy savings (not yet approved) from Docket No. 13-409.03

1 the recovery would be inconsistent with a financial incentive proposal
2 approved by the commission.¹⁸

3 It is common practice in Minnesota for utilities to recover costs to implement CIP
4 programs. Minnesota Power currently recovers CIP costs “through base rates via the
5 Conservation Cost Recovery Charge and through an annual CIP adjustment factor called
6 the Conservation Program Adjustment.”¹⁹ These charges are submitted for approval by
7 the Commission every year, and are assessed most recently in Docket No. E-015/M-17-
8 178.

9 **Q. Despite resulting declines in sales due to energy efficiency, does Minnesota Power
10 have a financial incentive to exceed its CIP-approved energy savings goal?**

11 A. Yes. Minnesota Statute explicitly allows the Commission to approve financial incentive
12 mechanisms for public utilities to “encourage the vigorous and effective implementation
13 of utility conservation programs.”²⁰ The purpose of these mechanisms is to ensure that
14 “implementation of cost-effective conservation is a preferred resource choice for the
15 public utility considering the impact of conservation on earnings of the public utility.”²¹
16 Every investor-owned electric and natural gas utility has used “Shared Savings DSM
17 Financial Incentive Plans” since the Commission initially approved these plans in Docket
18 No. E,G-999/CI-98-1759.²² These plans award “utilities a share of the total net ratepayer
19 benefit from investments that the utilities make in their Conservation Improvement

¹⁸ Minn. Stat. § 216B.241, subd. 2b.

¹⁹ *Minnesota Power 2016 CIP Consolidated Filing*, Docket No. E-015/M-17-178, 14 (Apr. 3, 2017) [hereinafter “2016 CIP Consolidated Filing”].

²⁰ Minn. Stat. § 216B.241, subd. 6c(c).

²¹ Minn. Stat. § 216B.241, subd. 6c(c)(3).

²² *Comments of Minnesota Office of Energy Security*, Docket No. E,G 999/CI-08-133, 2 (Nov. 10, 2008).

1 Programs.”²³ Minnesota Power, and all public electric and natural gas utilities that
 2 implement CIP programs in Minnesota, currently receive a financial incentive based on
 3 CIP program performance.

4 **Q. Did Minnesota Power receive a financial incentive in the years it exceeded the 1.5**
 5 **percent CIP savings goal highlighted in Table 2?**

6 A. Yes. Table 3 shows the dollar amounts Minnesota Power received based on the
 7 Commission-approved percentage of total net ratepayer benefit from the Company’s
 8 investments in its Conservation Improvement Programs since 2010. In addition, Table 3
 9 shows the total spending across the Company’s Conservation Improvement Programs for
 10 the same years (i.e., costs recovered through the Conservation Cost Recovery Charge and
 11 Conservation Program Adjustment described above).

12 **Table 3. Minnesota Power Annual Financial Incentives since 2010**

Year	Financial Incentive ²⁴	Total CIP Spending
2010	\$6,806,612	\$5,635,001 ²⁵
2011	\$7,772,785	\$6,295,187 ²⁶
2012	\$7,105,410	\$6,813,818 ²⁷
2013	\$8,733,448	\$6,405,828 ²⁸
2014	\$6,237,702	\$7,200,833 ²⁹
2015	\$7,476,643	\$6,554,551 ³⁰

²³ *Id.*

²⁴ Historic financial incentives numbers (2010-2015) are summarized in *Reply Comments of the Minnesota Department of Commerce, Division of Energy Resources, Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2017*, Docket No. E,G999/CI-08-133 (Feb. 19, 2016).

²⁵ Department-approved spending from Docket No. 08-610.02.

²⁶ Department-approved spending from Docket No. 10-526.01.

²⁷ Department-approved spending from Docket No. 10-526.02.

²⁸ Department-approved spending from Docket No. 10-526.03.

²⁹ Department-approved spending from Docket No. 13-409.01.

2016	\$5,528,499 (proposed) ³¹	\$7,451,958 (proposed) ³²
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1 **Q. How do these financial incentive levels compare with other states?**

2 A. The financial incentives that Minnesota's electric and natural gas public utilities have
3 received for their Conservation Improvement Program performance in recent years
4 provide some of the strongest signals to maximize savings compared to other states. As
5 stated by the American Council for an Energy Efficient Economy in its May 2015
6 national review of energy efficiency performance incentives:

7 Minnesota's current utility incentive approach may well be
8 providing the highest level of energy efficiency performance
9 incentives as a percentage of program costs in the nation...the
10 incentives have been equivalent to well over half to as much as
11 two-thirds of program costs for the electric utilities.³³

12 As shown in Table 3, the financial incentives Minnesota Power received since 2010 have
13 exceeded total program costs related to energy efficiency programs in some years (thus,
14 more than 100 percent of program costs). Clearly, in the absence of other policies like
15 revenue decoupling, this incentive has resulted in significant savings achieved for
16 Minnesota Power customers through the Company's Conservation Improvement
17 Programs.

³⁰ Department-approved spending from Docket No. 13-409.02.

³¹ See 2016 CIP Consolidated Filing.

³² *Id.*

³³ Nowak et al., *Beyond Carrots for Utilities: A National Review of Performance Incentives for Energy Efficiency* at 63 (June 9, 2015, ACEEE) available at <http://aceee.org/beyond-carrots-utilities-national-review>.

1 **Q. Does Minnesota Power plan to continue exceeding 1.5 percent annual energy savings**
2 **through its CIP?**

3 A. Yes. The Company filed its 2017-2019 Conservation Improvement Program Triennial
4 Plan on June 1, 2016.³⁴ The Department approved the Company's plan on November 3,
5 2016, with savings goals for each year of the plan as shown in Table 4.³⁵

6 **Table 4. Minnesota Power 2017-2019**
7 **Energy Savings Goals and Incentives**

Year	Energy Savings Goal (kWh)	Percent Savings Goal ³⁶	Financial Incentive (projected) ³⁷
2017	57,390,222	1.95	\$2,811,810
2018	57,390,222	1.95	\$2,499,386
2019	57,390,222	1.95	\$2,082,822

8 **Q. Can the Company expect financial incentive levels similar to what it has received in**
9 **the past?**

10 A. No. Prior to implementation of natural gas and electric public utilities' 2017-2019
11 Conservation Improvement Program Triennial Plans, the Commission assessed and
12 modified the formula used to determine utilities' financial incentive in Docket No. E,G-

³⁴ *Minnesota Power's 2017-2019 Triennial Conservation Improvement Program (CIP) Filing*, Docket No. E015/CIP-16-117 (June 1, 2016).

³⁵ *Decision In re Minnesota Power's 2017-2019 Electric Conservation Improvement Program Plan*, Docket No. E015/CIP-16-117, 5 (Nov. 3, 2016). Pursuant to Minnesota Statute § 216B.241, subd. 1c, the commissioner of the Department of Commerce can approve utility energy savings plans in excess of 1.5 percent annual savings but no less than 1.0 percent annual savings. As shown in Table 4, Minnesota Power's Department-approved annual savings goal exceeds the 1.5 percent goal required in statute.

³⁶ The percent savings reflects energy savings as a percentage of 2013-2015 average weather-normalized retail electricity sales, excluding sales to exempt customers.

³⁷ The projected financial incentive is based on the formula approved by the Commission (*see Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan*, Docket No. E,G-999/CI-08-133 (Aug. 5, 2016) [hereinafter "Commission Aug. 5, 2016 Order"]), and Minnesota Power's approved energy savings goals.

1 999/CI-08-133. The purpose of reassessing the financial incentives formula was not to
2 deliberate about the value of the policy in driving energy efficiency program
3 performance, but rather to determine the right balance of effectively compensating and
4 encouraging utilities for strong performance with simplicity and how ratepayers can
5 secure the benefits of energy efficiency at lower cost. Specifically, in its August 5, 2016
6 Order in the docket, the Commission stated:

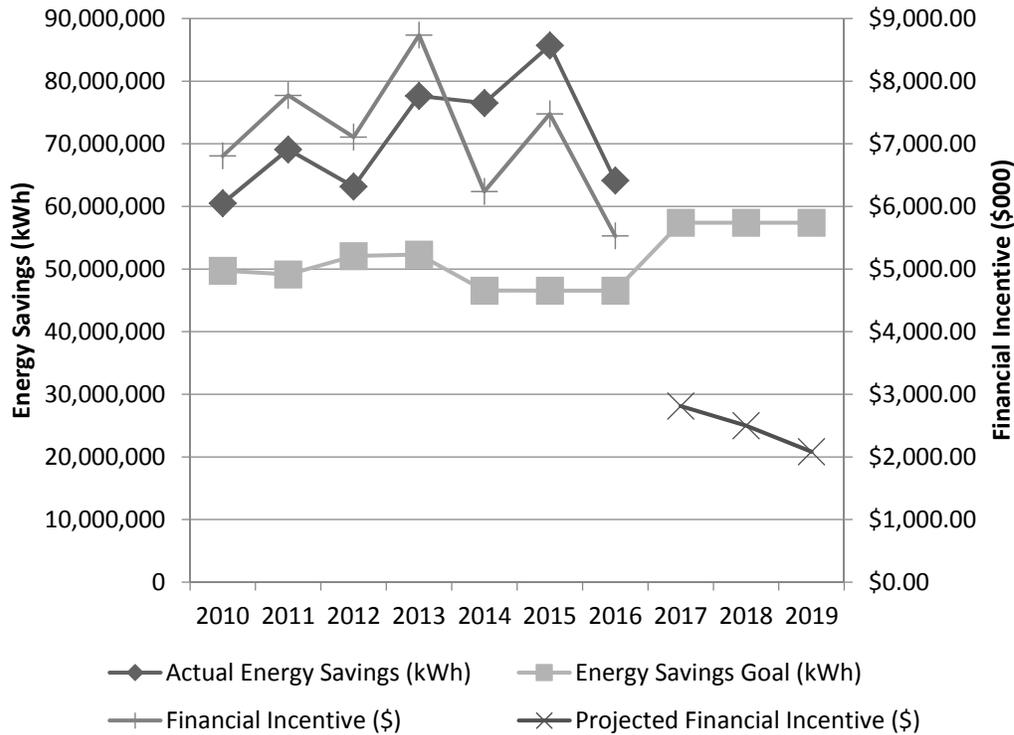
7 The data show that Minnesota's investor-owned utilities have
8 increased their levels of conservation, and have generated more
9 benefits than costs, even after accounting for the incentive costs.
10 ... The Commission finds that the [new] incentive formula
11 fashioned by the Department is designed to target appropriate
12 resources in a manner that will encourage conservation, without
13 expending resources where they would be unlikely to improve the
14 utility's performance.³⁸

15 Thus, the financial incentive formula for all public utilities will be different for the 2017-
16 2019 Triennial Plan program years than it has been in previous years. As shown below in
17 Figure 2, the financial incentive for Minnesota Power will be significantly lower than in
18 previous years.

³⁸ Commission Aug. 5, 2016 Order at 18, 20.

1

Figure 2. Minnesota Power Energy Savings and Financial Incentives



2 Since 2010, Minnesota Power has continually exceeded its energy savings goals and
 3 received financial incentives to match those achievements. However, based on the new
 4 financial incentive formula approved by the Commission on August 5, 2016, Minnesota
 5 Power will receive significantly lower financial incentives for the kilowatt-hour savings
 6 goals approved in its 2017-2019 Triennial Plan despite setting higher savings goals than
 7 in any year since 2010. In fact, Minnesota Power would gradually receive lower financial
 8 incentive amounts for achieving the same level of savings over the next three years.

9 Notably, the energy savings goals for the 2017-2019 years are close to the actual savings
 10 achieved in 2016, while the financial incentive would be cut in half in 2017 and by nearly
 11 one-third in 2019. It is also important to note that Minnesota Power filed its 2017-2019
 12 Triennial Plan *before* the Commission ruled to modify the financial incentive over the

1 next three years. Thus, the Company's 2017-2019 Triennial Plan goals may not account
2 for lower financial incentive rewards. Falling financial incentives for Conservation
3 Improvement Program performance in the coming years may jeopardize Minnesota
4 Power's record of significantly exceeding its approved savings goals, as shown in Figure
5 2.

6 **Q. Can revenue decoupling play a role in maintaining Minnesota Power's strong**
7 **Conservation Improvement Program performance levels, even in the face of**
8 **declining financial incentives?**

9 A. Yes. As stated in Minnesota Statute, the purpose of revenue decoupling is to reduce a
10 utility's disincentive to promote energy efficiency. Currently, Minnesota Power is able to
11 recover all costs associated with implementing CIP programs, making the Company
12 financially indifferent to administering those programs. In addition, as discussed above,
13 the Shared Savings DSM Financial Incentive provides a significant financial incentive for
14 the Company to effectively implement efficiency programs. However, the Company
15 currently has no means of recovering costs of providing service through sales that may be
16 "lost" to greater energy efficiency by customers. Without revenue decoupling, the
17 possibility of energy efficiency reducing sales to the point that the utility is not made
18 financially whole can make a utility wary of maximizing energy efficiency achievements.
19 Conversely, research published in the Electricity Journal indicates that utilities achieve
20 higher levels of energy efficiency after implementing revenue decoupling compared with
21 achievements prior to implementation, despite the fact that revenue decoupling only

1 reduces the financial disincentive for utilities to invest in energy efficiency.³⁹ The balance
2 of program cost recovery, financial incentives based on program performance, and
3 revenue decoupling is eloquently summarized in the Commission’s August 5, 2016 Order
4 in the Shared Savings DSM Financial Incentives docket:

5 For example, the Commission may authorize a utility to recover
6 CIP-related costs via a Conservation Cost Recovery Charge built
7 into the utility’s rates. And the Commission may authorize a utility
8 to implement revenue decoupling, a rate design that helps ensure
9 that a utility recovers certain fixed costs regardless of how much
10 energy it sells. But while these cost-recovery mechanisms may
11 reduce a utility’s *disincentive* to depress its own sales via
12 conservation, they do not affirmatively *encourage* the practice of
13 promoting conservation. . . . To that end, the Legislature
14 authorized the Commission to approve a system of financial
15 incentives to promote conservation.⁴⁰

16 This is commonly referred to the “three-legged stool” of strong energy efficiency policy:
17 (1) cost recovery for program expenses, (2) financial incentives based on savings
18 achieved to encourage strong program performance and put energy efficiency
19 investments on par with or better than other rate-based investments, and (3) revenue
20 decoupling that trues-up utility revenues to account for lost sales due to success in energy
21 efficiency. As financial incentives encouraging conservation decrease, implementing
22 revenue decoupling can balance the scales by further removing disincentives to promote
23 conservation and maximize utility CIP performance.

³⁹ Nissen et al., *The Link between Decoupling and Success in Utility-led Energy Efficiency* (2016, The Electricity Journal) attached as Schedule 4.

⁴⁰ Commission Aug. 5, 2016 Order at 3.

1 **IV. PROPOSED REVENUE DECOUPLING MECHANISM**

2 **Q. What are Clean Energy Organizations proposing regarding revenue decoupling in**
3 **this case?**

4 A. We propose a full per-customer revenue decoupling mechanism applicable to residential
5 customers (rate codes 20, 21, 22, 23, and 24) and commercial customers (rate codes 25,
6 26, 27, and 75). This mechanism adjusts actual non-fuel revenues recovered per-customer
7 to match the Commission-approved revenue requirement for each rate class. Revenues
8 related to the Conservation Cost Recovery Charge are subtracted from the actual revenue
9 total for both classes. Discounts related to the High Voltage Adjustment are also
10 removed. The mechanism does not adjust revenues recovered through the fixed customer
11 charge.

12 **Q. Has the Commission provided guidance on utility-proposed revenue decoupling**
13 **mechanisms?**

14 A. Yes. As mentioned above, the Commission released its Decoupling Standard Order in
15 June 2009.⁴¹ These criteria and standards issued information requirements that “all utility
16 decoupling pilot proposals under Minn. Stat. section 216B.2412 shall provide” for
17 consideration in the initial mechanism filing. As shown in Table 1 above, the
18 Commission has approved six pilot revenue decoupling mechanisms since releasing the
19 criteria and standards. In addition, as explained in Commission Staff Briefing Papers in
20 Otter Tail Power’s recent electric rate case, in which Fresh Energy proposed a revenue
21 decoupling mechanism:

⁴¹ See schedule 4.

1 While the criteria and standards for pilot decoupling programs
2 listed in the *Decoupling Standard Order* may provide the
3 Commission with some useful guidance when evaluating Fresh
4 Energy's proposed RDM, because the criteria and standards was
5 meant to apply to pilot programs filed before December 30, 2011,
6 and [Otter Tail Power] exercised its option to not file a proposed
7 pilot, Fresh Energy was not under any obligation to meet all of the
8 criteria and standards in the Decoupling Standard Order, with its
9 proposed RDM.⁴²

10 CEOs in this case present a similar situation that faced Fresh Energy in Otter Tail
11 Power's rate case, as Minnesota Power also exercised its option to not file a proposal
12 before December 30, 2011.⁴³ While CEOs may not be under any obligation to meet all of
13 the criteria and standards in the Decoupling Standard Order, those criteria and standards
14 provide a useful framework with which to present and assess a revenue decoupling
15 mechanism.

16 **Q. Please explain how the proposed revenue decoupling mechanism meets the**
17 **Commission's criteria and standards in the Decoupling Standard Order.**

18 A. The Commission determined the purpose of revenue decoupling in the Decoupling
19 Standard Order:

- 20 1. Purpose: All utilities shall state how their proposed decoupling mechanism
21 adheres to the guiding statute. Each utility shall explain the purpose of their
22 mechanism in the context of the Next Generation Energy Act of 2007's energy
23 savings goals and how their mechanism will further the state policy of increased
24 conservation investment.

25 As described above, the proposed revenue decoupling mechanism in this case meets the
26 Commission's criteria and standards for decoupling in that it reduces the disincentive for
27 Minnesota Power to continue implementing the statutory energy savings goals articulated

⁴² *Staff Briefing Papers, Volume IV: Cost of Capital*, Docket No. E-017/GR-15-1033, 110 (Feb. 14, 2017).

⁴³ *Minnesota Power Notice of Intent re Pilot Proposals for Revenue Decoupling*, Docket No. E,G-999/CI-08-132 (June 1, 2010).

1 in the Next Generation Energy Act of 2007, even in the face of declining financial
2 incentives. Revenue decoupling provides a stronger base for Minnesota Power to exceed
3 the 1.5 percent energy savings goals codified in Minnesota Statute section 216C.05,
4 subdivision 2, and implemented through the Company's CIP under section 216B.241.
5 Finally, we propose that Minnesota Power not be allowed to recover under-recovered
6 revenues in a year in which the Company did not meet or exceed its Department-
7 approved CIP annual energy savings goal. This ensures that Minnesota Power at a
8 minimum meet its CIP energy savings goals, which it has every year since 2010, before
9 surcharging customers for unrecovered revenues. We propose that refunding over-
10 recovered revenues to customers occur regardless of the Company's CIP performance.
11 This aligns with the policy articulated in the Decoupling Standard Order.

12 The Decoupling Standard Order also describes information related to the form of the
13 mechanism that would be helpful to the Commission:

- 14 2. Form: All utilities shall state the form of decoupling proposed and the purpose
15 behind such choice. This should provide a detailed definition of what types of
16 sales changes are included in the mechanism, i.e. weather-related sales changes,
17 declining use per customer, etc. and the reason for such inclusion.

18 In this case we propose a full decoupling mechanism that adjusts under- and over-
19 recovery of non-fuel revenues regardless of the cause of that under- or over-recovery. We
20 support full decoupling over partial decoupling, which seeks to compensate for changes
21 in revenues due to weather and other factors. With the exception of the partial revenue
22 decoupling mechanism approved in CenterPoint's first pilot proposal (and the first
23 revenue decoupling pilot petitioned before the Commission) in Docket No. 08-1075, the
24 Commission has approved full decoupling pilot programs in five of the six revenue

1 decoupling pilots in the state. Namely, full decoupling avoids the complexity of
2 predicting weather-related risk that comes with partial decoupling. As stated by the
3 Commission in its Order approving Xcel Energy’s electric revenue decoupling pilot:

4 Full revenue decoupling is simpler and more transparent than
5 partial decoupling because the annual rate adjustments can be
6 calculated without the need for complicated weather-normalization
7 adjustments. . . . In other words, full revenue decoupling would
8 provide a means of compensating for inaccuracies in the sales
9 forecast—regardless of the source of the inaccuracies—without
10 adding financial burdens to ratepayers if the sales forecast proves
11 to be accurate. . . . Full revenue decoupling is simpler, more
12 transparent, and potentially more beneficial than partial
13 decoupling.⁴⁴

14 We also propose per-customer revenue decoupling in this case, meaning the amount of
15 revenue a utility is allowed to recover increases or decreases with changes in the number
16 of customers in each customer class under the revenue decoupling mechanism. This is
17 described in greater detail in Schedule 5 of this testimony. This ensures that the Company
18 is allowed to recover the non-customer-related costs associated with providing service to
19 its customers as its customer base expands and contracts. Our proposed mechanism only
20 applies to base rate revenues, but removes the following revenues and adjustments from
21 the base rate adjustment calculation:

- 22 • Conservation Cost Recovery Charge: This charge recovers the costs associated
23 with administering Conservation Improvement Programs. Though these revenues
24 are included in base rates, they are reviewed and approved outside of rate cases
25 and do not provide a throughput incentive for the Company.
- 26 • High Voltage Adjustment: The high voltage adjustment is applied to a customer if
27 that customer’s service is delivered and metered at the voltage of 13,000 volts or

⁴⁴ *Findings of Fact, Conclusions, and Order*, Docket No. E-002/GR-13-868, 77 (May 8, 2015).

1 higher. Customers under this adjustment, like some larger commercial customers,
2 receive a discount for savings gained by taking service at higher voltage levels.
3 This adjustment is a separate line item on relevant customer bills and does not
4 contribute to the Company's throughput incentive.

- 5 • Revenues collected through the fixed customer charge: Minnesota Power collects
6 customer-related costs through the fixed customer charge. These costs do not
7 fluctuate with energy or demand and thus do not present the revenue fluctuation
8 concerns that revenue decoupling seeks to address.

9 In addition, revenues that are monitored, collected, and accounted for in other riders
10 outside of base rates are not subject to the revenue decoupling mechanism.⁴⁵

11 In the Decoupling Standard Order, the Commission also asked for detail on how the
12 mechanism will affect the cost of capital:

- 13 3. Cost of Capital: All utilities shall detail how their proposed mechanism will/will
14 not impact the company's cost of capital.

15 CEOs did not assess this criterion specific to Minnesota Power's cost of capital structure.

16 However, a November 2016 study by the Brattle Group re-examined previous analysis
17 assessing the impact of revenue decoupling mechanisms on utilities' cost of capital.

18 Because revenue decoupling mitigates revenue volatility, some argue that the mechanism
19 reduces the utility's risk and should decrease the utility's cost of capital as well as the
20 return on equity. To test this hypothesis, the Brattle Group examined a sample of fifteen
21 electric holding companies with thirty-seven regulated subsidiaries that were part of the
22 rapid uptake of revenue decoupling policies in the U.S. from 2005 through 2015 (the full

⁴⁵ See Minnesota Power Rate Book at 2.1 for the full list of riders to rate schedules, available at <https://www.mnpower.com/Customerservice/RateBook>.

1 report is attached as Schedule 1 to this testimony).⁴⁶ All of the holding companies in the
2 sample had one or more subsidiaries with revenue decoupling. The Brattle Group authors
3 used multivariate linear regression to test “whether there is statistically significant
4 evidence that the adoption of decoupling reduces the [cost of capital].”⁴⁷ They found that
5 the impact of revenue decoupling on the cost of capital was “not close to being
6 statistically significant,” and that this result is “consistent with Brattle’s previous studies
7 of the electric industry, as well as those of the natural gas local distribution industry.”⁴⁸

8 The authors conclude that:

9 The statistical evidence is consistent with the fact that linkage-
10 relaxing ratemaking [like revenue decoupling] is not instituted in a
11 vacuum (or to lower the cost of capital) but as a direct response to
12 the rapidly emerging issues and risks of energy efficiency and
13 distributed generation programs, and stagnant and falling kWh
14 sales and revenues. These policies are likely to increase risk to
15 utilities under traditional cost of service regulation. In financial
16 terms, this increase risk can be either systematic and non-
17 diversifiable (part of the cost of capital) or diversifiable (not part of
18 the cost of capital). The lack of statistical significance in our tests
19 is an indication that the adoption of linkage-relaxing ratemaking,
20 and especially revenue decoupling, reduces risk that is
21 diversifiable or offsets a comparable increase in non-diversifiable
22 risk or both.⁴⁹

23 Although CEOs do not assess Minnesota Power’s cost of capital specifically in this case,
24 we do not recommend changes in the Company’s cost of capital as a result of the
25 proposed revenue decoupling mechanism.

⁴⁶ Schedule 1 at 1-2.

⁴⁷ *Id.* at 41.

⁴⁸ *Id.*

⁴⁹ *Id.* at 41-42.

1 The Decoupling Standard Order also requests an identification of the rate classes
2 involved:

- 3 4. Classes Included: All utilities must identify the rate classes involved in the pilot,
4 as well as provide rationale for the inclusion of participating classes and the
5 exclusion, if any, of other classes.

6 The proposed revenue decoupling mechanism would apply to all of the residential
7 customer class rate codes (20, 21, 22, 23, and 24) except the residential off-peak electric
8 vehicle service rate code (28). We propose exempting the residential off-peak electric
9 vehicle service because the purpose of this rate is to incentivize use of electricity for a
10 specific purpose at specific times of the day.⁵⁰ The proposed mechanism also applies to
11 the commercial general service (rate code 25), commercial dual fuel (rate code 26),
12 commercial controlled access (rate code 27), and commercial Large Light and Power
13 Service (rate code 75) customer classes. We exclude industrial customers under rate
14 codes 25, 26, 27, and 75, as we were not able to obtain sufficient information from
15 Minnesota Power to apply the revenue decoupling mechanism to these customers.
16 However, we are amenable to applying the mechanism to customers under these rate
17 codes. We exclude the competitive classes (rate codes 73 and 79) because these
18 customers are eligible for competitive rate schedules, pursuant to Minnesota Statute
19 section 216B.162, with requirements and terms specific to that rate class. Similarly, we
20 exclude the Large Power Service customers (rate codes 54, 74, and 78) as the small
21 number of customers in these classes can cause larger swings in the revenue adjustments
22 for specific customers. Finally, we also exclude the lighting, pumping, and mine site

⁵⁰ Minnesota Statute § 216B.1614 specifically states that each utility must file a tariff “that allows a customer to purchase electricity solely for the purpose of recharging an electric vehicle.”

1 service customers (rate codes 72, 76, 77, 80, 83, 84, and 87) as revenues in these rate
2 classes are predictable and relatively stable throughout the year.

3 We also provide information on the mechanics of our decoupling proposal:

4 5. Mechanics: All utilities must provide precise detail on how the decoupling
5 mechanism will operate, with the understanding that any decoupling pilot
6 program be transparent and easy to follow from a customer perspective. Details to
7 be provided are as follows:

8 A. how rate adjustments will be calculated;

9 We propose that rate adjustments be calculated as set forth in Schedule
10 5.⁵¹ Revenue information for each class for the purposes of the revenue
11 decoupling mechanism would be collected starting January 1, 2019.

12 B. when rate adjustments will be made;

13 We propose that rate adjustments be made annually, on a class by class
14 basis, to begin with the bills rendered on and after April 1 of each year,
15 starting in 2020, and to be in effect for twelve months. Adjustments
16 will be “aggregated” to the customer class level. For example, one
17 adjustment will apply to all applicable residential rate codes.
18 Adjustments made after the first year would include reconciliation of
19 prior year adjustments.

20 C. whether a rate cap or collar is provided to mitigate the risk of rate shock and
21 justification for not so providing if a proposal lacks such safeguards;

22 We propose that the Company not be able to collect under-recovered
23 revenues that exceed five percent of total revenues for each customer
24 class (residential and commercial) in a given year. For a year in which
25 the Company under-recovers revenues in excess of five percent of total
26 revenues, the Company would have an opportunity to recover those
27 revenues in the subsequent year. This is commonly referred to a “soft
28 cap” on surcharges. We propose no cap for refunds to customers for
29 over-collection of revenues.

30 D. what portion of the customer’s bill will be impacted by the true-up
31 (volumetric vs. customer charge);

⁵¹ In building the proposed revenue decoupling mechanism, we use the Company’s filed 2017 test year revenues as the basis for determining the allowed revenue amounts. Clean Energy Organizations do not take a position on the Company’s proposed revenue requirement at this time. We expect the final allowed revenues for the purpose of the revenue decoupling mechanism to reflect the Commission’s final decisions on relevant matters in this case.

1 Under our proposal, the true-up would apply to the energy charge
2 portion of a residential customer's bill, and the energy and demand
3 charge portion of a commercial customer's bill (i.e., base rates).

4 E. how will the rate adjustment be displayed on the customer's bill;

5 As shown in Schedule 5, we propose that the adjustment be applied on
6 a volumetric basis. The volumetric refund or surcharge would be a
7 separate line item on a customer's bill and labeled accordingly.

8 F. Our proposed revenue decoupling mechanism is not a pilot, as described
9 below, therefore this criterion does not apply;

10 As shown above in Table 1, the Commission has approved six revenue
11 decoupling pilots in the state and recently extended Xcel Energy's
12 electric revenue decoupling pilot. These pilots have provided
13 significant information and experience on how different decoupling
14 mechanisms work, the impact of revenue decoupling on customers,
15 and other issues related to the policy. Notably, as utilities have
16 completed three-year pilot programs, there is a lag between the
17 termination of the pilot, a utility's proposal for a new pilot, and
18 implementation of the new pilot. This stop-start nature of pilot
19 programs may cause customer confusion, disrupt the goals of reducing
20 utility disincentives for pursuing energy efficiency, and result in
21 regulatory delay. Therefore, we propose that the length of this
22 mechanism extend through the Company's next rate case. Importantly,
23 through annual filings described below, the Commission and the
24 Company will have consistent and predictable opportunities to
25 examine the revenue decoupling mechanism and its impacts, and
26 propose modifications to, or termination of, the mechanism at any
27 time. Beyond interim assessments, the Company's next rate case is an
28 opportune time to adjust the mechanism as needed when the Company
29 proposes new rates and the Commission is able to take a holistic view
30 of the mechanism in the context of the Company's entire business
31 model.

32 G. how the decoupling mechanism will work in concert with any automatic
33 recovery mechanism or financial incentive;

34 The proposed revenue decoupling mechanism would operate
35 separately from any of the Company's riders applied to various rate
36 schedules. In addition, we do not anticipate any overlap with the
37 proposed mechanism and the Company's financial incentive for
38 performance in Conservation Improvement Programs, as the financial
39 incentive has its own tracker account.

1 We also provide information on the service quality information requested by the
2 Commission:

3 6. Service Quality: All utilities must provide detail, consistent with other service
4 quality documentation, on how the utility plans to measure and maintain service
5 quality under the pilot program.

6 Ensuring quality service is critical regardless of whether or not a utility is decoupled. We
7 do not propose any specific method or plan for providing and documenting service
8 quality related to implementation of the revenue decoupling mechanism, beyond what
9 Minnesota Power already provides as part of its regular service quality reports.

10 We comment on how the Commission and other parties can review the revenue
11 decoupling mechanism:

12 7. Review: All utility pilot proposals shall be reviewed yearly. If the Commission
13 determines that the pilot is harming ratepayers and/or failing to meet objectives,
14 the Commission may suspend the pilot at any time or recommend modifications.
15 As part of this annual review, all utilities shall provide information that shall be
16 specified in an evaluation plan established as part of the pilot plan that shall
17 include, but not be limited to the following information:

18 H. total adjustment by class

19 I. total adjustment charges collected

20 J. number of customer complaints

21 K. has the pilot stabilized revenues for the class(es) under the pilot and how
22 has such stabilization impacted the utility's overall risk profile

23 L. comparison of how revenues under traditional regulation would have
24 differed from those collected under the decoupling pilot

25 M. is the utility meeting energy efficiency savings goals? has the decoupling
26 pilot influenced the achievement or likelihood of achievement of those
27 goals?

28 N. problems encountered and improvements/suggestions for the future.

29 Because our proposed revenue decoupling mechanism is not a pilot proposal, this
30 criterion does not apply. However, we propose that Minnesota Power file an evaluation
31 report no later than February 1 of each year the revenue decoupling mechanism is in
32 effect that contains all the information highlighted above. These reports would also

1 include the proposed adjustment to actual revenues in the previous year, to be applied on
2 customer bills beginning April 1.

3 Finally, we provide comments on how the proposed revenue decoupling mechanism will
4 be implemented:

5 8. Pilot Implementation:

- 6 A. Pilot proposals should be filed and implemented within a rate case; or
7 B. Pilot proposals may be filed outside of a rate case if the following
8 conditions are met:
9 (1) updated sales forecasts are provided with the pilot proposal;
10 (2) detailed evaluation of how any decrease in risk as result of the pilot
11 proposal will impact the cost of capital; and
12 (3) proposals are filed within one year of the final Commission order
13 in a rate case.
14 C. Class Exclusion. The Commission requires that all decoupling pilot
15 programs be implemented in more than one customer class.
16 D. Deadline for filing Pilot Programs
17 (1) All utilities shall file a non-binding notice of intent as to their plans
18 for filing a decoupling pilot by June 1, 2010.
19 (2) All pilot proposals shall be filed by December 30, 2011.

20 Our proposed revenue decoupling mechanism meets all of the requirements in this
21 section, except for the deadlines indicated in section 8D. As discussed, while these
22 criteria are not strictly applicable to the proposed revenue decoupling mechanism, CEOs
23 provide the above walkthrough as a helpful framework to highlight how the proposal fits
24 within previous Commission guidelines on revenue decoupling.

1 **Q. Does revenue decoupling meet the Commission’s directive on rate design in the**
 2 **state?**

3 A. Yes. On February, 2016, the Commission released Draft Rate Design Principles and
 4 Objectives in docket E002/M-15-662 examining alternative rate designs for Xcel
 5 Energy.⁵² Those principles and objectives are:

- 6 1. Low-income customers and those with special medical needs should have access
 7 to enough electricity to ensure basic needs at an affordable cost;⁵³
- 8 2. Rates should be based on marginal costs;
- 9 3. Rates should be equitable, generally based on cost-causation principles and
 10 avoiding cross-subsidies, unless it is necessary to meet explicit state policy goals;
- 11 4. Rates should allow a utility to recover its revenue requirement in a manner that
 12 maintains utility revenue stability, and minimizes year-to-year under- or over-
 13 collections;
- 14 5. Rates should encourage conservation and energy efficiency;
- 15 6. Rates should reduce coincident system peak demand;
- 16 7. Rates should be stable, understandable, and provide customer choices;
- 17 8. Rates should encourage economically efficiency decision-making; and,
- 18 9. Rates should be aligned with wholesale market prices that reflect the varying
 19 price of electricity throughout the day and year.

20 Revenue decoupling clearly meets objective four regarding maintaining utility revenue
 21 stability, and objective five encouraging conservation and energy efficiency as the
 22 adjustments are collected through volumetric charges. Implementing the revenue
 23 decoupling adjustment through a volumetric charge preserves customers' financial
 24 incentive to invest in energy efficiency and distributed generation resources.

⁵² *Notice Seeking Comment on Procedural Schedule, In re an Alternative Rate Design Stakeholder Process for Xcel Energy*, Docket No. E002/M-15-662 (Feb. 16, 2016).

⁵³ It is worth noting that Energy CENTS Coalition, a low-income advocacy organization in the alternative rate design docket, recommended that this principle be modified to read “rates should promote (or encourage) affordable electric service” to more closely align with public policy goals of the state. *Energy CENTS Coalition’s Comments* Docket No. E-002/M-15-662, 2 (April 8, 2016).

1 **Q. How do you propose to address customer education regarding the proposed**
2 **decoupling mechanism?**

3 A. We offer no specific recommendations at this time, but we support the customer
4 engagement efforts the Commission approved and required in Xcel's and CenterPoint's
5 revenue decoupling mechanisms. We have allowed enough time before implementation
6 of the proposed mechanism for the Company to effectively educate customers on the
7 policy. Importantly, customers will not see any changes on their bills until April 1, 2020
8 to reflect adjustments to revenues recovered in 2019.

9 **Q. Have you conducted analysis examining potential impacts to customers as a result of**
10 **possible adjustments related to the proposed revenue decoupling mechanism?**

11 A. Yes. As shown in Schedule 5 of this testimony, and summarized in the RDM Summary
12 Table in Schedule 5, we analyze the adjustments that would have been needed each year
13 from 2013-2016 if our proposed revenue decoupling mechanism had been in place, truing
14 up actual revenues to approved revenues from the Company's previous rate case. In
15 addition, we project the adjustments needed in future years based on sales forecast
16 projections and +/- five percent variations from those forecasts to anticipate potential
17 adjustments needed and the resulting impact on customers. These analyses provide the
18 Commission and other parties with some parameters with which to assess our proposed
19 revenue decoupling mechanism and its potential impact on customers.

20 **Q. Please summarize the revenue decoupling mechanism you are proposing for**
21 **Minnesota Power in this case.**

22 A. Table 5 below provides a summary of the revenue decoupling mechanism we propose in
23 this case.

1

Table 5. Summary of CEO's Proposed Revenue Decoupling Mechanism

Feature	Proposal
Customer classes	Residential customers in rate codes 20, 21, 22, 23, and 24 Commercial customers in rate codes 25, 26, 27, and 75
Recovery model	Full revenue-per-customer decoupling
Adjustment mechanism	See Schedule 5 of this testimony for a detailed description of how the adjustment mechanism works for each customer class.
Duration	Proposed mechanism would extend through the Company's next rate case, with opportunities for the Company and Commission to modify or terminate the mechanism at any time.
Adjustment cap	Surcharge capped at five percent of total revenues in a given year. Excess revenues allowed to be recovered in future year (soft cap). No cap on refunds to customers.
Savings requirement	Minnesota Power allowed to implement a surcharge only for years in which the Company met or exceeded the Department-approved energy savings in its Conservation Improvement Programs. No savings requirement for refunds to customers in a given year.
Implementation	Minnesota Power begins collecting revenue information January 1, 2019. The Company files a report by February 1, 2020. The Company begins implementing necessary adjustments on customer bills beginning April 1, 2020. Reporting by February 1 of each subsequent year, with new adjustments starting April 1 of each subsequent year. Adjustments after the first year would also include reconciliation of prior year adjustment revenues.
Customer education	Minnesota Power should pursue an effective customer education campaign to ensure customers know the implications of revenue decoupling on their bills prior to the first adjustments in 2020.

1 **V. CONCLUSION**

2 **Q. Please summarize your testimony in this case.**

3 A. In this testimony we propose a full per-customer revenue decoupling mechanism for
4 Minnesota Power's residential and commercial customers that meets Minnesota statute,
5 regulatory guidelines, and previous Commission rulings. Revenue decoupling reduces the
6 financial disincentive for the Company to maximize energy efficiency performance
7 through its Conservation Improvement Programs, even in the face of declining financial
8 incentives for high achievement. We recommend that the Commission adopt our
9 proposed revenue decoupling mechanism.

10 **Q. Does this conclude your testimony?**

11 A. Yes.