

DECOUPLING
AND
DECOUPLING PILOT PROGRAMS

Report to the Legislature

February 11, 2011

As required by
Minnesota Statutes §216B.2412

Submitted by the Minnesota Public Utilities Commission

INTRODUCTION

Statutory Reporting Requirement

Minnesota Statutes (2010), Section 216B.2412, subdivision 3 requires the Minnesota Public Utilities Commission to report annually to the Legislature on decoupling and decoupling pilot programs.

This report is intended to fulfill the reporting requirement of this section.

Costs of Preparing Report

Pursuant to Minnesota Statutes (2010), Section 3.197, it is estimated that the costs incurred by the Minnesota Public Utilities Commission in preparing this report is less than \$1,000. Special funding was not appropriated for the costs of preparing this report.

BACKGROUND

Minnesota Statutes (2010), Section 216B.2412 is a provision of law regarding the decoupling of energy sales from revenues.

Definition of Decoupling

Subdivision 1 of that section defines decoupling as:

“ . . . a regulatory tool designed to separate a utility’s revenue from changes in energy sales. The purpose of decoupling is to reduce a utility’s disincentive to promote energy efficiency.”

In other words, decoupling is intended to minimize or remove financial inhibitions utilities claim limit their investment in cost effective energy efficiency and other clean energy resources located “behind the customer’s meter.”

Decoupling Programs

Subdivisions 2 and 3 of that section go on to provide the following:

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

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

COMMISSION ACTIONS

Establishment of Revenue Decoupling Criteria and Standards

As noted, subdivision 2 of Section 216B.2412 requires the Commission to establish criteria and standards for decoupling. In order to reach an informed decision on how best to establish these standards, the Commission contracted with the Regulatory Assistance Project (RAP) to coordinate a stakeholder input process and to prepare a written report detailing decoupling program options. RAP facilitated several meetings with Commissioners, Commission staff, and stakeholders, and issued its final report on June 30, 2008.

Following receipt of the RAP Report, the Commission solicited comments from interested parties on the findings and recommended decoupling criteria and standards in the Report. Ten parties filed comments and reply comments. Parties discussed objectives of decoupling, pilot program implementation and timing, ratepayer impact, customer class inclusion, pilot evaluation criteria, as well as several other issues raised by the RAP report and Commission staff's Notice Seeking Comments.¹

The Commission met on May 28, 2009 and ordered the establishment of criteria and standards for pilot decoupling programs. The Commission detailed what information should be provided in the initial proposal of a decoupling pilot, how the proposal would be reviewed, and what information, at a minimum, should be provided for the annual evaluation of approved pilots. The Commission also ordered CenterPoint Energy to file additional information explaining how their proposed decoupling pilot satisfied the requirements of the Commission's Criteria and Standards Order.

¹ The Public Utilities Commission provided a copy of the Regulatory Assistance Project report with its January 30, 2009 legislative report. The report, comments, and related documents can be found via eDockets at www.edockets.state.mn.us under "08" – "132".

The Commission's *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling, In the Matter of a Commission Investigation Into the Establishment of Criteria and Standards for the Decoupling of Energy Sales from Revenue* (June 19, 2009) can be found via eDockets under Docket No. E,G-999/CI-08-132.

CenterPoint Energy's Conservation Enabling Rider, Pilot Decoupling Program

CenterPoint Energy's initial proposal was filed within their 2008 rate case, Docket No. G-008/GR-08-1075, and included a *full* decoupling mechanism.² On June 26, 2009 CenterPoint Energy, Energy Cents Coalition, and the Minnesota Center for Environmental Advocacy/Izaak Walton League of America (Stipulating Parties) filed a Stipulation that proposed a *limited* pilot decoupling program (applicable to all small volume firm customers) and an inverted block rate (IBR) structure for gas costs of the Residential and Commercial/Industrial A and B classes.

The Stipulated Agreement modified the initial decoupling proposal by excluding adjustments based on impacts of weather on revenue, instituting a 'cap' on the amount of both upward and downward adjustments, and proposing an inverted block rate for the collection of gas costs for certain classes.

The Commission modified the agreement of the Stipulating Parties to:

1. eliminate the cap on over-collection and require the annual calculation of over-collection and subsequent refund to ratepayers;
2. reduce the cap on under-earning from four to three percent;
3. require the annual decoupling adjustment be displayed as a separate line item on customers' bills;
4. require the Company to provide an evaluation plan in addition to the reporting requirements established in the Criteria and Standards Order;
5. require the joint effort of the Stipulating Parties to provide, within 90 days of the Order, proposals for new/enhanced conservation projects.

Additional issues raised in the proceeding, such as the decoupling pilot's impact on cost of capital and the simultaneous implementation of the pilot and the IBR structure, are discussed in the body of the Commission's January 11, 2010 *Findings of Fact, Conclusions of Law, and Order in the Matter of an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota* (Docket No. G-008/GR-08-1075).

The new rates, including the IRB, went into effect on July 1, 2010. The first decoupling adjustment will start showing on customer bills on March 1, 2011.

² *Full* decoupling insulates a utility's revenue from deviation of actual sales from expected sales, regardless of the cause of that deviation. *Partial* decoupling operates similarly to full decoupling, except only a portion of the deviation from actual sales is trued up. *Limited* decoupling limits adjustments for sales losses to specific causes of deviation, such as weather or conservation.

That January 11, 2010 Order, while authorizing CenterPoint to conduct this pilot program, required the company to file a proposal for evaluating the program. Consideration of this proposed evaluation plan came before the Commission on December 9, 2010.

In the Commission's December 16, 2010 *Order Approving Decoupling Evaluation Plan As Modified* in this matter, the Commission agreed that the evaluation plan offered a workable framework for addressing the questions posed by subdivision 3 of Section 216B.2412, namely: assessing the merits of the program in promoting energy efficiency and conservation and determining whether the program is achieving energy savings. Consequently, the Commission approved the evaluation plan with several modifications.

The Commission's December 16, 2010 Order is enclosed.

Minnesota Energy Resources Corporation Decoupling Proposal

On November 30, 2010, Minnesota Energy Resources Corporation (MERC) on behalf of its two operating divisions MERC-PNG and MERC-NMU, filed a request for a general increase in its natural gas rates (Docket Number G-007, 011/GR-10-977). A revenue decoupling proposal was included in MERC's filing in order to separate distribution revenues from the volume of gas sales. The company's intent is to remove the financial disincentive to promote energy efficiency and to allow MERC to recover its approved revenue requirement.

The company's primary proposal is a full decoupling pilot program, as opposed to the limited decoupling mechanism approved in the CenterPoint pilot program.

As an alternative decoupling proposal, MERC has proposed a major revamping of its rate structure that would substantially increase fixed charges to customers and, thereby, substantially reduce the variability of its revenue stream.³

Other Commission Actions on Energy Conservation

Minnesota Statutes (2010), Section 216B.241, subdivision 2c states:

Performance incentives. By December 31, 2008, the commission shall review any incentive plan for energy conservation improvement it has approved under section 216B.16, subdivision 6c, and adjust the utility performance incentives to recognize making progress toward and meeting the energy savings goals established in subdivision 1c.

The Commission's December 29, 2008 *Order Establishing Procedural Framework for Consideration of Utility Performance Incentives for Energy Conservation, In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation Pursuant to Minn.*

³ The company proposes what is known as a Straight Fixed Variable (SFV) rate design. This assigns costs classified as Fixed to fixed customer charges and costs deemed variable (i.e., those directly related to the level of usage) to variable customer charges. For gas distribution utilities, the effect would be to substantially increase fixed monthly charge to customers.

Stat. §216B.241, Subd. 2 (Docket No. E,G-999/CI-08-133) established procedures for evaluation of whether and what changes to the current incentive were needed and requested the development of a Workgroup to define incentive models and implementation options.

Following a year of collaboration between utilities, the Office of Energy Security, and other interested stakeholders, the Commission's January 27, 2010 *Order Establishing Utility Performance Incentives for Energy Conservation, In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation Pursuant to Minn. Stat. §216B.241, Subd. 2c* (Docket No. E,G-999/CI-08-133) established a new utility performance incentive for energy conservation. The Order incorporated several elements detailing the mechanics of the new Shared Savings Model including a cap on the potential incentive award and the calibration of the incentive for specific utilities.

The Order also addressed how the incentive should be adjusted for a utility with an approved decoupling pilot. The Order required CenterPoint and OES to evaluate the "proper adjustment (lowering) of the incentive calibration based on the Commission's recent rate case Order."

On March 25, 2010, the Commission met to determine the proper adjustment of CenterPoint Energy's financial incentive in light of the utility's approved decoupling pilot program. The OES and CenterPoint agreed on a reduction of the incentive calibration from \$4.50 per Mcf to \$3.00 per Mcf, although the parties arrived at consensus using differing methods of analysis. The Commission ordered the agreed upon reduction in its April 12, 2010 *Order Reducing Financial Incentive Calibration, In the Matter of Commission Review of Utility Performance for Energy Conservation* (Docket No. E,G-999/CI-08-133).

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David C. Boyd
J. Dennis O'Brien
Thomas Pugh
Phyllis A. Reha
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an Application by CenterPoint
Energy for Authority to Increase Natural Gas
Rates in Minnesota

ISSUE DATE: December 16, 2010

DOCKET NO. G-008/GR-08-1075

ORDER APPROVING DECOUPLING
EVALUATION PLAN AS MODIFIED

PROCEDURAL HISTORY

On January 11, 2010, the Commission issued its Findings of Fact, Conclusions of Law, and Order in this rate case.

Among other things, that order authorized CenterPoint Energy to conduct a pilot program under Minn. Stat. § 216B.2412, which directs the Commission to authorize at least one pilot program implementing "decoupling," a rate design strategy defined by statute to mean separating a utility's revenue from changes in its energy sales.¹ The order also required the Company to file a proposal for evaluating its pilot program, to help the Commission fulfill its statutory responsibilities to "assess the merits of a decoupling strategy to promote energy efficiency and conservation" and to "determine whether a rate-decoupling strategy achieves energy savings."²

On July 1, 2010, CenterPoint filed its proposed evaluation plan. The Minnesota Office of Energy Security (OES) and the Izaak Walton League of America – Midwest Office filed comments recommending refinements, most of which CenterPoint adopted.

On December 9, 2010, the proposed evaluation plan came before the Commission with several points still in dispute between the Company and the OES. In the course of the hearing, the parties reached agreement on these points and jointly recommended acceptance of a modified plan reflecting their agreement.

¹ Minn. Stat. § 216B.2412, subd. 1.

² Minn. Stat. § 216B.2412, subd. 3.

FINDINGS AND CONCLUSIONS

The Commission concurs with the parties that the evaluation plan they recommend offers a workable framework for addressing the questions posed by the statute – assessing the merits of the program in promoting energy efficiency and conservation and determining whether the program is achieving energy savings.³ The Commission will therefore approve the proposed evaluation plan, modified as recommended by the parties and set forth in the ordering paragraphs below.

The Commission will also take actions required to implement related rate case decisions, including accepting modifications to the Company's 2010-2012 Conservation Improvement Program plan, accepting revised tariff language on the Conservation Enabling Rider, accepting an informational filing on the inverted block-rate reconciliation rate adjustment, and modifying the proposed evaluation plan to provide for annual, instead of quarterly, service quality reporting.

The Commission will so order.

ORDER

1. The Commission approves CenterPoint's pilot project evaluation plan with the following conditions and modifications:
 - a. CenterPoint shall include a comparison of lifetime energy savings that can be attributed to the Company's conservation improvement program (CIP) before and after the implementation of revenue decoupling (including the inverted block rate structure).
 - b. CenterPoint shall include documentation in its evaluation and annual reports that shows for each existing conservation improvement program (CIP), any changes that have occurred in the number of participants, any reductions in gas use per participant, and any changes in the cost-effectiveness or any other measure that gauges the performance of these programs.
 - c. CenterPoint shall include a conservation-specific variable in its price elasticity of demand/multiple regression analyses.
 - d. CenterPoint shall include a conservation-specific variable related to conservation rebates and other specific Conservation Improvement Plan initiatives in its analyses.
 - e. CenterPoint shall examine including other demographic variables (e.g., employment, economic conditions) in its price elasticity of demand/multiple regression analysis to help create a more robust analysis.

³ Minn. Stat. § 216B.2412, subd. 3.

- f. The Company shall work with the Office of Energy Security to develop a mutually acceptable method to stratify zip-code-level census data and commercially available data from other sources to develop statistically valid samples of the Company's customer base. These samples shall be used for the purpose of examining micro-level demographic variables such as income, household size, and home ownership/rental status in analyzing the impact of the pilot program.
 - g. CenterPoint shall, and any other interested party may, conduct a literature search and an all-state public service commission case search for other price elasticity of demand studies involving natural gas prices to corroborate the analytical techniques and results of the Company's price elasticity of demand analysis.
 - h. CenterPoint shall use a full-system data set rather than a sample data set in assembling data for the bill frequency study, on which the Office of Energy Security will take the analytical lead.
 - i. CenterPoint shall use a longitudinal study in conducting the bill frequency study, including three sub-studies focusing on LIHEAP and non-LIHEAP customers, low-usage and high-usage customers, and CIP participants and non-participants.
 - j. CenterPoint shall document any specific actions the Company has undertaken that demonstrate a shift or realignment in the Company's support for energy conservation initiatives (e.g., efforts that would strengthen energy efficiency requirements in building codes and appliance standards at the national, state or local level).
2. The Commission accepts CenterPoint's June 16, 2010 request to modify its 2010-2012 CIP Triennial Plan as being in compliance with the Commission's January 11 Order and acknowledges the November 3, 2010 Final Order of the Office of Energy Security on CenterPoint's request, in CIP docket # 09-291.
 3. The Commission accepts CenterPoint's revised Conservation Enabling Rider tariff language as it appears in the Company's June 17 replacement filing and modified so that the March 1, 2011 implementation of the revenue decoupling rate adjustment is conditioned on CenterPoint having received Commission approval for its decoupling evaluation plan.
 4. The Commission accepts CenterPoint's July 1, 2010 informational filing that explains the Company's proposal for implementing the inverted block rate reconciliation rate adjustment.
 5. The Commission modifies section K(2)(d) of the Company's pilot decoupling project evaluation plan to clarify that CenterPoint will continue to provide service quality reports but on an annual rather than a quarterly basis.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION



Burl W. Haar
Executive Secretary



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