STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota	))))	**MPUC Dkt. No. G-007, 011/GR-10-977** **OAH No. 16-2500-21807-2**

Direct Testimony and Exhibits

Of

J. Richard Hornby

Synapse Energy Economics, Inc.

On Behalf of

Izaak Walton League of America – Midwest Office

Minnesota Center for Environmental Advocacy

May 3, 2011

I. INTRODUCTION / SUMMARY

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND PRESENT POSITION.

A. My name is J. Richard Hornby. I am a Senior Consultant at Synapse Energy Economics, Inc., 485 Massachusetts Avenue, Cambridge, MA 02139.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying on behalf of the Izaak Walton League of America (IWLA) and Minnesota Center for Environmental Advocacy (MCEA).

Q. PLEASE DESCRIBE SYNAPSE ENERGY ECONOMICS.

A. Synapse Energy Economics ("Synapse") is a research and consulting firm specializing in energy and environmental issues, including: electric generation, transmission and distribution system reliability, market power, electricity market prices, stranded costs, efficiency, renewable energy, environmental quality, and nuclear power.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I am a consultant specializing in planning, market structure, ratemaking, and gas supply/fuel procurement in the electric and gas industries. Over the past twenty years, I have presented expert testimony and provided litigation support on these issues in approximately 100 proceedings in over thirty jurisdictions in the United States and Canada. Over this period, my clients have included staff of public utility commissions, state energy offices, consumer advocate offices and marketers.

Prior to joining Synapse in 2006, I was a Principal with CRA International and, prior to that, Tabors Caramanis & Associates. From 1986 to 1998, I worked with the Tellus Institute (formerly Energy Systems Research Group), initially as Manager of the Natural Gas Program and subsequently as Director of their Energy Group. Prior to 1986, I was Assistant Deputy Minister of Energy for the Province of Nova Scotia.

I have a Master of Science in Energy Technology and Policy from the Massachusetts Institute of Technology (MIT) and a Bachelor of Industrial Engineering from the Technical University of Nova Scotia, now merged with Dalhousie University. I have attached my resume to this testimony as Hornby Exhibit 1.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE WITH ENERGY EFFICIENCY MEASURES AND POLICIES, INCLUDING POLICIES ON RATEMAKING.

A. My experience with energy efficiency measures and policies began over thirty years ago as a project engineer responsible for identifying and pursuing opportunities to reduce energy use in a factory in Nova Scotia. Subsequently, in my graduate program at MIT I took several courses on energy technologies and policies, and prepared a thesis analyzing federal policies to promote investments in energy efficiency. After MIT, I spent several years with the government in Nova Scotia, during which time I administered a provincial program to promote energy conservation in the industrial sector and later included energy conservation in all sectors as part of energy plans developed for the province. More recently, over the past twenty years as a regulatory consultant I have helped review and prepare numerous integrated resource plans in the gas and electric industries.

Since 2007 I have completed several projects addressing the alignment of utility financial incentives and rates with the pursuit of energy efficiency. Those projects include testimony in proceedings in Alaska, Minnesota, North Carolina, South Carolina and Indiana as well as the preparation of a report sponsored by the National Action Plan for Energy Efficiency.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. As a component of its general rate filing Minnesota Energy Resources Corporation ("MERC" or the Company) is proposing a Revenue Decoupling Mechanism ("RDM") on a three year pilot basis.

IWLA has retained Synapse to assist in its review of rate decoupling issues. As part of that assignment IWLA asked Synapse to review the Company's proposed RDM. My testimony describes my review of the Company's proposal.

Q. WHAT DATA SOURCES DID YOU RELY UPON TO PREPARE YOUR TESTIMONY AND EXHIBITS?

A. My testimony is based primarily upon on the pre-filed Direct Testimony of Company witnesses Grace and Moul as well as to responses to various IWLA/MCEA information requests, certain of which are included in Hornby Exhibit 2. My testimony is also informed by the June 19, 2009 Order by the Minnesota Public Utilities Commission ("Commission") in Docket No. E, G -999/CI-08-132 regarding decoupling pilots; the January 11, 2010 Order by the Commission in Docket No. G-008/GR-08-1075 regarding the Centerpoint Energy decoupling pilot; and various reports regarding cost recovery frameworks for ratepayer funded efficiency programs.

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED RDM AND ITS RATIONALE FOR THAT PROPOSAL.

A. As described by Company witness Grace, the proposed RDM would fully decouple the Company's annual revenues from all changes in usage per customer, relative to the usage per customer underlying the test year sales level approved in its most recent general rate case. The changes in usage could be increases (decreases) resulting from colder-than-normal (warmer-than-normal) weather, reductions resulting from energy efficiency measures or increases resulting from greater use of existing equipment. The RDM would be computed annually as an adjustment per them that would collect under-recoveries for years in which aggregate usage per customer was less than test year levels and would refund over-recoveries for years in which aggregate usage was greater than test year levels. The Company is proposing to test the RDM for a three year pilot period, during which it would prepare annual evaluations of its performance. Ms. Grace has also proposed a Straight Fixed Variable ("SFV") rate design as an alternative to the RDM.

According to Company witness Grace, the Company's primary rationale for proposing the RDM is "…removing the financial disincentive to promote energy efficiency and allowing MERC the opportunity to earn its Commission approved revenue requirement".[1] In addition, Ms. Grace notes that the RDM will provide the Commission an opportunity to evaluate a full decoupling mechanism in addition to the evaluation it has underway of Centerpoint Energy's partial decoupling mechanism.[2] Finally, Ms.

[1] Grace, Direct, page 5

[2] See, *id.*, page 7.

Grace states that a partial decoupling mechanism is more complicated to compute, potentially administratively burdensome and may cause disputes regarding the quantification of changes in usage.[3]

Q. DO YOU SUPPORT THE GOAL OF IMPROVING THE ALIGNMENT OF UTILITY FINANCIAL INCENTIVES WITH PURSUIT OF AGGRESSIVE IMPROVEMENTS IN EFFICIENCY?

A. Yes. I have testified in support of improving the alignment of utility financial interests with pursuit of aggressive improvements in efficiency in several electric and gas utility proceedings, including testimony in support of the Centerpoint Energy pilot. However, I have conditioned my support for specific mechanisms to improve that alignment, such as revenue decoupling, on commitments by the relevant utility to pursue specific improvements in energy efficiency. These are commitments to some combination of increased activity under existing programs and introduction of new initiatives that the utility would not otherwise pursue under its current ratemaking, i.e., without the improvement in alignment of financial interests.

Q. WHY DO YOU CONDITION YOUR SUPPORT FOR IMPROVEMENTS IN THE ALIGNMENT OF A UTILITY'S FINANCIAL INCENTIVES ON A COMMITMENT BY THAT UTILITY TO PURSUE SPECIFIC IMPROVEMENTS IN EFFICIENCY?

A. I condition my support for improvements in the alignment of a utility's financial incentives on a commitment by that utility to pursue specific improvements in efficiency

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[3] *Id.,* page 8.

for two reasons.

First, from an energy and environmental policy perspective, I am trying to ensure that improving the utility's financial incentives will produce an actual increase in energy efficiency. It is clearly reasonable for policy makers and customers to expect that improving a utility's financial incentives to pursue efficiency will ultimately lead that utility to achieve measurable increases in energy efficiency.

Second, from a ratemaking perspective, I am trying to balance the interests of the utility's shareholders and its ratepayers. Consumer groups have consistently raised the concern that decoupling will shift financial risk from the utility to ratepayers without providing ratepayers adequate offsetting benefits. That and other consumer concerns regarding decoupling are discussed in a September 2009 report commissioned by the National Action Plan for Energy Efficiency, *Discussion of Consumer Perspectives of Regulation of Energy Efficiency Investments*.[4] My goal is to identify approaches which provide a reasonable level of benefits to shareholders and to ratepayers.

Q. COULD MERC HAVE PROPOSED VARIOUS APPROACHES TO STABILIZE ITS REVENUES AND REDUCE ITS EARNINGS ATTRITION?

A. Yes. MERC is operating in an environment of declining gas usage per customer and increased emphasis on energy efficiency. What this means concretely is that, assuming normal weather, the actual annual quantity of gas existing customers will use on average in each year after new distribution rates are set will tend to be less than the test year

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[4] National Action Plan for Energy efficiency (2009). *Discussion of Consumer Perspectives of Regulation of Energy Efficiency Investments. <www.epa.gov/eeactionplan>*

annual quantity of gas per customer upon which distribution service rates were set. As a result, the actual annual distribution service revenues collected from those existing customers will tend to be less than the annual distribution service revenue requirements the Commission determined to be reasonable for the test year and, all else being equal, the Company will not earn its allowed rate of return on the distribution service it provides to those customers. In addition, the Company's revenues can vary substantially from year to year due to variations in weather, in particular annual heating degree days.

MERC states that these factors, combined with its current rate design, are preventing it from achieving its Commission-approved level of annual earnings. These factors, i.e., variation in annual revenues due to variation in weather and declining usage per customer, are not unique to MERC and are not new to MERC and other gas utilities. In the absence of any energy or environmental policy goals, the Company could have proposed various approaches to stabilize its revenues and reduce its earnings attrition. These approaches include more frequent rate cases, SFV rate design, a weather normalization adjustment, a return stabilization adjustment, some form of revenue decoupling, or a combination of these approaches. The Commission would assess the merits of the Company's proposed approach according to standard ratemaking principles.

Q. SHOULD MERC'S PROPOSAL TO IMPLEMENT FULL DECOUPLING BE EVALUATED RELATIVE TO MINNESOTA'S ENERGY AND ENVIRONMENTAL POLICY GOALS AS WELL AS RELATIVE TO TRADITIONAL RATEMAKING PRINCIPLES?

A. Yes. MERC is proposing full decoupling on the grounds that it will remove the financial disincentive to promote energy efficiency in addition to allowing it the opportunity to achieve its revenue requirement. Thus, the proceeding involves the selection of an approach to better align MERC's financial interests that meets Minnesota's policy energy and environmental goals as well as its traditional ratemaking goals. (Minnesota has a policy goal of achieving specific energy reduction targets and has passed Statute 216B.2412 allowing the Commission to approve utility pilots which assess the merits of decoupling as a strategy to promote energy efficiency.) Therefore MERC's proposal should be evaluated relative to those policy and ratemaking goals.

Q. DO YOU SUPPORT THE COMPANY'S PROPOSED FULL DECOUPLING MECHANISM?

A. No. I don't support the Company's proposed RDM for two reasons. First, none of the Company witnesses provide explicit commitments to specific initiatives to increase energy efficiency. Second, and related to the first reason, the Company-proposed immediate transition from its current ratemaking framework, which has no decoupling, to a ratemaking framework with full decoupling, does not provide a reasonable level of protection and benefits to ratepayers.

Assuming the Company makes explicit commitments to specific initiatives to increase energy efficiency, I support implementation of a partial decoupling mechanism with a cap comparable to the Conservation Enabling ("CE") Rider that the Commission approved for Centerpoint Energy.

Q. PLEASE COMMENT ON MERC'S CONSIDERATION OF ADDITIONAL EFFICENCY PROGRAMS AND INITIATIVES?

A. MERC maintains that one of the reasons it is proposing a decoupling mechanism is to remove the financial disincentive to promote energy efficiency. In response to IWLA/MCEA Information Request No. 1 c, which in turn refers to response Office of Energy Security (OES) Information Request No. 323, MERC indicates that it is considering additional programs and initiatives beyond those currently approved in its 2010 – 2012 Triennial Plan. However, of the programs and initiatives listed in that response, MERC has only submitted one modest proposal, the "4U2 program", to the OES for approval. In their Direct Testimony, neither Ms. Grace nor the other Company witnesses present explicit commitments to any of the specific initiatives listed in response to OES Information Request No. 323.

In contrast, in the stipulation filed in the Centerpoint Energy proceeding, Centerpoint agreed to an inverted block rate design as well as to expand certain of its programs, and work with the Energy CENTs Coalition, IWLA and MCEA to identify and implement new programs and program modifications. In addition, MERC's sister utilities in Wisconsin and Michigan did agree to implement additional programs in conjunction with approval of their decoupling mechanisms (see, Response to IWLA/MCEA Information Request No. 5).

The Commission should not approve any decoupling mechanism for MERC unless the Company commits to specific energy efficiency initiatives incremental to its current activities. In addition to the additional programs and initiatives listed in response to OES 323 the Company should be required to consider increased initiatives for high consumption LIHEAP households and low income renters and support for improvements in building codes and appliance standards.

Q. WHAT IS THE BASIS FOR YOUR POSITION THAT THE PROPOSED FULL DECOUPLING MECHANISM DOES NOT BALANCE THE INTERESTS OF MERC SHAREHOLDERS AND RATEPAYERS?

A. The proposed full decoupling mechanism is broader in scope than the partial decoupling mechanism the Commission approved for Centerpoint Energy, and as such it would provide more benefit to MERC shareholders than the Centerpoint Energy CE Rider. The proposed RDM would protect MERC shareholders from variation in revenues and earnings due to variation in weather, in addition to protecting them from variation in revenues due to other changes in usage per customer.

However, MERC is not proposing any rate relief associated with Commission approval of full decoupling. For example, it is not proposing to cap its rate adjustments and it has not provided any explicit commitments to additional efficiency initiatives. Thus, from a ratepayer perspective, the proposed full decoupling mechanism provides less benefit to MERC ratepayers than the Centerpoint Energy CE Rider.

Q. WHY WOULD A FULL DECOUPLING MECHANISM PROVIDE MORE BENEFIT TO MERC SHAREHOLDERS THAN A PARTIAL DECOUPLING MECHANISM?

A. A full decoupling mechanism would provide more benefit to MERC shareholders than a partial decoupling mechanism primarily because it enables MERC to adjust its rates for variation in revenues due to weather in addition to variations driven by all other factors. Mr. Moul states that full decoupling will not affect the Company's cost of capital (Moul

Direct Testimony page 9; response to IWLA/MCEA Information Request No. 13). However, elimination of all weather-related revenue risk clearly has a value to a gas utility such as MERC. The Connecticut Department of Public Utility Control ("DPUC") addressed the value of eliminating weather-related revenue risk through full decoupling when addressing a request for decoupling by the Connecticut Natural Gas Corporation ("CNG") as follows:

> *Full decoupling compensates the Company for any type of reduction in consumption, such as warmer weather, customer loss, a deteriorating economy as well as permanent and price-induced conservation. Clearly, the very large potential risk of revenue instability is shifted from the Company to customers. If the Company were to purchase an insurance instrument to guaranteed [sic] distribution revenues, the insurer would expect compensation and the Company would expect to make payment for the transfer of risk. The Company's decoupling proposal thrusts customers into the role of insurer without proffering compensation.*[5]

Q. WHAT IS THE BASIS FOR YOUR POSITION THAT A PARTIAL DECOUPLING MECHANISM WOULD BALANCE THE INTERESTS OF MERC SHAREHOLDERS AND RATEPAYERS?

A. A partial decoupling mechanism similar in scope to that approved for Centerpoint Energy

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[5] State of Connecticut, Department of Public Utility Control; Application of Connecticut Natural Gas Corporation for a Rate increase, Final Decision, June 30, 2009, pp. 76-77.

would benefit MERC shareholders by improving the Company's opportunity to earn its Commission-allowed rate of return. That approach would minimize ratepayer exposure to large annual adjustments because of its cap and would benefit ratepayers in the form of a commitment to increased energy efficiency initiatives.

Since a partial decoupling mechanism does not adjust for variations due to weather, its scope would be consistent with MERC's position that implementation of decoupling will have no effect on its proposed weighted average cost of capital (WACC). It is also consistent with the fact that the Company is proposing contemporaneous increases in its customer charges that, if approved, will improve the stability of its revenues.

A partial decoupling mechanism with a cap similar to that approved for Centerpoint Energy would benefit MERC customers by protecting them from material adverse rate impacts during the pilot. The CE Rider approved for Centerpoint Energy is subject to a cap of three percent of under-collections. There is no cap on the refund of over-collections.

Q. WOULD BEGINNING WITH A PARTIAL DECOUPLING MECHANISM SIMILAR TO THAT OF CENTERPOINT ENERGY PROVIDE ADDITIONAL INFORMATION TO THE COMMISSION AND OTHER PARTIES ON THE MERITS OF THAT APPROACH?

A. Yes. If MERC begins with a partial decoupling mechanism similar to that of Centerpoint it will provide the Commission an opportunity to compare MERC's experience with a partial decoupling mechanism to Centerpoint Energy's experience with a similar mechanism. If the two utilities instead implement different mechanisms, it will be difficult to determine whether any differences in results are attributable to differences between the mechanisms or differences between the utilities.

Q. PLEASE COMMENT ON MERC'S POSITION REGARDING THE DISADVANTAGES OF A PARTIAL DECOUPLING MECHANISM.

A. Ms. Grace states that a partial decoupling mechanism is more complicated to compute, potentially administratively burdensome and may cause disputes regarding the quantification of changes in usage. However, Ms. Grace could not provide support for those positions in response to data requests (see, Response to IWLA/MCEA Information Request No. 3).

Q. SHOULD APPROVAL OF ANY DECOUPLING MECHANISM BE CONDITIONED UPON A COMMITMENT TO A COMPREHESIVE EVALUATION OF ITS IMPACT?

A. Yes. The Company is proposing to test the decoupling mechanism as a pilot in an effort to determine the merits of its proposed approach. The Commission should hold the Company to that position by conditioning approval of any decoupling mechanism on a commitment from the Company to conduct a thorough evaluation of the mechanism. That evaluation should consider the same criteria as Centerpoint Energy is using in the evaluation of its CE Rider.

Q. IS THE COMPANY'S PROPOSED SFV RATE DESIGN A REASONABLE ALTERNATIVE APPROACH TO DECOUPLING?

A. No. Implementing decoupling through SFV charges is not reasonable from an energy policy and ratemaking perspective. First, SFV charges will weaken the price signal, and hence the financial incentive, of customers to use natural gas efficiently. Second, SFV charges will tend to cause rate shock to low usage residential customers.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes.

James Richard Hornby

PROFESSIONAL EXPERIENCE

Synapse Energy Economics, Inc., Cambridge, MA.
Senior Consultant, 2006 to present.
Provides analysis and expert testimony regarding planning, market structure, ratemaking and supply contracting issues in the electricity and natural gas industries.

Charles River Associates (formerly Tabors Caramanis & Associates), Cambridge, MA.
Principal, 2004-2006, *Senior Consultant*, 1998–2004.
Provided expert testimony and litigation support in energy contract price arbitration proceedings and various utility ratemaking proceedings. Managed a major productivity improvement and planning project for two electric distribution companies in Abu Dhabi. Analyzed a range of market structure and contracting issues in wholesale electricity markets.

Tellus Institute, Boston, MA.
Vice President and Director of Energy Group, 1997–1998.
Presented expert testimony on rates for unbundled retail services in restructured retail markets and analyzed the options for purchasing electricity and gas in those markets.
Manager of Natural Gas Program, 1986–1997.
Prepared testimony and reports on a range of gas industry issues including market structure, unbundled services, ratemaking, strategic planning, market analyses, and supply planning.

Nova Scotia Department of Mines and Energy, Halifax, Canada.
Member, Canada-Nova Scotia Offshore Oil and Gas Board, 1983–1986.
Member of a federal-provincial board responsible for regulating petroleum industry exploration and development activity offshore Nova Scotia.
Assistant Deputy Minister of Energy 1983–1986.
Responsible for analysis and implementation of provincial energy policies and programs, as well as for Energy Division budget and staff. Directed preparation of comprehensive energy plan emphasizing energy efficiency and use of provincial energy resources. Senior technical advisor on provincial team responsible for negotiating and implementing a federal/provincial fiscal, regulatory, and legislative regime to govern offshore oil and gas. Also served as Director of Energy Resources (1982-1983) and Assistant to the Deputy Minister. (1981-1982)

Nova Scotia Research Foundation, Dartmouth, Canada, *Consultant*, 1978–1981.
Canadian Keyes Fibre, Hantsport, Canada, *Project Engineer*, 1975–1977.
Imperial Group Limited, Bristol, England, *Management Consultant*, 1973–1975.

EDUCATION

M.S., Technology and Policy (Energy), Massachusetts Institute of Technology, 1979.
B.Eng., Industrial Engineering (with Distinction), Dalhousie University, Canada, 1973.

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Date of Request: February 16, 2011
Requested By: Beth Goodpaster
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Attorney for Izaak Walton League of America – Midwest Office (IWLA)
and Minnesota Center for Environmental Advocacy (MCEA)
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1. Direct Testimony of Ms. Grace, page 6, lines 17 to 22.
a. Please provide copies of the referenced energy conservation plans of MERCPNG and MERC-NMU.
b. Were the referenced energy conservation plans of MERC-PNG and MERCNMU based upon an assumption of revenue decoupling? If no, please describe the ratemaking assumed in the plans.
c. If the referenced energy conservation plans of MERC-PNG and MERC-NMU were not based upon an assumption of revenue decoupling please explain the changes in scope and or level of energy efficiency initiatives that MERC proposes if the Commission approves its revenue decoupling proposal in this proceeding.

MERC Response:

a. Please see attachments MCEA_1_PNG_Approved_CIP.pdf and MCEA_1_NMU_Approved_CIP.pdf for copies of the approved conservation plans for MERC-PNG and MERC-NMU respectively.

b. The CIP plans in "a," above, were the first CIPs submitted under the increased energy efficiency goals of the Next Generation Energy Act. The Next Generation Energy Act also directed the Commission to establish decoupling program criteria and standards. MERC has both submitted the CIPs required by the Act and indicated its desire to gain approval of revenue decoupling. *See* Direct Testimony of Valerie Grace at page 6, *see also* Direct Testimony of Charles Cloninger at 4, Docket No. G007,011/GR-08-835 (noting that MERC presented a straightforward rate case as its first rate case since acquiring its natural gas operations, so did not include a decoupling proposal in that case). CIP plans are presented to the OES for review and approval on their own timeline, while decoupling must be established through the general rate case process before the Commission. The function of decoupling is to remove a disincentive to achievement of greater energy efficiencies, thus working in tandem with other state efforts to achieve higher energy efficiency goals.

c. Please see MERC's response to OES Information Requests 323 which is attached.

State of Minnesota
OFFICE OF ENERGY SECURITY

Utility Information Request

Docket Number: G007,011/GR-10-977 Date of Request: ???

Requested From: Minnesota Energy Resources Corporation Response Due: ??

Analyst Requesting Information: Adam J. Heinen/Hwikwon Ham/Chris Davis

Type of Inquiry:

[ ] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[ ] CIP	[X] Decoupling

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
323	Subject: Decoupling Please provide the following: a. a full discussion detailing whether MERC considered, or is planning, additional conservation programs and initiatives beyond those currently approved in its 2010-2012 CIP Triennial; b. if the answer to part a. is no, provide a full discussion explaining why MERC did not investigate additional conservation initiatives; c. if the answer to part a. is yes, provide a detailed list of each program considered, or is currently being considered; and d. a detailed explanation for any, and all, programs listed in part c. including, but not limited to, the total cost for each program, the expected savings, the expected time frame for the program, the expected number of participants by rate class, how MERC intends to publicize the program, and any other relevant information associated with the planning and administration of the program. If this information has already been provided in written testimony or in response to an earlier OES information request, please identify the specific testimony cite(s) or OES information request number(s).

Response by: Jim Phillippo

Title: Program Manager

Department: Customer Relations

Telephone: 920-433-5763

List sources of information:

MERC Response

a. Yes, MERC is considering additional conservation programs and initiatives beyond those currently approved in its 2010-2012 Triennial Plan.

b. N/A

c.

1) MERC-PNG offered a pilot project for customers just above the income guidelines called 4U2. The project was designed to provide weatherization services to those just above low income guidelines who were ineligible for state or federal weatherization services but were in great need. Targeting those at 60% of State Median Income guidelines, it was offered as a 'neighbors helping neighbors' program and invited participants to contribute at a later date, if they chose to do so, to Reach Out for Warmth with a portion of their energy bill savings. This was specifically done to present the program as a non-welfare, non-charity program to an audience consisting largely of seniors who tended not to accept welfare or charity. Despite a variety of marketing efforts and design improvements, total participation in the program since its inception totaled 49 participants compared to a participation goal of 200. The program was not successful due to American Reinvestment Recovery Act funding a) over-riding the income guidelines for 4U2 making the program moot and b) making the Community Action Program agencies who were implementing the program too busy to work on 4U2. Rather than shut down the program, however, MERC believes there is a strong market for this program and requested improved ideas for the program through a competitive bid process. We intend to offer this program throughout the service territory (both PNG and NMU) and have filed this program for approval with the OES as a modification to the currently approved triennial CIP plans for MERC-PNG and MERC-NMU in Docket Nos. G011/CIP-09-800 and G007/CIP-09-803, respectively.
2) MERC is considering a retro-commissioning program for commercial/industrial customers. When buildings are first built and systems installed, a test to ensure that the systems operate as designed is not always completed. Sometimes the use of the building changes. Retro-commissioning conducts tests and optimizes system operations in the context of how the building is currently used. Experts analyze the building and help its energy using systems to operate optimally by identifying energy improvements for implementation by the customer.
3) Depending on the success of the program after results for 2010 are reviewed, MERC is considering expanding the participation numbers for the Home Energy Reports program to allow more customers to participate in this opt-out, behavior change program. This program is currently available to residential customers. The project targets the highest energy users and provides them a customized report on how they use energy and how they can reduce their energy usage compared to their neighbors.

Response by:	Jim Phillippo	List sources of information:
Title:	Program Manager	
Department:	Customer Relations	
Telephone:	920-433-5763	

4) MERC is considering adding pre-rinse sprayers to the list of food service equipment that is eligible for a rebate under the C/I Rebate program.
5) MERC has been in conversations with Midwest Energy Efficiency Alliance (MEEA) and with Schools for Energy Efficiency to expand the Building Operator Certification (BOC) and the Schools for Energy Efficiency (SEE) programs respectively. The BOC training, which is run by MEEA covers building operation and maintenance for building operators, managers and consultants. The SEE project is a program that measures, verifies and awards utility incentives for energy usage reductions achieved from an expanded Schools for Energy Efficiency program.
6) For the commercial and industrial markets, MERC's current programs cover all possible end uses through the C/I Rebates program. However, an improvement would be to develop a more concerted marketing effort and bundle measures by industry. MERC is willing to investigate opportunities to market more effectively.
7) In addition to the above, there are a variety of other ideas that MERC would be interested in researching for potential implementation. These ideas include measures such as duct sealing, duct insulation, solar water heaters, flue sealing, pool heaters, and energy management systems.

As stated in our response to IR 307, MERC would be interested in speaking with other organizations, such as the Isaak Walton League and MEEA, to get input for other ideas they may have. It may also be possible to join forces with the other gas utilities to research new ideas. In our response to IR 307, MERC also mentioned that new programs would be filed within 90 days of a Commission Order approving its proposed decoupling pilot program. It should be noted that while we may be able to file some programs for approval within 90 days, it would not be in the best interests of the quality of program design and implementation to file a large number of programs at the same time. Depending on the number of new programs or program enhancements, we would propose to submit, within 90 days, a few programs for filing and provide a timeline for the initial research and subsequent filing for the remainder of ideas, perhaps filing them as part of the next triennial CIP filing due on June 1, 2012.

d. MERC's proposal to modify the current triennial CIP plans to add the 4U2 program are attached. With respect to the other projects considered, MERC has not yet developed the details on these program ideas. Research will need to be completed on the information mentioned above in order to perform benefit cost analysis. MERC would also want to ensure there is sufficient market potential for these measures by revisiting the potential study completed by Navigant in 2009.

Response by:	Jim Phillippo	List sources of information:
Title:	Program Manager	
Department:	Customer Relations	
Telephone:	920-433-5763	

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3. Direct Testimony of Ms. Grace, page 8, lines 4 to 7. Please provide all analyses prepared by, or for, the Company of the following aspects of a partial decoupling mechanism versus a full decoupling mechanism.
a. complications of computation
b. administrative burden
c. disputes regarding quantification of usage changes and affected sales volumes

MERC Response:

The Company has not prepared any formal analysis regarding items a through c. However, a partial decoupling mechanism that would compute adjustments only for energy efficiency or conservation related changes would require MERC to determine and isolate such changes, involving additional computations and steps that would not be required under a full decoupling mechanism. The Commission would also need to conduct a review to determine whether such computations are appropriate with potentially different opinions among the Company, the Commission Staff and other intervening parties. With respect to debates about sales levels and changes in usage, there have been differing positions regarding the quantification of sales levels in several recent dockets involving Interstate Power and Light (Docket No. E-001/GR-10-276), Minnesota Power (Docket No. E-015/GR-08-415), and CenterPoint Energy (Docket No. G-008/GR-08-1075).

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OAH Docket No. 16-2500-21807-2

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5. Direct Testimony of Ms. Grace, page 9, lines 7 to 33. Please document the changes in scope and or level of energy efficiency initiatives of each of the five listed utilities after approval of their respective revenue decoupling mechanisms relative to the scope and level to prior to approval.

MERC Response:

<u>THE PEOPLES GAS LIGHT AND COKE COMPANY AND NORTH SHORE GAS COMPANY</u>

The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas did not have energy efficiency programs in place prior to the approval of their decoupling mechanism by the Illinois Commerce Commission (“ICC”) in February, 2008. In the same proceedings which approved the decoupling mechanisms, the ICC approved a cost recovery mechanism for energy efficiency programs with annual budgets of $6.4 million and $1.1 million for Peoples Gas and North Shore Gas, respectively. These programs, which are applicable to the Small Residential and General Service rate classes, were not directly linked to approval of the decoupling mechanisms, and will be phased out in 2011 as a result of state legislation mandating energy efficiency initiatives for Illinois gas utilities.

WISCONSIN PUBLIC SERVICE CORPORATION

Wisconsin Public Service Corporation (“WPSC”) agreed to implement additional conservation programs in its 2008 rate proceeding. See Attachment_01_WPSC_Conditions.pdf, which is an excerpt from WPSC’s December 30, 2008 rate order in docket 6690-UR-119.

WPSC’s programs are administered through the Wisconsin Focus on Energy.

UPPER PENINSULA POWER COMPANY

Upper Peninsula Power Company (“UPPCo”) agreed to the following conditions for the establishment of decoupling in the settlement agreement in Case No. U-15988, which was UPPCO’s 2010 test year rate case:

> “For the first year, the pilot decoupling mechanism will be contingent upon UPPCO 1) meeting certain reporting requirements, 2) exceeding the benchmarks for the energy optimization program established pursuant to Public Act 295 of 2008, 3) committing to providing enhanced energy efficiency programs and demand side resources that enable all customers classes to effectively manage rising energy costs, including proposals to accomplish this in the next filed rate case and 4) surpassing minimum reliability standards under rule and law.”

This paragraph was clarified by the below footnote:

> Regarding conditions 2 and 3, the parties recognize that in Case No. U-15810, UPPCO on December 15, 2008 advised the Commission that it opted to use the Independent Energy Optimization Program Administrator, and therefore, pursuant to Sec 91 of Public Act 295 of 2008, the parties support a finding that conditions 2 and 3 are satisfied by UPPCO’s use of the Independent Energy Optimization Program Administrator.

The Michigan Commission may extend or modify these conditions in future decoupling reconciliation proceedings.

In compliance with conditions 2 and 3 above, UPPCo has utilized the services of the Michigan Independent Energy Optimization Program Administrator, known as “Efficiency United”, since November 2009. More information regarding Efficiency United can be found at www.EfficiencyUnited.com.

Since November 2009, Efficiency United has administered the following conservation programs for UPPCo: Residential and Small Business ENERGY STAR® Program, Online Energy Audit Program, Residential Heating, Ventilation, Air-Conditioning (HVAC) Program, Energy Efficiency Assistance Program, and Commercial & Industrial Program. Additional information about these programs can be found at http://www.efficiencyunited.com/util_upp.asp.

UPPCo had no programs prior to utilizing the services of Efficiency United.

MICHIGAN GAS UTILITIES CORPORATION

Michigan Gas Utilities Corporation (“MGUC”) was ordered to complete the following as conditions for the establishment of decoupling:

> “The establishment of this pilot decoupling mechanism for MGUC is contingent upon the utility: 1) meeting certain reporting requirements; 2) exceeding the benchmarks for the energy optimization program established pursuant to Act 295; and 3) committing to provide enhanced energy efficiency programs and demand side resources that enable all customer classes to effectively manage rising energy costs, including proposals to accomplish this in the next filed rate case.”

On rehearing, the Commission found:

> “The Commission further agrees with MGUC that the second and third conditions placed on the PRDM with reference to energy optimization are not warranted where the company relies on use of the independent administrator, and the Commission withdraws those two conditions.”

In compliance with conditions 2 and 3 above, MGUC has utilized the services of the Michigan Independent Energy Optimization Program Administrator, known as “Efficiency United”, since November 2009. More information regarding Efficiency United can be found at www.EfficiencyUnited.com.

Since November 2009, Efficiency United has administered the following conservation programs for MGUC: Residential and Small Business ENERGY STAR® Program, Online Energy Audit Program, Residential Heating, Ventilation, Air-Conditioning (HVAC) Program, Energy Efficiency Assistance Program, Commercial & Industrial Program, Residential On Site Weatherization Program, and Home Performance Program. Additional information about these programs can be found at http://www.efficiencyunited.com/util_michgasutils.asp.

MGUC had no programs prior to utilizing the services of Efficiency United.

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Date of Request: February 16, 2011
Requested By: Beth Goodpaster
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and Minnesota Center for Environmental Advocacy (MCEA)
Responses Due: February 28, 2011
In the Matter of the Application of Minnesota
Energy Resources Corporation for Authority to
Increase Rates for Natural Gas Service in
Minnesota
PUC Docket No. G-007,011/GR-10-977
OAH Docket No. 16-2500-21807-2

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13. Direct Testimony of Mr. Moul, page 9, lines 10 to 12. Please identify each risk that the RDM will mitigate.

MERC Response:

The RDM will help stabilize revenues that would otherwise change due to variations in weather, conservation efforts, and other changes in customers' usage patterns. While the RDM acts to stabilize revenues, variations will continue to impact a utility's earnings related to changes in costs and investment. So while revenue risk will be reduced by the presence of an RDM, earnings variability will continue, which is a reflection of overall business risk. Please also refer to Mr. Moul's testimony on Page 8, line 14 to page 9, line 12 for further context on the response, above, as well as Mr. Moul's full discussion of risk in his Direct Testimony.