



Minnesota Energy Resources Corporation
An Integrys Energy Group Company
1995 Rahncliff Court, Suite 200
Eagan, MN 55122
www.minnesotaenergyresources.com

March 4, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: Incentive Compensation Refund Mechanism Compliance Filing

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota; Docket No. G-011/GR-13-617

Dear Mr. Wolf:

On October 28, 2014, the Minnesota Public Utilities Commission (the "Commission") issued its Findings of Fact, Conclusions of Law, and Order ("Order") in the above-referenced Docket. Order Point 4 requires that Minnesota Energy Resources Corporation ("MERC" or the "Company") refund any incentive-compensation costs included in the test-year revenue requirement that are not paid out in a particular year. Refunds must be approved based on the incentive compensation and customer counts approved in the above-referenced Docket.

The Order generally adopted the Administrative Law Judge's findings. In adopting these findings, the Commission required MERC to retain the current refund mechanism for refunding unpaid compensation payouts. The Commission adopted the current refund mechanism in MERC's 2010 rate case, Docket No. G007, 011/GR-10-977. The mechanism requires that MERC track the annual amounts to be refunded and to issue refunds only after they reach \$1.00 per customer. In the 2010 Order, the Commission directed MERC to provide an explanation of how the \$1.00 per customer refund threshold would be implemented in the refund mechanism. In MERC's 30-day compliance filing in that case, MERC proposed that when the annual refund to customers exceeds \$1.00, a per-therm amount would be calculated based on the Minnesota jurisdictional therms approved in the rate proceeding. MERC proposed to refund customers over a period of 12 months.

Until recently, the cumulative unpaid compensation never exceeded the \$1.00 per customer threshold. Therefore, MERC has never had occasion to implement the refund mechanism. At the end of 2014, however, the cumulative amount to be refunded was \$387,200, or \$1.80 per customer. Attached is MERC's Incentive Tracker, reflecting this calculation. Because the amount owed to each customer exceeds the \$1.00-per-customer threshold, MERC must issue a refund in accordance with the Commission's Order. MERC submits this filing in compliance with Order Point 4 of the Commission's October 28, 2014 Order. Attached is MERC's Incentive Tracker showing that the \$1.00 threshold has been reached and showing the amount of the proposed refund.

Through this filing, MERC also seeks Commission approval to modify the method for refunding customers, as previously proposed in Docket No. G007, 011/GR-10-977. Rather than refunding customers on a per-term basis, MERC proposes to refund each customer at a flat rate of \$1.80. MERC also proposes to refund the entire amount in a single month rather than spreading the refund over 12 months. Given the small amount of the refund, this approach is the simplest and least costly way to administer the refund.

Assuming the Commission approves MERC's proposal at the Commission hearing on March 12, the Company proposes to refund customers with April billing and to list the refund on customer bills as "Miscellaneous Refund." Until refunded, the \$387,200 cumulative underpayment of incentive payout will be booked as a regulatory liability account to be refunded.

Please contact me at (920) 433-2926 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Seth DeMerritt". The signature is written in a cursive, slightly slanted style.

Seth DeMerritt
Rate Case Consultant

cc: Service List
Attachment Enclosed

YEAR 1 - 2013

Line	Description	Reference	Amount
1	2011 Authorized incentive Payout Executive and Non-Executive	Docket No. G007,011/GR-10-977	\$ 1,308,121
2	Actual cumulative underpayment of Incentive Payout Year End Numbers with no netting of years with overpayment	General Ledger	\$ 91,294
3	Approved annual average customer count (all Minnesota customers)	Docket No. G007,011/GR-10-977	211,965
4	Annual refund to customers	Line 2 / Line 3	\$ 0.43

YEAR 2 - 2014

Line	Description	Reference	Amount
1	2014 Authorized incentive Payout Executive and Non-Executive	Docket No. G011/GR-13-617	\$ 1,231,630
2	2014 Actual Underpayment of Incentive Payout	General Ledger	\$ 295,906
3	Cumulative underpayment of Incentive Payout Year End Numbers with no netting of years with overpayment	Row 2 from Year 1 + Row 2 from Year 2	\$ 387,200
4	Approved annual average customer count (all Minnesota customers)	Docket No. G011/GR-13-617	214,689
5	Annual refund to customers	Line 3 / Line 4	\$ 1.80

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 4th day of March, 2015, on behalf of Minnesota Energy Resources Corporation, she electronically filed a true and correct copy of the attached filing on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny _____
Kristin M. Stastny

Subscribed and sworn to before me
This 4th Day of March, 2015.

/s/ Alice Jaworski
Notary Public, State of Minnesota

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_13-617_Official cc service list
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