COMMERCE DEPARTMENT

October 23, 2017

Daniel P. Wolf
Executive Director
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/MR-17-564

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> A *Petition* by Minnesota Energy Resources Corporation (MERC or the Company) for Approval of a New Base Cost of Gas for Interim Rates.

The *Petition* was filed on September 29, 2017 by:

> Amber S. Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> 1995 Rahncliff Court, Suite 200
> Eagan, MN 55122

Based on its review of the Company's *Petition*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** MERC's base cost of gas filing, and require MERC to provide additional information as discussed herein.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ SACHIN SHAH
Rates Analyst
651-539-1834

SS/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/MR-17-564

I. SUMMARY OF MINNESOTA ENERGY RESOURCES' PROPOSAL

Minnesota Energy Resources Corporation, (MERC or the Company), requests that the Minnesota Public Utilities Commission (Commission) approve a new base cost of gas (BCOG) to coincide with the proposed January 1, 2018 implementation of interim rates requested in its general rate case Docket No. G011/GR-17-563 (Docket 17-563). MERC filed its general rate case on October 13, 2017, two weeks later than its *Petition*. The Minnesota Department of Commerce, Division of Energy Resources' (Department) analysis of MERC's *Petition* is presented below.

II. THE DEPARTMENT'S ANALYSIS

Minnesota Rules part 7825.2700, subpart 2, requires a utility to petition for a new base cost of gas, submitted as a miscellaneous rate change, to coincide with the implementation of interim rates during a general rate proceeding. This Rule requires that "The base cost of gas must separately state the commodity base cost and the demand base cost components for each class." Through its review of MERC's *Petition*, the Department concludes that the Company has complied with these requirements through its Exhibit 1, page 1 and through its supporting data and calculations provided in Exhibit 1, pages 2-19 in the *Petition*. The Department discusses MERC's demand and commodity costs separately below.

A. DEMAND GAS COSTS

The Department reviewed MERC's *Petition* for consistency with the calculations in the rate case. The Department's analysis indicates that the information is generally consistent between the rate case and the base cost of gas filing with a minor difference. MERC calculated its demand cost of gas based, in most part, on the demand entitlement units and costs that are estimated to be charged in the Company's November 2017 Purchased Gas Adjustment (PGA) filings.[1] These estimated demand costs are representative of the entitlement levels and costs proposed by the Company in Docket Nos. G011/M-17-587, (Docket 17-587) and G011/M-17-

[1] See MERC's *August 1, 2017 Demand Entitlement Filings* Attachments 3 and 4, in Docket Nos. 17-587 and 17-588.

588 (Docket 17-588), (2017-2018 Demand Entitlement Filings).[2] The Department notes that the demand costs are slightly different between the estimated November 2017 PGA in Docket 17-588 and the rate case and base cost of gas filings. In Docket 17-588, MERC shows demand costs in the amount of approximately $22,189,727. In the *Petition*, MERC shows demand costs (including "Company Use") in the amount of approximately $22,185,175, resulting in a difference of $4,552. The differences also exist between the November 2017 PGA in Docket 17-587 and the rate case and BCOG filings as shown below.

However, as discussed previously in MERC's prior BCOG filings, the amounts for "Company Use" are excluded from the calculation.[3] Thus, when the $22,189,727 from Docket 17-588 is compared to the *Petition's* demand costs excluding "Company Use" in the amount of $22,176,683, the resulting difference is $13,044. See Tables 1 and 2 Below.

Table 1 – Demand Costs for MERC-NNG.

		Docket 17-588 (DEM Filing) - A	BCOG *Petition* B	Difference B-A
i.	Including Co Use	$22,189,727	$22,185,175	($4,552)
ii.	Excluding Co Use		$22,176,683	
iii.	Column A -Excluding Co Use (similar methodology to Column B)[4]	$22,181,233	$22,176,683	($4,550)
iv.	Annual Demand Rates - per therm based on line iii[5]	$0.09363	$0.09361	($0.00002)

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[2] The Department notes that MERC typically updates its *Demand Entitlement Filing* in November and makes its final proposal and request for changes to the demand units and the associated cost recovery for the next 12 months.

[3] For Example:

- See the Department's *December 30, 2010 Comments*, MERC's *January 4, 2011 Reply Comments*, MERC's *January 14, 2011 and January 31, 2011 Compliance Filings* in Docket No. G007,011/MR-10-978 (Docket 10-978);
- See the Department's *October 30, 2013 Comments*, MERC's *November 6, 2013 Reply Comments* and the Department's *November 7, 2013 Letter* in Docket No. G011/MR-13-732 (Docket 13-732); and
- See the Department's *October 30, 2015 Comments*, MERC's *November 4, 2015 Reply Comments* and the Department's *November 6, 2015 Response Comments* in Docket No. G011/MR-15-748 (Docket 15-748).

[4] The Sales used to derive the annual per-therm rate for Columns A and B are the same and are shown in Exhibit 1 of the *Petition*.

[5] Id.

Table 2 – Demand Costs for MERC-Consolidated.

		Docket 17-587 (DEM Filing) - A	BCOG *Petition* B	Difference B-A
i.	Including Co Use	$3,655,420	$3,600,900	($54,520)
ii.	Excluding Co Use		$3,587,907	
iii.	Column A -Excluding Co Use (similar methodology to Column B)[6]	$3,642,230	$3,587,907	($54,324)
iv.	Annual Demand Rates - per therm based on line iii[7]	$0.07527	$0.07415	($0.00112)

Although these differences do not appear to be significant, the Department examined whether the differences were the result of potential changes in demand entitlements. In Docket 17-588 the Company stated the following regarding any changes to its design-day deliverability and other demand entitlement changes:

> As shown in Attachment 3, MERC-NNG proposes no change in Design-Day Deliverability. The reserve margin for 2017-2018 is slightly negative. MERC will purchase city gate delivered supply to cover 0.19% of peak day throughput if necessary.
>
> … As shown in Attachment 3, MERC–NNG proposes no change in April/October Deliverability. However, MERC requests changes to increase Firm Deferred Delivery (storage) pipeline entitlements that are not included in peak day deliverability. MERC has increased the volume of capacity release NNG storage acquired from a total of 1,200,000 dth in 2016-2017 to 1,500,000 dth in 2017-2018 as discussed in the update filing for Docket No. G011/M-16-650. MERC will utilize this incremental storage to ensure supply price and reliability during the winter.

To ascertain if indeed there were no changes to MERC-NNG's PGA system demand entitlements other than changes to storage described above, the Department reviewed the Company's September 28, 2017 PGA filing in Docket No. G011/M-17-703 (Docket 17-703) describing MERC-NNG's PGA rates effective October 1, 2017. In Docket 17-703, Schedule A, MERC shows total demand costs of $22,303,099 for the MERC-NNG system. These demand costs from Docket 17-703 are approximately $113,372 higher than the demand costs shown in Docket 17-588, for

[6] Id.
[7] Id.

MERC's proposed PGA rates effective November 1, 2017. For example, in Docket 17-588 MERC shows TF12B (Max Rate) Winter Units of 49,219 Dth whereas in Docket 17-703 MERC shows 42,983 Dth. Similarly in Docket 17-588 MERC shows TF12V (Max Rate) 5-month Units of 30,290 Dth yet in Docket 17-703 MERC shows 36,526 Dth. While the Department has not filed Initial Comments in Docket 17-588, the Department requests that MERC, in its November Update in Docket 17-588, reconcile its changes in Docket 17-588 described above to all the information in MERC's October 1, 2017 PGA filed in Docket 17-703.

Finally, in its review of demand costs, the Department found no inconsistencies between the sales forecast reported in the rate case filing and that which was presented in the base cost of gas *Petition*.

B. COMMODITY GAS COSTS

MERC estimated its commodity costs based on monthly New York Mercantile Exchange (NYMEX) wellhead prices and forecasted basis point differentials for delivery at each of the interstate pipelines from which the Company receives delivered gas. The Department compared these estimated commodity cost rates to current NYMEX market expectations and concludes that, at this time, the rate estimates do not appear to be inappropriate.

After estimating commodity costs for its customers, and accounting for lost gas and pipeline transportation charges, MERC calculated its total gas cost recovery amount by multiplying monthly test-year sales amounts by the monthly projected price (including surcharges). Volumetric costs were calculated by determining total gas and storage requirements[8] and multiplying those volumes by the applicable rates.[9] The final calculations are shown in MERC's Exhibit 1, pages 12-17. Hedging costs are also included in determining final gas costs. Hedging costs are shown in MERC's Exhibit 1, page 5. By adding together gas costs, volumetric costs, and hedging costs, total commodity costs can be calculated.[10] MERC expects total 2018 commodity costs to be $117,159,079.[11]

In Docket 17-587 the Company stated the following with regards to its Demand Entitlement changes, and in particular to natural gas storage:[12]

> MERC has AECO Storage contracted through the 2017-2018 winter season. As discussed in the April 20, 2017, update filing in Docket No. G011/M-16-651, MERC has released this storage contract for

[8] *Petition*, Exhibit 1, pages 5, 10, and 11.
[9] *Petition*, Exhibit 1, page 9.
[10] *Petition*, Exhibit 1, pages 17-19.
[11] Id.
[12] See MERC's *August 1, 2017 Demand Entitlement Filing* page 5, in Docket No. 17-587.

> 2017-2018 because it is operationally difficult to move gas to the city gate station. MERC will rely on the greater use of baseload and spot gas purchases to replace this storage service. The Company will continue to explore alternatives for acquiring functional gas storage for MERC-Consolidated customers.

In Docket No. G011/M-16-651 (Docket 16-651) referenced above, the Company stated the following:

> Minnesota Energy Resources Corporation ("MERC" or the "Company") submits this letter in compliance with Minn. R. 7825.29101 to notify the Minnesota Public Utilities Commission (the "Commission") of a change in contract demand effective May 1, 2017, as a result of MERC assigning the remaining term of its natural gas storage contract with Niska Gas Storage at the AECO Hub in Alberta, Canada for the last year of the contract term May 1, 2017 – April 30, 2018. Because this change is effective May 1, 2017, it does not affect MERC's design day demand entitlements for 2016-2017. MERC will provide an updated design day analysis and replacement for the Niska Storage Contract and AECO/Emerson swap in its 2017-2018 Demand Entitlement filings to be submitted in August and November 2017.

MERC included the AECO storage costs in its new BCOG, stating the following:[13]

> *MERC's existing contract with Niska Gas Storage at the AECO Hub in Alberta, Canada expires April 30, 2018. MERC intends to replace that contract with a new storage contract and has used the AECO contract as a proxy.

While the Department has not filed Initial Comments in Docket 17-587, the Department requests that MERC provide detailed information, in its November Update in Docket 17-587, on the status of the replacement for the storage contract referenced above. The Department concludes that the use of the AECO contract as a proxy, at this time, in the commodity cost calculation seems reasonable as further explained below.

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[13] *Petition*, Exhibit 1, page 11.

C. TOTAL GAS COSTS

When MERC's proposed demand gas costs ($25,764,590) and commodity cost of gas ($117,159,079) are added together, the resulting total gas costs are approximately $142,923,669.[14] The Department notes that the Company's *Petition* did not reference where gas costs are included in its rate case filings. However, the Department located the information in the Company's rate case filing submitted on October 13, 2017, as follows:

- Direct Testimony and Schedules of Company Witness Amber S. Lee Exhibit ___ (ASL-1) Schedule 2;
- Direct Testimony and Schedules of Company Witness Seth S. DeMerritt Exhibit ___ (SSD-38) Schedule 2; and
- MERC's Volume III, Information Requirements Document 5, pages 3 and 5 of 19.

Based on the rate case exhibits and work papers noted above, the 2018 gas costs reported are $142,921,853, resulting in a difference between the rate case and base cost of gas *Petition* of $1,816. The Department concludes that the $1,816 difference is attributable to rounding and is therefore acceptable.

D. OTHER ISSUES

In its *Petition* at page 8, the Company stated the following:

> **D. Cost of Gas Update**
> In Docket Nos. G007,011/GR-08-835, G007,011/GR-10-977, G011/GR-13-617, and G011/GR-15-736, MERC agreed to update the NYMEX prices to use more recent data in the calculation of the cost of gas for the final revenue deficiency and base rates. MERC would agree to this update again, if the Commission finds it to be necessary due to a significant change in NYMEX pricing, and proposes to provide a single update, presumably before surrebuttal testimony is due.
>
> **V. Effect of Change on MERC Revenue**
> The effect of the change in interim rates will be described in the Company's interim rate petition, and the change in final rates will be described in the Company's filing in Docket No. G011/GR-17-563. The new base cost included herein has no impact on the Company's revenues as the current gas costs are merely being recovered through base rates rather than through the PGA. The

[14] *Petition*, Exhibit 1, pages 18 -19 ($98,879,006 + $18,280,073 = $117,159,079) and ($22,176,683 + $3,587,907 = $25,764,590).

> recovery of gas costs will continue to be adjusted by the PGA on a monthly basis to reflect actual market prices of purchased gas.

In the Company's general rate case in Docket 17-563, Company Witness Seth DeMerritt stated the following in his Direct Testimony as follows[15]:

> Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2016 PROPOSED TEST YEAR GAS STORAGE AND COST OF GAS FORECAST IN THIS CASE.
>
> A. MERC's cost of gas and gas in storage balances were updated using NYMEX data from May 15, 2017, as described in the Base Cost of Gas filing in Docket No. G011/MR-17-564.
>
> Q. WOULD MERC AGREE TO AN UPDATE TO NYMEX PRICES IN THIS CURRENT RATE CASE?
>
> A. Yes. In Docket Nos. G007,011/GR-08-835, G007,011/GR-10-977, G011/GR-13-617, and G011/GR-15-736, MERC agreed to update the NYMEX prices to use more recent data in the calculation of cost of gas. This impacts the gas storage balances used in determination of the final revenue deficiency. MERC agrees to perform this update again if there is a significant change in NYMEX pricing, but would prefer to do this update only once, presumably before Surrebuttal Testimony is due.
>
> Q. WHAT IS THE TYPICAL IMPACT OF THE BASE COST OF GAS TO A CUSTOMER'S BILL?
>
> A. While the cost of gas is a significant component of a customer's bill, the cost of gas has very little impact on the overall revenue deficiency within this docket. For the calculation of the revenue deficiency, the gas costs are a one-for-one flow-through with gas cost revenues, and therefore any change in the actual base cost of gas rate does not impact the revenue deficiency at all. Where the updated NYMEX prices would have an impact is in the calculation of storage balances, but that impact can be relatively minor in terms of the overall revenue deficiency. Accordingly, MERC does not believe it warrants a number of updates. For example, in MERC's last rate case, Docket No. G011/GR-15-736, the cost of gas

[15] See MERC's October 13, 2017 general rate case filing, Vol II, Direct Testimony and Schedules of Seth S. DeMerritt at pages 12-13.

> was reduced $43.5M from the original filing, which resulted in an overall revenue requirement impact of slightly more than $300k.
>
> Q. WHY IS IT APPROPRIATE TO UPDATE THE BASE COST OF GAS CALCULATION ONCE DURING THE PROCEEDING?
>
> A. It is MERC's experience that the cost of gas can fluctuate month to month based on the NYMEX pricing that is used. Therefore, while more updates may provide more data points to analyze, MERC sees these additional data points as less informative than using the most recent NYMEX pricing that is reasonably available to include in the rate case.

The Department agrees with MERC that there should be updates to the base cost of gas in both Docket 17-563 and the instant docket. While MERC claims that, "updated NYMEX prices would have an impact is in the calculation of storage balances, but that impact can be relatively minor in terms of the overall revenue deficiency," the Department notes that updates to the BCOG would also impact other items in the general rate case. These items are, for example, Bad Debt/Uncollectible Expense as shown in Direct Testimony of Company Witness Seth DeMerritt, Exhibit ___ (SSD-23); the lead/lag study and cash working capital expenses as described in MERC's *November 18, 2015 Compliance Filing* in Docket 15-748; and in MERC's response to Department Information Request No. 1 in Docket 10-978. (See Department Attachment 1).

To illustrate the impact of changes to the BCOG on the various rate classes, the Department provides the change described above in MERC's last rate case, Docket 15-736, "the cost of gas was reduced $43.5M." (See Department Attachment 1).

In addition, the Department also provides a summary table showing the various updates that occurred to the BCOG in MERC's three previous general rate cases wherein costs of gas both increased and/or decreased from their initially filed amounts. (See Department Attachment 1).

Recently in CenterPoint Energy Resources Corporation's BCOG filing in Docket No. G008//MR-17-591, Commission Staff in the August 25, 2017 Staff Briefing Papers, on page 3 stated the following:

> Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the "driver" for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, proposed test year bad debt expense is calculated as 0.96% of firm revenue; therefore, a 10% fluctuation ($43.645 million) in commodity gas costs would impact bad debt expense by $419,000.

Thus, the Department recommends that MERC provide updated cost of gas information in this proceeding and in its companion general rate case. The Commission should require MERC to work with the Department and Commission Staff to determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to MERC's BCOG and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case Docket 17-563. Additionally, when the Company files its final base cost of gas pursuant to Minn. R. pt. 7825.2700, subp. 2, the cost of gas in that filing should equal the cost of gas approved for use in the general rate case.[16]

Based on all of the above discussion, the Department makes the following observations in regards to the BCOG or MERC's *Petition*.

First, the Department notes that MERC's discussion above of the $43,500,000 decrease to the cost of gas in Docket 15-736 leading to an overall revenue requirement impact of approximately $300,000, equates to an approximately 0.6977 percent change in the cost of gas.

Second, to illustrate the impact of the demand cost discrepancies shown in Tables 1 and 2 above, assume on a hypothetical basis that the above relationship of an overall revenue requirement impact of 0.6977 percent to changes in the cost of gas holds in the instant *Petition* and accompanying general rate case. The resulting impact of the approximately $58,874 change in demand cost would then equate to approximately a $411 change in revenue requirements.

Third, MERC has not finalized its demand entitlement changes in Dockets 17-587 and 17-588 and it anticipates doing so in the beginning of November 2017. Once those proposed changes by MERC are finalized and filed in their respective dockets, these particular demand costs will then be recovered over the following 12-month period or until the next proposed change submitted by MERC. If one hypothetically assumes that the difference in demand costs between the finalized November Update in Dockets 17-587 and 17-588 and the instant *Petition* are in the amount of approximately $5,000,000, the resulting revenue requirement, assuming the relationship in the Department's second observation above (0.6977 percent) holds, would be approximately $35,000.

Fourth, by the time the appropriate timing for the updated BCOG has been determined (in consultation with Commission and Department Staff) and filed, likely during 2018 (MERC's test-year), MERC will have finalized its proposal in its respective Demand Entitlement filings in Dockets 17-587 and 17-588. Therefore, MERC could potentially have actual costs of gas reflected in its update to the *Petition*, for the respective historical time period in MERC's test-year, depending on the timing of the BCOG update. Thus, MERC's demand costs in any

[16] Minn. R. pt. 7825.2700, subp. 2, states in part: "A new base gas cost must also be part of the rate design compliance filing submitted as a result of a general rate proceeding."

update(s) to the *Petition* and general rate case, at a minimum, should be consistent with MERC's data in Dockets 17-587 and 17-588.

Fifth, whenever MERC is required to file its updated BCOG data in both Dockets 17-564 and Docket 17-563, the Department recommends MERC be required to file, in a red-line format, the affected testimony, schedules, work papers and informational requirements that are impacted as a result of changes to its cost of gas. In addition, MERC should provide the cite(s) and references to these associated changes made in Docket 17-563 (Rate Case) in its BCOG Update write-up in Docket 17-564.

Given all of the discussion above, the Department concludes that MERC's BCOG filing should be approved.

E. TARIFF SHEETS

MERC provided its proposed updated tariff sheets as Exhibit 2 to the *Petition*. The Department reviewed the proposed tariff sheets and concludes that the proposed changes correctly update the base cost of gas values in accordance with the calculations contained in Exhibit 1 of the *Petition*.

III. THE DEPARTMENT'S RECOMMENDATIONS

Based on its review of the Company's *Petition*, the Department recommends that the Commission approve MERC's base cost of gas filing with the following additional recommendations and requests.

The Department requests that MERC:

- in its November Update in Docket 17-588, reconcile and explain its changes proposed in Docket 17-588 to all the information in MERC's October 1, 2017 PGA filed in docket 17-703; and

- provide detailed information in its November Update in Docket 17-587, on the status of the replacement for the storage contract referenced herein.

The Department recommends that the Commission require that MERC:

- provide updated cost of gas information in this proceeding and in its companion general rate case;

- work with the Department and Commission Staff to determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to MERC's BCOG and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case Docket 17-563;

- ensure that the demand costs in any update(s) to the *Petition* and general rate case be consistent with MERC's data in Dockets 17-587 and 17-588; and

- file, in a red-line format, any and all of the affected testimony, schedules, work papers, and informational requirements that are impacted as a result of changes to its cost of gas. In addition, MERC should provide the citation(s) and references to these associated changes [that are contained in Docket 17-563 (Rate Case)] in its BCOG Update write-up in Docket 17-564.

/ja

MERC Customer Class		**2016 Gas Costs $** *8-26-16 Informational Update*	**2016 Gas Costs $** *4-22-16 Update*	**2016 Gas Costs $** Initial Filing
NNG SALES				
GS-NNG Residential Sales		$63,841,685	$61,357,333	$81,743,372
GS-NNG SC&I Sales		$3,747,582	$3,601,748	$4,798,432
GS-NNG LC&I Sales		$30,497,428	$29,310,643	$39,049,135
SVI-NNG Sales		$6,043,954	$5,745,600	$8,193,827
LVI-NNG Sales		$3,621,439	$3,442,670	$4,909,607
SVJ-NNG Sales		$55,752	$53,000	$75,583
CONSOLIDATED SALES				
GS-CONSOLIDATED Residential Sales		$9,096,433	$8,749,105	$11,127,839
GS-CONSOLIDATED SC&I Sales		$1,017,099	$978,263	$1,244,236
GS-CONSOLIDATED LC&I Sales		$7,885,497	$7,584,406	$9,646,479
SVI-CONSOLIDATED Sales		$909,561	$864,974	$1,243,688
LVI-CONSOLIDATED Sales		$1,011,253	$961,681	$1,382,737
SVJ-CONSOLIDATED Sales		$77,806	$73,992	$106,388
ALBERT LEA-NNG SALES				
GS-ALBERT LEA NNG Residential Sales		$3,212,572	$3,062,858	$4,543,484
GS-ALBERT LEA NNG SC&I Sales		$170,055	$162,130	$240,506
GS-ALBERT LEA NNG LC&I Sales		$1,506,858	$1,436,635	$2,131,123
SVI-ALBERT LEA NNG Sales		$583,032	$545,699	$830,451
LVI-ALBERT LEA NNG Sales		$382,270	$357,793	$544,493
Total Gas Costs		$133,660,275	$128,288,529	$171,811,379
Difference btwn Update and Initial	↓	**(38,151,104)**	**(43,522,850)**	
Difference Btwn Updates	↑	$5,371,746		
Docket No. G011/GR-15-736 and		G011/MR-15-748		

MERC Customer Class	**Docket 15-748 2016 Gas Costs $**			**Docket 13-732 2014 Gas Costs $**				**Docket 10-978 2011 Gas Costs $**
MERC Rate Cases								
9-30-15 Initial Filing	$171,811,379		*9-30-13 Initial Filing*	$173,411,039		*11-30-10 Initial Filing*		$215,065,515
4-22-16 Update	$128,288,529		*4-15-14 Update*	$203,909,226		*3-31-11 Update*		$178,855,049
Difference btwn Initial and Update	**(43,522,850)**	↓	*Difference btwn Initial and Update*	**30,498,187**	↑	*Difference btwn Initial and Update*	↓	**(36,210,466)**
8-26-16 Informational Update	$133,660,275		*10-1-14 Update*	$173,742,607		*6-15-11 Update*		$185,725,753
Difference btwn Initial and Update	**(38,151,104)**	↓	*Difference btwn Initial and Update*	**331,568**	↑	*Difference btwn Initial and Update*	↓	**(29,339,762)**
Difference btwn Updates'	**$5,371,746**	↑	*Difference btwn Updates'*	**($30,166,619)**	↓	*Difference btwn Updates'*	↑	**$6,870,704**

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November 18, 2015

VIA ELECTRONIC FILING

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

Re: Compliance Filing of Minnesota Energy Resources Corporation

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota; Docket No. G011/GR-15-736

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a New Base Cost of Gas for Interim Rates, Docket No. G-011/MR-15-748

Dear Mr. Wolf:

On November 13, 2015, the Minnesota Public Utilities Commission ("Commission") met to consider, among other things, whether interim rates should be set as requested by Minnesota Energy Resources Corporation ("MERC") and whether to approve MERC's proposed interim period base cost of gas petition filed in Docket No. G011/MR-15-748.

During the hearing, the Commission adopted Decision Option 6.b.i from Commission staff's briefing papers in Docket No. G011/GR-15-736, requiring that MERC remove all regulatory assets and liabilities, and the associated deferred income taxes, except for the three items authorized in MERC's last rate case, from rate base for purposes of establishing interim rates. The Commission also approved Decision Option 6.c from Commission staff's briefing papers in Docket No. G011/GR-15-736, which provides:

> If the Commission requires MERC to adjust its interim rate revenue deficiency and rates to something different than proposed, direct MERC to file revised financial schedules and calculations (interim rate base, income statement, cost of capital, and revenue summary) and

> class revenue schedules reflecting the Commission's modifications within 5 calendar days of this meeting.

Additionally, the Commission adopted decision options 1.B.i and ii from Commission staff's briefing papers in Docket No. G011/MR-15-748, which provide:

> Approve PUC staff's adjusted interim base cost of gas PGA factors as reflected in Table 4.
>
> i. Direct MERC to recalculate and restate its NNG, Consolidated, and Albert Lea's PGA District factors in accordance with PUC staff's adjusted calculations reflected in Tables 4 through 6 and Attachment 1, and resubmit its interim base cost of gas. <u>and</u>
>
> ii. Direct MERC to revise and re-submit all affected general rate case schedules within five calendar days, at the same time as it files its revised interim financial schedules and calculations.

In accordance with these adopted decision options, MERC submits this five-day compliance filing consisting of the following attachments:

- *Attachment A:* Recalculated and Restated Base Cost of Gas reflecting adjusted NNG, Consolidated, and Albert Lea PGA factors in accordance with Commission staff's adjusted calculations. MERC notes that its September 30, 2015 Base Cost of Gas filing included the correct gas storage costs; therefore, no update to gas storage is necessary as a result of the adjustments made to MERC's base cost of gas. *Addresses Decision Options 1.B.i and 1.B.ii in Docket No. G011/MR-15-748.*

- *Attachment B:* Revised Interim Financial Schedules and Calculations, including interim rate base, income statement, cost of capital, and revenue summary (collectively, Revised Schedule __ (SSD-24)), and class revenue schedules reflecting the Commission's decisions. *Addresses Decision Options 6.b.1 and 6.c in Docket No. G011/GR-15-736 and Decision Option 1.B.ii in Docket No. G011/MR-15-748.*

- *Attachment C:* Revised Schedule __ (SSD-12), Uncollectible Expense, which has been revised to reflect the impact of the corrected Base Cost of Gas calculation. The test year tariff revenues reflected on line 5 were reduced

$8,447,852 for the changes to the base cost of gas. This reduction in revenues reduces MERC's uncollectible expense $48,880 for interim rate purposes, and this adjustment can be found on page 5 of MERC's updated Exhibit_____(SSD-24) (Attachment B to this filing). *Addresses Decision Option 1.B.ii in Docket No. G011/MR-15-748.*

- *Attachment D:* Revised Schedule __ (SSD-18), Lead/Lag Study, in which Cash Working Capital has been revised to reflect the impact of the corrected Base Cost of Gas and uncollectible expense. The Purchased Gas Expense found on line 1 of page 6 was reduced $8,447,852 for the changes to the base cost of gas. In addition the Other Operations & Maintenance Expense on line 6 of page 6 was reduced $48,880 to reflect the previously mentioned uncollectible expense adjustment. These two changes reduce MERC's Working Capital $198,048, and this adjustment can be found on page 4 of MERC's updated Exhibit_____(SSD-24) (Attachment B to this filing). *Addresses Decision Option 1.B.ii in Docket No. G011/MR-15-748.*

Sincerely yours,

Seth DeMerritt

Seth DeMerritt
Rate Case Consultant

cc: Service List

State of Minnesota
OFFICE OF ENERGY SECURITY

Utility Information Request

Docket Number: G007,011/MR-10-978 Date of Request: December 28, 2010

Requested From: Minnesota Energy Resources Corporation Response Due: January 7, 2011

Analyst Requesting Information: Sachin Shah/Hwikwon Ham/Adam Heinen

Type of Inquiry:			
	[ ] Financial	[ ] Rate of Return	[ ] Rate Design
	[ ] Engineering	[X] Forecasting	[ ] Conservation
	[ ] Cost of Service	[ ] CIP	[ ] Other:

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

Request No.	
1	Subject: Minnesota Energy Resources Corporation (MERC or Company) Base Cost of Gas Calculation, Exhibit 1. i. Reconcile the base cost of gas calculations with the cost of gas calculations used by MERC in its general rate proceeding Docket No. G007,011/GR-10-977, in a Microsoft Excel file with all links and formulae intact. If there are any differences in these costs of gas calculations, please also provide a full explanation detailing all reasons for these differences in a Microsoft Excel file, with all links and formulae intact, showing, and reconciling, these differences. ii. Please fully explain how the base cost of gas calculation affects rate case calculations and provide a list of any, and all, rate case items affected by the base cost of gas calculation. iii. Please detail, including substantiating calculations, how the following changes to base cost of gas will affect the rate case items listed in part (ii) above: • a ten percent increase in the overall total base cost of gas; and • a ten percent decrease in the overall total base cost of gas. *Contd. on next page*

Response by: Seth DeMerritt____________________ List sources of information:

Title: Rate Case Consultant______________ ______________________________________

Department: Regulatory Affairs________________ ______________________________________

Telephone: 920-433-2926____________________ ______________________________________

Where applicable for any and all parts above, please provide the requested data in a Microsoft Excel executable format with all links and formulae intact. If any of these links target an outside file, please provide all such additional files.

In addition, whenever acronyms are used in the data given in response to any and all parts above, please provide an explanation of all acronyms used AND also provide a brief but complete explanation of the source of each data series that is provided.

If the above 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).

MERC's Response

i. Please see attachment 1_Part_A.xls. The first page of this attachment compares the sales used in Exhibit____(GJW-2), Schedule 3 on a monthly basis (Columns B – N) to the annual sales found in the base cost of gas filing (Column P). The difference is calculated in Column R, and in this instance the sales between the Exhibit_____(GJW-2), Schedule 3 and the base cost of gas filing are the same.

Additionally, the first page reconciles the volume difference between the data included in Docket No. 10-977 and Docket No. 10-978 which is South Dakota Customer Sales found on line 58. Line 59 summarizes all sales volumes from non-transport customers including the South Dakota customers. Line 60 are the sales volumes from the base cost of gas filing in Docket No. 10-978, and Line 61 is a comparison of lines 59 and 60.

The second page of this attachment compares the gas rates used in Exhibit____(GJW-2), Schedule 3 on a monthly basis (Columns B – N) to the annualized gas rates found in the base cost of gas filing (Column P). The difference between the two sets of rates is calculated in Column R. This difference occurs because while the base cost of gas filing calculates PGA rates on an annual basis, the cost of gas rates used in Exhibit_____(GJW-2), Schedule 3 take into account the monthly fluctuations in the cost of gas. Therefore differences between the two will occur as the various rate schedules have different monthly load profiles.

The third page of this attachment simply multiplies the sales found on page 1 and the rates on page 2 to calculate the cost of gas by rate schedule. The differences are a function of the different methods that the rates were calculated.

ii. The cost of gas will have effects on two areas of the rate case calculations. The first area that will be affected will be the cash working capital calculated in the Lead/Lag Study.

Response by:	Seth DeMerritt____________________	List sources of information:
Title:	Rate Case Consultant_______________	____
Department:	Regulatory Affairs_________________	____
Telephone:	920-433-2926_____________________	____

As the cost of gas increases or decreases the cash working capital generated by the Lead/Lag Study will change. Secondly the gas storage balance will be affected by a change in the cost of gas. Both of these items will affect MERC's forecasted rate base included in this filing.

As gas costs are recovered on a 1 for 1 basis from customers, while an increase or a decrease in the cost of gas will affect customer bills, this change does not have any impact of operating income calculated in this case.

iii. Attachment 1_Lead_Lag_Study.xls calculates the revenue requirement changes associated with a 10% increase and a 10% decrease in gas costs. Page 1 of this attachment is Page 6 of 6 from Exhibit_____(SSD-16). Page 2 of this attachment increases the cost of gas on line 1 by 10% and calculates a new cash working capital amount of ($1,063,784), or an increase in rate base of $209,488. This equates to an increase in the revenue requirement of $30,946. Page 3 of this attachment decreases the cost of gas on line 1 by 10% and calculates a new cash working capital amount of ($1,482,759), or a decrease in rate base of $209,488. This equates to a decrease in the revenue requirement of $30,946.

Attachment 1_Gas_Storage.xls calculates the revenue requirement changes associated with a 10% increase and a 10% decrease in gas costs. As seen in this exhibit if gas costs increase 10% MERC's revenue requirement increases $219,790, and if gas costs decrease 10% MERC's revenue requirement decreases $219,790.

Response by:	Seth DeMerritt____________________	List sources of information:
Title:	Rate Case Consultant_______________	____
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Telephone:	920-433-2926_____________________	____

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G011/MR-17-564

Dated this 23rd day of October 2017

/s/Sharon Ferguson

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