Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: July 9, 2015 .... ***Agenda Item #3**

Company: Minnesota Energy Resources Corporation (MERC)

Docket No. **G-011/M-15-441**
In the Matter of a Petition by Minnesota Energy Resources Corporation for Approval of a New Area Surcharge for the Detroit Lakes – Long Lake Project

Issue: Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request for a New Area Surcharge (NAS) for the Detroit Lakes – Long Lake Project?

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Relevant Documents

MERC - Initial Petition and Attachments (TS).. May 11, 2015
Department of Commerce (Department) - Comments... June 10, 2015
MERC - Reply Comments (TS).. June 19, 2015
Department - Supplemental Letter Comments .... June 25, 2015

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Table of Contents

Statement of the Issue 1
Introduction 1
Background 1
MERC – Initial Petition 2
MERC – Reply Comments 4
Department Comments 4
Department Supplemental Letter Comments 5
Revised Department Recommendations 6
PUC Staff Comments 6
Compliance with prior Commission Order Requirements 6
Detroit Lakes – Long Lake NAS model 6
Detroit Lakes Gas Supply 6
Detroit Lakes – Long Lakes NAS Factors and Recovery Term 7
NAS factors for all Customer Classes 9
Customer Extension Allowance for Service Line and NAS Projects 10
Service Extension Tariff Provisions 10
NAS Extension Tariff Provisions 11
Disclosure to Customers 12
Decision Alternatives 13

Statement of the Issue

Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request for a New Area Surcharge (NAS) for the Detroit Lakes – Long Lake Project?

Introduction

At present, certain areas of Minnesota do not have natural gas services available. These areas historically have used propane, heating oil, or wood as their primary heat source during the winter. Because of the polar vortex conditions that gripped the state during the 2013-14 heating season, Minnesota Governor Mark Dayton issued Emergency Executive Order 14-02 and released a statement in response to propane supply issues. This provided new emphasis on developing natural gas projects that could be either economical or uneconomical to serve these areas.

The Commission previously determined that the service extension must be economical at tariffed rates; existing customers must not un-fairly subsidize the service extension for a new customer(s). For potential projects that normally would be uneconomical and would require an unfair subsidization from existing customers, the Commission has approved New Area Surcharge (NAS) tariffs for natural gas utilities. The potential customer(s) would be responsible for the costs of providing service to areas where natural gas had not previously been available. By permitting a utility company to collect a NAS factor in addition to the tariffed rates, the project would become economical.

In Docket No. 11-1045, MERC petitioned the Commission for approval of its proposed NAS tariff.[1] MERC's NAS is designed to permit MERC to extend service into these new areas where it could not serve because it would be uneconomic to serve at tariffed rates.

In this docket, MERC has requested a NAS factor for its proposed Detroit Lakes – Long Lake (Detroit Lakes) project. The Department recommended that the Commission approve MERC's petition with certain modifications. The Department recommended a 20-year recovery period as opposed to MERC's proposed 15-year period; which results in lower NAS factors for the Detroit Lakes project.

PUC staff generally agrees with the Department's recommendations, with the exception of how expansion costs are shared between MERC's existing customers and the new Detroit Lakes NAS customers; see staff's discussion below.

Background

On July 26, 2012, the Commission approved MERC's request for a New Area Surcharge (NAS) tariff in Docket No. G-007,011/M-11-1045. MERC is required to submit a miscellaneous rate change request prior to implementing any NAS factor.

[1] The Commission's July 26, 2012 Order approved the NAS tariff provision.

On January 30, 2014, Minnesota Governor Mark Dayton issued Emergency Executive Order 14-02 and released a statement in response to the propane supply issues due to the polar vortex conditions that gripped the state.[2]

On September 5, 2014, the Commission issued its Order approving MERC's first New Area Surcharge for the Ely Lake project and its proposed tariff modification extending the NAS term from 15 years to 30 years in Docket No. G-011/M-14-524.

On May 11, 2015, MERC filed its request for a miscellaneous rate change to allow it to add the Detroit Lakes Project NAS factor to its tariff book.

On June 10, 2015, the Department filed *Comments* recommending the Commission approve MERC's petition with one modification.

On June 19, 2015, MERC filed *Reply Comments* correcting its original petition for an error in its NAS factor calculation; adjusting the marginal distribution rate used in calculating the NAS factor by removing the CCRC factor included in MERC's marginal distribution factor reflected in its tariff. Further, MERC agreed to the Department's 20-year NAS recovery period, but using its revised model provided in its *Reply Comments*.

On June 25, 2015, the Department filed *Supplemental Letter Comments.*

MERC – Initial Petition

On May 11, 2015, Minnesota Energy Resources Corporation (MERC) submitted for Commission approval its miscellaneous rate change filing to add a New Area Surcharge (NAS) for customers located near Detroit Lakes, MN.[3] The proposed NAS for the Detroit Lakes project were calculated according to the model described in MERC's New Area Surcharge Rider tariff provisions approved by the Commission, for a proposed 15-year term.[4] MERC anticipated that only Residential and Small Commercial customer classes will take this service.[5] MERC stated that its Initial Petition meets all the Commission requirements for a NAS miscellaneous rate change request.[6]

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[2] This statement listed steps that had been taken to alleviate the propane issues within the state and steps being taken to prevent future propane shortages. On March 24, 2014, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Testimony in Docket No. G011/GR-13-617 recommending that MERC pursue in a separate filing a tariff revision to extend the maximum term of service for a New Area Surcharge to some period such as the length of the expected lives of the new facilities or a period agreed to by customers in the new area.

[3] See MERC's *Initial Petition*, Exhibit A for the corresponding clean and redline tariff sheet revisions and Exhibit B for the service area map.

[4] See Docket Nos. 11-1045 and 14-524.

[5] MERC stated that while it is not currently planning any new customers in the large commercial, interruptible, or transport customer classes, there is potential for additional customers in these classes, and therefore, a surcharge is proposed to comply with the Commission's requirements to prevent a duplicate filing in the event that a customer request services in these customer classes.

[6] See MERC's *Initial Petition*, Exhibits A – D.

The NAS factors were set at a reasonable level to ensure that the Detroit Lakes project's cost of service was paid by the projected Detroit Lakes NAS customers and that existing customers would not subsidize these customers over the life of the project. MERC's proposed NAS calculation is designed to recover the cost of service attributable to uneconomic service extensions. MERC stated that its proposed NAS factors were in the public interest, because natural gas costs were less than alternative fuels, potential new customers will benefit from the additional fuel choice.[7, 8]

See the following tables for a summary of rates:

Table 1: MERC's Initial Petition Residential NAS factors:

	Residential	Difference	% Difference
15-year term	$28.40		
20-year term	$23.31	$5.09	17.92%

Table 2: MERC's Initial Petition Commercial NAS factors:

	Commercial	Difference	% Difference
15-year term	$53.81		
20-year term	$44.17	$9.64	17.92%

MERC further stated that the proposed NAS revenue would not affect its current operating revenue level, that the NAS revenues were not considered to be part of its operating revenues. NAS customer revenues would be recorded as balance sheet credits to accounts receivable. The portion of NAS revenue related to interest (carrying charges) would be credited to a non-operating income account.

MERC requested that the Commission rule on this filing within sixty (60) days so that construction of a service extension for the Detroit Lakes project may begin promptly. MERC estimated construction can be completed in approximately two months. The intent is to have gas service available to the customers in the Detroit Lakes area by November 1, 2015. However, in order to control projected construction costs, construction must begin no later than July 20, 2015.

[7] MERC further stated that lower energy bills would free money for investment and purchases in the area, spurring new economic development.

[8] MERC further asserts that the NAS customers will not require any additional demand entitlements; that the additional load would be served through its existing reserve margins.

MERC – Reply Comments

On June 19, 2015, MERC filed its *Reply Comments* to the Department's June 10, 2015 *Comments*. MERC provided a NAS model correction, in which MERC corrected the marginal distribution factor used in calculating the projected revenue stream over the recovery period. MERC removed its CCRC factor from its distribution factors reflected in its tariff to develop the ***true*** marginal distribution factors that should have been used in the NAS model.[9] This correction resulted in revised Detroit Lakes NAS factors, see the following summary:

Table 3: MERC's Revised Residential NAS factors

	Residential	Difference	% Difference
15-year term	$30.90		
20-year term	$25.33	$5.57	18.03%

Table 4: MERC's Revised Commercial NAS factors

	Commercial	Difference	% Difference
15-year term	$58.55		
20-year term	$47.99	$10.56	18.03%

Further, MERC agreed with the Department's recommendation to use a 20-year recovery term, but proposed to use the revised 20-year NAS factors provided above in Tables 3 and 4.

MERC proposed to file amended tariff sheets and customer notices reflecting the Commission's decision through a compliance filing following approval of the proposed NAS factors.

Department Comments

On June 11, 2015, the Department filed *Comments* stating MERC complied with the filing requirements in: (1) the Commission's July 26, 2012 Order in Docket No. 11-1045,[10] (2) the NAS pages in MERC's tariff book, and (3) Minnesota Rules, Part 7829.1300 - Miscellaneous Tariff and Price List Filings.

The Department's review concluded that MERC's tariff proposal for the NAS service describes the availability, rate, applicability, methodology, term, expiration, and model guidelines that it must follow. Further, the Department concluded that MERC's application and model were compliant with prior Commission Orders and MERC's NAS tariff.

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[9] For additional discussion, see staff briefing papers in Docket No. 15-165.

[10] The Commission's July 26, 2012 Order in Docket No. G007,011/M-11-1045 requires that any filing for a miscellaneous rate change for a specific NAS project shall include at a minimum: A) an updated surcharge tariff sheet and its related spreadsheets with and without the proposed surcharge for each new surcharge area; B) its work papers showing all underlying assumptions concerning interest rates, costs, depreciation, demographics, rate structure, etc.; C) a surcharge rate for each customer class, even if no customers are anticipated for the class; D) the Company's proposed customer notice; and; E) all pertinent contract demand entitlement change requests as soon as the required information is ascertained.

However, because of its concern that the 15-year residential and commercial NAS factors could potentially discourage new customers from signing up for the service, the Department analyzed MERC's proposed NAS 15-year recovery term,[11] along with models calculating the NAS with 16, 17, 18, 19, and 20-year recovery terms. The results are as follows:

Table 5: Initial Petition NAS factors for the Detroit Lakes project at various recovery periods

Term	Residential	Commercial	Difference in Res.	Residential % Change	Difference in Comm.	Commercial % Change
15 yrs.	$28.40	$53.81				
16 yrs.	$27.09	$51.33	$1.31	4.61%	$2.48	4.61%
17 yrs.	$25.96	$49.19	$2.44	8.59%	$4.62	8.59%
18 yrs.	$24.96	$47.29	$3.44	12.11%	$6.52	12.12%
19 yrs.	$24.08	$45.63	$4.32	15.21%	$8.18	15.20%
20 yrs.	$23.31	$44.17	$5.09	17.92%	$9.64	17.92%

The Department concluded that by adjusting the term of the Detroit Lakes NAS from 15 to 20-years resulted in a decrease in monthly surcharge rates of approximately $5 per month for residential customers, and approximately $9 per month for Commercial customers—decreases of approximately 18% from the proposed 15-year factors. The Department believes that recovering the NAS over a longer term would result in a more affordable NAS factors for potential new customers, and may help encourage increased participation in the communities served by the project.[12]

The Department recommended that the Commission approve the Detroit Lakes NAS factors with a 20-year recovery term as opposed to MERC's *Initial Petition* proposed 15-year recovery term.

Department Supplemental Letter Comments

On June 25, 2015, the Department filed Supplemental Letter Comments where it reviewed MERC's corrected NAS model removing the CCRC factor from the marginal distribution factor which produced the correct distribution revenues for determining the NAS factor. MERC's corrected model also increases the NAS recovery period from 15 years to 20 years.

The Department concluded that the updated calculations were correct and reasonable and, therefore, recommends that the Commission approve MERC's Detroit Lakes NAS petition as modified in MERC's June 19, 2015 *Reply Comments*.

[11] In Docket No. 14-524, MERC sought to extend its NAS 15-year term limit to 30-years based on its concerns that the 15-year NAS could be too high and could discourage potential customers from signing up for the service.
[12] The Department noted that a higher-than-expected participation could result in early discontinuation of the surcharge.

Revised Department Recommendations

The Department recommended that the Commission approve MERC's petition for the Detroit Lakes – Long Lake project with the following modifications:

- Adjust the NAS term from 15 years to 20 years; and
- Adjust the NAS factors to $25.33 per month for residential customers and $47.99 per month for all other customer classes.

PUC Staff Comments

PUC staff reviewed MERC's *Initial Petition* and the various rounds of *Comments*, and appreciates the work of both parties. Generally speaking, staff believes that all issues between the parties have been resolved. Generally, staff is in agreement with the Department's recommendation, with the exception of how expansion costs are shared among MERC's existing customers and the Detroit Lakes NAS customers, which staff discusses below.

Compliance with prior Commission Order Requirements

In accordance with the Commission prior Orders and MERC's current NAS tariff provisions, MERC was required to provide certain information when filing a new NAS petition. MERC stated that its petition provided all necessary information that meets the Commission's Order and NAS tariff provisions requirements.[13] As discussed above, the Department's review concluded that MERC's petition was compliant with all prior Commission Orders and its NAS tariff provisions.

PUC staff agrees.

Detroit Lakes – Long Lake NAS model

The Department's analysis of MERC's Detroit Lakes NAS model[14] concluded that MERC properly calculated the NAS factors in accordance with its NAS tariff provisions.

PUC staff generally agrees, except for the NAS model's deficiency in providing the Detroit Lakes NAS customers an allowance for new service extensions. See the staff discussion below on allowance treatment.

Detroit Lakes Gas Supply

The Commission's Order approving MERC's NAS (in docket 11-1045) required that the petition for a NAS project include all pertinent contract demand entitlement change requests as soon as the required information is ascertained. MERC's petition stated it anticipated no demand

[13] The Commission Order requirements were developed in Docket Nos. 11-1045 and 14-524.
[14] Included a review of MERC's model assumptions and calculations.

entitlement changes from this project and that it has enough peak reserve margin to serve its projected customers.

MERC will use its Northern Natural Gas (NNG) existing pipeline capacity to serve the Detroit Lakes project. According to MERC's NNG 2014-15 demand entitlement filing, MERC has an available reserve margin of 5,383 Dth/day available for peak day. Based on MERC's 2014-15 demand entitlement filing design day usage per customer forecast of 1.46 Dth times the project's projected number of customers,[15] PUC staff believes that MERC has enough NNG reserve margin to adequately serve MERC's projected Detroit Lakes customer growth.

Detroit Lakes – Long Lakes NAS Factors and Recovery Term

In its June 19, 2015 Reply Comments, MERC revised its Detroit Lakes NAS factors to the following:

Table 6: NAS Comparison between Original and Revised Residential NAS Factors:

Term	**Original** NAS Factors	**Revised** NAS Factors	Difference
15-year	$28.40	$30.90	$2.50
20-year	$23.31	$25.33	$2.02

Table 7: NAS Comparison between Original and Revised Commercial NAS Factors:

Term	**Original** NAS Factors	**Revised** NAS Factors	Difference
15-year	$53.81	$58.55	$4.74
20-year	$44.17	$47.99	$3.82

MERC's explained its reasoning for the change by stating that when its NAS marginal distribution revenues were originally calculated in the model, it erroneously included the current CCRC factors in the calculation. In its *Reply Comment's* calculation, MERC removed the CCRC factor from the NAS calculation, which resulted in higher NAS factors for all customers.

PUC staff believes that the CCRC factor should be removed from MERC's marginal distribution revenue stream calculation because the customer is paying MERC's base tariff factors in addition to the NAS factor. The CCRC factor is included in MERC's base distribution factor charged to customers through its tariff. The CCRC revenue is collected by MERC, but the CCRC revenue is accounted for in MERC's Conservation Improvement Program (CIP) tracker account and is not considered normal operating revenue. By removing the CCRC factor from MERC marginal distribution factor for these the purpose of these calculations the resulting marginal distribution factor is set at the proper level to calculate MERC's true marginal revenue in the NAS model.

In the Department's *Comments,* it discussed the concern that the NAS factors could be too high and may cause potential customers to be reluctant in contracting for the Detroit Lakes NAS service. The Department commented that a 20-year recovery term would provide lower Detroit

[15] MERC has marked the number of project customers as "Trade Secret."

Lakes NAS factors than the 15-year NAS recovery term.[16] As illustrated in Tables 3 and 4, the revised 20-year term residential NAS factors would decreased by approximately $5.50, which could be more appealing to MERC's potential NAS customers.[17, 18]

PUC staff believes that increasing the NAS recovery term to 20-years does on the surface produce a $5.50 per month NAS factor reduction, but in reality, the 20-year term does cost the residential customer more money for the longer recovery term. PUC staff's analysis reflects that each residential customer would actually pay an additional $517 for the 20-year term NAS factor, as opposed to a 15-year NAS factor, or approximately $2.15 per month.[19] PUC staff believes that the $517 per customer difference is attributed to MERC's carry cost for 20-year NAS recovery term, a longer recovery period. See Table 8 for staff's calculations:

Table 8: Comparison of NAS cost recovery 15-year versus 20-year term

	15-year	20-year	Difference
Monthly NAS	$30.90	$25.33	
Months	180	240	
NAS Amount Paid	$5,562	$6,079	**$517**
Divide by NAS term			240 months
Monthly Costs			**$2.15**

[Staff note: The calculations above do not take into account the time value of money.]

Further, in its *Reply Comments,*[20] MERC stated that the 20-year NAS term would be acceptable if approved by the Commission. Also, MERC proposed to file its amended tariff sheets and customer notices reflecting the approved NAS factors based on the NAS term selected by the Commission in a compliance filing.

PUC staff believes that the Commission has 15-year, 20-year, 25-year, and 30-year recovery terms available to calculate the appropriate NAS factors. PUC staff believes if the recovery term is shorter than 15-years, this would create a situation for MERC where the resulting NAS factors could cause a negative response from potential customers. PUC staff believes that the Commission will need to decide which NAS recovery period is the most desirable for MERC's customers. Further, the Commission may wish to require MERC to file a compliance filing reflecting the chosen recovery term NAS factors along with the associated revised tariff sheets and customer notices.

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[16] See staff's Tables 6 and 7 to see the reduction in NAS factors caused by using a 20-year NAS recovery term as opposed to MERC's *Initial Petition* proposed 15-year NAS recovery term.

[17] Commercial NAS customer's factor would decrease by approximately $10.50 per month.

[18] In addition, PUC staff believes that the NAS factors for 25-year and 30-year recovery terms would continue to produce lower NAS factors, but this information is not in this docket's record..

[19] Calculated by dividing $517 by 240 months (20 year term).

[20] Filed on June19, 2015.

NAS factors for all Customer Classes

MERC believes that the Detroit Lakes NAS project will only attract residential and small commercial customers, but MERC left open the possibility that other customer classes could join the project at some point in the future. MERC developed a separate NAS factor for potential residential and small commercial customers. In its Initial Petition, MERC stated that the small commercial customer's NAS factor would be applicable to all other MERC customer classes that may develop in the future. See Table 9 for MERC's revised NAS factors proposal for all customer classes: [21]

Table 9: Revised NAS factors for all Customer Classes

	15-year	20-year
Residential	$30.90	$25.33
Small Commercial & Industrial	$58.55	$47.99
Large Commercial & Industrial	$58.55	$47.99
Small Volume Interruptible	$58.55	$47.99
Large Volume Interruptible	$58.55	$47.99
Small Volume Joint	$58.55	$47.99
Large Volume Joint	$58.55	$47.99
Small Volume Transport	$58.55	$47.99
Large Volume Transport	$58.55	$47.99

The customer class treatment reflected in the above table is similar to what MERC proposed in Docket No. 14-524, where residential and existing small commercials now pay the same NAS factor of $33.50. In that docket, MERC initially proposed that the same NAS factor would apply to all of MERC's customer classes, even though MERC anticipated that only residential customers would participate in the project.

In its decision in Docket No. 14-524, the Commission stated that in the past, it required that surcharge rates for all customer classes be reflected in existing rate design. Accordingly, the Commission did not apply the requested surcharge to all customer classes since MERC did not anticipate any customers for the remaining customer classes for this project. The Commission approved the NAS factor for only the residential and small commercial customer classes.

The Commission further stated that in the event any other small commercial customers or customers from other customer classes seek to take natural gas service in the Ely Lake project area, MERC must first refile its request with Commission to examine the full impact of the addition of such customer(s) so that it could determine the appropriate surcharge level for the customer classes.

For the reasons stated in the Commission's Docket No. 14-524 Order, PUC staff believes that MERC's Detroit Lakes NAS tariff should only state NAS factors for the residential and small commercial customer classes and not state a NAS factor for the remaining customer classes. The

[21] From MERC's *Reply Comments*.

Commission may wish to require MERC to publish only the residential and small commercial NAS factors in its tariff and to further require MERC to refile its Detroit Lakes NAS request for any other customer classes that may develop in the future.

Customer Extension Allowance for Service Line and NAS Projects

PUC staff believes that MERC's service extension tariff provisions and its NAS extension tariff provisions exist for different reasons. Service extension tariff provisions exist to provide MERC with an avenue to equitably share cost between customers when MERC adds a new customer to an existing service area, but the projects must be economical and may require the customer to make CIAC payment.

NAS extension tariff provisions exist to provide MERC with an avenue to add new customers where potential customers have not previously been served, i.e. a new service area, because it would be uneconomical to extend service to those customers under the normal provisions of the tariff. These NAS projects are usually uneconomical and require the new customers to pay a substantial up-front CIAC payment. In NAS projects, MERC is essentially financing the project similar to a car payment that is repaid over a time period. MERC earns a carrying charge for financing these projects. Even though these types of extensions were included in MERC's tariff for different reasons, PUC staff believes that these extension tariffs are related and should be treated as such.

Service Extension Tariff Provisions

Utilities have service extension tariff provisions for customers requesting new natural gas services that are relatively close to existing facilities. MERC's service extension policy states that every residential customer will receive a 75-foot allowance when constructing a new service line extension. However, the new construction projects must be economical to MERC's overall natural gas system, i.e. extension project revenues must support the project costs or the customer could be required to pay a Contribution In Aid of Construction (CIAC) to support the project.

The Commission previously determined that new service extension costs must be fairly shared between existing and new customers, but existing customers must not be unfairly burdened with new customer extension costs. The Commission's theory on extension costs is that the costs should be fairly absorbed by both new and existing customers because each customer receives benefits from the addition of new customers.

By adding new customers to the overall customer base, the existing customers receive a benefit by having a larger customer base to spread costs over in a rate case, thus lowering base tariff factors. The existing customers help pay for the service extension through absorbing the Commission approved extension allowance costs in the rate base (plant accounts) during a rate case. The new extension customer receives its benefit by not being required to pay the entire extension construction costs, i.e. the new customer receives a service line allowance. Thus, all customers receive a benefit from the service line extension and the associated costs are fairly apportioned between all of MERC's customers.

NAS Extension Tariff Provisions

For construction projects that are built in areas not previously served, the Commission has approved NAS tariff provisions for natural gas utilities. Generally speaking, these projects would be considered uneconomical under the normal service extension tariff or would require a large up-front customer CIAC that could possibility deter customers from subscribing to the service. The NAS tariff provision provides an avenue for the natural gas utility to develop a NAS factor to collect its project investment from a specific group of customers over a period of time. For MERC, the NAS costs are recovered over a time period not to exceed 30 years.

MERC's NAS tariff provides a model used to calculate the required NAS factor. MERC's current NAS model recovers ***both*** main and service line extension costs through its NAS factor, i.e. all NAS project costs are recovered through the NAS factor. Thus, the NAS tariff does not provide an allowance provision similar to the service extension tariff. The Department has recommended that the Commission approve MERC's Detroit Lakes NAS proposal.

PUC staff verified that the Detroit Lakes NAS customers will be paying MERC's base tariff factors in addition to the developed NAS factor. Since the Detroit Lakes NAS customers will be paying MERC's base tariff factors, these customers will be included MERC's customer count for rate case purposes. Thus, the Detroit Lakes NAS customers will be providing MERC's existing customers with a benefit, i.e. a larger customer base over which to spread its costs. This will provide MERC with lower base tariff factors, similar to the existing customer benefits received in its normal service extension projects. However, the Detroit Lakes NAS customers will not receive an in-kind benefit from existing customers through MERC's current tariff provisions, i.e. the service line extension allowance.

The Detroit Lakes' NAS customer treatment could be perceived as unfair when comparing the treatment to MERC's service extension tariff provision where all customers equitably share in the construction costs. This leads PUC staff to the question: *"Should the Detroit Lakes NAS customers receive a similar in-kind benefit from the existing customers?"*

PUC staff verified that MERC's NAS model includes both main and service NAS extension costs in calculating its Detroit Lakes NAS factor, and believes the Commission may wish to consider requiring MERC to ***exclude*** the cost of service line extension allowances[22] from its NAS model. By providing the Detroit Lakes customers with an allowance, MERC would recover these costs through its rate base during a rate case similar to how service extension allowances are recovered. PUC staff believes that the Commission may wish to create a service line extension allowance tariff provision; allowing existing customers to provide a benefit to the NAS customers. This action would create a level playing field for all customers, where all customers would be treated fairly and equitably in the sharing of NAS construction costs and its related benefits.

If the Commission decides to adopt the above described NAS extension line allowance, PUC staff believes that the NAS factors would decrease by an estimated 25% to 30%. This would

[22] For service extension costs that are equal to 75-foot or less. The NAS customer would remain possible for service extension over the 75-foot allowance.

provide much needed NAS factor relief to the Detroit Lakes customers that may lead to additional customers subscribing to the NAS service than originally estimated. Further, this decision may provide enough NAS factor relief that the Department proposed 20-year recovery term could be shortened thus saving the Detroit Lakes customers extra carrying charge costs incurred from a longer recovery term. PUC staff further believes that if additional customers subscribe to the NAS period than originally projected, the NAS recovery period could be further shortened, which would provide the Detroit Lakes NAS customers an additional benefit.

Disclosure to Customers

In Docket No. 14-524, the Commission required MERC to disclose, at a minimum, to its Ely Lake project customers the monthly NAS factor, the annual cost of the NAS, and a statement that the NAS is expected to be charged for the Commission chosen recovery term and the related NAS amount charged for that period. PUC staff believes that the Commission should continue to require MERC to fully disclose this information to its Detroit Lakes customers, which would help make the Detroit Lakes NAS customers more knowledgeable and possibly forestall future complaints. The customer disclosure would include, at a minimum, the following information:

- The monthly surcharge rate and that the rate is in addition to the regular bill for gas service. MERC shall provide a pro forma gas bill for the month of January based on average customer use for that month in that area of Minnesota and also include the surcharge as a separate line item;

- The annual cost of the surcharge; and

- A statement that the surcharge is expected to be charged over the time period chosen by the Commission and what the total cost of the surcharge would be for that period.

Decision Alternatives

1. Approve the Detroit Lakes NAS project.

Revised Department Recommendations

2. Adjust MERC's Detroit Lakes NAS recovery term from 15 years to 20 years; and

3. Adjust MERC's Detroit Lakes NAS factors to $25.33 per month for residential customers and $47.99 per month for all other customer classes to reflect the 20-year recovery term.

or

Additional NAS Recovery Term Options

4. Do not require MERC to use the 20-year NAS recovery term and associated NAS factors recommended by the Department, but require MERC to use one of the following Detroit Lakes NAS recovery terms to develop associated NAS factors:

    a. 15-year NAS recovery term; or
    b. 25-year NAS recovery term; or
    c. 30-year NAS recovery term; or
    d. Some other NAS recovery term.

NAS factors for MERC's Customer Classes

5. Require MERC to publish NAS factors in its NAS tariff only for its residential and small commercial customer classes, and

6. Require MERC to file a Detroit Lakes NAS factor proposal for any other customer classes that develop in this area in the future.

or

7. Require MERC to publish its residential NAS factor for the residential customer class and permit MERC to use its small commercial NAS factor for all other customer classes. Do not require MERC to amend its Detroit Lakes NAS if customers in other customer classes are added at a later date.

NAS Extension Allowance

8. Require MERC to exclude service extension costs from its NAS model, thus, creating a service line extension allowance in the NAS model, similar to MERC's 75-foot service extension allowance.

or

9. Do not require MERC to remove service extension costs from its NAS model, thus not requiring MERC to re-develop its NAS factor.

Disclosure to Customers

10. Require MERC to disclose to potential customers the following at a minimum:

    - The monthly surcharge rate and that the rate is in addition to the regular bill for gas service. Provide a pro forma gas bill for the month of January based on average customer use for that month in that area of Minnesota and also include the surcharge as a separate line item.
    - The annual cost of the surcharge.
    - A statement that the surcharge is expected to be charged for the Commission chosen recovery term and what the total cost of the surcharge would be for that time period.

or

11. Do not require the Company to provide the suggested information to potential customers.

MERC Compliance Filing for Selected Recovery Term

12. Require MERC to file a compliance filing within 30 days of the Commission issuing its Order in this docket that revises MERC's NAS tariff sheets and NAS customer notice to correspond to the Commission's chosen NAS recovery term, and, if so ordered, to reflect the removal of service extension costs from the Detroit Lakes project NAS factors.