

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: February 2, 2017 * Agenda Item No. 7

Company: Minnesota Energy Resources Corporation (“MERC” or “the Company”)

Docket No.: G-011/GR-15-736

In the Matter of the Application by Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota

Issue(s): Should the Commission approve Minnesota Energy Resources Corporation’s (“MERC”) November 30, 2016 compliance filing?

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Relevant Documents

Commission’s October 31, 2016 Finding of Fact, Conclusions, and Order October 31, 2016
MERC’s Compliance Filing November 30, 2016
Department of Commerce Comments December 30, 2016

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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Statement of the Issues

Should the Commission approve Minnesota Energy Resources Corporation's ("MERC") November 30, 2016 compliance filing?

Introduction

On September 30, 2015, MERC filed a general rate case with the Minnesota Public Utilities Commission (Docket No. G-011/GR-15-736). The Company requested a \$14.8 million annual increase in its Minnesota retail natural gas rates or approximately 5.47 percent overall, effective January 1, 2016, based on a rate of return on common equity capital of 10.3 percent.

On October 31, 2016, the Commission issued its *Findings of Fact, Conclusions, and Order* ("the October 31 Order") authorizing an increase in gross annual revenues of \$6,775,462 to produce jurisdictional total gross revenue of \$235,890,981 for the test year ending December 31, 2016.

On November 30, 2016, MERC submitted a compliance filing with schedules reflecting the Commission Order and providing additional information required by the Commission. The filing requested that final rates go into effect on February 1, 2017.

On December 5, 2016, MERC filed an addendum and correction to its compliance filing accounting for \$500,000 in customer refunds from the ICE program.

On December 30, 2016, the Department of Commerce ("Department") filed Comments recommending that the Commission approve MERC's compliance filing.

Review of Issues

Department

The Department recommended approval of the Company's compliance filing with additional filing requirements.

The Department noted that Ordering Paragraph No. 1 of the Commission's Order states that MERC is entitled to increase Minnesota jurisdictional revenues by \$6,775,462 to produce jurisdictional total gross revenue of \$235,890,981 for the test year ending December 31, 2016. The Department stated that the Company's financial schedules in the Compliance Filing incorporated the authorized amounts.

Ordering Paragraph No. 11 required that MERC refund \$500,000 from the Improved Customer Experience ("ICE") program budget to ratepayers for 2016. This was included in Schedule H of the compliance filing.

Ordering Paragraph No. 15(b) required MERC to provide a compliance filing that includes language to revise its pilot revenue-decoupling program. The Department noted that MERC provided this language in Schedule B of its Compliance Filing. The Department stated that these schedules comply with the Commission's Order.

Ordering Paragraph 19 included several compliance filing requirements. The Department comments discussed how MERC met each of these requirements. That discussion is not repeated in these briefing papers.

The Department noted that Ordering Paragraph No. 19(e) required the Company to provide a proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers. In Schedule H of its Compliance Filing, MERC estimated a refund obligation of \$1,935,459. MERC adjusted its refund obligation by applying a 3.50 percent average prime rate, the interest on the refund adds an estimated \$33,157 to the refund. With the additional \$500,000 refund for the ICE program, the total estimated refund obligation is \$2,468,617, the refund factor is approximately 37.04 percent. The Department explained that the schedules are updated when actual interim revenues billed are known. The Department concluded that the refund plan complies with Ordering Paragraph No. 19(e).

The Department recommended:

1. Approve MERC's proposed tariffs;
2. Approve MERC's proposed CCRC factor of \$0.2767 per dekatherm to be applied to all customer classes except for approved CIP-exempt facilities;
3. Require MERC to resubmit the CIP tracker account (including rates, revenues, expenses, and ending balance) for the entire period that interim rates were in effect within 10 days after the actual date final rates become effective;
4. Approve MERC's refund plan; and
5. Require MERC to submit, within 10 days of the completion of the refund for all of its customers, a compliance filing that separately shows the actual refunds and interest paid by rate class including supporting calculations.

Staff Comment

As discussed above, Ordering Paragraph No. 11 states:

MERC shall refund \$500,000 from the ICE program budget to ratepayers for 2016.

In Schedule H of its Compliance Filing, MERC estimated interest of \$33,157 based on a refund obligation of \$1,935,459 without the ICE project refund. The \$500,000 refund for ICE Project costs was then added, without interest, to the total refund amount, resulting in an estimated total refund of \$2,468,617.

[Staff note: the above three refund amounts add up to \$2,468,616, the difference is attributable to rounding difference.]

Minn. Stat. §216B.16, Subd. 3, (c) requires that:

If, at the time of its final determination, the commission finds that the interim rates are in excess of the rates in the final determination, the commission shall order the utility to refund the excess amount collected under the interim rate schedule, including interest on it which shall be at the rate of interest determined by the commission.

The question for Commission consideration is whether MERC's refund should include interest on the \$500,000 amount specifically identified as a refund for the ICE Project? The Company collected the ICE costs through the interim rates for the entire 2016 test year. The Company's filing does not appear to indicate why interest was not applied to ICE project costs when calculating the refund.

Decision Options

A. Proposed Tariff

1. Approve MERC's proposed tariffs and direct the Company to implement final rates to bills effective March 1, 2017, and
2. Require MERC to submit final tariff sheets that incorporate the Commission's decision herein within 10 days after final rates become effective. or
3. Take other action.

B. Conservation Cost Recovery Charge (CCRC) Rider

1. Approve MERC's proposed CCRC of \$0.2767 per dekatherm to be applied to all customer classes except for approved CIP-exempt facilities; or
2. Take other action.

C. Conservation Improvement Program (CIP) Tracker

1. Require MERC to resubmit the CIP tracker account schedules (including rates, revenues, expenses, and ending balance) for the entire period that interim rates were in effect within 10 days after final rates become effective; or
2. Take other action.

D. Refund Plan

1. Approve MERC's refund plan and require MERC to submit, within 10 days of the completion of the refund for all of its customers, a compliance filing that separately shows the actual refunds and interest paid by rate class including supporting calculations. or
2. Take other action.

- E. Interest on Improved Customer Experience (ICE) project costs
 - 1. Require MERC to include, as part of its interim rate refund, interest on the \$500,000 identified as a refund of ICE project costs. or
 - 2. Determine that that interim rate refund should not include interest on the \$500,000 identified as a refund of ICE project costs. or
 - 3. Take other action.

- F. Compliance Filing
 - 1. Approve Minnesota Energy Resources Corporation's compliance filing, with the exception of the Company's customer notice which will be approved by the Executive Secretary in a separate Commission notice (pursuant to a previous Commission Order in this docket) in this docket, or
 - 2. Approve Minnesota Energy Resources Corporation's compliance filing, with:
 - a. The addition of interest on \$500,000 identified as a refund for the ICE Project, and
 - b. The exception of the Company's customer notice which will be approved by the Executive Secretary in a separate Commission notice (pursuant to a previous Commission Order) in this docket. or
 - 3. Take other action.