**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

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| In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Gas Utility Infrastructure Cost (GUIC) Rider | PUC Docket No. G-011/M-18-281 |
| In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Natural Gas Extension Project (NGEP) Cost Rider Surcharge for Recovery of 2019 Rochester Project Costs | PUC Docket No. G-011/M-18-182 |
| In the Matter of the Minnesota Energy Resources Corporation's Request for Approval of a 2020 Gas Utility Infrastructure Cost (GUIC) Rider | PUC Docket No. G-011/M-19-282 |
| 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-011/GR-17-563 |

**COMMENT**

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The Super Large Gas Intervenors ("SLGI"), a continuing *ad hoc* consortium of large industrial transportation customers of Minnesota Energy Resources Corporation ("MERC" or the "Company") consisting of ArcelorMittal USA; Hibbing Taconite Company; Northshore Mining Company; United Taconite; United States Steel Corporation; and USG Interiors, Inc., submit the following comment in response to the Minnesota Public Utilities Commission's (the "Commission") notice of comment issued on July 2, 2019 (the "Notice").[1]

## I. INTRODUCTION

On June 28, 2019, MERC submitted an emergency request (the "Emergency Request")

[1] Notice of Comment Period in MPUC Docket Nos. G-011/M-18-281, G-011/M-18-182, G-011/M-19-282, and G-011/GR-17-563 (July 2, 2019) (eDocket Nos. 20197-154154-01, 20197-154154-02, 20197-154154-03, and 20197-154154-04).

regarding application of the GUIC and NGEP rider surcharges to certain direct-connect customers, which customers include members of SLGI. In the Emergency Request, MERC seeks a Commission order directing the following action: (1) suspending the application of both the 2019 GUIC rider surcharge and 2019 NGEP rider surcharge from direct-connect customers, effective August 1, 2019; (2) authorizing a refund from MERC to direct-connect customers of any and all amounts MERC collected prior to the requested suspension; and (3) permitting MERC to recover the difference resulting from the refund from non-direct-connect customers. In the Notice, the Commission defined the issue for comment as whether it should grant the relief sought in the Emergency Request. SLGI submits this comment in support of the Emergency Request, with one modification.

## II. ANALYSIS

SLGI understands that the procedural posture in these dockets is somewhat complex and appreciates that, as noted by MERC in its Emergency Request, the timing of MERC's filing is not ideal. That said, the cost-benefit analysis SLGI members are presently undertaking in evaluating whether to bypass MERC is relatively simple. And while SLGI is aware that the Commission's apparent intent in its June 18, 2019, order in the NGEP Docket, was to delay bypass analysis until MERC's next rate case, it is not clear that there is sufficient time to fully evaluate the bypass threat in a contested case proceeding that may or may not be commenced this year and, even if it were, would not be resolved until calendar year-end 2020 at the earliest. Therefore, SLGI has had a professional engineer perform a preliminary cost analysis for the Commission's review and consideration. It is attached to this comment as Exhibit A.[2]

Mr. Graeber calculated the total cost a direct-connect customer would incur to bypass MERC. Again, these costs are very minimal for direct-connect customers because the only physical asset that needs to be purchased is an odorizer and related equipment – the direct-connect customer would not need to acquire any additional pipe, meters, valves, or other

[2] Ex. A, Affidavit of Kenneth C. Graeber (July 10, 2019). Mr. Graeber is the current President and CEO of Encore Energy Services, Inc. and a registered Professional Engineer.

equipment.[3] There is, of course, additional cost of the odorant (mercaptan) and routine operation and maintenance ("O&M") costs. In total, and amortizing these investments over a three-year period, Mr. Graeber's preliminary estimate is that the total physical cost (including mercaptan and O&M) would be approximately $.002 per therm.[4]

To be conservative, there is the additional potential cost of being a direct-connect customer of Northern Natural Gas Company ("Northern"). This cost would be in the form of increased penalties and/or balancing assets.[5] Mr. Graeber suspects the risk of these penalties could be substantially mitigated, and perhaps even eliminated, via purchasing system management services ("SMS") from Northern.[6] Mr. Graeber further estimates the cost of this service to provide adequate protection to the direct-connect customers to be approximately $.002 per therm.[7]

Therefore, the direct-connect customers could bypass MERC for a total cost of roughly $.004 per therm.[8] The distribution charge for interruptible and CIP-exempt Class 5 Transport customers is currently $.00448 per therm.[9] In other words, MERC's current distribution rate is presently teetering on the threshold of justifying a bypass.

If MERC is permitted to layer on the NGEP and GUIC riders, it should be axiomatic that the increased costs provide economic support for a bypass because the incremental cost alone of these riders exceeds the cost of bypass. The combined cost of the NGEP and GUIC rider surcharges is currently $0.00463 per therm[10] and may be increased to $.00604 per therm if

[3] *Id.* at ¶¶ 5-7.
[4] *Id.* at ¶ 11.
[5] *Id.* at ¶ 12.
[6] *Id.*
[7] *Id.* at ¶ 14.
[8] *Id.* at ¶ 15.
[9] MERC Tariff and Rate Book, 6th Rev. Sheet No. 6.00.
[10] Commission Order Approving NGEP Rider Surcharge with Modifications in MPUC Docket No. G-011/M-18-182 at 7 (June 18, 2019) (eDocket No. 20196-153671-01) (establishing a NGEP rider surcharge of $0.00050 per therm); Commission Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing in MPUC Docket No. G-011/M-18-281 at 10 (Feb. 5, 2019) (eDocket No. 20192-150011-01) (ordering MERC to submit a compliance filing with the updated GUIC rider factor); MERC Compliance Filing in MPUC Docket No. G-011/M-18-281 at 2 (Feb. 7, 2019) (eDocket No. 20192-150082-01) (establishing a

MERC's 2020 GUIC rider is approved.[11] The rider costs, in isolation, are in excess of the approximate $.004 per therm bypass cost. And combined with the existing distribution rate, the current NGEP and GUIC rider costs effectively double the per therm charges paid by SLGI members. If the per therm charges on MERC's system exceed the bypass cost by 100% or more, there will be no economic justification for Class 5 Transport customers, including members of SLGI, to remain on MERC's system. If these customers choose to bypass MERC's system, the base rates and rider surcharges for MERC's remaining customers will undoubtedly increase to cover MERC's lost revenue.

Additionally, suspending the NGEP and GUIC riders for direct-connect customers only would violate Minn. Stat. § 216B.03, which requires that "rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and *consistent in application to a class of consumers*." Minn. Stat. § 216B.03 (emphasis added). All members of SLGI are part of MERC's Class 5 Transportation customer class, but not all members of SLGI are direct-connect customers.[12] MERC's Transportation Services Tariff distinguishes between firm and interruptible customers, and CIP-exempt and CIP-applicable customers, but it does not differentiate direct-connect customers.[13] Thus, if the Commission were to approve the suspension of the NGEP and GUIC riders to direct-connect customers only, it would be discriminating and differentiating among customers within the same class and therefore violate Minn. Stat. § 216B.03. To avoid this issue, SLGI urges the Commission to approve the Emergency Request in a manner consistent with Minn. Stat. § 216B.03 by suspending both the NGEP and GUIC riders, and authorizing refunds, for all Class 5 Transport customers.

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per-therm GUIC surcharge of $0.00413) (adding $0.00050 + $0.00413 = $0.00463 per therm for the two riders combined).

[11] Initial Filing in MPUC Docket No. G-011/M-19-282 at 2 (Apr. 24, 2019) (eDocket No. 20194-152309-01) (adding the proposed 2020 GUIC rider of $0.00554 to the existing NGEP rider cost of $0.00050 = a combined cost per therm of $0.00604).

[12] USG Interiors, Inc. ("USG"), is not a direct-connect customer but is a Class 5 Transport customer. USG has operations in other jurisdictions where it has bypassed the local distribution company and would evaluate making the necessary investments to bypass MERC if its per therm charges more than double.

[13] MERC Tariff and Rate Book, 6th Rev. Sheet No. 6.00.

## III. CONCLUSION

SLGI requests that the Commission approve MERC's Emergency Request without delay. As established by the preliminary analysis outlined in this comment, members of SLGI pose a real and significant bypass risk. Therefore, SLGI reiterates the concerns expressed by MERC and other stakeholders and supports the Company's Emergency Request, with the slight modification referenced above.

Dated: July 11, 2019

Respectfully submitted,

STOEL RIVES LLP

*/s/ Andrew P. Moratzka*
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**ATTORNEYS FOR SUPER LARGE GAS INTERVENORS**

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# EXHIBIT A

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STATE OF NEBRASKA )
) ss.
COUNTY OF SARPY )

I, Kenneth C. Graeber, being first duly sworn, deposes and states the following:

1. I am the current President and CEO of Encore Energy Services, Inc.

2. I am a registered Professional Engineer with substantial experience in natural gas pipeline distribution, design, and engineering.

3. I have analyzed the possibility of physical bypass of natural gas public utilities by direct-connect customers.

4. In speaking with direct-connect facilities and based on information obtained from odorizer manufacturers such as PRECO, Inc. ("PRECO"), I have conducted a preliminary analysis of the steps and costs associated with physical bypass of Minnesota Energy Resources Corporation's ("MERC") system by its direct-connect customers.

5. My preliminary estimate shows that the cost of physical bypass of MERC's system to become a direct-connect customer of Northern Natural Gas Company ("Northern") is

quite minimal for some of MERC's largest customers, specifically the large taconite mining operations.

6. Except for an odorizer, MERC does not own any pipe, meters, valves, or other similar equipment related to the service of its directly-connected taconite customers.

7. Therefore, the physical assets necessary to bypass MERC's system involve only the installation and maintenance of an odorizer, which for a large facility could be purchased for approximately $50,000.

8. Additional equipment required would include a 1,000-gallon bulk tank and the installation of a concrete pad, each costing approximately $25,000.

9. Overall, I estimate the total installed cost of an odorizer to be approximately $100,000 per direct-connect customer.

10. On an annual basis, using an industry-approved odorant rate of 1-pound odorant per million cubic feet of gas, at an odorant cost per gallon of approximately $35.00, an average taconite mine would use approximately $30,000 of odorant annually, which equates to about $0.0008 per therm. Additionally, because an odorizer does not require any appreciable amount of O&M, the only related ongoing expense is the transfer of odorant from the bulk tank to the unit tank, which would cost approximately $6,000 per year.

11. Amortizing the capital costs described above over a three-year period and including the recurring costs of odorant and related O&M, the total physical cost to bypass MERC is approximately $0.002 per therm.

12. While these costs are relatively minimal, direct-connect customers on Northern's system could face additional costs in the form of increased balancing penalties; however, the risk of penalties may be substantially mitigated (or possibly eliminated) by purchasing Northern's System Management Services ("SMS").

13. The cost of SMS service is $0.218 per month per therm of swing tolerance.[1]

14. The average taconite mine could buy about 30,000 therms per day of swing capability for about $0.002 per therm.

15. Therefore, combining all of the costs set forth above, which include the cost of odorization and SMS service and are based on average annual consumptions, my analysis shows that a taconite mine could bypass MERC for approximately $0.004 per therm.

**FURTHER YOUR AFFIANT SAYETH NOT.**

/s/ Kenneth C. Graeber
Kenneth C. Graeber

Subscribed and sworn to before me
this 10th day of July, 2019.

GENERAL NOTARY-State of Nebraska
DIANE MICHALSKI
My Comm. Exp. February 3, 2023

/s/ Diane Michalski
Notary Public

[1] *See* Northern Natural Gas Tariff Sheets at No. 55, available at https://apps.northernnaturalgas.com/Public/Tariff/Data/EntireTariff.pdf.