COMMERCE DEPARTMENT

May 29, 2018

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-18-182

Dear Mr. Wolf:

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

> Minnesota Energy Resources Corporation's (MERC or the Company) request (*Petition*) for Approval of a Natural Gas Extension Project (NGEP) Cost Rider Surcharge for the Recovery of 2019 Rochester Project Costs.

The *Petition* was filed on February 28, 2018 by:

> Amber Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> 2685 145th Street West
> Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) authorize MERC to implement an NGEP rider surcharge of $0.00049 per therm effective January 1, 2019 for NGEP-related costs expected to be incurred in calendar year 2019.

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

Sincerely,

/s/ ADAM J. HEINEN
Rates Analyst
651-539-1825

AJH/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G002/M-18-182

I. SUMMARY OF PROPOSAL

On February 28, 2018, pursuant to Minnesota Statute § 216B.1638 (NGEP Statute) and the Minnesota Public Utilities Commission's (Commission) May 5, 2017 *Order*, Minnesota Energy Resources Corporation (MERC or the Company) submitted to the Commission a petition (*Petition*) for Approval of a Natural Gas Extension Project (NGEP) Cost Rider Surcharge (NGEP Rider) for the recovery of 2019 Rochester Project Costs (Rochester Project). In its *Petition*, MERC requested recovery of its projected NGEP-related costs in 2019 for its Rochester Project in accordance with Minnesota Statute § 216B.1638. In particular, MERC requested approval of the following:

- An ongoing NGEP Rider;
- A forecasted 2019 revenue deficiency of approximately $1.3 million for MERC's projected 2019 investments related to the Rochester Project subject to future true up.[1] The Company requested recovery of the entire revenue deficiency through the NGEP Rider;
- A 2019 NGEP rate factor of $0.00150 per therm applicable to all customer classes to be effective January 1, 2019; and
- Proposed NGEP Rider tariff sheets.

As discussed further below, MERC first requested annual rider recovery through the NGEP Rider for the Rochester Project in Docket No. G011/M-15-895 (Docket No. 15-895).

II. BACKGROUND

On October 26, 2015, in Docket No. G011/M-15-895, MERC submitted its request for approval of rider recovery via Minnesota Statute § 216B.1638 (NGEP Statute) for its Rochester Project. The Company requested recovery through the NGEP Statute to allow the Company to recover

[1] The Company noted that the proposed surcharge will be subject to revision based on the outcome of this proceeding and decisions in MERC's pending general rate case, Docket No. G011/GR-17-563.

costs of upgrading MERC's distribution system in Rochester to meet not only current customer demand, but also the future growth expected in the area. For a utility to recover costs through the NGEP Statute, a utility must show that: 1) the project is designed to extend natural gas service to an unserved or inadequately served area and 2) the proposed costs of the project are reasonable and prudently incurred.

On February 8, 2016, the Commission forwarded Docket No. G011/M-15-895 to the Office of Administrative Hearings (OAH) for a contested case hearing. The Rochester Project and the reasonableness of NGEP Rider recovery was fully analyzed in the contested case proceeding and an Administrative Law Judge (ALJ) issued *Findings of Fact, Conclusions of Law, and Recommendation*, recommending that the Commission find that the Rochester Project was reasonable and appropriate for NGEP Rider recovery. The ALJ also recommended that the Commission require various reporting requirements and cost mitigation requirements.

In its May 5, 2017 *Order* (*May 5 Order*), the Commission approved the Rochester Project and granted rider recovery through the NGEP Rider with certain conditions. As part of these conditions, MERC is required to make an annual filing before recovery of NGEP Rider-related costs are possible. This *Petition* is the Company's first annual request for NGEP Rider recovery for the Rochester Project.

The Department analyzes the Company's proposal for NGEP Rider recovery for the Rochester Project below. The Department's analysis is based on the requirements of Minnesota Statute § 216B.1638 and the Commission's *May 5 Order* in Docket No. G011/M-15-895.

III. DEPARTMENT ANALYSIS

In this section, the Department discusses the following areas:

- Applicable Minnesota Statutes and Commission Orders;
- Cost Recovery Proposal;
- Surcharge Calculation and Method of Recovery;
- Destination Medical Center;
- Contribution-in-Aid-of Construction;
- True-Up Mechanism;
- Termination of Rider Recovery and Renewal; and
- Summary of Department Adjustments.

A. *APPLICABLE MINNESOTA STATUTES AND COMMISSION ORDERS*

As noted above, and discussed on pages 1 through 4 of its *Petition*, MERC's *Petition* is governed by Minnesota Statute § 216B.1638, the NGEP Statute, and the Commission's *May 5 Order*. The NGEP Statute is provided in Attachment 1 to these *Comments*. The Commission's May 5 Order, paragraphs two, four, five and nine required the following as to the NGEP Rider:

2. The Commission grants MERC's requested preapproval to recover Phase II costs of up to $44 million through the combination of an NGEP rider and base rates, with the understanding that the Company retains the burden in future rate proceedings to demonstrate that the project was implemented reasonably and prudently and to justify any alterations in the cost of the individual items that made up the total $44 million Phase II estimate.

4. The Commission imposes a soft cap of $44 million on recovery of Phase II costs and places the burden of proof on MERC to establish the reasonableness of any costs that exceed the cap.

5. The Commission approves MERC's proposal to recover NGEP-rider costs from all MERC customers, whether within the Company's NNG, Consolidated, or Albert Lea PGA zone.

9. MERC shall take the following actions relating to seeking funding from the Destination Medical Center Corporation (DMCC):
   a. If MERC undertakes projects within established Destination Medical Center development district boundaries, the Company shall petition the DMCC for funding.
   b. MERC shall, in its annual NGEP filing and in future AAA filings, provide a discussion and supporting data explaining all work performed within the Destination Medical Center development district boundaries, with the amount of DMCC funding applied for and received.

B. *COST RECOVERY PROPOSAL – 33 PERCENT FACTOR*

As discussed on pages 8 through 10 of its *Petition*, the Company proposed to recover the incremental revenue deficiency for 2019 through the NGEP Rider. MERC calculated an incremental revenue deficiency of $1,319,864.[2] MERC's proposed revenue deficiency is not calculated as prescribed in the NGEP Statute, since the Company proposes to recover 100

[2] *Petition*, Exhibit B.

percent, not 33 percent, "of the costs of a natural gas extension project." The incremental revenue deficiency based on 33 percent of costs is approximately $439,955.

MERC's calculation is based on the Company's forecasted 13-month average rate base in 2019, excluding the 2018 average rate base of approximately $13.5 million included in the 2018 test year in the MERC rate case (Docket No. G011/GR-17-563), related to the Rochester Project. The Department agrees that it is necessary to exclude the $13.5 million since those costs are already recovered in base rates.

However, the Department does not agree with the Company's current interpretation of the provision regarding recovery of 33 percent of the project in the rider. MERC stated that Minnesota Statute § 216B.1638, subdivision 3(c), authorizes the Commission to approve rider recovery up to 33 percent of costs of a natural gas extension project and, since the total Rochester Project costs are $44,006,607, the NGEP Statute would permit NGEP Rider recovery up to $14,522,180. Since the incremental revenue deficiency is $1,319,864, MERC concluded that the revenue deficiency falls within the 33 percent statutory limit.

MERC's current interpretation of Statute contradicts MERC's prior representation to the Commission about the amounts that would be recovered in the NGEP Rider in Docket No. 15-895. That is, the Company's current interpretation about the amount to be recovered through the NGEP Rider for the Rochester Project is inconsistent with the record on which the Commission relied to approve MERC's NGEP Rider for the Rochester Project. The Department also observed other concerns regarding MERC's proposed calculation of the rate, as discusses in greater detail in Sections II.C and II.D below.

MERC provided its derivation of its proposed revenue deficiency and accompanying proposed rates in its *Petition*.[3] In its responses to Department Information Request Nos. 2 and 6, the Company provided more detailed information for these calculations (Department Attachments 2 and 3). While reviewing information in Docket No. 15-895, the Department observed information and calculations that were similar in presentation to the *Petition*, Exhibit B in this docket.[4] Although the calculations and presentation appear similar, the Department notes that the calculated revenue deficiencies that MERC claimed in Docket No. 15-895 were eligible for NGEP recovery (and the accompanying surcharges) are materially different than what MERC proposed to charge to its ratepayers in the instant docket.

In interpreting the NGEP Statute in Docket No. 15-895, MERC stated the following on page 4 of its October 26, 2015 filing:

[3] *Id*.
[4] December 7, 2015 Reply Comments Attachment D, Docket No. G011/M-15-895.

> Phase II construction costs are estimated to be approximately $44 million. Pursuant to the NGEP Statute, MERC requests recovery of 33 percent of the *revenue deficiency* associated with MERC's Phase II costs through the rate rider, with the balance of Phase II costs recovered in future rate cases. (Emphasis added)

That is, MERC represented that the 33 percent factor would be applied to the revenue deficiency, rather than to the total capital costs of the project. The Company supported this interpretation in multiple parts of the record in Docket No. 15-895.[5]

Moreover, MERC's represented to the Commission that the Company would calculate the amount to be recovered in the NGEP Rider as shown in Table 1, below. In particular, Line 9 shows that the 33 percent factor would be applied to the annual, incremental revenue requirement.

Table 1: MERC's Representation of How the 33 Percent Factor Affects NGEP Rider[6]

Line	Item	Description	2017	2018	2019
1	Rate Base	13-month average net plant value*	$3,702,535	$12,375,362	$19,626208
2	Rate of Return	Authorized in 2014 rate case	7.3048%	7.3048%	7.3048%
3	Gross Revenue Conversion Factor	Authorized in 2014 rate case	1.704	1.704	1.704
4	Return on Rate Base	Line 1 x Line 2 x Line 3	$ 456,990	$1,536,673	$2,443,120
5	Expenses	O&M, Depreciation Expense, Property Taxes	$ 10,849	$ 326,915	$ 768,304
6	Total Revenue Requirement	Line 4 plus Line 5	$ 467,840	$1,863,587	$3,211,424
7	Project Revenues	Projected Rochester sales growth x rates approved in 2014 rate case	$ 266,802	$ 552,987	$ 851,875
8	Revenue Deficiency	Line 6 minus Line 7	$ 201,038	$1,310,600	$2,359,549
9	Rider-Eligible Revenue Deficiency	Line 9 x 33%	$ 67,013	$ 436,867	$ 786,516

[5] Further examples in Docket No. 15-895 are in MERC's December 7, 2015 *Reply Comments* and *Direct Testimony* of MERC Witness Amber Lee, Exhibit ASL-1 and MERC's December 7, 2015 *Reply Comments, Attachment D* and Direct Testimony of MERC Witness Amber Lee, Exhibit ASL-1.
[6] Page 31 of MERC's October 26, 2015 filing in Docket No. 15-895.

Given that the Commission approved the NGEP Rider for the Rochester Project based on MERC's above representation that the 33 percent factor would be applied to the annual incremental revenue requirement, the Department concludes that MERC's representation in the instant docket regarding application of the 33 percent factor is unreasonable. Thus, the Department concludes that the 33 percent of cost should be calculated on an annual basis, as originally proposed by MERC in its December 7, 2015 *Reply Comments* and Direct Testimony in Docket No. 15-895.[7]

Applying the 33 percent cap to MERC's projected revenue requirement for 2019 of $1,319,864 results in the maximum amount eligible for rider surcharge in 2019 of $439,955.

C. *COST RECOVERY PROPOSAL –CONTINGENCY COSTS*

As discussed in MERC's *Petition*, the Rochester Project has an approved soft cap on cost recovery of approximately $44 million. The Department notes that the total cost projection includes a contingency factor.[8] In a simple sense, the soft cap represents a high expense scenario. The Department does not object to such a cap, but notes that the costs that MERC proposes to incur in 2019 should not assume that the Company will, in fact, incur such higher costs.

According to information provided by MERC, the contingency factor for the Rochester Project is approximately 15 percent (Department Attachment 4). Including contingency costs in the NGEP surcharge is inappropriate unless MERC demonstrates that the Company has already exceeded its initially proposed costs, and has done so in a reasonable manner that would warrant charging MERC's customers for the higher costs. However, MERC has not shown that it is reasonable to charge its ratepayers for costs that MERC may not incur. Since the Company earns a return on the rate base associated with the Rochester Project, if contingency costs are included in the NGEP Rider surcharge, the Company's ratepayers would essentially be forced to give MERC a loan for which the ratepayers pay not only interest but also a rate of return on costs that are, by definition, high. If MERC legitimately incurs higher costs (up to $44 million of capital costs) in a reasonable manner, the Company would be allowed to recover such costs. However, it is not reasonable to set rates based on the assumption that the Company will incur such costs.

Moreover, the Department notes that information in the pending rate case suggests that MERC has not incurred Rochester costs at a level that warrants inclusion of contingency costs in the rider surcharge. In its response to Department Information Request No. 157 in the rate case,

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[7] December 7, 2015 *Reply Comments, Attachment D* and Direct Testimony of MERC Witness Amber Lee, Exhibit ASL-1.
[8] November 30, 2016 ALJ Report, Findings 374 and 380.

MERC provided information indicating that its costs in the rate case include contingency costs for the Rochester Project (Department Attachment 5). To the extent that contingency costs are appropriately incurred, the Department believes they may be recovered from ratepayers, via the NGEP rider or base rates, but not until after they are incurred and MERC has met the Commission's requirement to demonstrate that the Company incurred such costs prudently. In addition, including the contingency costs in the NGEP Rider surcharge prior to MERC demonstrating these two facts would remove MERC's incentive to contain costs.

Since MERC has not shown the inclusion of contingency costs to be reasonable, and since the 15 percent figure was not disputed in Docket No. 15-895, the Department recommends that Rochester Project costs for 2019 be reduced by 15 percent. Using the information provided in MERC's responses to Department Information Request Nos. 2 and 6, the Department estimates an adjustment based on a 15 percent reduction in expenses (Department Attachments 2 and 3). These calculations result in a Project Revenue Deficiency of $960,144, which is $359,720 less than the $1,319,864 amount included in the Company's *Petition*.[9] When the Department's one third of the revenue requirement adjustment is applied, the rider recoverable amount is $320,048.

Based on its analysis, the Department concludes that two adjustments to the NGEP Rider surcharge are necessary. The first relates to MERC's interpretation of the NGEP Statute in this docket which differs from its interpretation in Docket No. 15-895 and the second to the Company's proposed recovery of contingency costs that MERC has not demonstrated to be reasonable to charge to ratepayers at this time. The Department presents its final adjustment to NGEP rider recovery in Section II.I below.

D. *SALES IN THE SURCHARGE CALCULATION AND METHOD OF RECOVERY*

The method of recovery and the accompanying rate design for the Rochester Project was discussed at length in Docket No. 15-895. In its *May 5 Order*, the Commission approved a rate design with equal recovery from all rate classes and customers. In other words, the same per-therm rate is charged to each ratepayer on MERC's system. The per-therm rate charged to ratepayers is calculated based on the expected revenue deficiency, net of revenue growth in the Rochester Area, divided by total sales. MERC also proposed that the rider surcharge would commence for services rendered as of January 1, 2019 and the surcharge would terminate on a service-rendered basis on December 31, 2019. The Company also explained that if the Commission decision approving the NGEP Rider does not allow for a January 1st implementation then MERC recommends that the rate be recalculated to allow the Company to recover the approved revenue deficiency over the remaining months in the calendar year.[10]

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[9] *Petition*, Exhibit B.
[10] *Petition*, Page 15.

MERC stated that its sales figure is based on the proposed sales forecast in the pending general rate case, adjusted for projected sales growth in the Rochester Area.[11] After reviewing the sales figure in the *Petition* and the sales forecast data filed in the pending general rate case,[12] the Department observed concerns with MERC's sales figures used to calculate the NGEP surcharge rate.

First, the total sales number (877,001,389 therms) proposed by the Company in the instant docket is 16.46 percent higher than the MERC's proposed sales in the pending rate case (753,081,025).[13] The Department analyzed this inconsistency in greater detail and concluded that the higher figure proposed in the NGEP filing includes Michigan Taconite mine sales. Since MERC has not shown that the Michigan Taconite mine would be subject to paying the NGEP, the Department recommends that these sales be removed in calculating the NGEP surcharge. Removing such sales would increase the NGEP surcharge, but should avoid an under-recovery of costs that can be avoided by correcting the calculation.

Second, although factoring in sales growth for the Rochester Area was appropriate; holding sales constant for the remainder of MERC's customers is inappropriate and results in sales levels that are too low. It is unreasonable to assume that sales growth will only occur in the Rochester Area. In addition, evidence provided in Docket No. 15-895 dispels this assumption and shows that consumption has increased across the entire MERC system.[14]

Third, only considering sales growth in the Rochester Area would contradict information provided in the Company's pending rate case, where MERC provided the results of its sales forecasts in its August 30, 2017 Pre-Filed Forecasting Data. The historical data show that total sales have generally increased on a year-over-year basis across each of MERC's rate areas (*i.e.,* Consolidated, Northern, Albert Lea). In addition, the Department notes that the Company's forecasts in the pending general rate case include projected sales increases through calendar year 2020 (Department Attachment 6). The Department notes that the forecasted sales values for 2019 (764,518,780 therms) included in the rate case, excluding Michigan sales, do not match the sales figures provided in this docket; in fact, the sales figures in this docket (754,945,735 therms) are 1.27 percent less than the forecasted 2019 sales figures in the general rate case (Department Attachment 6).

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[11] *Id.*, Page 13.
[12] Docket No. G011/GR-17-563.
[13] Czervionke Direct, Schedule E-1, Page 5 of 5.
[14] Department Witness Heinen, July 1, 2016 Direct Testimony, Page 21 and November 30, 2016 ALJ Report, Findings 167-179.

On May 4, 2018, the Department filed direct testimony in MERC's pending general rate case. In this testimony, the Department observed concerns with the Company's test-year sales projections and recommended an adjustment to MERC's total test-year sales. The Department recommended total 2018 test-year sales of 792,933,091 therms, which is 32,852,066 therms, or approximately 5.29 percent, greater than MERC's originally filed figure of 753,081,025 therms. Although the sales forecast in the general rate case is for the 2018 test year, it is possible to use the results of the Department's test-year sales forecast to estimate sales in 2019. Specifically, the Department recommends that the same upward adjustment, on a percentage basis of 5.29 percent, be applied to the Company's 2019 Minnesota jurisdictional sales estimate provided in its Pre-Filed Forecasting Data in Docket No. G011/GR-17-563. When this adjustment is applied to 2019 Minnesota jurisdictional sales of 764,518,780 in MERC's pre-filed forecasting data, it results in estimated 2019 sales of 804,961,823 therms.

Based on all of these factors affecting the sales forecast as discussed above, the Department concludes that MERC under-forecasted Minnesota jurisdictional sales in this proceeding which would result in a per-therm rate that is unreasonably high. Although rider recovery is subject to true up, it is inappropriate to charge rates that are too high because of sales figures that are set at an unreasonably low number.

Specifically, the Department recommends that the Commission base NGEP Rider sales on Minnesota jurisdictional sales as calculated by the Department. This calculation is based on recommended test-year sales forecast in the pending general rate case adjusted for growth into calendar year 2019. Alternatively, the Commission could require MERC to calculate the NGEP rider surcharge based on 2019 Minnesota jurisdictional sales (764,518,780 therms) presented in the Company's Pre-Filed Forecasting Data in Docket No. G011/GR-17-563.

The Department also recommends that the Commission approve MERC's proposed rider surcharge implementation on January 1, 2019 and subsequent termination on December 31, 2019. Further, the Department concludes that the Company's alternate proposal if the Commission approval does not allow implementation on January 1, 2019; namely, that the surcharge be recalculated and recovered over the remainder of the calendar year, is reasonable.

E. DESTINATION MEDICAL CENTER

The Destination Medical Center (DMC) was a topic of significant discussion in Docket No. 15-895. In that proceeding, the record showed that the DMC and secondary growth associated with the DMC was a significant factor driving projected future natural gas sales growth in the Rochester Area and that the ultimate use of the additional capacity from the Rochester Project is based in large part on how and to what extent the DMC plan is executed.[15] In Docket No. 15-895, the Department conducted analysis and filed testimony regarding the funding mechanism associated with the DMC.[16]

The DMC Statute established a mechanism through which eligible infrastructure projects may obtain funding if they meet certain statutory requirements (*e.g.,* located within the DMC District). The Department concluded that, to the extent that MERC conducted work within the DMC District, MERC may be eligible for recovery through the DMC fund and should take all steps to attempt recovery through the fund.[17] In its *May 5 Order* in Docket No. 15-895, the Commission acknowledged the possibility of cost recovery through the DMCC and included Ordering Point No. 9:

> MERC shall take the following actions relating to seeking funding through the Destination Medical Center Corporation (DMCC):
>
> a. If MERC undertakes projects within established Destination Medical Center development district boundaries, the Company shall petition the DMCC for funding.
> b. MERC shall, in its annual NGEP filing and in future AAA filings, provide a discussion and supporting data explaining all work performed within the Destination Medical Center development district boundaries, with the amount of DMCC funding applied for and received.

In its *Petition*, the Company discussed its activities within the DMC boundaries and its cost recovery efforts. MERC explained that it sought funding for these projects in December 2017 and subsequently met with the DMCC and the City of Rochester on February 7, 2018. The DMCC informed MERC that the projects for which it requested funding would likely not qualify for DMC funding. On April 16, 2018, MERC filed a Letter updating its progress regarding funding through the DMCC. As part of this Letter, the Company included a formal communication with the DMCC.[18] In its Letter, MERC stated that it appears unlikely that funding through the DMCC is possible. According to the DMCC communication, it appears that the DMCC will deny the Company's cost recovery proposal. The Board concluded that funding is not available for general infrastructure projects, in particular for projects not specifically included in the DMC

[15] November 20, 2016 ALJ Report, Findings 95, 116, 171-177.
[16] July 1, 2016 Department Witness Heinen Direct Testimony, Pages 50-58.
[17] *Id.*
[18] April 16, 2018 Letter, Attachment 1.

plan. In addition, the DMCC noted that funding is based on priorities developed within a comprehensive planning process and capital improvement plan. Further, the Board noted that the non-refundable cost of an application is $10,000.

Given the DMCC's position, the Department recommends that the Commission reconsider the wording of its Order as it relates to the DMC funding. Specifically, Ordering Point No. 9.a, as shown above, is clear that MERC is required to apply for DMCC funding whenever the Company undertakes projects within the DMCC district. However, as noted in the Company's April 16, 2018 *Letter*, it appears unlikely that MERC will be granted recovery through the DMCC fund either now or in the future. The position of the DMCC appears firm and calls into question whether repeated applications to the DMCC would be a prudent expenditure by MERC.

Thus, the Department recommends that the Commission modify its order not to require MERC to submit an application to the DMC for all work conducted within the DMC district given the current position of the DMCC. Although the Department is troubled by the DMCC's position, repeated requests would be an inefficient use of resources. The Department does, however, recommend that MERC continue to maintain conversations with the DMC to ascertain whether its position regarding infrastructure funding changes or evolves in the future. If the DMCC's position changes, it may be prudent for MERC to make future funding applications with the DMCC.

F. CONTRIBUTION-IN-AID-OF-CONSTRUCTION

Minnesota Statutes § 216B.1638, subd. 2(b)(4) and 5 require that a petition for approval of an NGEP Rider include the amount of any contributions-in-aid-of-construction (CIAC). The Company explained at Page 10 of its *Petition* that while customers may be required to pay a CIAC to connect to MERC's distribution system under the Company's service extension tariff, customers will not be connected directly to Phase II of the Rochester Project. The entirety of Phase II costs relate to improvements to MERC's Town Border Station (TBS) system, which then delivers natural gas customers. As such, the Company concluded that there is no customer CIAC available to offset the total revenue requirements of the Rochester Project because any CIAC related to new customers will be used to offset costs associated with connecting that customer to the system.

The issue of CIAC and the Rochester Project is more nuanced than explained by the Company. Although any CIAC recovered in the Rochester Area will be used as an offset to the extension costs for the individual customers, as detailed in MERC's tariffs,[19] any extension in the

[19] MERC Tariff Book, Sheets 9.00 through 9.08.

Rochester Area is predicated on the capacity expansion associated with the Rochester Project. In addition, the NGEP Statue references CIAC in relation to the calculation of the revenue deficiency. Specifically, Minnesota Statute §216B.1638, subd. 1(f) states the following:

> "Revenue deficiency" means the deficiency in funds that results when projected revenues from customers receiving natural gas service as the result of a natural gas extension project, plus any contributions in aid of construction paid by these customers, fall short of the total revenue requirement of the natural gas extension project.

Based on the revenue deficiency definition in the NGEP Statute, it appears that CIAC-related revenues in the area improved by an NGEP project is to be considered as a direct offset to the revenue deficiency. Although CIAC-related revenues are generally considered as an offset to rate base for an individual extension, the NGEP statute acknowledges that extensions of service to these customers is entirely dependent upon MERC receiving the capacity expansion from the Rochester NGEP project.

The Department issued discovery regarding CIAC revenues in the Rochester Area. In its response to Department Information Request No. 7, MERC provided, by rate class, the number of CIAC related extensions, and corresponding revenues, for calendar years 2016 and 2017 (Department Attachment 7). The Company received $26,600 in CIAC in 2016 and $37,126 in CIAC in 2017, and MERC further explained that it anticipated a similar amount of extensions in 2018 and 2019 but is unable, at this time, to estimate whether potential extensions will require CIAC and the corresponding amount of CIAC revenue.

Based on the Company's discussion, response to discovery, and language in the NGEP Statute, the Department concludes that inclusion of CIAC revenues, as an offset to the revenue deficiency, is necessary. Although this treatment is unusual compared to the typical treatment of CIACs, the Department concludes that MERC's argument that the costs associated with the Rochester Project are directly related to the expansion of the Company's TBS system as a whole and not the expansion of service to a specific customer and, as such, do not need to be accounted in the NGEP surcharge calculation is incorrect. The revenue deficiency definition in the NGEP Statute is clear that CIAC-related revenues are included in the calculation of the NGEP surcharge as an offset to the revenue deficiency.

Although a forecast of 2019 CIAC revenues is unavailable at this time, the Company's response to Department Information Request No. 7 allows the Department to estimate CIAC in 2019. MERC stated that it anticipates similar levels of CIAC in 2019 relative to 2016 and 2017; therefore, the Department recommends that an average of 2016 and 2017 CIAC revenues be used to estimate 2019 CIAC revenues. This average is $31,863 and should be used as an offset to the NGEP revenue deficiency as prescribed in the NGEP Statute. Since the CIAC-related revenues are forecasted, the Department recommends that this amount be subject to true up when actual CIAC revenues are received. For example, if there is $10,000 in actual CIAC in 2019, then there will be a future increase in the revenue deficiency of $21,863. The Department discusses its final NGEP surcharge recommendation in Section II.I below.

G. TRUE-UP MECHANISM

In its *Petition*, the Company discussed a proposed true-up mechanism for its NGEP surcharge.[20] MERC explained that a true-up mechanism is necessary for two reasons. First, since revenue recovery and inputs in 2019 are forecasted, the actual recovery and inputs costs in 2019 will be different necessitating a true-up such that NGEP eligible costs are not over- or under-recovered. Second, since the Company has a pending rate case, with a 2018 test year, the various components used to estimate the 2018 revenue requirement (*e.g.,* rate base, rate of return), which is a component in the calculation of the 2019 rider surcharge, are unknown at this time and subject to change in the general rate case. As such, the Company proposed that the NGEP surcharged be recalculated based on the final results of the rate case proceeding and any impacts to the calculations be trued up at that time.

The Department concludes that the Company's proposed true up mechanism is reasonable for all of the reasons stated by MERC.

H. TERMINATION OF RIDER RECOVERY AND RENEWAL

MERC noted in its *Petition* that the NGEP Statute requires a proposed termination date for rider recovery. Thus, the Company included a discussion of potential rider-related costs and how these costs may be recovered.[21] MERC explained that recovery of Project costs incurred in 2020, and thereafter, will be recovered either through base rates authorized in a future rate case or via future NGEP Rider petitions. The Company stated that if it does not file a rate case with a 2020 test year, MERC would file an application in early 2019 to implement an NGEP per-therm surcharge to recover Project costs incurred in 2020. MERC further explained that the NGEP Rider would be reconciled and renewed annually with the Company envisioning a reconciliation of 2019 (and subsequent years) filed with the Commission by April 1, 2020 to allow review such that future NGEP surcharges are properly adjusted. This process would continue until the Company files a general rate case.

[20] *Petition*, Pages 15 through 17.
[21] *Id.*, Page 17 and 18.

In its next general rate case, MERC proposed that the NGEP rider be zeroed out with respect to the unrecovered 13-month average net rate base of all Project plant in service at the end of the test year. This unrecovered net plant balance would be placed into rate base for the test year.

Based on current projections, MERC expects to complete its Project by December 2023. MERC also discussed potential outcomes if the Company does not file a general rate case between 2018 and the planned conclusion of the Project, based on MERC's current interpretation of the NGEP Statute for the Rochester Project.

The Department concludes that the Company's termination date of December 31, 2019 for the rates approved in this proceeding is reasonable. The Department also notes that the Commission need not decide at this time what recovery may or may not occur under various possible scenarios in the future.

I. *SUMMARY OF DEPARTMENT ADJUSTMENTS*

As discussed above, the Department recommends three adjustments to the NGEP surcharge and an adjustment to the calculation of the surcharge rates. It is necessary to consider the four NGEP surcharge adjustments in the proper order so that the NGEP surcharge is correctly calculated.

The first adjustment is to remove contingency costs from the revenue requirement calculation. Removing contingency costs from rate base and other expense items decreases the revenue requirement by $104,746 to $1,512,679 (Department Attachment 8).

The second adjustment adjusts the revenue deficiency by the expected CIAC recovery for the Project area. Adjusting for this amount of $31,863 in addition to the $297,561 in Offsetting Project Revenue reduces the revenue deficiency to $1,183,255, which is $136,609 lower than the Company's proposed amount of $1,319,864.

The third adjustment involves the Company's interpretation of the NGEP Statute. Given that the Commission approved the NGEP Rider for the Rochester Project in Docket No. 15-895 based on MERC's representation that the 33 percent factor would be applied to the annual incremental revenue requirement, the Department concludes that MERC's representation in the instant docket regarding application of the 33 percent factor is unreasonable. Applying the 33 percent figure to the Department's proposed 2019 revenue deficiency reduces the NGEP surcharge to $390,474, which is $929,390 lower than the Company's originally proposed surcharge of $1,319,864 (Department Attachment 8).

The fourth adjustment corrects MERC's sales forecast for 2019. As discussed in Section II.D above, the Department recommends a 2019 sales figure of 804,961,823 therms.

With these changes, the Department's recommended NGEP surcharge is $0.00049 per therm. The Department's proposed NGEP surcharge rate results in the following average annual bill impacts.

Table 2: Department Proposed Rates

Customer Class	Average Annual Bill Impact ($)
Residential	$0.42
Small Commercial/Industrial	$0.49
Large Commercial/Industrial	$4.19
Small Volume Interruptible	$48.80
Large Volume Interruptible	$323.92
Super Large Volume Interruptible--Transport	$5,429.90

IV. CONCLUSIONS AND RECOMMENDATIONS

The Department recommends that the Commission allow MERC to implement an NGEP rider surcharge effective January 1, 2019 for NGEP-related costs to be incurred in calendar year 2019. Based on issues identified with MERC's NGEP surcharge determination and rate calculation, the Department recommends that the Commission set the NGEP rider surcharge using the Department's proposed NGEP rider surcharge and rate rider calculation as detailed in these comments. The Department recommends that the NGEP rider surcharge be set at $0.00049 per therm.

The Department also recommends that the Commission:

- Modify its order in Docket No. G011/M-15-895 such that MERC is not required to submit an application to the DMC for all work conducted in the DMC district given the current position of the DMCC; and
- Require MERC to continue to maintain conversations with the DMC to ascertain whether its position regarding infrastructure funding changes or evolves in the future. If the DMCC's position changes, it may be prudent for MERC to make future funding applications with the DMCC.

/ja

216B.1638 RECOVERY OF NATURAL GAS EXTENSION PROJECT COSTS.

Subdivision 1. **Definitions.** (a) For the purposes of this section, the terms defined in this subdivision have the meanings given them.

(b) "Contribution in aid of construction" means a monetary contribution, paid by a developer or local unit of government to a utility providing natural gas service to a community receiving that service as the result of a natural gas extension project, that reduces or offsets the difference between the total revenue requirement of the project and the revenue generated from the customers served by the project.

(c) "Developer" means a developer of the project or a person that owns or will own the property served by the project.

(d) "Local unit of government" means a city, county, township, commission, district, authority, or other political subdivision or instrumentality of this state.

(e) "Natural gas extension project" or "project" means the construction of new infrastructure or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas.

(f) "Revenue deficiency" means the deficiency in funds that results when projected revenues from customers receiving natural gas service as the result of a natural gas extension project, plus any contributions in aid of construction paid by these customers, fall short of the total revenue requirement of the natural gas extension project.

(g) "Total revenue requirement" means the total cost of extending and maintaining natural gas service to a currently unserved or inadequately served area.

(h) "Transport customer" means a customer for whom a natural gas utility transports gas the customer has purchased from another natural gas supplier.

(i) "Unserved or inadequately served area" means an area in this state lacking adequate natural gas pipeline infrastructure to meet the demand of existing or potential end-use customers.

Subd. 2. **Filing.** (a) A public utility may petition the commission outside of a general rate case for a rider that shall include all of the utility's customers, including transport customers, to recover the revenue deficiency from a natural gas extension project.

(b) The petition shall include:

(1) a description of the natural gas extension project, including the number and location of new customers to be served and the distance over which natural gas will be distributed to serve the unserved or inadequately served area;

(2) the project's construction schedule;

(3) the proposed project budget;

(4) the amount of any contributions in aid of construction;

(5) a description of efforts made by the public utility to offset the revenue deficiency through contributions in aid to construction;

(6) the amount of the revenue deficiency, and how recovery of the revenue deficiency will be allocated among industrial, commercial, residential, and transport customers;

(7) the proposed method to be used to recover the revenue deficiency from each customer class, such as a flat fee, a volumetric charge, or another form of recovery;

(8) the proposed termination date of the rider to recover the revenue deficiency; and

(9) a description of benefits to the public utility's existing natural gas customers that will accrue from the natural gas extension project.

Subd. 3. **Review; approval.** (a) The commission shall allow opportunity for comment on the petition.

(b) The commission shall approve a public utility's petition for a rider to recover the costs of a natural gas extension project if it determines that:

(1) the project is designed to extend natural gas service to an unserved or inadequately served area; and

(2) project costs are reasonable and prudently incurred.

(c) The commission must not approve a rider under this section that allows a utility to recover more than 33 percent of the costs of a natural gas extension project.

(d) The revenue deficiency from a natural gas extension project recoverable through a rider under this section must include the currently authorized rate of return, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs.

Subd. 4. **Commission authority; order.** The commission may issue orders necessary to implement and administer this section.

Subd. 5. **Implementation.** Nothing in this section commits a public utility to implement a project approved by the commission. The public utility seeking to provide natural gas service shall notify the commission whether it intends to proceed with the project as approved by the commission.

Subd. 6. **Evaluation and report.** By January 15, 2017, and every three years thereafter, the commission shall report to the chairs and ranking minority members of the senate and house of representatives committees having jurisdiction over energy policy:

(1) the number of public utilities and projects proposed and approved under this section;

(2) the total cost of each project;

(3) rate impacts of the cost recovery mechanism; and

(4) an assessment of the effectiveness of the cost recovery mechanism in realizing increased natural gas service to unserved or inadequately served areas from natural gas extension projects.

History: *1Sp2015 c 1 art 3 s 20*

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/M-18-182	☐Nonpublic ☒Public
Requested From:	Minnesota Energy Resources	Date of Request: March 19, 2018
Type of Inquiry:	General	Response Due: March 29, 2018

Requested by: Adam Heinen
Email Address(es): adam.heinen@state.mn.us
Phone Number(s): 651-539-1825

Request Number: **2**
Topic: NGEP Cost Recovery
Reference(s): Initial Filing, Exhibit B

Request:

Please provide the above reference in Microsoft Excel format with all links and formulae intact. As part of this response, please provide any, and all, supporting data and information used to construct this reference.

If this information has already been provided in initial petition or in response to an earlier Department-DER information request, please identify the specific cite(s) or Department-DER information request number(s).

MERC Response:

See Attachment_DOC_2.xlsx, Attachment_DOC_2_Gate_Station.xlsx, and Attachment_DOC_2_Pipeline.xlsx. Attachment_DOC_2_Gate_Station.xlsx and Attachment_DOC_2_Pipeline.xlsx provide MERC's proposal in the 2018 test year in Docket No. G011/GR-17-563.

See also MERC's response to Department Information Request No. 6 and Attachment_DOC_6_Gate_Station.xlsx and Attachment_DOC_6_Pipeline.xlsx, which calculate MERC's proposed 2019 revenue requirement.

To be completed by responder

Response Date: March 29, 2018
Response by: Stacey Ainsworth
Email Address: SMAinsworth@integrysgroup.com
Phone Number: (920) 433-1537

Minnesota Energy Resources Corporation **Docket G011/M-18-____**
2019 Natural Gas Expansion Program ("NGEP") Rider Calculation **Exhibit B**

Line	Description	Reference	2018 Rate Case	2019 Forecast	Forecasted 2019 NGEP Rider
1	Expenses	O&M, Depreciation Expense, and Property Taxes	142,754	781,731	638,977
2					
3	Rate Base	13-Month Average Net Plant Value	13,496,355	23,633,985	10,137,630
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%	6.8842%	
5	Gross Revenue Conversion Factor	Commission Authorized 2016 Rate Case1			1.402
6	Earnings on Rate Base				697,895
7	Return on Rate Base	Line 3 x Line 4 x Line 5			978,448
8					
9	**Total Revenue Requirement**	**Line 1 + Line 7**			**1,617,425**
10					
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case			$ 297,561
12					
13	**Project Revenue Deficiency**	**Line 9 less line 11**			**1,319,864**
14					
15	**Total Therms**				**877,001,389**
16					
17	**Per therm Increase**	**Line 13 / Line 15**			**$ 0.00150**
18					
19	Average use per Residential Customer	2016 Rate Case Sales Forecast			867
20	Average annual cost increase to Residential Customer	Line 17 x Line 19			$ 1.30
21					
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast			1,015
23	Average annual cost increase to GS Small C&I Customer	Line 17 x Line 22			$ 1.53
24					
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast			8,633
26	Average annual cost increase to GS Large C&I Customer	Line 17 x Line 25			$ 12.99
27					
28	Average use per Small Volume Interruptible Customer	2016 Rate Case Sales Forecast			100,593
29	Average annual cost increase to Small Volume Interruptible Customer	Line 17 x Line 28			$ 151.39
30					
31	Average use per Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			667,768
32	Average annual cost increase to Large Volume Interruptible Customer	Line 17 x Line 31			$ 1,004.97
33					
34	Average use per Super Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			11,193,727
35	Average annual cost increase to Super Large Volume Interruptible Customer	Line 17 x Line 34			$ 16,846.27

[1] Gross revenue conversion factor is based on the Commission-authorized 2016 factor adjusted for the new tax rates per the 2017 TCJA

Rate Case Revenue Requirement on Rochester Gate Station Project

Line	Description	Reference	2018
1	Expenses	O&M, Depreciation Expense, and Property Taxes	105,795
2			
3	Rate Base	13-Month Average Net Plant Value	1,473,502
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%
5	Gross Revenue Conversion Factor	Commission Authorized 2016 Rate Case[1]	1.402
6	Earnings on Rate Base	Line 3 x Line 4	101,439
7	Return on Rate Base	Line 3 x Line 4 x Line 5	142,217
8			
9	**Total Revenue Requirement**	**Line 1 + Line 6**	**248,012**
10			
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case	
12			
13	**Project Revenue Deficiency**	**Line 8 less line 10**	**248,012**
14			
15	**Total Therms**		**875,136,679**
16			
17	**Per therm Increase**	**Line 12 / Line 14**	**$ 0.00028**
18			
19	Average use per Residential Customer	2018 Rate Case Sales Forecast	867
20	Average annual cost increase to Residential Customer	Line 16 x Line 18	$ 0.25
21			
22	Average use per General Service Small C&I Customer	2018 Rate Case Sales Forecast	1,015
23	Average annual cost increase to GS Small C&I Customer	Line 16 x Line 21	$ 0.29
24			
25	Average use per General Service Large C&I Customer	2018 Rate Case Sales Forecast	8,633
26	Average annual cost increase to GS Large C&I Customer	Line 16 x Line 24	$ 2.45

[1] Gross revenue conversion factor is adjusted for tax reform based on commission authorized 2016 rate case income

Assumptions

1 Gate Station construction expenditures go into service as spent.
2 Assumes a 20 year life based on current Distribution Assets at MERC (Plant Account 379)
3 Sales are based off of MERC's 2018 filed rate case data in Docket No. G011/GR-17-563.
4 Assumes no AFUDC, but a return on CWIP in Rate Base
5 Does not assume any Destination Medical Center CIAC
6 The project revenue deficiency is treated as a Distribution Cost and allocated on a Demand basis per the Class Cost of Service filed by MERC in Docket No. G011/GR-15-736

Rate Case Revenue Requirement on Rochester Pipeline Strategy Project Phase 2

Line	Description	Reference		2018
1	Expenses	O&M, Depreciation Expense, and Property Taxes		36,959
2				
3	Rate Base	13-Month Average Net Plant Value		12,022,852
4	Rate of Return	Commission Authorized 2016 Rate Case		6.8842%
5	Gross Revenue Conversion Factor	Commission Authorized 2016 Rate Case[1]		1.402
6	Earnings on Rate Base	Line 3 x Line 4		827,677
7	Return on Rate Base	Line 3 x Line 4 x Line 5		1,160,403
8				
9	**Total Revenue Requirement**	**Line 1 + Line 6**		**1,197,363**
10				
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case		
12				
13	**Project Revenue Deficiency**	**Line 8 less line 10**		**1,197,363**
14				
15	**Total Therms**			**875,136,679**
16				
17	**Per therm Increase**	**Line 12 / Line 14**	**$**	**0.00137**
18				
19	Average use per Residential Customer	2016 Rate Case Sales Forecast		867
20	Average annual cost increase to Residential Customer	Line 16 x Line 18	$	1.19
21				
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast		1,015
23	Average annual cost increase to GS Small C&I Customer	Line 16 x Line 21	$	1.39
24				
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast		8,633
26	Average annual cost increase to GS Large C&I Customer	Line 16 x Line 24	$	11.81

[1] Gross revenue conversion factor is adjusted for tax reform based on commission authorized 2016 rate case income

Assumptions

1 Rochester Pipeline Strategy construction expenditures in service November 2018 and as spent for future periods.
2 Assumes a 20 year life based on current Distribtion Assets at MERC (Plant Account 376)
3 Sales are based off of MERC's 2014 filed rate case data in Docket No. G011/GR-15-736.
4 Assumes no AFUDC, but a return on CWIP in Rate Base
5 Does not assume any Destination Medical Center CIAC
6 The project revenue deficiency is treated as a Distribution Cost and allocated on a Demand basis per the Class Cost of Service filed by MERC in Docket No. G011/GR-15-736

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/M-18-182	☐Nonpublic ☒Public
Requested From:	Minnesota Energy Resources	Date of Request: March 19, 2018
Type of Inquiry:	General	Response Due: March 29, 2018

Requested by: Adam Heinen
Email Address(es): adam.heinen@state.mn.us
Phone Number(s): 651-539-1825

Request Number: **6**
Topic: NGEP Cost Recovery
Reference(s): Docket No. G011/M-15-895, Appendix D

Request:

Please provide the above reference updated with the most recent actual information and updated with any, and all, inputs inclusive of new assumptions (*e.g.,* tax rates, rate of return). Please provide the above reference in Microsoft Excel format with all links and formulae intact.

If this information has already been provided in initial petition or in response to an earlier Department-DER information request, please identify the specific cite(s) or Department-DER information request number(s).

MERC Response:

Please see Attachment_DOC_6_Gate_Station.xlsx and Attachment_DOC_6_Pipeline.xlsx which include the actuals through 2017 into the revenue requirement model. Appendix D as filed in Docket No. G011/M-15-895 was split into two categories for depreciation purposes.

To be completed by responder

Response Date: March 29, 2018
Response by: Stacey Ainsworth
Email Address: SMAinsworth@integrysgroup.com
Phone Number: (920) 433-1537

2018 Budget Revenue Requirement on Rochester Gate Station Project

Line	Description	Reference	2019
1	Expenses	O&M, Depreciation Expense, and Property Taxes	58,596
2			
3	Rate Base	13-Month Average Net Plant Value	2,443,325
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%
5	Gross Revenue Conversion Factor	2018 Rate Case Adjusted for Tax Reform	1.402
6	Earnings on Rate Base	Line 3 x Line 4	168,203
7	Return on Rate Base	Line 3 x Line 4 x Line 5	235,821
8			
9	**Total Revenue Requirement**	**Line 1 + Line 7**	**294,417**
10			
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case	$ 297,561
12			
13	**Project Revenue Deficiency**	**Line 9 less line 11**	**(3,144)**
14			
15	**Total Therms**		**877,001,389**
16			
17	**Per therm Increase**	**Line 13 / Line 15**	**$ (0.00000)**
18			
19	Average use per Residential Customer	2016 Rate Case Sales Forecast	867
20	Average annual cost increase to Residential Customer	Line 17 x Line 19	$ (0.00)
21			
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast	1,015
23	Average annual cost increase to GS Small C&I Customer	Line 17 x Line 22	$ (0.00)
24			
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast	8,633
26	Average annual cost increase to GS Large C&I Customer	Line 17 x Line 25	$ (0.03)
27			
28	Average use per General Service Small Volume Interruptible	2016 Rate Case Sales Forecast	100,665
29	Average annual cost increase to Small Volume Interruptible	Line 17 x Line 28	$ (0.36)
30			
31	Average use per General Service Large Volume Interruptible	2016 Rate Case Sales Forecast	668,259
32	Average annual cost increase to Large Volume Interruptible	Line 17 x Line 31	$ (2.40)
33			
34	Average use per General Service Super Large Volume	2016 Rate Case Sales Forecast	11,202,000
35	Average annual cost increase to Super Large Volume	Line 17 x Line 34	$ (40.16)

Assumptions

1. Gate Station construction expenditures go into service July 2018
2. Assumes a 20 year life based on current Distribution Assets at MERC (Plant Account 379)
3. Sales are based off of MERC's 2018 filed rate case data in Docket No. G011/GR-17-563.
4. Assumes no AFUDC, but a return on CWIP in Rate Base
5. Does not assume any Destination Medical Center CIAC
6. The project revenue deficiency is treated as a Distribution Cost and allocated on a Demand basis per the Class Cost of Service filed by MERC in Docket No. G011/GR-15-736

2018 Budget Revenue Requirement on Rochester Gate Station Project

Line	Description	Reference	2019
1	Expenses	O&M, Depreciation Expense, and Property Taxes	723,135
2			
3	Rate Base	13-Month Average Net Plant Value	21,190,660
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%
5	Gross Revenue Conversion Factor	2018 Rate Case Adjusted for Tax Reform	1.402
6	Earnings on Rate Base	Line 3 x Line 4	1,458,807
7	Return on Rate Base	Line 3 x Line 4 x Line 5	2,045,248
8			
9	**Total Revenue Requirement**	**Line 1 + Line 6**	**2,768,383**
10			
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case	$ 297,561
12			
13	**Project Revenue Deficiency**	**Line 8 less line 10**	**2,470,822**
14			
15	**Total Therms**		**877,001,389**
16			
17	**Per therm Increase**	**Line 12 / Line 14**	**$ 0.00282**
18			
19	Average use per Residential Customer	2016 Rate Case Sales Forecast	867
20	Average annual cost increase to Residential Customer	Line 17 x Line 19	$ 2.44
21			
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast	1,015
23	Average annual cost increase to GS Small C&I Customer	Line 17 x Line 22	$ 2.86
24			
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast	8,633
26	Average annual cost increase to GS Large C&I Customer	Line 17 x Line 25	$ 24.32
27			
28	Average use per General Service Small Volume Interruptible	2016 Rate Case Sales Forecast	100,665
29	Average annual cost increase to Small Volume Interruptible	Line 17 x Line 28	$ 283.61
30			
31	Average use per General Service Large Volume Interruptible	2016 Rate Case Sales Forecast	668,259
32	Average annual cost increase to Large Volume Interruptible	Line 17 x Line 31	$ 1,882.72
33			
34	Average use per General Service Super Large Volume	2016 Rate Case Sales Forecast	11,202,000
35	Average annual cost increase to Super Large Volume	Line 17 x Line 34	$ 31,559.99

Assumptions

1. Gate Station construction expenditures go into service July 2018
2. Assumes a 20 year life based on current Distribtion Assets at MERC (Plant Account 380)
3. Sales are based off of MERC's 2018 filed rate case data in Docket No. G011/GR-17-563.
4. Assumes no AFUDC, but a return on CWIP in Rate Base
5. Does not assume any Destination Medical Center CIAC
6. The project revenue deficiency is treated as a Distribution Cost and allocated on a Demand basis per the Class Cost of Service filed by MERC in Docket No. G011/GR-15-736

PROJECT COST $44,006,606 inclusive of contingency of $7,341,321

Line	Description	Reference	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1	Expenses	O&M, Depreciation Expense, and Property Taxes	-	10,849	326,915	768,304	979,203	1,251,937	1,511,920	1,780,070	1,800,249	1,836,434
2												
3	Rate Base	13-Month Average Net Plant Value	654,600	3,671,377	12,345,351	19,627,585	24,561,162	29,911,809	34,799,033	36,776,603	34,982,907	33,270,369
4	Rate of Return	Commission Authorized 2014 Rate Case	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%	7.3048%
5	Gross Revenue Conversion Factor	Commission Authorized 2014 Rate Case	1.704	1.704	1.704	1.704	1.704	1.704	1.704	1.704	1.704	1.704
6	Return on Rate Base	Line 3 x Line 4 x Line 5	81,481	456,990	1,536,673	2,443,120	3,057,221	3,723,236	4,331,568	4,577,723	4,354,455	4,141,289
7												
8	**Total Revenue Requirement**	**Line 1 + Line 6**	**81,481**	**467,840**	**1,863,587**	**3,211,424**	**4,036,424**	**4,975,173**	**5,843,487**	**6,357,794**	**6,154,705**	**5,977,723**
9												
10	Offsetting Project Revenue	Based on Approved Rates from 2014 Rate Case		$ 266,802	$ 552,987	$ 851,875	$ 1,165,126	$ 1,501,592	$ 1,859,048	$ 2,232,429	$ 2,624,086	$ 3,032,047
11												
12	**Project Revenue Deficiecny**	**Line 8 less line 10**	**81,481**	**201,038**	**1,310,600**	**2,359,549**	**2,871,298**	**3,473,581**	**3,984,439**	**4,125,365**	**3,530,619**	**2,945,676**
13												
14	**Total Therms**		**745,849,128**	**747,519,098**	**750,504,204**	**753,265,183**	**757,517,695**	**759,307,188**	**762,722,660**	**766,178,504**	**771,045,676**	**772,968,498**
15												
16	**Per therm Increase**	**Line 12 / Line 14**	**$ 0.00011**	**$ 0.00027**	**$ 0.00175**	**$ 0.00313**	**$ 0.00379**	**$ 0.00457**	**$ 0.00522**	**$ 0.00538**	**$ 0.00458**	**$ 0.00381**
17												
18	Average use per Residential Customer	2016 Rate Case Sales Forecast	867	867	867	867	867	867	867	867	867	867
19	Average annual cost increase to Residential Customer	Line 16 x Line 18	$ 0.09	$ 0.23	$ 1.51	$ 2.72	$ 3.29	$ 3.97	$ 4.53	$ 4.67	$ 3.97	$ 3.30
20												
21	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast	1,015	1,015	1,015	1,015	1,015	1,015	1,015	1,015	1,015	1,015
22	Average annual cost increase to GS Small C&I Customer	Line 16 x Line 21	$ 0.11	$ 0.27	$ 1.77	$ 3.18	$ 3.85	$ 4.64	$ 5.30	$ 5.47	$ 4.65	$ 3.87
23												
24	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast	8,633	8,633	8,633	8,633	8,633	8,633	8,633	8,633	8,633	8,633
25	Average annual cost increase to GS Large C&I Customer	Line 16 x Line 24	$ 0.94	$ 2.32	$ 15.08	$ 27.04	$ 32.72	$ 39.49	$ 45.10	$ 46.48	$ 39.53	$ 32.90
26												
27												
28	**Rider Calculation**											
29	1/3 of Revenue Requirement	Line 12 / 3		$ 67,013	$ 436,867	$ 786,516	$ 957,099	$ 1,157,860	$ 1,328,146	$ 1,375,122	$ 1,176,873	$ 981,892
30	Per therm Rider	Line 29 / Line 14		$ 0.00009	$ 0.00058	$ 0.00104	$ 0.00126	$ 0.00152	$ 0.00174	$ 0.00179	$ 0.00153	$ 0.00127
31	Average annual cost increase to Residential Customer	Line 18 x Line 30		$ 0.08	$ 0.50	$ 0.91	$ 1.10	$ 1.32	$ 1.51	$ 1.56	$ 1.32	$ 1.10
32	Average annual cost increase to GS Small C&I Customer	Line 21 x Line 30		$ 0.09	$ 0.59	$ 1.06	$ 1.28	$ 1.55	$ 1.77	$ 1.82	$ 1.55	$ 1.29
33	Average annual cost increase to GS Large C&I Customer	Line 24 x Line 30		$ 0.77	$ 5.03	$ 9.01	$ 10.91	$ 13.16	$ 15.03	$ 15.49	$ 13.18	$ 10.97

Assumptions

1. Construction Expenditures go into service at the end of 2017, and then at the end of each year following.
2. Assumes a 50 year life based on current Transmission Assets at MERC (Plant Account 367.1)
3. Assume $5,000 additional O&M in 2017, inflated 3% annually afterward.
4. Sales are based off of MERC's 2016 filed rate case data in Docket No. G011/GR-15-736.
5. Assumes no AFUDC, but a return on CWIP in Rate Base
6. Does not assume any Destination Medical Center CIAC
7. The project revenue deficiency is treated as a Transmission Costs and allocated on a Demand basis per the Class Cost of Service filed by MERC in Docket No. G011/GR-15-736

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/GR-17-563	☐Nonpublic ☒Public
Requested From:	MERC	Date of Request: February 15, 2018
	Amber Lee	Response Due: February 28, 2018
Type of Inquiry:	Financial	

Requested by: Sachin Shah/Nancy Campbell
Email Address(es): sachin.shah@state.mn.us & nancy.coampbell@state.mn.us
Phone Number(s): 651-539-1834 & 651-539-1821

Request Number: **157**
Topic: Rochester Project
Reference(s): Minnesota Energy Resources Corporation (MERC or Company) October 13, 2017 Filing, Direct Testimony and Schedules of Amber S. Lee.

Request:

On pages 13-14 of her Direct Testimony, Ms. Lee stated the following:

> Q. WHAT ARE MERC'S CURRENT COST ESTIMATES TO COMPLETE THE ROCHESTER PROJECT?
> A. The table below provides MERC's cost estimates to complete the Project by year.

Table 2: Rochester Project Cost Estimates

Year	Cost	Activities
2014	$0.2 million	Initial environmental review and consultant contract
2015	$0.5 million	Regulatory review (Rider Petition and Route Permit)
2016	$1.5 million	Engineering and design for Rochester 1D TBS and begin survey/design for 16" and 12" pipelines.
2017	$4.8 million	Survey, easement acquisition, and construction of Rochester 1D TBS.

Continued on next page

To be completed by responder

Response Date: 3/7/2018
Response by: Amber Lee
Email Address: aslee@integrysgroup.com
Phone Number: 651-322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: G011/GR-17-563 ☐Nonpublic ☒Public
Requested From: MERC Date of Request: February 15, 2018
Amber Lee Response Due: February 28, 2018
Type of Inquiry: Financial

Requested by: Sachin Shah/Nancy Campbell
Email Address(es): sachin.shah@state.mn.us & nancy.coampbell@state.mn.us
Phone Number(s): 651-539-1834 & 651-539-1821

2018	$12.4 million	Survey, easement acquisition, construction of 5 miles of 16" from 1D TBS to new TBS.
2019	$4.1 million	Survey, engineering & design, and construction of new TBS
2020	$8.1 million	Survey, engineering & design, and construction of first segment of 12" pipe from Rochester #2 TBS to Rochester DRS 90.
2021	$6.2 million	Survey, engineering & design, and construction of second segment of 12" pipe from Rochester #2 TBS to Rochester DRS 90.
2022	$6.1 million	Survey, engineering & design, and construction of third segment of 12" pipe from Rochester #2 TBS to Rochester DRS 90 and construction of Rochester DRS 90.
2023	$0.08 million	Project close out
	$43.98 million	Total Costs

Q. WHAT COST RECOVERY DID THE COMMISSION APPROVE FOR THE ROCHESTER PROJECT?

A. The Commission granted MERC preapproval to recover Project costs of up to $44 million through the combination of an NGEP rider and base rates, with the understanding that the Company retains the burden in future rate proceedings to demonstrate that the project was implemented reasonably and prudently and to justify any alterations in the cost of the individual items that made up the total $44 million Phase II estimate.[2]

Continued on next page

To be completed by responder

Response Date: 3/7/2018
Response by: Amber Lee
Email Address: aslee@integrysgroup.com
Phone Number: 651-322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/GR-17-563	☐Nonpublic ☒Public
Requested From:	MERC Amber Lee	Date of Request: February 15, 2018 Response Due: February 28, 2018
Type of Inquiry:	Financial	

Requested by: Sachin Shah/Nancy Campbell
Email Address(es): sachin.shah@state.mn.us & nancy.coampbell@state.mn.us
Phone Number(s): 651-539-1834 & 651-539-1821

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2 *In the Matter of a Petition by Minnesota Energy Resources Corporation for Evaluation and Approval of Rider Recovery for its Rochester Natural Gas Extension Project*, Docket No. G011/M-15 895, ORDER APPROVING ROCHESTER PROJECT AND GRANTING RIDER RECOVERY WITH CONDITIONS at 18 (Order Point 2) (May 5, 2017).

a) Please explain and clarify if the amounts for years 2014 through 2016 as referenced in the table above are actual costs or "current cost estimates".

b) Please explain and clarify if the amount for year 2017 as referenced in the table above is actual cost and/or "current cost estimates".

c) Please update Table 2 with actual costs for 2014 to 2017, and explain any differences from current cost estimates.

d) Please explain and identify what Federal Energy Regulatory Commission (FERC) Accounts the costs shown in the table above are recorded to.

If all of the above information has already been provided in the application, written testimony or in response to an earlier Department information request (IR), please identify the specific testimony cite(s) or Department IR numbers(s).

To be completed by responder

Response Date: 3/7/2018
Response by: Amber Lee
Email Address: aslee@integrysgroup.com
Phone Number: 651-322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/GR-17-563	☐Nonpublic ☒Public
Requested From:	MERC Amber Lee	Date of Request: February 15, 2018 Response Due: February 28, 2018
Type of Inquiry:	Financial	

Requested by: Sachin Shah/Nancy Campbell
Email Address(es): sachin.shah@state.mn.us & nancy.coampbell@state.mn.us
Phone Number(s): 651-539-1834 & 651-539-1821

MERC Response

a) The costs referenced in the table for 2014-2016 are actual project costs that were rounded. The actuals have been included in the "Project Actuals" column below. Additional details for each year can be found in the ASL-2 submittal as part of DOC 154.

b) As the costs in the table above were filed in October 2017, the amount shown for 2017 included some project actuals as well as the latest available cost estimate at that time.

c) The 2017 cost of $4.8 million shown below includes project contingency. At the time of this filing, without contingency our 2017 estimate was $3.8 million. The total actual spend for 2017 was $3.486 million, as shown in the table below. The current cost estimate includes the actuals as outlined in the table below for 2014 to 2017 with project team estimates for the remaining years.

Year	Cost As Filed in Table 2	Project Actuals	Activities	Differences from Costs provided in Table 2 and Actuals
2014	$0.2 million	$0.185 million	Initial environmental review and consultant contract	The difference is a result of rounding.
2015	$0.5 million	$0.512 million	Regulatory review (Rider Petition and Route Permit)	The difference is a result of rounding.
2016	$1.5 million	$1.512 million	Engineering and design for Rochester 1D TBS and begin survey/design for 16" and 12" pipelines.	The difference is a result of rounding.
2017	$4.8 million	$3.483 million	Survey, easement acquisition, and construction of Rochester 1D TBS.	At the time Direct Testimony was prepared in this case, MERC only had actuals through part of 2017 and utilized estimates

To be completed by responder

Response Date: 3/7/2018
Response by: Amber Lee
Email Address: aslee@integrysgroup.com
Phone Number: 651-322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/GR-17-563	☐Nonpublic ☒Public
Requested From:	MERC	Date of Request: February 15, 2018
	Amber Lee	Response Due: February 28, 2018
Type of Inquiry:	Financial	

Requested by: Sachin Shah/Nancy Campbell
Email Address(es): sachin.shah@state.mn.us & nancy.coampbell@state.mn.us
Phone Number(s): 651-539-1834 & 651-539-1821

				for the remainder of 2017. Actuals through December 31, 2017 were lower than estimated and a portion of those costs were deferred to 2018.

d) The easement acquisition of $415,697 was recorded in FERC Account 365300-Transmission Land Rights/ROW. The remaining amounts were recorded in FERC Account 367000 Transmission Mains.

To be completed by responder

Response Date: 3/7/2018
Response by: Amber Lee
Email Address: aslee@integrysgroup.com
Phone Number: 651-322-8965

Calendar Sales			Jan 2017	Feb 2017	March 2017	April 2017	May 2017	Jun 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Total	
NNG-MERC			Not weathernomalized													
Residential Cal	Formula		26,000,093	22,206,194	18,239,760	10,607,285	5,431,159	1,946,498	1,255,394	1,476,169	3,850,777	10,208,310	16,918,328	25,198,185	143,338,152	
SC&I Cal	Formula		1,237,910	1,092,925	792,033	386,401	180,617	42,200	17,765	29,914	130,034	395,295	672,685	1,119,331	6,097,110	
LC&I Cal	Formula		12,235,209	10,658,828	8,469,256	5,155,156	2,938,288	1,455,034	1,227,650	1,296,129	2,239,376	4,693,711	7,414,478	10,976,844	68,759,959	
Joint Cal	Formula		23,595	23,290	20,096	14,935	11,710	7,407	4,214	4,320	5,738	9,585	10,299	15,294	150,483	
Interruptible Cal	Formula		3,933,660	3,031,828	2,554,266	1,852,999	1,294,408	872,966	712,500	1,087,261	1,007,025	1,935,999	2,866,013	3,743,932	24,892,857	
Transport Cal	Formula		44,818,265	43,288,447	41,728,175	38,892,020	37,001,762	35,746,307	35,527,781	35,650,030	36,555,942	38,919,875	41,391,196	44,455,053	473,974,853	
Company Use Cal	Formula		12,842	15,871	14,805	12,233	5,671	3,355	2,399	2,533	2,558	3,776	6,184	9,598	91,825	
Total NNG-MERC	Formula		88,261,574	80,317,383	71,818,391	56,921,029	46,863,615	40,073,767	38,747,703	39,546,356	43,791,450	56,166,551	69,279,183	85,518,237	717,305,239	717,305,239
Consolidated-MERC																
Residential Cal	Formula		4,540,601	3,902,708	3,224,564	1,947,811	1,018,357	289,229	50,922	137,671	695,136	1,848,124	2,975,339	4,396,960	25,027,422	
SC&I Cal	Formula		420,209	348,963	233,865	150,397	64,837	10,136	-250	7,434	53,138	148,310	242,196	406,953	2,086,188	
LC&I Cal	Formula		3,695,563	3,205,901	2,633,993	1,692,128	1,029,661	544,206	430,090	415,334	532,667	1,131,919	1,885,227	2,983,982	20,180,671	
Joint Cal	Formula		25,618	24,354	23,744	16,041	11,271	8,103	6,658	7,797	11,264	17,936	25,247	32,201	210,234	
Interruptible Cal	Formula		1,283,738	1,050,162	1,044,097	746,586	551,437	366,755	375,931	383,472	480,370	692,102	903,587	1,154,008	9,032,245	
Transport Cal	Formula		6,609,276	6,491,904	6,309,658	5,902,074	5,072,978	4,745,091	4,752,704	4,762,137	4,773,626	5,172,949	5,185,615	5,692,335	65,470,347	
Company Use Cal	Formula		22,211	22,906	21,036	16,919	13,182	9,837	7,792	7,366	8,158	11,009	14,781	19,573	174,770	
Total Consolidated-MERC	Formula		16,597,216	15,046,898	13,490,957	10,471,956	7,761,723	5,973,357	5,623,847	5,721,211	6,554,359	9,022,349	11,231,992	14,686,012	122,181,877	122,181,877
ABL-MERC			ABL Sales are not Indexed to the Report files. They are cut and paste.													
Residential Cal	Formula		1,599,027	1,305,489	1,026,102	586,143	289,191	96,220	69,920	83,197	204,587	519,210	863,077	1,362,791	8,004,954	
SC&I Cal	Formula		26,991	22,030	17,689	10,632	5,924	2,780	2,102	2,234	4,270	9,680	15,359	22,299	141,990	
LC&I Cal	Formula		417,276	356,462	332,232	306,250	289,898	279,163	276,897	277,404	284,255	302,848	322,279	346,424	3,791,388	
Joint Cal																
Interruptible Cal	Formula		394,857	339,364	291,738	214,914	163,774	129,644	122,286	123,776	145,388	204,167	265,612	341,976	2,737,496	
Transport Cal	Formula		206,752	194,604	186,472	175,530	168,444	163,788	162,776	162,969	165,868	173,755	182,000	192,247	2,135,205	
Company Use Cal															0	
Total ABL-MERC	Formula		2,644,903	2,217,949	1,854,233	1,293,469	917,231	671,595	633,981	649,580	804,368	1,209,660	1,648,327	2,265,737	16,811,033	16,811,033
Total-MERC																
Residential Cal	Formula		32,139,721	27,414,391	22,490,426	13,141,239	6,738,707	2,331,947	1,376,236	1,697,037	4,750,500	12,575,644	20,756,744	30,957,936	176,370,528	
SC&I Cal	Formula		1,685,110	1,463,918	1,043,587	547,430	251,378	55,116	19,617	39,582	187,442	553,285	930,240	1,548,583	8,325,288	
LC&I Cal	Formula		16,348,048	14,221,191	11,435,481	7,153,534	4,257,847	2,278,403	1,934,637	1,988,867	3,056,298	6,128,478	9,621,984	14,307,250	92,732,018	
Joint Cal	Formula		49,213	47,644	43,840	30,976	22,981	15,510	10,872	12,117	17,002	27,521	35,546	47,495	360,717	
Interruptible Cal	Formula		5,612,255	4,421,354	3,890,101	2,814,499	2,009,619	1,369,365	1,210,717	1,594,509	1,632,783	2,832,268	4,035,212	5,239,916	36,662,598	
Transport Cal	Formula		51,634,293	49,974,955	48,224,305	44,969,624	42,243,184	40,655,186	40,443,261	40,575,136	41,495,436	44,266,579	46,758,811	50,339,635	541,580,405	
Company Use Cal	Formula		35,053	38,777	35,841	29,152	18,853	13,192	10,191	9,899	10,716	14,785	20,965	29,171	266,595	
Total-MERC Calendar Sales	Formula		107,503,693	97,582,230	87,163,581	68,686,454	55,542,569	46,718,719	45,005,531	45,917,147	51,150,177	66,398,560	82,159,502	102,469,986	856,298,149	856,298,149
Total MERC Losses (2.00%)		2.00%	2,150,074	1,951,645	1,743,272	1,373,729	1,110,851	934,374	900,111	918,343	1,023,004	1,327,971	1,643,190	2,049,400	17,125,964	17,125,964
Total MERC Inc. Compuse,Transp and losses			109,653,767	99,533,875	88,906,853	70,060,183	56,653,420	47,653,093	45,905,642	46,835,490	52,173,181	67,726,531	83,802,692	104,519,386	873,424,113	873,424,113
Test to verify Billed + Unbilled = Calendar Sales	Check		107,503,693	97,582,230	87,163,581	68,686,454	55,542,569	46,718,719	45,005,531	45,917,147	51,150,177	66,398,560	82,159,502	102,469,986	856,298,149	856,298,149
			0	0	0	0	0	0	0	0	0	0	0	0	0	0

UnBilled Sales

Calendar Sales	Jan 2018	Feb 2018	March 2018	April 2018	May 2018	Jun 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Total	
NNG-MERC														
Residential Cal	28,219,537	23,624,806	19,143,160	11,154,019	5,764,002	2,140,212	1,375,058	1,553,140	3,910,152	10,293,562	17,000,508	25,316,298	149,494,454	
SC&I Cal	1,396,584	1,210,864	876,111	442,002	218,045	66,972	35,190	42,721	141,383	409,343	690,108	1,143,550	6,672,873	
LC&I Cal	12,239,829	10,365,237	8,513,619	5,194,152	2,957,631	1,452,322	1,135,387	1,208,988	2,184,140	4,829,311	7,593,660	11,028,681	68,702,957	
Joint Cal	23,595	23,290	20,096	14,935	11,710	7,407	4,214	4,320	5,738	9,585	10,299	15,294	150,483	
Interruptible Cal	3,893,752	3,328,925	2,816,348	1,899,856	1,282,492	867,042	779,458	799,653	1,068,516	1,797,944	2,560,253	3,507,520	24,601,759	
Transport Cal	45,613,507	44,042,409	42,495,996	39,667,547	37,782,637	36,533,765	36,324,724	36,460,479	37,382,702	39,760,011	42,234,324	45,286,699	483,584,800	
Company Use Cal	13,555	15,138	13,736	10,910	5,666	3,355	2,325	2,348	2,541	4,052	6,697	10,392	90,715	
Total NNG-MERC	91,400,359	82,610,669	73,879,066	58,383,421	48,022,183	41,071,075	39,656,356	40,071,649	44,695,172	57,103,808	70,095,849	86,308,434	733,298,041	733,298,041
Consolidated-MERC														
Residential Cal	4,920,994	4,102,045	3,397,862	2,051,429	1,086,269	330,296	76,306	154,929	706,161	1,871,038	2,995,651	4,419,698	26,112,678	
SC&I Cal	453,045	373,912	306,239	178,058	86,077	13,988	-10,380	-3,056	49,328	160,274	267,533	403,459	2,278,477	
LC&I Cal	3,613,370	3,160,215	2,608,599	1,678,013	1,021,815	539,846	427,666	413,986	531,918	1,131,503	1,884,995	2,983,853	19,995,779	
Joint Cal	36,906	32,613	28,737	20,454	14,471	9,737	8,157	8,661	12,160	19,556	26,671	35,680	253,803	
Interruptible Cal	1,326,829	1,161,370	1,018,878	746,586	551,437	398,689	347,389	363,226	474,288	708,772	934,825	1,220,731	9,253,020	
Transport Cal	6,734,624	6,618,240	6,440,033	6,038,815	5,216,458	4,894,119	4,905,565	4,916,995	4,928,636	5,326,977	5,338,394	5,844,123	67,202,979	
Company Use Cal	22,710	22,785	20,784	16,696	13,030	9,774	7,778	7,416	8,262	11,163	14,996	19,831	175,225	
Total Consolidated-MERC	17,108,478	15,471,180	13,821,132	10,730,051	7,989,557	6,196,449	5,762,481	5,862,157	6,710,753	9,229,283	11,463,065	14,927,375	125,271,961	125,271,961
ABL-MERC														
Residential Cal	1,596,398	1,325,287	1,060,966	605,399	298,269	93,540	54,586	65,693	197,057	549,602	922,427	1,407,490	8,176,714	
SC&I Cal	24,876	21,038	17,244	10,430	5,835	2,739	2,087	2,238	4,247	9,699	15,400	22,489	138,322	
LC&I Cal	355,139	341,872	328,807	305,445	289,709	279,119	276,887	277,401	284,255	302,848	322,279	346,424	3,710,185	
Joint Cal														
Interruptible Cal	369,537	327,573	286,247	212,357	162,584	129,089	122,028	123,656	145,332	204,141	265,599	341,970	2,690,113	
Transport Cal	195,945	190,314	184,769	174,855	168,176	163,681	162,734	162,952	165,861	173,752	181,999	192,246	2,117,284	
Company Use Cal													0	
Total ABL-MERC	2,541,895	2,206,084	1,878,033	1,308,486	924,573	668,168	618,322	631,940	796,752	1,240,042	1,707,704	2,310,619	16,832,618	16,832,618
Total-MERC														
Residential Cal	34,736,929	29,052,138	23,601,988	13,810,847	7,148,540	2,564,048	1,505,950	1,773,762	4,813,370	12,714,202	20,918,586	31,143,486	183,783,846	
SC&I Cal	1,874,505	1,605,814	1,199,594	630,490	309,957	83,699	26,897	41,903	194,958	579,316	973,041	1,569,498	9,089,672	
LC&I Cal	16,208,338	13,867,324	11,451,025	7,177,610	4,269,155	2,271,287	1,839,940	1,900,375	3,000,313	6,263,662	9,800,934	14,358,958	92,408,921	
Joint Cal	60,501	55,903	48,833	35,389	26,181	17,144	12,371	12,981	17,898	29,141	36,970	50,974	404,286	
Interruptible Cal	5,590,118	4,817,868	4,121,473	2,858,799	1,996,513	1,394,820	1,248,875	1,286,535	1,688,136	2,710,857	3,760,677	5,070,221	36,544,892	
Transport Cal	52,544,076	50,850,963	49,120,798	45,881,217	43,167,271	41,591,565	41,393,023	41,540,426	42,477,199	45,260,740	47,754,717	51,323,068	552,905,063	
Company Use Cal	36,265	37,923	34,520	27,606	18,696	13,129	10,103	9,764	10,803	15,215	21,693	30,223	265,940	
Total-MERC Calendar Sales	111,050,732	100,287,933	89,578,231	70,421,958	56,936,313	47,935,692	46,037,159	46,565,746	52,202,677	67,573,133	83,266,618	103,546,428	875,402,620	875,402,620
Total MERC Losses (2.00%)	2,221,015	2,005,759	1,791,565	1,408,439	1,138,726	958,714	920,743	931,315	1,044,054	1,351,463	1,665,332	2,070,929	17,508,052	17,508,054
Total MERC Inc. Compuse,Transp and losses	113,271,747	102,293,692	91,369,796	71,830,397	58,075,039	48,894,406	46,957,902	47,497,061	53,246,731	68,924,596	84,931,950	105,617,357	892,910,672	892,910,674
Test to verify Billed + Unbilled = Calendar Sales	111,050,732	100,287,933	89,578,231	70,421,958	56,936,313	47,935,692	46,037,159	46,565,746	52,202,677	67,573,133	83,266,618	103,546,428	875,402,620	875,402,620
	0	0	0	0	0	0	0	0	0	0	0	0	0	122,055,654
														753,346,966

UnBilled Sales

DWClabots 02/26/2016

Calendar Sales	Jan 2019	Feb 2019	March 2019	April 2019	May 2019	Jun 2019	July 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Total	
NNG-MERC														
Residential Cal	28,338,784	23,756,141	19,260,396	11,222,605	5,802,348	2,154,526	1,384,996	1,563,770	3,933,545	10,360,083	17,096,076	25,462,650	150,335,920	
SC&I Cal	1,424,442	1,234,108	892,519	450,329	222,244	68,475	36,046	43,591	143,650	415,415	699,986	1,159,439	6,790,244	
LC&I Cal	12,268,492	10,381,086	8,522,383	5,198,998	2,960,311	1,453,804	1,136,206	1,209,441	2,184,390	4,829,450	7,593,737	11,028,723	68,767,021	
Joint Cal	23,595	23,290	20,096	14,935	11,710	7,407	4,214	4,320	5,738	9,585	10,299	15,294	150,483	
Interruptible Cal	3,849,418	3,328,925	2,816,348	1,899,856	1,282,492	867,042	779,458	799,653	1,068,516	1,797,944	2,560,253	3,507,520	24,557,425	
Transport Cal	46,426,095	44,840,013	43,288,183	40,459,643	38,572,054	37,311,506	37,080,265	37,183,092	38,064,805	40,400,965	42,841,918	45,872,762	492,341,301	
Company Use Cal	13,968	14,715	13,119	10,146	5,663	3,355	2,282	2,241	2,531	4,211	6,993	10,851	90,075	
Total NNG-MERC	92,344,794	83,578,278	74,813,044	59,256,512	48,856,822	41,866,115	40,423,467	40,806,108	45,403,175	57,817,653	70,809,262	87,057,239	743,032,469	743,032,469
Consolidated-MERC														
Residential Cal	4,951,162	4,130,654	3,423,738	2,068,156	1,095,603	333,320	77,088	156,400	712,709	1,888,516	3,023,868	4,461,570	26,322,784	
SC&I Cal	454,330	376,201	308,808	179,395	86,490	13,630	-10,883	-3,315	49,888	162,379	271,035	408,642	2,296,600	
LC&I Cal	3,613,298	3,160,175	2,608,577	1,678,001	1,021,808	539,842	427,664	413,985	531,918	1,131,502	1,884,995	2,983,853	19,995,618	
Joint Cal	38,976	33,649	29,056	20,366	14,144	9,260	7,595	8,063	11,555	18,966	26,113	35,159	252,902	
Interruptible Cal	1,326,829	1,161,370	1,018,878	746,586	551,437	398,689	347,389	363,226	474,288	708,772	934,825	1,220,731	9,253,020	
Transport Cal	6,885,148	6,766,533	6,584,516	6,177,959	5,349,296	5,020,026	5,023,778	5,026,326	5,028,256	5,417,049	5,420,512	5,920,435	68,619,834	
Company Use Cal	22,981	23,092	21,120	17,026	13,343	10,072	8,060	7,680	8,508	11,390	15,203	20,019	178,494	
Total Consolidated-MERC	17,292,724	15,651,674	13,994,693	10,887,489	8,132,121	6,324,839	5,880,691	5,972,365	6,817,122	9,338,574	11,576,551	15,050,409	126,919,252	126,919,252
ABL-MERC														
Residential Cal	1,597,957	1,332,665	1,072,224	611,535	301,127	92,802	50,114	60,583	195,102	558,949	940,521	1,421,090	8,234,669	
SC&I Cal	25,054	21,167	17,338	10,482	5,862	2,751	2,096	2,248	4,264	9,737	15,461	22,576	139,036	
LC&I Cal	355,139	341,872	328,807	305,445	289,709	279,119	276,887	277,401	284,255	302,848	322,279	346,424	3,710,185	
Joint Cal														
Interruptible Cal	369,535	327,571	286,246	212,357	162,584	129,089	122,028	123,656	145,332	204,141	265,599	341,970	2,690,108	
Transport Cal	195,945	190,314	184,769	174,855	168,176	163,681	162,734	162,952	165,861	173,752	181,999	192,246	2,117,284	
Company Use Cal													0	
Total ABL-MERC	2,543,630	2,213,589	1,889,384	1,314,674	927,458	667,442	613,859	626,840	794,814	1,249,427	1,725,859	2,324,306	16,891,282	16,891,282
Total-MERC														
Residential Cal	34,887,903	29,219,460	23,756,358	13,902,296	7,199,078	2,580,648	1,512,198	1,780,753	4,841,356	12,807,548	21,060,465	31,345,310	184,893,373	
SC&I Cal	1,903,826	1,631,476	1,218,665	640,206	314,596	84,856	27,259	42,524	197,802	587,531	986,482	1,590,657	9,225,880	
LC&I Cal	16,236,929	13,883,133	11,459,767	7,182,444	4,271,828	2,272,765	1,840,757	1,900,827	3,000,563	6,263,800	9,801,011	14,359,000	92,472,824	
Joint Cal	62,571	56,939	49,152	35,301	25,854	16,667	11,809	12,383	17,293	28,551	36,412	50,453	403,385	
Interruptible Cal	5,545,782	4,817,866	4,121,472	2,858,799	1,996,513	1,394,820	1,248,875	1,286,535	1,688,136	2,710,857	3,760,677	5,070,221	36,500,553	
Transport Cal	53,507,188	51,796,860	50,057,468	46,812,457	44,089,526	42,495,213	42,266,777	42,372,370	43,258,922	45,991,766	48,444,429	51,985,443	563,078,419	
Company Use Cal	36,949	37,807	34,239	27,172	19,006	13,427	10,342	9,921	11,039	15,601	22,196	30,870	268,569	
Total-MERC Calendar Sales	112,181,148	101,443,541	90,697,121	71,458,675	57,916,401	48,858,396	46,918,017	47,405,313	53,015,111	68,405,654	84,111,672	104,431,954	886,843,003	886,843,003
Total MERC Losses (2.00%)	2,243,623	2,028,871	1,813,942	1,429,174	1,158,328	977,168	938,360	948,106	1,060,302	1,368,113	1,682,233	2,088,639	17,736,860	17,736,859
Total MERC Inc. Compuse,Transp and losses	114,424,771	103,472,412	92,511,063	72,887,849	59,074,729	49,835,564	47,856,377	48,353,419	54,075,413	69,773,767	85,793,905	106,520,593	904,579,863	904,579,862
Test to verify Billed + Unbilled = Calendar Sales	112,181,148	101,443,541	90,697,121	71,458,675	57,916,401	48,858,396	46,918,017	47,405,313	53,015,111	68,405,654	84,111,672	104,431,954	886,843,003	886,843,003
	0	0	0	0	0	0	0	0	0	0	0	0	0	122,055,654
														764,787,349
UnBilled Sales														764,518,780

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/M-18-182	☐Nonpublic ☒Public
Requested From:	Minnesota Energy Resources	Date of Request: March 19, 2018
Type of Inquiry:	General	Response Due: March 29, 2018

Requested by: Adam Heinen
Email Address(es): adam.heinen@state.mn.us
Phone Number(s): 651-539-1825

Request Number: **7**
Topic: NGEP Cost Recovery
Reference(s): Initial Filing, Page 10

Request:

In the above reference, MERC discusses Contribution-in-Aid-of-Construction (CIAC) and its relation to the Phase II expansion. Please provide the following:

A. In the event that the Rochester expansion were not approved, a detailed discussion of whether MERC would allow customer expansion and additions in the constrained area.
B. The number of CIAC related extensions, by rate class, constructed in the constrained area in 2016 and 2017.
C. CIAC related revenues, by rate class, constructed in the constrained area in 2016 and 2017.
D. The number of CIAC related extensions, by rate class, expected to be constructed in the constrained area in 2018 and 2019.
E. CIAC related revenues, by rate class, expected to be recovered in the constrained area in 2018 and 2019.

If this information has already been provided in initial petition or in response to an earlier Department-DER information request, please identify the specific cite(s) or Department-DER information request number(s).

MERC Response:

A. The Commission granted preapproval of MERC's proposed Phase II Rochester Natural Gas Expansion Project and Northern Natural Gas Upgrades in its May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions. As stated in the Rebuttal

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To be completed by responder

Response Date: March 29, 2018
Response by: Amber Lee
Email Address: ASLee@Integrysgroup.com
Phone Number: (651)322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: G011/M-18-182 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Date of Request: March 19, 2018
Type of Inquiry: General Response Due: March 29, 2018

Requested by: Adam Heinen
Email Address(es): adam.heinen@state.mn.us
Phone Number(s): 651-539-1825

Testimony of Amber Lee in that proceeding, if the Commission had not approved MERC's Rochester Natural Gas Expansion Project, MERC would likely have been unable to reliably serve existing firm customers in and around Rochester and would need to notify the City of Rochester and customers about the limitations on natural gas. In that scenario, MERC would have had to evaluate any new customer extension requests on a case-by-case basis but likely would not have been able to extend natural gas service to existing customers.

B. The table below provides the number of main extensions in Olmsted County and the communities of Kasson and Blooming Prairie located in Dodge County which MERC conducted a feasibility analysis to determine whether a contribution in aid of construction was required for the extension. This does not include individual customer service extensions.

	Residential	Small Vol. Commercial	Small Vol. Interruptible	Large Vol. Commercial	Lg. Vol. Commercial/Industrial & Residential	Lg. Vol. Interruptible Transport & Residential
2016 Main Extensions	18	2	2	8	1	1
2017 Main Extensions	22	3	0	6	1	0

C. The table below provides CIAC-related revenues for main extensions in Olmsted County and the communities of Kasson and Blooming Prairie located in Dodge County. As discussed in MERC's Initial Filing, customer CIACs are charged to cover the non-feasible portion of costs to construct main and service lines to connect new customers. These CIAC charges are not offsets to the total Rochester Natural Gas Extension Project as no customers connect directly to that project.

To be completed by responder

Response Date: March 29, 2018
Response by: Amber Lee
Email Address: ASLee@Integrysgroup.com
Phone Number: (651)322-8965

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number: G011/M-18-182 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Date of Request: March 19, 2018
Type of Inquiry: General Response Due: March 29, 2018

Requested by: Adam Heinen
Email Address(es): adam.heinen@state.mn.us
Phone Number(s): 651-539-1825

	Residential	Small Vol. Commercial	Small Vol. Interruptible	Large Vol. Commercial	Lg. Vol. Commercial/Industrial & Residential	Lg. Vol. Interruptible Transport & Residential
2016 CIAC paid	$5,543.61	$0	$0	$0	$0	$21,056.60
2017 CIAC paid	$19,796.41	$14,551.03	$0	$2,778.58	$0	$0

D. MERC would anticipate the number of customer extension requests in 2018 and 2019 to be in line with the number of requests received in 2016 and 2017 but will not know actual customer requests by rate class until such requests are made. MERC also will not know whether a contribution in aid of construction is required for an extension until the details of the extension are evaluated in MERC's extension feasibility model.

E. See response to Part D, above. MERC does not forecast customer extension requests or revenues to be collected from CIACs. The CIAC revenue required for each new customer extension would be determined based on each specific request. For a forecast of the additional margin revenue projected for sales growth in the Rochester area, see MERC's response to Department Information Request No. 8.

To be completed by responder

Response Date: March 29, 2018
Response by: Amber Lee
Email Address: ASLee@Integrysgroup.com
Phone Number: (651)322-8965

Minnesota Energy Resources Corporation
2019 Natural Gas Expansion Program ("NGEP") Rider Calculation

Docket G011/M-18-____
Exhibit B

Line	Description	Reference	2018 Rate Case	2019 Forecast	Forecasted 2019 NGEP Rider
1	Expenses	O&M, Depreciation Expense, and Property Taxes	123,441	716,221	592,780
2					
3	Rate Base	13-Month Average Net Plant Value	11,382,768	20,913,764	9,530,996
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%	6.8842%	
5	Gross Revenue Conversion Factor	Commission Authorized 2016 Rate Case1			1.402
6	Earnings on Rate Base				656,133
7	Return on Rate Base	Line 3 x Line 4 x Line 5			919,898
8					
9	**Total Revenue Requirement**	**Line 1 + Line 7**			**1,512,679**
10					
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case			$ 297,561
	CIAC Offset				$ 31,863
12					
13	**Project Revenue Deficiency**	**Line 9 less line 11**			**1,183,255**
14	**33 percent of project revenue deficiency**				**390,474**
15	**Total Therms**				**804,961,823**
16					
17	**Per therm Increase**	**Line 13 / Line 15**			**$ 0.00049**
18					
19	Average use per Residential Customer	2016 Rate Case Sales Forecast			867
20	Average annual cost increase to Residential Customer	Line 17 x Line 19			$ 0.42
21					
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast			1,015
23	Average annual cost increase to GS Small C&I Customer	Line 17 x Line 22			$ 0.49
24					
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast			8,633
26	Average annual cost increase to GS Large C&I Customer	Line 17 x Line 25			$ 4.19
27					
28	Average use per Small Volume Interruptible Customer	2016 Rate Case Sales Forecast			100,593
29	Average annual cost increase to Small Volume Interruptible Customer	Line 17 x Line 28			$ 48.80
30					
31	Average use per Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			667,768
32	Average annual cost increase to Large Volume Interruptible Customer	Line 17 x Line 31			$ 323.92
33					
34	Average use per Super Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			11,193,727
35	Average annual cost increase to Super Large Volume Interruptible Customer	Line 17 x Line 34			$ 5,429.90

[1] Gross revenue conversion factor is based on the Commission-authorized 2016 factor adjusted for the new tax rates per the 2017 TCJA

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/M-18-182

Dated this 29th day of May 2018

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-182_M-18-182
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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