April 17, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Additional Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-19-282

Dear Mr. Seuffert:

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

In the Matter of the Petition of Minnesota Energy Resources Corporation [MERC] for Approval of 2020 Gas Utility Infrastructure Cost [GUIC] Rider Revenue Requirement and Revised Surcharge Factor.

The Petition was filed on April 24, 2019 by:

Seth S. DeMerritt
Senior Project Specialist
2685 145th Street West
Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC's 2020 GUIC Rider with modifications.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ DOROTHY MORRISSEY
Financial Analyst

DM/ar

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G011/M-19-282

I. INTRODUCTION

The Minnesota Department of Commerce, Division of Energy Resources (Department) submits these Additional Response Comments for the limited purpose of revising certain Department recommendations made in previous comments and to comment on information provided by Minnesota Energy Resources Corporation (MERC or the Company) in its February 14, 2020 filed Additional Reply Comments. Specifically, these comments will discuss the following:

- the Department's withdrawal of its opposition to Minnesota Energy Resources Corporation's (MERC's or the Company) proposed Gas Utility Infrastructure Cost (GUIC) Rider rate design;
- the Department's recommended 2020 sales forecast to use in MERC's riders;
- MERC's proposed continuation of the GUIC rider in the event of a general rate case filing;
- MERC's inclusion of certain Excess Flow Valve project costs; and
- the Department's withdrawal of requiring vintage reporting of replaced Aldyl-A pipe in future true-up filings.

For all the remaining issues raised and discussed in prior comments, the Department maintains its position and recommendations.

II. RATE DESIGN

In our Initial and Response Comments, the Department recommended a rider rate design based upon the apportionment of revenue responsibility approved in MERC's most recent rate case, rather than continue the current "uniform rate for all classes" design.[1] MERC's Reply Comments agreed to discontinue use of its uniform rate design; however, the Company introduced and proposed use of a modified apportionment of revenue responsibility to address its concern that, without modification, some customers may be incented to change rate classes under which they are served. The Department noted that MERC proposed a similar rate design modification in its pending Natural Gas Extension Project (NGEP) Rider Petition, Docket No. G011/M-19-608.

[1] Department Initial Comments (issued August 23, 2019), pp. 23-24; Department Response Comments (issued January 24, 2020), pp. 19-20.

On February 14, 2020, MERC filed Additional Reply Comments, which further discussed its reasoning for a modified rate design, rather than adopting straight use of the latest Commission-approved revenue apportionment.[2]

The Department points out that, in general, the determination of rates for rider mechanisms typically follows the apportionment of revenue responsibility approved in the utility's most recent general rate case. The basis for this approach in developing a rider rate is to maintain any determined customer cost allocations, policy decisions and to maintain a resemblance to the base rate design in order to mitigate rate shock once rider-recovered assets and costs are rolled into base rates. However, in MERC's Additional Reply comments, the Company explained that the apportionment of revenue responsibility approved in the Company's last rate case is not consistent with an aspect of the base rate design that was implemented in that case, specifically for its non-residential customers (i.e., Firm Sales, Interruptible Sales and Transportation).[3]

MERC demonstrated that it is necessary for apportionment of revenue responsibility modifications to maintain the fundamentals of its base rate design to avoid sending inappropriate price signals. For example, should apportionment of revenue responsibility in the GUIC rider rate be based solely on the percentages derived from the apportionment of revenue responsibility from the rate case, firm sales customers would pay a higher differential than what currently exists between firm and interruptible sales and thus may be incented to move to interruptible service; that is, the overall price variance between these services would increase from $0.06404 to $0.07069 per therm, as shown in Table 1 below. Moreover, interruptible customers would not be paying their fair share per therm for these improvements. Whereas, MERC's proposed modified rider rate design would retain the existing per-therm price variance of $0.06404 that was established when base rates were developed.

TABLE 1

Customer Class	**Base Rate Distribution Charge (per therm)**	**GUIC Rider Charge (per therm) base upon: (using MERC proposed revenue requirement)**			
		Using Approved Revenue Apportionment		**MERC modification**	
		GUIC Rider rate	**Total $ per therm**	**GUIC Rider rate**	**Total per therm**
C&I Firm Sales - Class 2	$0.16857	$0.01139	$0.17996	$0.00997	$0.17854
C&I Interruptible Sales - Class 2	$0.10453	$0.00474	$0.10927	$0.00997	$0.11450
Difference	*$0.06404*		*$0.07069*		*$0.06404*

[2] MERC Additional Reply Comments (issued February 14, 2020), pp. 17-25.

[3] MERC Additional Reply Comments (February 14, 2020), p. 20. MERC's customer notice from its last general rate case (Docket No. G011/GR-17-563) provides a summary of how customer classes were changed and also summarizes each class's approved base rate charges.

The Department appreciates MERC's additional discussion and clarification on this issue. From MERC's explanation and reasoning, the Department agrees with MERC's rate design proposed in its Additional Reply Comments.

Absent these extenuating circumstances, the Department emphasizes that modifications to rate design or revenue apportionment between rate cases typically are actions that the Department does not support; doing so erodes the rate case process. However, after reviewing the Company's analysis in its Additional Reply Comments, the Department no longer opposes MERC's rate design proposal. The existing rate differentials between transportation and sales service, and between firm and interruptible classes, have been the result of a deliberate, iterative process over the past several years by MERC and regulators to arrive at rates that more accurately price natural gas service between these different service types. From its Additional Reply Comments, MERC has persuaded the Department that until its last-approved revenue apportionment is refreshed to align with MERC's restructured customer classification/rate design, modification to how its GUIC rider rate is determined is reasonable.

Consequently, to work toward resolving this misalignment, the Department now includes a new recommendation that, in MERC's next general rate case, the Company include in its direct testimony and schedules a proposed apportionment of revenue responsibility that fully aligns with its proposed customer rate classes and rate design.

III. 2020 SALES FORECAST

The Department noted inconsistent 2020 sales forecast provided by MERC when comparing this GUIC rider petition to MERC's NGEP Rider petition, Docket G011/M-19-608.[4,5] The Department requested MERC to address this issue in its Additional Reply Comments.

MERC acknowledged that the 2020 sales forecasts in its two separate cost recovery rider mechanisms did differ, but explained that the technique used to develop its 2020 sales forecast within each cost recovery mechanism was consistent with each rider's predecessor petition; that is, how MERC developed its 2020 GUIC Rider sales forecast was consistent with how it developed its 2019 GUIC Rider sales forecast.[6] MERC stated it would not object to using the 2020 sales forecast applied in its NGEP Docket No. G011/M-19-608.

The Department appreciates MERC's willingness to use consistent sales forecasts across its cost recovery mechanisms. In the NGEP docket, MERC noted in its Reply Comments that sales were much higher than expected since "growth in Rochester area sales has occurred at a faster pace than MERC

[4] MERC Reply Comments (issued September 17, 2019), p. 18.

[5] Docket No. G011/M-19-608, Exhibit B.

[6] MERC Additional Reply Comments (issued February 14, 2020), pp. 15-17.

had previously forecasted"[7] but indicated that actual 2019 sales were not available at that time. The Department subsequently asked for actual 2019 sales, which MERC provided, indicating that, in 2019, actual, non-weather-normalized sales were 890,000,000 therms, while weather-normalized sales were 870,000,000 therms. To account for the higher growth in Rochester sales and to use consistent sales forecasts across its cost recovery mechanisms, the Department recommends that the Commission require MERC to calculate the rider rate using 2019 actual, weather-normalized sales therms.[8]

IV. RATE CASE TREATMENT OF RIDER

Transferring cost recovery from a rider mechanism to base rates, and the timing for ceasing charging the rider rate can create issues if not thoughtfully dove-tailed to a general rate case filing. MERC's Reply Comments indicated that the Company is amenable to addressing any GUIC Rider true-up recovery through supplemental testimony, in its next general rate case filing.[9]

More recently, on page 24 of its Additional Reply comments, MERC proposed that, should it file a general rate case with a 2021 test year, and if the Commission does not approve implementation of a 2021 GUIC Rider rate on January 1, 2021, it requests that the Commission permit the existing GUIC Rider rate to continue being charged until the Commission authorizes a new GUIC rider rate. MERC's reasoning for this request is as follows:

> …consistent with the approach approved in Docket No. G011/M-18-281, in the event that the Commission does not approve implementation of MERC's 2021 GUIC rider rates (or interim rates in the event MERC files a 2021 test year rate case), on January 1, 2021, MERC proposes that the approved 2020 GUIC rider surcharge rates continue to be applied until the Commission authorizes implementation of new rates in order to ensure MERC is able to recover its annual revenue requirements on the approved GUIC-eligible projects.

The Department observes that MERC's use of infrastructure recovery riders is new since its last filed general rate case. The Department initially recommended that, when MERC files its next rate case, MERC should roll the costs of the in-service rider-recovered facilities into its rate case test year at the beginning of the rate case and terminate rider recovery; this method allows for recovery in the rider or the rate case, but not both, thus avoids double recovery concerns.

The Department agrees with MERC that the 2020 rider rate derivation will likely assume 12-months sales duration, as proposed. Even so, absent the once-anticipated fall 2019 MERC rate case filing, MERC's GUIC rider has continued to be charged since its initial implementation on May 1, 2019 (Docket

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[7] Docket No. G011/M-19-608, MERC Reply Comments (issued February 20, 2020), p. 4.

[8] Docket No. G011/M-19-608, Department Response Comments (issued April 17, 2020), pp. 5w-6.

[9] MERC's Reply Comments (issued September 17, 2019), pp. 25-26.

No. G011/M-18-281). Moreover, given the complexity of this rider, the number of major proceedings pending, as well as rate case filings anticipated in the near future, limited regulatory resources will continue to be stretched among competing filings in the foreseeable future.

The Department is not in favor of allowing the 2020 GUIC rate to continue indefinitely if the Company files a general rate case with a 2021 test year. The Department continues to recommend that MERC should roll the costs of the in-service GUIC rider recovered facilities into its 2021 rate case test year at the beginning of the rate case. And instead of terminating the 2020 GUIC Rider rate, the Department recommends an alternative to MERC's proposal, to direct that the rider rate continue through 2021, then be set to zero effective January 1, 2022.

This approach would allow the 2020 GUIC rider rate to be charged for a full 12 months, plus several months beyond, and in so doing, would allow for continual rider revenue recovery that could be applied towards any prior period under-collections. At the same time, this approach would also put into place some protection to mitigate against excessive over-collections; this recommended safeguard measure reasonably balances the Company's interests while providing ratepayer protections, in the event that MERC's general rate case and other major petitions interfere with more timely rider rate adjustments.

Thus, the Department recommends that MERC's 2020 GUIC rider rate be effective through December 31, 2021 and set to zero effective January 1, 2022.

V. EXCESS FLOW VALVE PROJECT ENGINEERING COSTS

In Reply Comments, MERC added its Excess Flow Valve (EFV) project and included cost recovery for its projected 2020 spend on these efforts.[10] In our Response Comments, the Department recommended exclusion of $63,450 of the project costs for engineering analysis, because unlike the other identified EFV project costs, this activity had not been specified that it would be performed by an external contractor.[11]

In its Additional Reply Comments, MERC clarified that the engineering analysis would be done by a third-party contractor if there is significant interest in having EFVs installed.[12] However, on page 14, MERC also "acknowledge[d] the uncertainty around the level of interest customers will have as a result of the EFV outreach efforts."

Given this response from MERC, the Department agrees that third-party engineering costs are eligible for recovery in the GUIC. However, given the uncertainties indicated in MERC's comments, which have subsequently become even more uncertain, it does not appear likely that all or perhaps any of these

[10] MERC Reply Comments (September 17, 2019), pp. 15-16.

[11] Department Response Comments (January 24, 2020), pp. 15-16

[12] MERC Additional Reply Comments (February 14, 2020), p. 14.

costs will be incurred. While the Department does not object to the inclusion of third party engineering analysis costs, to take into account the level of uncertainty as to these costs, a more reasonable estimate may be $31,725, or half of the original amount. Therefore, the Department concludes that $31,175 be included in the GUIC recovery rider for EFV engineering costs. This adjustment, spread over the five-year project timeframe, reduces MERC's requested third-party costs from $101,394[13] to $95,049.

VI. REPORTING OF REPLACED ALDYL-A PIPELINES[14]

The Department's Response Comments recommended reporting details, within the relevant year's true-up report, of MERC's replaced Aldyl-A pipeline replacement effort, specifically, to include information of the vintage and manufacturer of the pipe replaced.[15] The purpose of the information sought was to verify that MERC's use of ratepayer resources attends to the most at-risk pipelines in their system. MERC's Additional Reply Comments provided relevant industry publication references.[16] From the review of existing industry publications, which often identify specific manufactured products, we can compare the findings of known, problematic manufactured materials to MERC's targeted pipeline replacement plan. Publications such as PHMSA Advisory bulletins,[17] technical papers on product testing,[18] and California Public Utilities Commission report on Aldyl-A pipeline hazard analysis,[19] are helpful to corroborate utility pipeline replacement plans.

MERC's Additional Reply comments answered and stated that, per its records, the Aldyl-A mains on its system were manufactured by DuPont. Further, from the publication references MERC provided and the summary information on page 29 of its Additional Reply comments, MERC has satisfactorily shown that not all Aldyl-A pipe is problematic, rather it indicates that the later vintages of this product line do not have the same performance concerns as its predecessors. Therefore, the Department concludes that MERC's banded installation years of this particular pipe product line to be replaced, as provided in Tables 3 and 4 of its initial filing, appears reasonable. With the understanding that identification of the completed GUIC project work is necessary to execute a future rider true-up, the Department

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[13] MERC's Reply Comments, p. 16, stated "$101,384", which the Department believes should have read "$101,3**9**4", the result of 20% of $506,970.

[14] MERC Additional Reply Comments (February 14, 2020), pp. 26-29.

[15] Department Response Comments (January 24, 2020), pp. 13, 22.

[16] MERC Additional Reply Comments (February 14, 2020), p. 28.

[17] https://www.federalregister.gov/documents/2007/09/06/07-4309/pipeline-safety-updated-notification-of-the-susceptibility-to-premature-brittle-like-cracking-of

[18] https://www.aga.org/sites/default/files/legacy-assets/SiteCollectionDocuments/Committees/PlasticMaterials/100409Paper.pdf; and https://higherlogicdownload.s3.amazonaws.com/APGA/1151c1f6-49e1-4598-badd-127e33da42cd/UploadedImages/Ops%20&%20Safety/PPDC%20March%202016%20Status%20Report.pdf

[19] https://www.phmsa.dot.gpv/sites/phmsa.dot.gov/files/docs/technical-resources/pipeline/gas-distribution-integrity-management/66021/aldyla.pdf

withdraws its recommendation to require MERC to report the manufacturer and vintage of the Aldyl-A pipe replaced in its future true-up filings.[20]

VII. SUMMARY OF RECOMMENDATIONS

The Department recommends that the Commission approve MERC's 2020 GUIC Rider with the following modifications:

Incremental Cost Adjustment

- Require MERC to include a line item adjustment to its revenue requirement estimate to account for the cost recovery, built into its base rates, of the facilities removed, and expected to be removed from service as a result of its GUIC project work. Alternatively, if MERC cannot reasonably account for an estimated revenue requirement offset tied to its test year infrastructure replacement spend proposed to include in the rider recovery rate, then no cost amounts for unidentifiable test year project work should be included in developing the proposed GUIC Rider rate.

Right of Way (ROW) Project

- Determine that the estimated Right of Way (ROW) Project costs includable in the GUIC Rider are to be based on the known and identifiable ROW work planned to be in service in 2020.

- Direct MERC to take steps to improve its outreach efforts, capital improvement/public works planning meeting monitoring, and communication exchange with the jurisdictions in which its gas facilities are located, to strengthen stakeholder/community awareness/relations and increase proactive collaborative opportunities in effort to obtain more advance notice of potential ROW work it may need to undertake.

Obsolete Materials Replacement Project

- Set the estimated cost for the Obsolete Materials Project costs at $5 million, a $2 million reduction to MERC's proposed total estimate of $7 million.

2020 Stop Valve Survey Project Costs (a/k/a Meter Set Survey)

- Set the estimated cost for the Meter Stop Valve Survey project at $1.25 million, a $0.75 million reduction to MERC's proposed total estimate of $2 million.

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[20] MERC's Additional Reply Comments (February 14, 2020), pp. 26-29.

Excess Flow Valve Assessments

- Approve MERC's request to include recovery of Excess Flow Valve Assessment project costs incurred for third party contractor services in its GUIC Rider, specifically $95,049, which is one-fifth of its total estimated cost of $506,970 for this 5-year project reduced by $31,175 for one-half of the engineering costs in light of current uncertainties.

Revisions to Sales Forecast

- Use actual weather-normalized 2019 sales in setting the rider rate to account for increased growth in Rochester.

- Direct MERC to use the same 2020 sales forecast provided by the Company in its NGEP rider petition (Docket G011/M-19-608) when developing its 2020 GUIC Rider rates.

Rate Design

- Approve MERC's proposed GUIC rider rate design;

- Direct MERC to include in its next general rate case direct testimony and supporting schedules, to discuss the Company's proposed apportionment of revenue responsibility that fully aligns with its proposed customer rate classes and rate design.

Customer Communications

- Determine the extent of information MERC should include in its customer communication to either,
    (1) provide complete disclosure of the GUIC Rider rates by rate class, or
    (2) provide a focused rate change applicable to the customer under the class the customer is currently served.

- Determine that MERC's base rates already include cost recovery for customer bill messages and inserts, therefore no additional cost recovery should be added to the GUIC Rider for this activity.

Future Filing Requirements

- Require MERC to transparently disclose and report in its GUIC true-up filings any O&M expense recovery requested, but not expressly included in the original revenue requirements derivation of the test year being reconciled; the information reported at a minimum should (1) identify and discuss each expense, (2) include the account number, (3) provide the reasoning it is GUIC–eligible, (4) provide the cost amount included, (5) discuss how the requested recovery amount was determined, and (6) discuss whether this type of expense was included in base rates.

- Require MERC to report its Aldyl-A pipe replacement progress details in its annual true-up filings. The requested reporting details should include, by listed project site:
    (1) a locational description of the work completed,
    (2) the associated work order number(s),
    (3) the size of the Aldyl-A pipe mains replaced,
    (4) the size of replacement pipe installed,
    (5) footage of main replaced,
    (6) total costs net of embedded labor, vehicles, fuel, overhead, etc., and
    (7) total replacement costs.

- Require MERC to reflect the corrected revenue requirements model in any compliance and future GUIC filing schedules.

- Require MERC to include in the relevant future GUIC Rider filing a proposal to address the termination of the GUIC Statute.

- Require MERC to include in its next general rate case filing a discussion of its GUIC rider cost recovery transition to base rates (and requested interim rate) recovery.

- Direct MERC to roll in rider recovered facilities at the beginning of its next general rate case.

- Require MERC to reset the GUIC rider recovery rate to zero effective January 1, 2022, until directed to do otherwise in a future Commission Order.

/ar

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
Additional Response Comments

Docket No. G011/M-19-282

Dated this **17th** day of **April 2020**

/s/Sharon Ferguson

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