COMMERCE DEPARTMENT

November 30, 2018 **PUBLIC DOCUMENT**

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

RE: **Public Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-18-460

Dear Mr. Wolf:

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

Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a Tariff Revision and a New Area Surcharge for the Pengilly Project.

The Petition was filed on June 29th, 2018 by:

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation
2865 145th Street West
Rosemount, Minnesota 55068

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

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment

Before the Minnesota Public Utilities Commission

Public Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G011/M-18-460

I. BACKGROUND

On June 29, 2018, Minnesota Energy Resources Corporation (MERC or the Company) requested approval of a New Area Surcharge (NAS) for Pengilly, Minnesota (Pengilly, Project). On October 29, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) filed its initial Comments.

In its Comments, the Department requested that MERC explain the prudency of its costs and revenues in this docket as compared to those same costs and revenues in the previous Pengilly NAS proceeding, Docket No. G011/M-17-566 (17-566 docket). In addition, the Department asked the Company to explain its Revenue Deficiency approach for calculating the percentage of costs recovered from other ratepayers in an NAS project.

MERC explained in its Reply Comments that the current Project as proposed is prudent, noting that the number of potential customers is projected to increase by approximately 25 percent compared to its original proposal. MERC also stated that the Commission approved an NAS project that was similar in size and scope to its current proposal, the Balaton project, Docket No. G011/M-16-654.

MERC also provided additional information regarding its Revenue Deficiency approach for determining the percentage of costs recoverable through the Natural Gas Extension Policy (NGEP) statute.[1] Finally, the Company discussed why it preferred an accelerated recovery mechanism, including its argument that the administrative costs associated with the Department's approach would be burdensome and unnecessary given the materiality of the amounts involved.

[1] Minn. Stat. §216.1638

II. DEPARTMENT ANALYSIS

A. COMPARATIVE COSTS

The Department appreciates MERC's comparison of the Pengilly project's capital costs and number of customers to the same figure for the Balaton project. The Department developed comparison information for the five NAS projects MERC completed in **TRADE SECRET Table 1.**

TRADE SECRET Table 1 – Comparison of Capital Investment per Customers for MERC NAS Projects

Community	MERC Forecasted Capital Cost	Potential Number of Customers	Cost per Customer	Variance (%) from Average Cost
Pengilly – Proposed				
NGEP Requested				
Balaton				
Esko				
Sub-total				
Non-NGEP	**[TRADE SECRET DATA HAS BEEN EXCISED]**			
Detroit Lakes				
Ely Lake				
Fayal/Long Lake				
Sub-total				
Total				
Average				

The information in **TRADE SECRET Table 1** supports MERC's position. Specifically, the average cost per potential customer for Pengilly, while at the higher end of cost per potential customer, is not the **[TRADE SECRET DATA HAS BEEN EXCISED]** cost project of MERC's five existing NAS projects.

The Department also notes that the passage of the NGEP in 2015 is consistent with the Legislature's desire to provide natural gas to Minnesota residents living in Greater Minnesota. Approval of the Project would be supportive of that directive.

B. APPROPRIATE APPROACH FOR DETERMINING THE PERCENTAGE OF COSTS RECOVERED THROUGH THE NGEP

The Company explained its approach for calculating the percentage of the project's costs recovered through the NGEP using both the Project Cost and Revenue Deficiency approaches. MERC stated that the percentages assigned to the NGEP under the two approaches are [**TRADE SECRET DATA HAS BEEN EXCISED]** percent respectively. The Company also noted that the Department has taken issue with its Revenue Deficiency approach in Docket No. G011/M-18-182 (18-182 docket).[2]

MERC states in its Reply Comments that the amount proposed to be recovered under either approach is less than the 33 percent maximum allowed under statute. While the Department does not dispute this statement, we still recommend that the Commission determine that the appropriate method for calculating the percentage of costs that are allowed to be recovered via the NGEP is based upon the annual incremental revenue requirement or revenue deficiency approach if the Commission decides this docket before the 18-182 docket. The Department is concerned that while the approach used may not be an issue in this proceeding, MERC may use approval of the Pengilly Project as support for its position in the 18-182 docket.

C. CALCULATION OF NGEP RIDER SURCHARGE RECOVERY

MERC maintained its position in its Reply Comments that the NGEP costs associated with the Project should be recovered over one year. The Company also maintains that administrative costs and materiality support its position.

The Department continues to disagree with MERC's proposal. The NGEP provides an incentive to MERC by allowing rider recovery of a portion of the project's costs. However, MERC's proposal is inconsistent with ratemaking principles. Requiring current ratepayers to pay in one year for the costs of a project that will provide service over decades would unfairly assign costs of the project.

The Department also notes that MERC states that it would incur higher administrative costs due to recovering the costs allocated to the NGEP over a 48-year time period. However, since such recovery is consistent with how MERC recovers the costs of all facilities, MERC already recovers its administrative costs in base rates. The Department assumes that the NGEP-related costs included in the rider would be zeroed out in MERC's next general rate case and recovered in

[2] In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Natural Gas Extension Policy (NGEP) Cost Rider Surcharge for the Recovery of 2019 Rochester Project Costs.

base rates. MERC did not discuss this option in its Reply Comments. This approach would lower the Company's administrative costs significantly.

III. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission approve:

- MERC's proposed New Area Surcharges for the Pengilly Project,
- MERC's proposed NAS term of 25 years, and
- A 48-year recovery period for the costs allocated to the NGEP.

The Department also requests that the Commission determine that the appropriate method for calculating the percentage of costs that are allowed to be recovered via the NGEP is the annual incremental revenue requirement or revenue deficiency approach.

/ja

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
Public Response Comments

Docket No. G011/M-18-460

Dated this 30th day of November 2018

/s/Sharon Ferguson

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