Minnesota Public Utilities Commission
Addendum 3 to Staff Briefing Papers

Meeting Date: September 24, 2014 ....Agenda Item # 6

Company:	Minnesota Energy Resources Corporation (MERC or the Company)
Docket No.	G-011/GR-13-617 In the Matter of a Petition by Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota

Addendum 3 to Staff Briefing Papers

The purpose of this document is to clarify the difference between MERC, the Department and the OAG's positions on Travel and Entertainment (T&E) Expenses and what has been done in recent rate cases with respect to allocation of T&E Expenses.

MERC's Informational Requirement Document 14 provided a schedule of actual T&E expenses incurred in 2012. The Company provided this detailed schedule to support its actual expenses incurred in 2012.

Exhibit 1 represents the T&E Expenses the Company proposed to use in the 2014 test year totaling $284,725 as the Company originally filed.

Exhibit 1: MERC's 2014 Proposed Test Year Expense Summary as Originally Filed

Employees:	**Travel & Lodging**	**Corp Aircraft**	**Food & Beverage**	**Rec & Entertainment**	**Total Expense**
10 Highest Paid	$59,209	$956	$10,137	$276	
All Other	$158,593		$54,529	$1,025	
Total	$217,802	$956	$64,666	$1,301	**$284,725**

The Department examined the Company's expenses and recommended a reduction of $7,770 to Administrative and General (A&G) Expense for items that did not appear to be reasonably related to the Company's Minnesota regulated utility operations. Additionally, the Department recommended the $956 shown under Corporate Aircraft be disallowed. The Company agreed with both of the Department's recommendations. The ALJ agreed.

In its Direct Testimony, the Company stated that overall costs charged to MERC from Integrys Business Services (IBS) were allocated to MERC at 4.1% in 2012[1]. MERC did not provide supporting documentation or numbers to support the IBS allocated costs. These costs are disputed by the OAG in the rate case. The OAG recommended the Commission deny the IBS allocated costs because MERC did not provide documentation or explanations as to why these costs are reasonable to recover as required by Minnesota Statute § 216b.16, subd 17. The OAG suggested using MERC's expense of $284,725 as a proxy for the IBS allocated expenses because the Company did not provide the amount of allocated costs to any party.

The OAG additionally recommended MERC's test year T&E expense in the amount of $284,725 should be denied because the Company's documentation of the actual 2012 expenses failed to comply with Minnesota Statute § 216b.16, subd 17. The statute requires the Company to itemize T&E Expenses and justify the expenses are reasonable and necessary for the provision of utility service in Minnesota.

The OAG also recommended the Commission disallow MERC's membership dues for the American Gas Association ($56,352), The Chamber of Commerce ($3,397) and Edison Electric Institute ($3,496) in the amount of $63,245. The OAG stated that the T&E statute requires that dues and expenses for memberships in clubs be reported. MERC did not provide the information in its initial filing (Informational Requirement 14) of the rate case. MERC did provide the

[1] DeMerritt Direct, September 30, 2013, Pages 47-50

information in a response to an OAG information request, but did not identify the information along with its other T&E expenses in its initial filing.

The OAG stated that an additional reason to disallow recovery for the dues expenses is that the Company has not shown membership in these organizations is reasonable or necessary for the provision of utility services. The organizations are lobbying organizations which promote agendas that are not necessary for the provision of utility service. Edison Electric is a lobbying organization and there is no reason for a gas customer to pay for an organization that lobbies on behalf of electric utilities.

The OAG's proposed disallowance of T&E expenses is shown in Exhibit 2 and would result in a $632,695 adjustment to the Company's proposed test year A&G Expense.

Exhibit 2: OAG's Recommended Adjustment

Disallow Proxy Amount for IBS Allocation	$284,725
Disallow MERC Expenses	$284,725
Disallow Membership Dues	$63,245
Total OAG Adjustment	**$632,695**

Exhibit 3 provides a comparison of the Company, the Department and the OAG's positions.

Exhibit 3: Comparison of Party Positions

	MERC	**Department**	**OAG**
Disallow proxy for IBS Allocation	Disagree with OAG	No Position	$284,725
Disallow MERC Expenses	Disagree with OAG	No Position	$284,725
Disallow Membership Dues	Disagree with OAG	No Position	$63,245
Disallow Unreasonable Expense Items	Agree with Department	$7,770	No Position
Disallow Corporate Aircraft Expense	Agree with Department	$956	No Position

CenterPoint Energy, like MERC, allocates Travel & Entertainment expenses from its service company, CenterPoint Energy Service Company, LLC. In CenterPoint's last rate case (G008-/GR13-316) the allocation of expenses from the service company was not an issue. Some of the Company's direct T&E Expenses were disallowed due to lack of documentation and support of business purpose based on the OAG's recommendation. The Company agreed with the OAG's recommendation.

Otter Tail Power did not allocate any expenses from a service company in its last rate case (E017/GR-10-239) because these services are done in-house. The OAG recommended exclusion of T&E Expenses in that case because the Company did not comply with the statutory requirement to provide the business purpose of lodging, meal and travel expenses. However, the Commission determined that the required information was provided by the Company over the course of the rate case but disallowed certain expenses that were described as gifts.

T&E Expenses were not an issue in Xcel Energy's last rate case (E002/GR-12-961) and the interested parties did not address the issue. Like CenterPoint Energy and MERC, Xcel allocates costs to the Minnesota jurisdiction for T&E Expense from its service company, Xcel Business Service.