

March 15, 2017

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

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-16-87

Dear Mr. Wolf:

The Minnesota Department of Commerce (Department) responds to Minnesota Energy Resources Corporation's (MERC or the Company) Additional Reply Comments dated February 28, 2017 in the matter of MERC's *Petition for Approval of a Variance to Include Kansas Storage Tax Costs in the Purchased Gas Adjustment* in the docket referenced above.

On November 14, 2016, the Department provided a preliminary recommendation that the Minnesota Public Utilities Commission (Commission) approve MERC's Petition, pending the provision of additional information.

On December 8, 2016, MERC submitted Reply Comments responding to the Department's request for further information, and withdrawing its request for a variance to recover the ongoing Kansas ad valorem taxes attributable to the former Interstate Power and Light customers.

On February 23, 2017 the Department recommended that the Commission approve MERC's Petition as modified by the Company's Reply Comments.

On February 28, 2017 MERC filed Additional Reply Comments in which the Company stated in part, the following:¹

While MERC proposed in its December 8, 2016 Reply Comments to implement recovery through the MERC-NNG-Albert Lea PGA effective February 1, 2017, that timeline is no longer feasible as March billing has already been set. The earliest MERC could implement recovery at this time, assuming Commission approval, is April 1, 2017.

¹ See MERC's Additional Reply Comments pages 2-3.

Table 1 below shows the total and monthly rate impact if the \$145,147 is recovered from the Albert Lea PGA during the period April 1, 2017 – June 30, 2017 (over three months). Table 1 also shows the monthly average bill impact for final rates approved in Docket No. G011/GR-15-736, which will be implemented effective March 1, 2017. The final column shows the total combined monthly bill impact related to both the Kansas tax recovery and final rate implementation.

MERC indicated that there was a calculation error in its December 8, 2016 Reply Comments. Rather than calculating the average monthly bill impact for final rates (5th column of MERC's Table 1) by dividing the February through June sales by 5 months, MERC divided by 12.

As the corrected bill impact calculations show (see MERC's Table 1 of its Additional Reply Comments), for the residential class, the estimated total bill impact is \$7.27 compared to \$4.50 as shown in the corresponding Table 1 of MERC's December 8, 2016 Reply Comments. However, the Department found an additional calculation error in MERC's Table 1 of its Additional Reply Comments, similarly involving a mis-match between the number of months reflected in the sales and the divisor (number of months) used to calculate one month's average bill impact. The following table corrects both calculation errors.²

² See the Attachment that accompanies this Letter. The Attachment contains MERC's table 1 from its December 8, 2016 Reply Comments as filed (table 1 in Attachment); corrected as intended by MERC (table 2); and MERC's table 1 from its Additional Reply Comments of February 28, 2017 as filed (table 3 in attachment); and MERC's table 1 from its Additional Reply Comments of February 28, 2017 – corrected for an error (table 4 in attachment).

**Table 1: Rate Impact of Recovery of Past Kansas Tax Costs through Albert Lea PGA
 (April-June 2017)**

Customer Class	Average Monthly Therm Usage	Total Average Impact of KS Recovery	Monthly Average Bill Impact – KS Tax Costs	Monthly Average Bill Impact – Docket No. G011/GR- 15-736 Rate Increase	Total Average Monthly Bill Impact (KS and Final Rate Implementation)
Residential (MERC-Albert Lea)	34.7	\$6.66	\$2.22	\$3.05	\$5.27
Small C&I (MERC-Albert Lea)	23.0	\$4.48	\$1.49	\$7.42	\$8.91
Large C&I (MERC-Albert Lea)	265.7	\$51.05	\$17.02	\$20.81	\$37.83
Small Volume Interruptible (MERC- Albert)	3,610.7	\$693.79	\$231.26	\$120.63	\$351.89
Large Volume Interruptible (MERC-Albert Lea)	15,215.7	\$2,923.69	\$974.56	\$203.57	\$1,178.13

If the error in MERC’s December 8, 2016 Reply Comments had been corrected as explained in footnote 1 of the Additional Reply Comments, the bill impact based on final rates in Docket No. G011/GR-15-736 (column 5) for the residential class, would have been \$3.95 instead of \$2.96. As shown in Table 1 above, the most current estimated bill impact for residential customers is \$3.05. The Department notes that the majority of the changes in the total bill impacts estimated in MERC’s December 8, 2016 Reply Comments compared with the estimates in the Company’s February 28, 2017 Additional Reply Comments, as corrected by the Department, are due to the following:

- Given that February is past, the Kansas Ad Valorem Tax (KAVT) costs of \$145,147 now need to be recovered over a shorter duration - April through June (3 months) as opposed to the February – June period (5 months) that MERC had proposed in its December 8, 2016 Reply Comments; and
- These 3 months have significantly less estimated usage (April to June) compared to the period February –June (which contains an additional 2 winter months).

Daniel P. Wolf
March 15, 2017
Page 4

In conclusion, the Department recommends that the Commission approve the Company's Petition, modified by MERC's Reply Comments and Additional Reply Comments, including MERC's agreement to list the historic Kansas storage tax costs associated with the former Interstate Power and Light customers on the monthly Purchased Gas Adjustment (PGA) filings as a separate line item and to track the amount of recovery on a monthly basis, rolling any over- or under-recovered amount into the MERC Northern Natural Gas PGA in the September 2017 Annual Automatic Adjustment and true-up filings³.

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

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/ja

³ Please see the Department's February 23, 2017 Response Comments at page 8.

I. TABLE 1 AS FILED IN MERC'S DECEMBER 8, 2016 REPLY COMMENTS

**Table 1. Rate Impact of Recovery of Past Kansas Tax Costs From Albert Lea PGA
 (February-June 2017)¹**

Customer Class	Average Therm Usage (January - June)	Total Average Impact of KS Recovery	Monthly Average Bill Impact - KS Tax Costs	Monthly Average Bill Impact - Docket No G011/GR-15-736 Rate Increase	Total Average Monthly Bill Impact (KS and Final Rate Implementation)
Residential (MERC-Albert Lea)	369	\$7.69	\$1.54	\$2.96	\$4.50
Small C&I (MERC-Albert Lea)	285	\$5.94	\$1.19	\$7.44	\$8.63
Large C&I (MERC-Albert Lea)	2,623	\$54.69	\$10.94	\$20.67	\$31.61
Small Volume Interruptible (MERC-Albert Lea)	26,690	\$556.49	\$111.30	\$103.30	\$214.60
Large Volume Interruptible (MERC-Albert Lea)	85,727	\$1,787.41	\$357.48	\$140.94	\$498.42

¹ The recovery rate per therm of \$0.02085 is calculated by dividing the \$145,147 costs by the estimated February - June sales of 6,960,667 therms for the classes in the table.

II. *TABLE 1 AS FILED IN MERC'S DECEMBER 8, 2016 REPLY COMMENTS - CORRECTED BY USING THE FEBRUARY - JUNE ESTIMATED SALES DIVIDED BY 5 MONTHS AS OPPOSED TO DIVIDING BY 12 MONTHS FOR THE RATE CASE BILL IMPACT COLUMN THAT MERC DID IN THE PREVIOUS TABLE 1 SHOWN*

Table 2. Rate Impact of Recovery of Past Kansas Tax Costs From Albert Lea PGA (February-June 2017)²

Customer Class	Therm Usage per customer (February - June)	Total Average Impact of KS Recovery	Monthly Average Bill Impact - KS Tax Costs	Monthly Average Bill Impact - Docket No G011/GR-15-736 Rate Increase	Total Average Monthly Bill Impact (KS and Final Rate Implementation)
Residential (MERC-Albert Lea)	369	\$7.69	\$1.54	\$3.95	\$5.49
Small C&I (MERC-Albert Lea)	285	\$5.94	\$1.19	\$8.75	\$9.94
Large C&I (MERC-Albert Lea)	2,623	\$54.69	\$10.94	\$21.61	\$32.55
Small Volume Interruptible (MERC-Albert Lea)	26,690	\$556.49	\$111.30	\$142.23	\$253.53
Large Volume Interruptible (MERC-Albert Lea)	85,727	\$1,787.41	\$357.48	\$218.55	\$576.03

² The recovery rate per therm of \$0.02085 is calculated by dividing the \$145,147 costs by the estimated February - June sales of 6,960,667 therms for the classes in the table.

III. TABLE 1 AS FILED IN MERC'S FEBRUARY 28, 2017 ADDITIONAL REPLY COMMENTS

**Table 3. Rate Impact of Recovery of Past Kansas Tax Costs From Albert Lea PGA
 (April-June 2017)³**

Customer Class	Average Monthly Therm Usage ⁴	Total Average Impact of KS Recovery	Monthly Average Bill Impact - KS Tax Costs	Monthly Average Bill Impact - Docket No G011/GR-15-736 Rate Increase	Total Average Monthly Bill Impact (KS and Final Rate Implementation)
Residential (MERC-Albert Lea)	57.7	\$11.08	\$3.69	\$3.58	\$7.27
Small C&I (MERC-Albert Lea)	39	\$7.49	\$2.50	\$8.04	\$10.54
Large C&I (MERC-Albert Lea)	442.7	\$85.06	\$28.35	\$21.35	\$49.70
Small Volume Interruptible (MERC-Albert Lea)	6,017.7	\$1,156.29	\$385.43	\$150.72	\$536.15
Large Volume Interruptible (MERC-Albert Lea)	25,359.3	\$4,872.80	\$1,624.27	\$282.29	\$1,906.56

³ The recovery rate per therm of \$0.06405 is calculated by dividing the \$145,147 costs by the estimated April - June sales of 2,266,309 therms for the classes in the table.

⁴ The numbers in this column represent the average monthly therm usage reported by MERC as opposed to the average therm usage for the entire period previously reported by MERC.

**IV. TABLE 1 AS FILED IN MERC'S FEBRUARY 28, 2017 ADDITIONAL REPLY COMMENTS
 - CORRECTED BY THE DEPARTMENT**

**Table 4. Rate Impact of Recovery of Past Kansas Tax Costs From Albert Lea PGA
 (April-June 2017)⁵**

Customer Class	Average Monthly Therm Usage ⁶	Total Average Impact of KS Recovery		Monthly Average Bill Impact - KS Tax Costs	Monthly Average Bill Impact - Docket No G011/GR-15-736 Rate Increase	Total Average Monthly Bill Impact (KS and Final Rate Implementation)
Residential (MERC-Albert Lea)	34.7	\$6.66		\$2.22	\$3.05	\$5.27
Small C&I (MERC-Albert Lea)	23	\$4.48		\$1.49	\$7.42	\$8.91
Large C&I (MERC-Albert Lea)	265.7	\$51.05		\$17.02	\$20.81	\$37.83
Small Volume Interruptible (MERC-Albert Lea)	3,610.7	\$693.79		\$231.26	\$120.63	\$351.89
Large Volume Interruptible (MERC-Albert Lea)	15,215.7	\$2,923.69		\$974.56	\$203.57	\$1,178.13

⁵ The recovery rate per therm of \$0.06405 is calculated by dividing the \$145,147 costs by the estimated April - June sales of 2,266,309 therms for the classes in the table.

⁶ MERC had incorrectly calculated the average monthly therms by calculating the 5 month total usage per customer and dividing that amount by three months to get the average monthly usage per customer for the period April-June in their calculations. The Department corrected the error and calculated the 3 month total usage per customer for the same April-June period resulting in the calculations shown in table 4.

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
Letter**

Docket No. G011/M-16-87

Dated this 15th day of March 2017

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_16-87_M-16-87
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_16-87_M-16-87
Koby	Bailey	kabailey@integrysgroup.com	Minnesota Energy Resources Corporation (HOLDING)	200 East Randolph, Suite 2300 Chicago, Illinois 60601	Electronic Service	No	OFF_SL_16-87_M-16-87
Seth	DeMerritt	ssdemerritt@integrysgroup.com	MERC (Holding)	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_16-87_M-16-87
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_16-87_M-16-87
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_16-87_M-16-87
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W Rosemount, MN 55068	Electronic Service	No	OFF_SL_16-87_M-16-87
John	Lindell	john.lindell@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_16-87_M-16-87
Brian	Meloy	brian.meloy@stinson.com	Stinson, Leonard, Street LLP	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-87_M-16-87
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-87_M-16-87

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Colleen	Sipiorski	ctsiorski@integrysgroup.com	Minnesota Energy Resources Corporation	700 North Adams Street Green Bay, WI 54307	Electronic Service	No	OFF_SL_16-87_M-16-87
Kristin	Stastny	kstastny@briggs.com	Briggs and Morgan, P.A.	2200 IDS Center 80 South 8th Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-87_M-16-87
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_16-87_M-16-87
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_16-87_M-16-87