

Direct Testimony
Theodore T. Eidukas

Before the Office of Administrative Hearings
600 North Robert Street
Saint Paul, Minnesota 55101

For the Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
Saint Paul, Minnesota 55101

In the Matter of the Petition of Minnesota Energy Resources
Corporation for Approval of a Recovery Process for Cost Impacts Due to
February Extreme Gas Market Conditions

MPUC Docket No. G011/M-21-611
OAH Docket No. 71-2500-37763
Exhibit ____ (TTE-D)

Overview of February Market Event and Witnesses

October 22, 2021

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Theodore T. Eidukas. My business address is 231 West Michigan
4 Street, Milwaukee, Wisconsin 53203..

5
6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. I am employed by WEC Business Services (“WBS”), a wholly owned subsidiary
8 of WEC Energy Group, Inc. (“WEC”). WEC is the parent company that owns
9 Minnesota Energy Resources (“MERC”). My current position is Vice President –
10 Regulatory Affairs.

11
12 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

13 A. I received a bachelor’s degree, *summa cum laude*, in economics and political
14 science from Augustana College, Rock Island, Illinois, and a Juris Doctorate,
15 *cum laude*, from Northwestern School of Law, Chicago, Illinois. I have practice
16 law in the field of utility regulation for more than twenty years, most recently with
17 Quarles and Brady LLP. I joined WEC in my current role in 2016. In my current
18 role, I oversee all regulatory compliance across WEC’s operating utilities,
19 including proceedings before the Minnesota Public Utilities Commission, the
20 Federal Energy Regulatory Commission and regulatory bodies in other states.

21

1 Q. FOR WHOM ARE YOU PROVIDING TESTIMONY?

2 A. I am testifying on behalf of MERC (referred to herein as MERC or the
3 “Company”).

4

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

6 A. The purpose of my testimony is to support the reasonableness and prudence of
7 MERC’s actions and decisions before, during, and after the unprecedented spike
8 in natural gas prices that occurred on February 12, 2021 as a result of increased
9 demand for natural gas due to cold weather across much of the United States
10 and supply disruptions (the “February Market Event”). I provide an overview of
11 the actions the Company took leading up to, during, and after the February
12 Market Event, and introduce the other Company witnesses who further describe
13 and support the reasonableness and prudence of those actions and decisions. I
14 explain how the costs the Company incurred during the February Market Event
15 were necessary to enable MERC to provide safe and reliable natural gas service
16 to customers.

17

18 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

19 A. First, I provide relevant background, including an overview of MERC and its
20 customers, the February Market Event, and the circumstances that gave rise to
21 the Commission’s referral of this matter to the Office of Administrative hearings. I

1 also provide an overview of the Company's other witnesses and describe the
2 scope of their respective testimonies.

3
4 Second, I summarize MERC's actions and decisions before, during, and after the
5 February Market Event, and discuss how MERC's gas purchasing decisions
6 made prior to and during the February Market Event and decisions made after
7 the February Market Event to mitigate the costs associated with those purchases
8 were reasonable and prudent under the circumstances.

9
10 Finally, I discuss the structure and mechanism for recovery of the February 2021
11 extraordinary gas costs, including whether it is possible to assign extraordinary
12 gas costs to customers or customer classes based on their consumption during
13 the February Market Event and, if so, whether it would be reasonable to do so.

14

15 **II. OVERVIEW OF MERC**

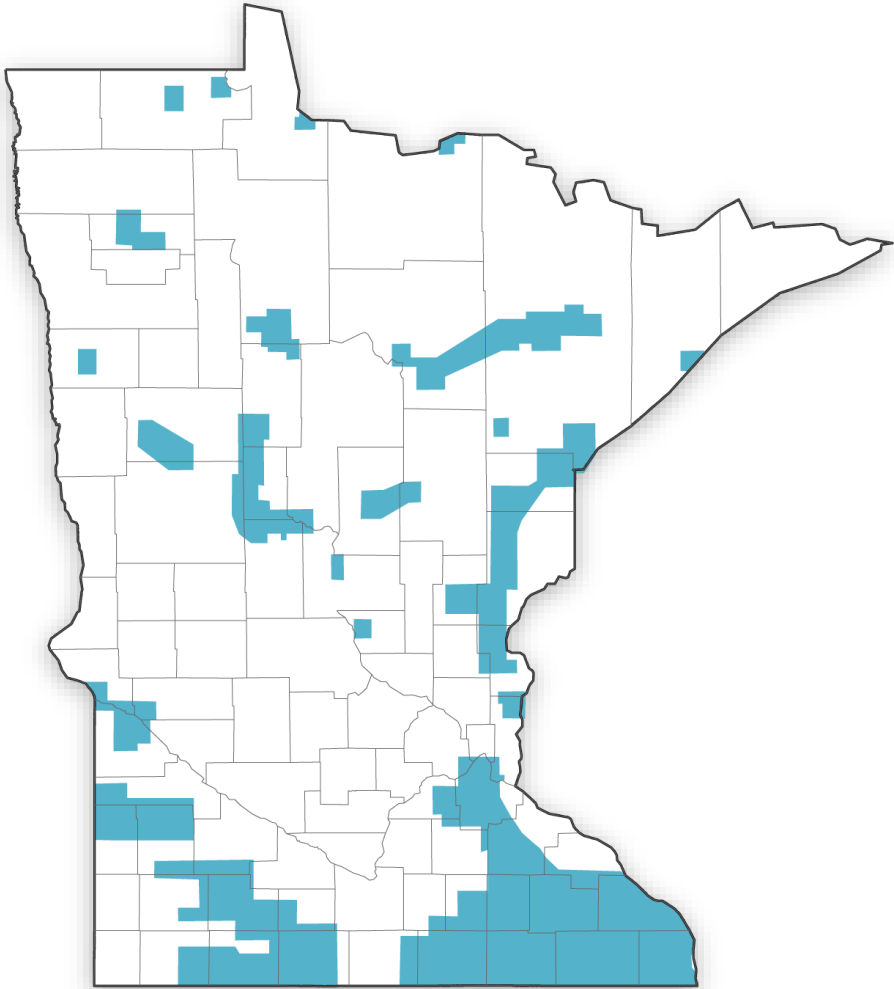
16 Q. PLEASE PROVIDE AN OVERVIEW OF MERC AND THE CUSTOMERS MERC
17 SERVES.

18 A. MERC is gas distribution public utility providing service to more than 243,000
19 natural gas customers in Minnesota. MERC provides natural gas service across
20 a large geographic area that spans 52 counties and 179 communities throughout
21 the state of Minnesota, including Rochester, Rosemount, Fairmount, Appleton,

1 Roseau, Cloquet, Silver Bay, and International Falls. Figure 1 on the next page
2 shows the areas that MERC serves.

3
4
5

Figure 1: MERC Service Map



6

1 Q. HOW DOES MERC PLAN FOR AND PROVIDE NATURAL GAS SERVICE TO
2 ITS CUSTOMERS?

3 A. To provide natural gas service to customers in the communities we serve, MERC
4 must plan for and secure adequate interstate pipeline capacity (i.e.,
5 transportation on the interstate pipeline) to allow for the delivery of natural gas
6 supplies from the areas where natural gas is produced to interconnection points
7 on MERC's distribution system (receipt points). MERC must also contract for
8 natural gas supplies to meet customer demand. Those gas supplies are
9 delivered through the appropriate interstate pipeline(s) to the interconnections
10 with MERC's distribution system, which delivers the natural gas to our customers
11 for use in their homes and businesses.

12
13 Due to MERC's disperse service areas, four separate interstate pipelines are
14 relied on to serve our various communities:

- 15 • Centra Pipeline runs from Spruce Manitoba, Canada, into Minnesota from
16 Warroad to Baudette. Centra Pipeline is used to serve our communities in
17 Northern Minnesota.
- 18 • Viking Gas Transmission Pipeline runs from Emerson 1 (TransCanada) on
19 the U.S. side to serve our customers from Ada to Camp Ripley.
- 20 • Great Lakes Transmission Pipeline runs from Emerson 2 (TransCanada)
21 on the U.S. side to serve our customers from Thief River Falls to Cloquet.

- 1 • Northern Natural Gas (“NNG”) Pipeline runs from Ventura in Iowa (NMPL)
2 and Demarcation (“Demarc”) (near Clifton, Kansas) which is the transfer
3 point for gas coming north from NNG’s Field area to serve NNG’s Market
4 area to serve our customers in Southern Minnesota.

5
6 As approved by the Commission, MERC is divided into two distinct PGA areas,
7 which are referred to as purchased gas adjustment areas (“PGA Areas”)¹:

- 8 • MERC-Consolidated, which is served by Centra Pipeline, Viking Gas
9 Transmission Pipeline, and Great Lakes Transmission Pipeline (the
10 “Consolidated” pipelines); and

- 11 • MERC-NNG, which is served by NNG Pipeline.

12 As described by Ms. Sarah Mead, in most cases, MERC’s customers are served
13 solely by a specific pipeline, with very few exceptions. Because these PGA
14 areas are geographically separate, they do not share pipeline capacity, storage,
15 or natural gas supplies.

16
17 MERC utilizes distribution system flow modeling along with other tools such as
18 pressure monitoring and engineering analysis to plan its distribution system and
19 identify the need for any distribution reinforcement projects to address system

¹ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas in Minnesota*, Docket No. G007,011/GR-10-977, Findings of Fact, Conclusions, and Order (Jul. 13, 2012) (approving consolidation of MERC’s four gas-cost recovery and PGA systems into two new PGAs: the MERC-NNG PGA system and the MERC-Consolidated PGA system).

1 pressure or other operational issues and to ensure adequate distribution capacity
2 to reliably serve firm customers.

3
4 **III. OVERVIEW OF PROCEEDING AND SUMMARY OF OTHER WITNESS**
5 **TESTIMONY**

6 Q. WHAT DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

7 A. In this section, I provide an overview of the February Market Event that led to the
8 Commission ordering this contested case proceeding. I then summarize the
9 issues that are relevant to this proceeding and introduce the other witnesses that
10 are testifying on behalf of MERC.

11
12 Q. WHAT ARE THE CIRCUMSTANCES THAT GAVE RISE TO THIS CONTESTED
13 CASE PROCEEDING?

14 A. In February 2021, cold weather across much of the United States led to
15 increased demand for natural gas and, in some areas, supply disruptions. On
16 February 12, 2021, unprecedented and unforeseen rise in natural gas spot
17 market prices ensued, including in Minnesota. MERC maintained continuous
18 service to each of its 243,000 customers during this period, but incurred
19 unprecedented levels of under-recovered costs purchasing gas on the spot
20 market to provide that reliable gas supply. Such costs ordinarily are billed to
21 ratepayers through the annual automatic adjustment ("AAA") over the next 12-
22 month period beginning on September 1. However, the extreme circumstances
23 due to the February Market Event prompted the Commission to initiate an

1 investigation in this proceeding. The Commission has determined that further
2 process is necessary to develop a complete record upon which to evaluate the
3 complex, multifaceted questions of prudence that will govern the recoverability of
4 costs incurred by the impacted Minnesota natural gas utilities during the
5 February Market Event.

6
7 Q. PLEASE PROVIDE A SUMMARY OF THE FEBRUARY MARKET EVENT.

8 A. In February 2021, cold weather extended across Canada and much of the United
9 States, dipping south into the natural gas production areas of the United States,
10 including Texas. The large geographic scale of the cold weather led to
11 unprecedented increases in the demand for natural gas. Freeze-offs² in the
12 production wells started to occur, leading to an abrupt and unexpected reduction
13 in supply, just as demand across much of the U.S. spiked due to colder-than-
14 normal temperatures.

15
16 Q. HOW DID THE FEBRUARY MARKET EVENT IMPACT MERC?

17 A. The Midwest, including Minnesota, did not have any physical issues getting gas,
18 and MERC did not experience any operational issues delivering gas to our
19 customers safely and reliably through the February Market Event. Although it
20 was cold, as explained in detail in Ms. Mead's testimony, it was not near the

² Freeze offs occur when temperatures fall below freezing, resulting in water and other liquids contained in the natural gas mixture to freeze, blocking the flow of gas out of the wellhead. Given these system conditions, it was extremely important for MERC to purchase sufficient gas supplies during the February Market Event to meet its customers' load.

1 design day conditions that MERC plans for and has previously experienced, and
2 operates its system and manages its assets to meet.³ Rather, the February
3 Market Event was an economic market event, which resulted in unpredictable
4 and unprecedented prices in the daily gas spot market. Based on the
5 Commission's definition of extraordinary February 2021 gas costs as costs
6 incurred from February 13-17 and the margin between \$20/Dekatherm ("Dth")
7 and the actual average daily price, MERC incurred extraordinary gas costs of
8 \$64,975,882 associated with the February Market Event.

9

10 Q. DID MERC PROVIDE ANY INFORMATION REGARDING ITS ACTIONS AND
11 DECISIONS PRIOR TO, DURING, AND AFTER THE FEBRUARY MARKET
12 EVENT BEFORE THIS MATTER WAS REFERRED TO A CONTESTED CASE?

13 A. Yes, the Company filed a detailed report on April 9, 2021, as well as numerous
14 comments in Docket No. G-999/CI-21-135, which is the docket that the
15 Commission opened to investigate the impacts of severe weather in February
16 2021 on Minnesota natural gas utilities and their customers. In the Company's
17 report and comments, MERC addressed the Commission's requests for
18 information and responded to issues raised in the comments of other parties,
19 such as the Minnesota Department of Commerce, Division of Energy Resources

³ On an Adjusted Heating Degree Day ("AHDD") basis, which takes into account temperatures as well as the impacts of wind, the coldest weather on record at the weather stations used to plan for MERC's service areas took place in 2019 in the case of Bemidji, Cloquet, Minneapolis, Rochester, Worthington, and Ortonville and in 1996 for Fargo and International Falls.

1 (“Department”), and the Office of the Minnesota Attorney General, Residential
2 Utilities Division (“OAG”), and comments by the Energy CENTS Coalition (“ECC”)
3 and the Citizen Utility Board of Minnesota (“CUB”).
4

5 Q. WHAT HAS BEEN THE RESULT OF THE COMMISSION’S INVESTIGATION
6 SO FAR?

7 A. The Commission’s August 30, 2021 Order Granting Variances and Authorizing
8 Modified Cost Recovery Subject to Prudence Review, and Notice of and Order
9 for Hearing, in Docket Nos. G-999/CI-21-135 and Docket No. G-011/CI-21-611
10 (“August 30, 2021 Order”), approved cost recovery of extraordinary gas costs
11 associated with the February Market Event, but subject to prudence review. The
12 prudence review is being conducted in this contested case proceeding.
13

14 Q. WHAT ISSUES DID THE COMMISSION DIRECT MINNESOTA’S GAS
15 UTILITIES TO ADDRESS IN THIS PROCEEDING?

16 A. The Commission requested development of the following issues in the August
17 30, 2021 Order:

18 A. Did the individual Gas Utilities act prudently before, during, and after the
19 February Event, and are costs related to the February Event reasonable to
20 recover from ratepayers?

21 B. Should the Commission disallow recovery of any costs for each utility?

- 1 C. If there are any disallowances for imprudent or unreasonable action, how
2 should these costs be calculated?
- 3 D. The specific prudence questions raised so far, including but not limited to:
- 4 i. When and to what extent did Gas Utilities become aware of the
5 potential for extreme weather during the February Event, and did
6 they respond prudently and reasonably?
- 7 ii. Did the Gas Utilities have enough geographic diversity of gas supply
8 and, if not, what was the potential financial impact?
- 9 iii. Should the Gas Utilities have had additional fixed-price contracts
10 and, if so, what was the potential financial impact?
- 11 iv. Did the Gas Utilities maximize use of storage capacity and, if not,
12 what was the potential financial impact?
- 13 v. Did the Gas Utilities maximize use of peaking capacity and, if not,
14 what was the potential financial impact? Has Xcel's maintenance and
15 operation of its Wescott, Sibley, and Maplewood facilities resulted in
16 financial impact?
- 17 vi. Should the Gas Utilities have made more robust conservation efforts
18 and, if so, what was the potential financial impact?
- 19 vii. Did the Gas Utilities timely and appropriately pursue recovery
20 through insurance, federal regulatory actions, market rules, contract
21 enforcement, and other available legal actions such that they have

1 not missed deadlines or become barred from possible recovery on
2 behalf of ratepayers and, if not, what is the potential financial impact?

3 viii. Are there any other issues or actions related to prudence and, if so,
4 what is the potential financial impact?

5 E. Is it possible to assign extraordinary costs to customers or customer classes
6 based on their consumption during the February Event and, if so, would it
7 be reasonable to do so?

8

9 Q. PLEASE INTRODUCE MERC'S WITNESSES IN THIS PROCEEDING AND
10 INDICATE THE SUBJECTS THEY WILL ADDRESS IN THEIR DIRECT
11 TESTIMONY.

12 A. In addition to my testimony, the following witnesses are providing Direct
13 Testimony on behalf of MERC:

- 14 • Ms. Sarah Mead discusses MERC's gas procurement planning,
15 purchasing activity for the February Market Event, and knowledge leading
16 up to the February Market Event.
- 17 • Mr. Timothy Sexton of Gas Supply Consulting, Inc. provides an evaluation
18 of the reasonableness and prudence of MERC's actions and decisions
19 before and during the February Market Event, including MERC's gas
20 procurement process, service and supply portfolio, and use of geographic
21 diversity in its portfolio of services to acquire natural gas supplies; MERC's
22 use of storage during the February Market Event; MERC's use of daily

1 index versus fixed-price supply during the February Market Event; and
2 MERC's response to weather information available prior to the February
3 Market Event.

4
5 Additionally, the following witnesses are providing testimony on behalf of all of
6 the Minnesota natural gas utilities:

- 7 • Mr. Rick Smead from RBN Energy provides an overview of the U.S.
8 natural gas market and typical procurement practices by natural gas
9 utilities, such as MERC, operating in that market.
- 10 • Ms. Colette Honorable discusses the prudence standard as it is defined in
11 various jurisdictions and the various elements of the most commonly
12 applied prudence standard.

13
14 **IV. MERC'S RESPONSE TO THE FEBRUARY MARKET EVENT**

15 Q. WHAT DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

16 A. In this section, I provide an overview of the actions taken by the Company
17 before, during, and after the February Market Event. I refer to where additional
18 details of those actions and decisions are discussed by other Company
19 witnesses, supporting the overall reasonableness and prudence of MERC's
20 actions and decisions prior to, during, and after the February Market Event.

1 Q. WERE MERC'S ACTIONS AND DECISIONS BEFORE, DURING, AND AFTER
2 THE FEBRUARY MARKET EVENT REASONABLE AND PRUDENT?

3 A. Yes. As described in Ms. Mead's testimony, before the February Market Event,
4 as with every winter season, MERC engaged in advance planning, including
5 through the preparation and submission of regulatory filings reviewed by the
6 Department of Commerce and approved by the Commission, to plan for and
7 procure pipeline capacity and storage asset capacity to reliably provide natural
8 gas service to our firm customers. MERC also undertook advance planning to
9 develop and implement its gas procurement plan, including obtaining
10 Commission authority to utilize hedging instruments designed to protect
11 customers against market price volatility.

12
13 MERC's actions through the February Market Event ensured the Company was
14 able to meet its obligation to provide continuous natural gas service to
15 customers. Like most gas LDCs in Minnesota, MERC required daily spot market
16 purchases to ensure Minnesota customers had sufficient natural gas supplies to
17 safely heat their homes through the February Market Event, the actions taken
18 and the decisions made by the Company during the February Market Event also
19 effectively mitigated the economic impacts of the pricing event by maximizing the
20 use of available storage and baseload supplies and avoiding significant
21 imbalance penalties as further explained below.

22

1 After the February Market Event, MERC has timely and appropriately evaluated
2 the potential for recovery through insurance, federal regulatory actions, market
3 rules, contract enforcement, and other available legal actions.

4
5 **A. Before the February Market Event**

6 Q. WHAT ACTIONS DID MERC TAKE BEFORE THE FEBRUARY MARKET
7 EVENT TO REASONABLY PROTECT ITS CUSTOMERS?

8 A. As described in additional detail by Ms. Mead, MERC has a robust natural gas
9 procurement strategy, which utilizes a variety of procurement tools to provide
10 reliable, reasonably priced natural gas to its customers. MERC engages in
11 advance planning to identify the need for and procurement of adequate pipeline
12 transportation and storage resources and to procure adequate and diverse gas
13 supplies, including hedged contracts and baseload gas supplies.

14
15 Q. AT A HIGH LEVEL, WHAT TOOLS DOES MERC USE TO PLAN FOR GAS
16 SUPPLY AND RELATED PURCHASES?

17 A. As described in more detail by Ms. Mead, to meet the goals of providing reliable,
18 reasonably priced natural gas to its customers while mitigating price volatility,
19 MERC uses a diverse mix of firm gas supplies, including:

- 20 • Fixed-price contracts (futures)
- 21 • Pipeline storage contracts (NNG/ANR)
- 22 • Financial calls (options)

- 1 • First of Month Index (FOM)
- 2 • Daily Spot Market – Gas Daily Index (GDD) or fixed prices

3 Additionally, MERC invests in conservation measures through our Conservation
4 Improvement Program (“CIP”), which serves to reduce overall customer demand
5 through increased efficiency.

6

7 Q. HOW DOES MERC ENGAGE WITH THE COMMISSION FOR REGULAR
8 REVIEW AND APPROVAL OF ITS GAS PROCUREMENT PLANNING?

9 A. MERC submits a number of filings with the Commission to provide for review of
10 the Company’s design day forecasting, pipeline entitlements, storage assets,
11 natural gas procurement planning and policies, hedging plans, and gas
12 commodity costs. These include:

- 13 • An annual demand entitlement filing,
- 14 • Annual automatic adjustment and true-up reports,
- 15 • Monthly purchased gas adjustment reports, and
- 16 • Periodic petitions for approval of variances to recover the costs of
17 financial hedging instruments through the purchased gas adjustment.

18

19 MERC’s gas capacity and supply contracting and costs are reviewed on a
20 routine basis by the Minnesota Public Utilities Commission (MPUC) to ensure the
21 reasonableness of the Company’s actions and decisions with respect to securing
22 natural gas supply and transportation capacity along with other assets and

1 contracts for adequate natural gas supply at reasonable prices to meet customer
2 needs. I will provide a brief description of each of these regulatory filings below.

3
4 Q. PLEASE PROVIDE ADDITIONAL INFORMATION ABOUT MERC'S DEMAND
5 ENTITLEMENT FILINGS.

6 A. Each year the Company submits a demand entitlement filing for each of its PGAs
7 (MERC-Consolidated and MERC-NNG) pursuant to Minn. R. 7825.2910, subp. 2.
8 Through that filing, the Company describes changes to its demand entitlements,
9 including pipeline capacity necessary to meet firm requirements for the upcoming
10 heating season under design day conditions. Specifically, this filing includes
11 analysis of firm customer demand requirements under the coldest expected
12 temperatures based on historical weather over 25 years for the upcoming heating
13 season and proposed changes to meet forecasted design day requirements and
14 any other proposed demand entitlement changes. This process ensures that
15 MERC's design day analysis is updated to reflect the most current information
16 and that the Company contracts for adequate pipeline capacity to meet firm
17 customer demand under the most extreme weather conditions.

18
19 For 2020-2021, MERC calculated a design day forecast of 57,065 Dth for MERC-
20 Consolidated and 280,796 Dth for MERC-NNG.⁴ Demand during the February
21 Market Event did not reach this planning design day level, and temperatures

⁴ See Docket No. G011/M-20-636 (MERC-Consolidated) and Docket No. G011/M-20-637 (MERC-NNG).

1 across the areas we serve, while cold, did not reach the design day temperature
2 conditions we plan for.

3

4 Q. PLEASE PROVIDE ADDITIONAL INFORMATION ABOUT MERC'S ANNUAL
5 AUTOMATIC ADJUSTMENT ("AAA") REPORTS.

6 A. MERC files its AAA report pursuant to Minn. R. 7825.2390 through 7825.2920,
7 and specifically, reporting requirements outlined in Minn. R. 7825.2800 to
8 7825.2840. Through the AAA review, the Department and Commission review
9 annual gas prices, daily delivery variance charges, curtailment and balancing
10 penalties imposed, pipeline transportation sources, diversity of gas supplies,
11 capacity release practices, purchasing practices, storage contracts and costs,
12 and hedging practices. The AAA report summarizes MERC's policies and
13 procedures concerning its purchases of natural gas and an analysis of the
14 benefits of hedging contracts.

15

16 Q. WHAT INFORMATION DOES MERC PROVIDE TO THE COMMISSION IN ITS
17 MONTHLY PGA FILINGS?

18 A. Under applicable rules and tariffs, MERC normally recovers gas commodity costs
19 through the monthly purchased gas adjustment ("PGA") which is set at the
20 beginning of each month based on forecasted gas costs and sales volumes.
21 Gas cost true-up amounts, which reflect the amounts over- or under-recovered
22 each month through PGA rates, are normally handled under the procedures set

1 forth in Minn. R. 7825.2700, subp. 7 and Minn. R. 7825.2910, subp. 4. These
2 two rules require a 12-month recovery period, beginning September 1 each year,
3 through a volumetric surcharge or refund rate.

4
5 Each month the Company submits a report for each of its PGAs (MERC-
6 Consolidated and MERC-NNG) pursuant to Minn. R. 7825.2910, subp. 1.

7 Through that filing, the Company provides information detailing the calculation of
8 the monthly PGA, the calculation of the weighted average cost of gas
9 (“WACOG”) to be effective in the upcoming month, revised tariff sheets defining
10 retail rate revisions by rate schedule, daily delivery variance charge information,
11 estimated previous month and year-to-date commodity delivered gas cost by
12 supplier, and a statement of changes in commodity costs, as compared to the
13 previously submitted PGA report.

14
15 Q. WHAT INFORMATION IS PROVIDED TO THE COMMISSION ASSOCIATED
16 WITH THE COMPANY’S PERIODIC HEDGING VARIANCE PETITIONS?

17 A. In its periodic petitions to extend Commission-approved variances to authorize
18 the recovery of the costs of hedging,⁵ MERC provides information and analysis

⁵ Hedging means reducing or controlling risk. A hedge is an investment or position taken in the futures market that is opposite to the one in the physical market with the objective of reducing or limiting risks associated with adverse price movements in an asset. MERC’s goal with respect to hedging is to have a balanced approach that provides price protection for customers while also allowing MERC to take advantage of lower than expected market prices. MERC’s financial hedging is focused on monthly prices increasing over forward prices, and is not designed to mitigate against the risk of daily market price spikes.

1 demonstrating that customers benefit from hedging and that there is not an
2 undue price premium paid for such hedging.⁶

3
4 Q. WHAT DID THE COMMISSION DETERMINE IN THE COMPANY'S MOST
5 RECENT HEDGING PETITION?

6 A. In its April 9, 2021 Order in Docket No. G011/M-20-833, the Commission agreed
7 with MERC that it would be reasonable to continue to recover the costs of
8 hedging in the PGA since hedging acts as an "insurance policy" to protect
9 customers from price spikes in the natural gas market due to events like the
10 TransCanada pipeline explosion in 2014 and previously experienced extreme
11 cold weather events like New Year's 2017/2018 and the 2019 polar vortex.

12
13 Q. WHAT OTHER STEPS HAS MERC TAKEN WITH RESPECT TO GAS
14 PROCUREMENT PLANNING?

15 A. MERC has implemented a diverse mix of gas supplies to ensure continuous,
16 reliable gas service, as detailed by Ms. Mead. In addition, we invest in
17 conservation measures through our approved CIP, which serve to reduce overall
18 customer demand through increased efficiency. Our investments in CIP allowed

⁶ *In the Matter of the Petition of Minnesota Energy Resources Corporation for Extension of Rule Variances to Recover the Costs of Financial Instruments Through the Purchased Gas Adjustment*, Docket No. G011/M-20-833, Order (Apr. 9, 2021).

1 us to avoid additional gas purchases during the February Market Event, resulting
2 in estimated avoided costs of approximately \$21.3 million.⁷

3
4 Q. WHEN MERC WAS IMPLEMENTING ITS GAS PROCUREMENT STRATEGY
5 FOR THE 2020-2021 HEATING SEASON, DID THE COMPANY HAVE ANY
6 REASON TO EXPECT THAT NATURAL GAS PRICES WOULD EXCEED \$200
7 PER DEKATHERM AT ANY TIME DURING THE 2020-2021 HEATING
8 SEASON?

9 A. No. Contrary to the suggestion MERC could or should have known that an
10 unprecedented price spike was coming based on weather forecasts in early
11 February 2021, there is no way the Company could have predicted this
12 unprecedented market event. While previous cold weather events with similar
13 temperatures have occurred in Minnesota, those events did not result in a similar
14 unprecedented market price spikes, as discussed in more detail in the Direct
15 Testimony of Ms. Mead. The real prospect of incurring significant pipeline
16 penalties and the risk of possible supply shortages necessarily and appropriately
17 informed the Company's actions and decisions with respect to gas procurement,
18 including the use of storage during the February Market Event, which ensured
19 customers continued to receive natural gas service to heat their homes during
20 the cold weather while avoiding enormous pipeline penalties, which would have

⁷ Docket No. G999/CI-21-135, Comments of the Minnesota Commerce Department, Division of Energy Resources at Department Attachment 5 (MERC Response to Department Information Request No. 5) (May 10, 2021).

1 been in excess of three times the prudently incurred natural gas procurement
2 costs during this February Market Event.

3

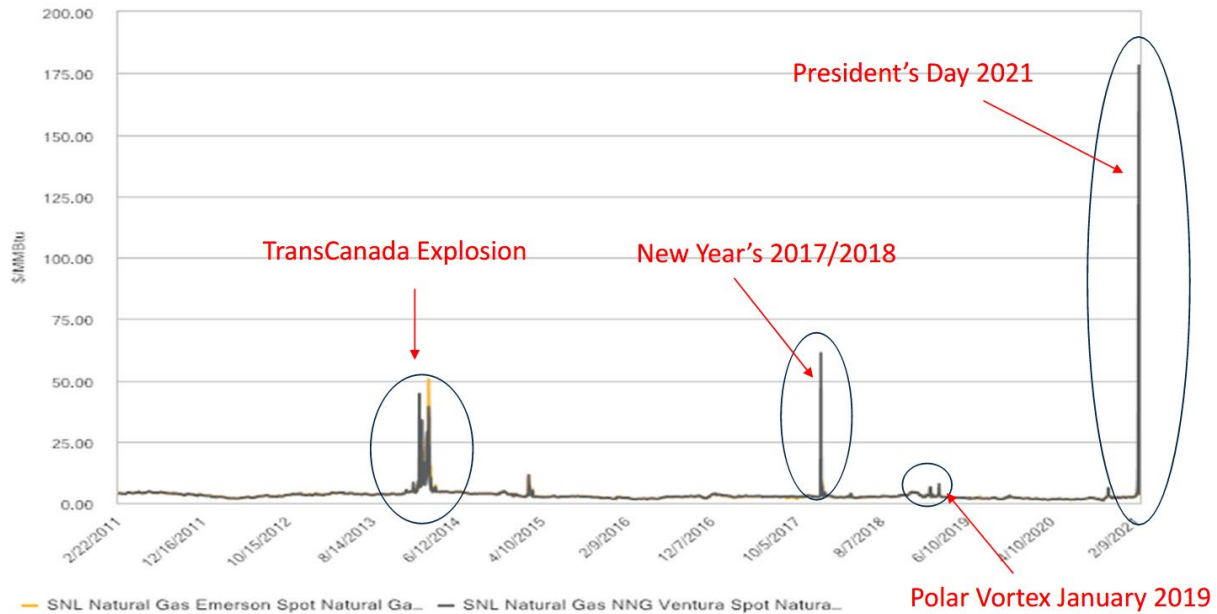
4 Q. PRIOR TO THE FEBRUARY MARKET EVENT, WHAT WAS THE HIGHEST
5 LEVEL DAILY GAS MARKET PRICES HAD PREVIOUSLY REACHED FOR
6 THE HUBS WHERE MERC PURCHASES GAS?

7 A. The spot market prices that occurred during the February Market Event were
8 higher than anything previously experienced in the gas market, which
9 demonstrates the unusual nature of the February Market Event. The following
10 figure highlights previous gas spot prices following the TransCanada explosion
11 and previous polar vortex winter events.

12

1

Figure 2: 10-Year Historical Gas Spot Prices⁸



2

3 Q. BASED ON AVAILABLE INFORMATION, DID MERC HAVE ANY REASON TO
 4 BELIEVE GAS PRICES COULD OR WOULD REACH THE UNPRECEDENTED
 5 LEVEL THEY DID DURING THE FEBRUARY MARKET EVENT?

6 A. No. The conditions that occurred in February 2021 were unprecedented and
 7 could not reasonably have been predicted in the months, weeks, days, or hours
 8 leading up to the price spike that occurred on February 12, 2021. As detailed in
 9 the Direct Testimony of Ms. Sarah Mead, while previous cold weather events
 10 have occurred, none of those events resulted in the type of unprecedented
 11 market price spike that MERC experienced in February 2021.

⁸ *In the Matter of a Commission Investigation into the Impact of Severe Weather in February 2021 on Impacted Minnesota Gas Utilities and Customers*, Docket No. G999/CI-21-135, Department of Commerce Presentation (Feb. 23, 2021).

1 Q. WHAT DOES MERC DO TO MONITOR WEATHER PATTERNS DURING THE
2 HEATING SEASON?

3 A. MERC contracts for weather service from two providers, DTN and Marquette
4 University. DTN provides an actual and a 10-day forecast that includes
5 temperature and other weather-related factors, and Marquette University
6 provides a seven-day forecast that includes weather-related factors such as wind
7 speed and is updated every 10 minutes. This information is then loaded into our
8 forecast planning system, which calculates our heating degree days (“HDD”) that
9 we use for planning and monitoring the weather.

10

11 Q. WHEN DID MERC BECOME AWARE OF THE POTENTIAL FOR THE COLD
12 WEATHER THAT IMPACTED MUCH OF THE UNITED STATES IN FEBRUARY
13 2021?

14 A. MERC first became aware of the potential for cold weather in the MERC service
15 territory approximately 10 days prior to the event. Several days later, MERC
16 became aware of the widespread cold weather that impacted much of the United
17 States. Although it was cold for February, it was not anywhere near the peak
18 conditions that MERC plans for, and operates its system and manages its assets,
19 including storage assets, to meet, as illustrated in Table 1, which shows MERC’s
20 planned design day adjusted heating degree days (“AHDD”)⁹ and the actual

⁹ A heating degree day (“HDD”) is a measure of how cold the temperature is on a given day relative to 65 degrees Fahrenheit. AHDD incorporates the impacts of wind into the weather determinant.

AHDD experienced during the February Market Event. As can be seen, while February 14, 2021 was the coldest day during the February Market Event, the AHDDs were still well below our planning level based on historic experience.

Table 1: Comparison of MERC Design Day Versus Actual Weather During the February Market Event

MERC Design Day Criteria			Daily AHDD65 February 2021									
Weather Station	Date	AHDD65	2/10	2/11	2/12	2/13	2/14	2/15	2/16	2/17	2/18	
Bemidji	2/1/1996	107	87	87	91	94	92	83	77	70	70	
Cloquet	2/2/1996	103	84	81	91	89	90	83	74	59	59	
Fargo	1/18/1996	109	82	85	82	92	85	80	73	68	59	
International Falls	2/1/1996	107	87	86	90	91	93	84	79	71	66	
Minneapolis	2/2/1996	97	72	76	78	83	82	76	64	61	57	
Ortonville	1/14/2009	95	75	81	79	87	85	81	74	63	61	
Rochester	2/2/1996	101	74	79	83	86	88	83	69	64	62	
Worthington	1/18/1996	103	68	80	76	83	87	82	72	65	62	

Q. WHAT ACTIONS DID THE COMPANY TAKE IN RESPONSE TO FORECASTED COLD WEATHER LEADING UP TO THE FEBRUARY MARKET EVENT?

A. On colder than normal days, such as those during the February Market Event, MERC proactively plans its natural gas supplies to ensure that it has sufficient supplies to meet its customers' needs during those periods. MERC starts by forecasting its customer loads using the most recent weather forecast information and continuously, twice per day at a minimum, updates these load forecasts as the cold weather period approaches. Based on these customer load forecasts, MERC plans to procure sufficient amounts of gas, through either storage, baseload purchases, long-term firm calls/swings, or daily market purchase, to

1 ensure that it has an adequate supply to meet its customers' needs and avoid the
2 extremely high pipeline penalties. See Ms. Mead's testimony for further detail on
3 MERC's actions taken in response to the February Market Event.
4

5 Q. WHEN DID MERC FIRST BECOME AWARE OF THE PRICE SPIKE?

6 A. Not until after we had completed our purchase of daily supply. Late on the
7 morning and through the afternoon of February 12, 2021, after we had already
8 completed all of our daily purchases, fixed price trades reached unprecedented
9 price levels. The final index prices were not known until prices were published
10 on the evening of February 12, 2021.
11

12 Q. COULD MERC HAVE ADJUSTED ITS GAS PROCUREMENT STRATEGY
13 LEADING UP TO THE FEBRUARY MARKET EVENT, SUCH AS BY ENTERING
14 INTO ADDITIONAL FIXED-PRICE AGREEMENTS AHEAD OF TIME?

15 A. No. While MERC continuously monitors the gas markets to analyze optimal
16 procurement opportunities, MERC targets an index price, consistent with its
17 procurement strategy, for short-term demand needs to ensure it receives an
18 average market price as opposed to potentially overpaying for that same gas by
19 procuring it under a bilateral fixed-price purchase. There is a significant amount
20 of unpredictability in weather forecasting, particularly in the winter time. Buying
21 fixed price well in advance of the actual days that experienced the weather event
22 would likely have resulted in MERC incurring prices higher than the current

1 market as the gas suppliers add in price risk to their prices under a bilateral fixed-
2 price purchase.

3
4 **B. During the February Market Event**

5 Q. PLEASE DESCRIBE IN MORE DETAIL WHAT OCCURRED DURING THE
6 FEBRUARY MARKET EVENT.

7 A. An extended cold weather event impacted a broad area from Canada through
8 much of the United States, dipping south into the production areas of the United
9 States, including Texas. During the February Market Event, freeze-offs.

10
11 Q. WERE ANY CUSTOMERS INTERRUPTED DURING THE FEBRUARY
12 MARKET EVENT?

13 A. No. None of MERC's customers were interrupted during this event. There were
14 no distribution system issues or issues with adequate pipeline capacity or
15 constraints that would have required interruption of customers. MERC's system
16 performed as expected, and the Company had adequate pipeline capacity to
17 meet customer demand with no interruptions to customers.

18
19 During the February Market Event, in accordance with its tariffs, MERC
20 evaluated the pipeline capacity it holds each day to determine if pipeline capacity
21 was adequate to supply the forecasted load. MERC also analyzed any
22 distribution system constraints or operational issues. MERC had determined that

1 adequate pipeline capacity and natural gas were available to supply MERC's
2 system sales customers so MERC did not interrupt customers during the four-
3 day period from Saturday, February 13, 2021 through Tuesday, February 16,
4 2021.

5
6 Q. DO MERC'S COMMISSION-APPROVED TARIFFS PERMIT THE COMPANY
7 TO CURTAIL CUSTOMERS FOR PRICE REASONS?

8 A. No. The Company's tariffs do not provide for price-based curtailment. Instead,
9 the Company's tariffs establish a priority of service when operational and supply
10 conditions, not economic factors, require service interruptions. As I previously
11 indicated, MERC did not experience any operational or supply constraints that
12 would have supported the need to curtail its interruptible customers.

13
14 MERC's practice is to curtail interruptible customers due to distribution system
15 constraints, operational issues, or other limitations. For interruptible system
16 sales customers, MERC may curtail based on available pipeline capacity and
17 supply. MERC does not curtail customers based on pricing.

18
19 Q. COULD MERC HAVE AVOIDED ADDITIONAL GAS COSTS BY CURTAILING
20 INTERRUPTIBLE CUSTOMERS DURING THE FEBRUARY MARKET EVENT?

21 A. No. First, as discussed above, MERC's tariffs do not provide for curtailments
22 based on the price of natural gas. MERC did not have the ability to curtail

1 interruptible customers where there was no distribution system constraint,
2 operational issue, or pipeline capacity limitation.

3
4 Further, even if MERC was permitted to curtail, it would have had to have
5 declared a curtailment by 8:00 a.m. on Friday, February 12, 2021 for each of the
6 following four days; however, the settled market prices were not known at that
7 time, and MERC had no reason to expect prices would reach the unprecedented
8 level they did. Therefore it would not have been possible for MERC to issue
9 calls for curtailment based on pricing.

10

11 Q. DID MERC MAKE ANY CONSERVATION REQUESTS LEADING UP TO OR
12 DURING THE FEBRUARY MARKET EVENT?

13 A. As a general matter, MERC provides its customers with energy conservation
14 messages and energy saving tips throughout the year. These communications
15 are provided in bill inserts, through MERC's website, and on the Company's
16 social media channels.

17

18 Q. DID MERC ASK CUSTOMERS TO TURN DOWN THEIR THERMOSTATS OR
19 TAKE OTHER ACTION IN RESPONSE TO THE PRICES EXPERIENCED
20 DURING THE FEBRUARY MARKET EVENT?

21 A. No, MERC did not due to how natural gas is purchased on the market. MERC
22 completes all of its daily gas purchases early in the morning, to ensure we are

1 able to secure adequate supply to serve our forecasted customer needs. Once
2 the commitment to purchase natural gas in the market was made on the morning
3 of Friday, February 12, 2021 MERC was unable to adjust its daily volumes of
4 gas.

5
6 Q. WOULD IT HAVE BEEN REASONABLE FOR THE COMPANY TO HAVE MADE
7 CONSERVATION APPEALS TO ITS CUSTOMERS DURING THE FEBRUARY
8 MARKET EVENT IN RESPONSE TO MARKET PRICES?

9 A. It would not have been reasonable for MERC to have issued a broad
10 conservation appeal to try to mitigate cost associated with the February Market
11 Event. Voluntary conservation requests have significant limitations in terms of
12 gas supply planning and cost mitigation, especially under the circumstances
13 experienced during the February Market Event. If, in anticipation of voluntary
14 conservation requests, MERC had reduced its daily gas purchases and ended up
15 short, pipeline penalties would have significantly exceeded avoided gas costs. In
16 other words, if MERC had reduced its daily gas purchases under an assumed
17 premise of reduced customer usage, only to have the actual customer gas
18 consumption be greater than the amount MERC had purchased, we would have
19 incurred extremely high pipeline penalties and risked the reliability of service to
20 our customers.

21

1 Q. DID THE DEPARTMENT AGREE THAT CONSERVATION OR WIDESPREAD
2 CURTAILMENTS WOULD NOT HAVE REDUCED PRICES FOR NATURAL
3 GAS CONSUMERS IN MINNESOTA?

4 A. Yes, it did. In its May 10, 2021 Comments, the Department stated the following:
5 Based on its review and prior understanding, the Department concludes that
6 utilities' responses regarding DSM and conservation are generally accurate.
7 The Department concludes that, for the Pricing Event, there is no evidence
8 to show that conservation or widespread curtailments would have resulted
9 in significant cost savings. As a result of the natural gas market structure,
10 the gas utilities were required to purchase gas for the entirety of the
11 President's Day weekend early on Friday, February 12, with no knowledge
12 of the final price. Since prices were not expected to reach unprecedented
13 levels, and there was no apparent threat to physical supplies in Minnesota,
14 there was no expectation that curtailments or conservation would be
15 needed when the gas utilities secured their gas supply for the weekend.¹⁰

16
17

¹⁰ *In the Matter of a Commission Investigation into the Impact of Severe Weather in February 2021 on Impacted Minnesota Gas Utilities and Customers*, Docket No. G999/CI-21-135, Department of Commerce Comments at 9 (May 10, 2021) (citation omitted).

1 Q. WAS MERC ABLE TO AVOID ANY COSTS TO PROVIDE SERVICE TO ITS
2 CUSTOMERS DURING THE FEBRUARY MARKET EVENT DUE TO ITS
3 PLANNING PROCESSES FOR PROCURING GAS?

4 A. Yes, MERC effectively utilized available storage withdrawals between February
5 13 – 17, 2021 to avoid an estimated \$47 million in gas costs for MERC-NNG and
6 an estimated \$298,000 for MERC-Consolidated. Additionally, MERC's baseload
7 gas purchase avoided an estimated \$76 million in additional costs for MERC-
8 NNG and an estimated \$491,000 for MERC-Consolidated during the February
9 Market Event. Further, MERC was able to effectively utilize its storage assets for
10 balancing during the event, when we were otherwise constrained by the
11 requirement to purchase ratable volumes over the full four-day weekend. This
12 allowed MERC to avoid potentially significant pipeline imbalance penalties far in
13 excess of the daily cost of gas. Additional details regarding MERC's actions and
14 are discussed by Ms. Mead.

15

16 **C. Post February Market Event Actions**

17 Q. WHAT ACTIONS HAS MERC TAKEN AFTER THE FEBRUARY MARKET
18 EVENT TO REASONABLY PROTECT CUSTOMERS FROM THE IMPACTS OF
19 THE EVENT?

20 A. Following the February Market Event, MERC has taken steps to investigate and
21 pursue any opportunities for potential offsets or recoveries related to the
22 extraordinary gas costs. MERC has also evaluated the potential for market

1 reform or gas purchasing modifications going forward to avoid or mitigate the
2 impacts of a similar future event.

3

4 Q. HAS MERC TIMELY AND APPROPRIATELY EVALUATED AND, WHERE
5 APPROPRIATE, PURSUED RECOVERY THROUGH INSURANCE, FEDERAL
6 REGULATORY ACTIONS, MARKET RULES, CONTRACT ENFORCEMENT,
7 AND OTHER AVAILABLE LEGAL AND LEGISLATIVE ACTIONS?

8 A. Yes, following the February Market Event, MERC evaluated possible sources of
9 recovery or offsets, including through insurance, federal regulatory actions,
10 market rules, contract enforcement, or other potential legal and legislative
11 actions.

12

13 Q. WHAT STEPS HAS MERC TAKEN TO EVALUATE POSSIBLE CONTRACT
14 ENFORCEMENT ACTIONS?

15 A. After the February Market Event, the Company reviewed its contracts that were
16 currently in force and applicable to natural gas purchased during the February
17 Market Event to ensure that all charges assessed were consistent with contract
18 terms. Through that review, MERC verified all of the gas supply invoices to
19 ensure the volumes and dollars were billed according to the contract terms.

20

21 To date, MERC has not identified any contractual or other legal basis to
22 challenge the validity of its supply contracts or the amounts paid for gas

1 purchased and delivered. However, the Company is continuing to review its
2 contracts with suppliers and pursue all available remedies and, if any are
3 identified, to recover overpayments made to suppliers during the February
4 Market Event. To the extent MERC recovers any proceeds from those efforts,
5 MERC will notify the Commission and return those amounts to customers.
6

7 Q. WHAT STEPS HAS MERC TAKEN TO EVALUATE POTENTIAL RECOVERY
8 THROUGH INSURANCE?

9 A. MERC evaluated whether any available insurance policies would provide
10 coverage for the costs incurred during the February Market Event and confirmed
11 that no such coverage was available.
12

13 Q. WHAT STEPS HAS THE COMPANY TAKEN TO EVALUATE POTENTIAL
14 RECOVERY OR OFFSETS THROUGH FEDERAL REGULATORY ACTION OR
15 MARKET RULES?

16 A. MERC also continues to actively monitor for any developments with respect to
17 federal or state investigations into potential market manipulation related to the
18 February Market Event.
19

20 On February 22, 2021, the Federal Energy Regulatory Commission (“FERC”)
21 announced that its Office of Enforcement is examining wholesale natural gas and
22 electricity market activity during the extreme cold weather to determine if any

1 market participants engaged in market manipulation or other violations.
2 According to FERC, if the Office of Enforcement finds any potential wrongdoing
3 that can be addressed under FERC's statutory authority, it will pursue those
4 matters as non-public investigations. On September 28, 2021, in a Senate
5 Committee on Energy and Natural Resources Hearing to review the
6 administration of law within FERC's jurisdiction, FERC Chairman Richard Glick
7 stated, that FERC had "entered into a number of inquiries with regard to alleged
8 [price] manipulation that occurred" and that "[s]everal of them, we found a
9 number of anomalies. Several of those particular anomalies, when we
10 investigated them, we moved on to what we call our investigations office."

11
12 Q. HAS FERC TAKEN ANY OTHER ACTIONS RELATED TO THE FEBRUARY
13 MARKET EVENT?

14 A. Yes. The event is being examined by a multi-organizational group led by FERC
15 and North American Electric Reliability Corporation (NERC). That group
16 presented preliminary findings and recommendations at FERC's open meeting
17 on September 23, 2021, with final findings and recommendations expected this
18 winter. NERC has and will continue to track those findings and
19 recommendations, and evaluate whether there are any opportunities to
20 participate or advocate for forward-looking changes that could be implemented to
21 prevent against future market events.

22

1 Q. HAS THE COMMISSION ALSO REQUIRED THE COMPANY TO PURSUE
2 RECOVERY OR OFFSETS OF EXTRAORDINARY GAS COSTS?

3 A. Yes, it has. In the August 30, 2021 Order, the Commission required MERC and
4 the other impacted gas utilities to “make all reasonable efforts to pursue recovery
5 or offsets related to the February Event and to make quarterly compliance filings
6 beginning on September 1, 2021, to report progress on any litigation,
7 negotiations, or other offset possibilities.” MERC filed its first compliance filing on
8 September 1, 2021.

9

10 Q. WHAT DID MERC STATE IN ITS FIRST COMPLIANCE FILING?

11 A. The Company provided an update in a few areas in its compliance filing. First,
12 the Company advised the Commission that NNG obtained a limited waiver of its
13 tariff with FERC to refund its daily delivery variance charges (“DDVC”). Because
14 MERC met its balancing obligations on the NNG Pipeline, MERC’s incurred
15 DDVC penalties were only 0.13 percent of the total amount of penalties issued by
16 NNG under its FERC tariff, which resulted in MERC receiving a credit from NNG.
17 This credit to MERC of \$763,179.25 will be credited to its customers in the
18 Company’s 2021-2022 AAA that will be filed on September 1, 2022. Second, the
19 Company stated that it has verified that all gas supply invoices were billed
20 according to contract terms. The Company will continue this verification process.
21 Finally, the Company continues to monitor ongoing investigations regarding the
22 February Market Event.

1
2 **V. COST RECOVERY, MITIGATION OF BILL IMPACTS, AND RATE**
3 **DESIGN**

4 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

5 A. In this section of my testimony, I first discuss development of the cost recovery
6 mechanism for extraordinary gas costs that was proposed by MERC and the
7 other impacted gas utilities and approved by the Commission. Second, I discuss
8 whether it would be possible and reasonable to assign extraordinary gas costs to
9 certain customers or customer classes based on usage during the February
10 Market Event.

11
12 Q. HOW ARE THE COSTS INCURRED TO PURCHASE NATURAL GAS
13 NORMALLY RECOVERED?

14 A. Under applicable rules and tariffs, MERC recovers gas commodity costs through
15 the PGA, which is set at the beginning of each month based on forecasted gas
16 costs and sales volumes. Gas cost true-up amounts, which reflect the amounts
17 over- or under-recovered each month through PGA rates, are normally handled
18 under the procedures set forth in Minn. R. 7825.2700, subp. 7 and Minn. R.
19 7825.2910, subp. 4. These two rules require a 12-month recovery period,
20 beginning September 1 each year, through a volumetric surcharge or refund rate.

21

1 Q. HOW HAVE “EXTRAORDINARY GAS COSTS” BEEN DEFINED IN THIS
2 PROCEEDING?

3 A. MERC, the other gas utilities, ECC, and CUB have all agreed to the
4 Department’s definition of extraordinary gas costs, which are the difference
5 between \$20/Dth and the actual average daily price per Dth experienced by the
6 utilities for the period February 13-17, 2021, which has been incorporated into
7 the Commission’s August 30, 2021 Order.¹¹

8
9 Q. WHAT RECOVERY MECHANISM HAS THE COMMISSION APPROVED FOR
10 THE EXTRAORDINARY GAS COSTS?

11 A. Due to the magnitude of costs associated with the February Market Event, the
12 impacted gas utilities, Department, OAG, ECC, and CUB agreed that collection
13 of these costs should not follow the traditional true-up process. MERC worked
14 with the various parties to evaluate various alternatives for the recovery of these
15 extraordinary gas costs through an extended recovery mechanism and the
16 parties came to an agreement on cost recovery of extraordinary gas costs in a
17 way that would mitigate the rate impact for customers, especially low-income
18 customers and customers who are struggling to pay their utility bills. Under the
19 approved rate recovery, customers who are receiving or have received Low

¹¹ August 30, 2021 Order at 20.

1 Income Home Energy Assistance and residential customers who are 60 to 120
2 days in arrears are exempted from the surcharge rates.¹²

3
4 In its August 30, 2021 Order, the Commission issued a rule variance from normal
5 automatic-adjustment rules and approved the recovery mechanism as proposed
6 by the gas utilities, Department, OAG, ECC, and CUB and authorized the gas
7 utilities to recover extraordinary gas costs over 27 months starting on September
8 1, 2021 using a volumetric charge with seasonally adjusted, and stepped
9 surcharge rates, with lower rates applied over the first 15 months and higher
10 rates in the last 12 months.¹³ The Commission determined that allowing cost
11 recovery over the normal 12-month automatic-adjustment period would impose
12 “an excessive burden” on customers.¹⁴ The Commission also approved the
13 proposal to exempt from the extraordinary gas cost surcharge low-income
14 residential customers who received or will receive Low Income Home Energy
15 Assistance Program (“LIHEAP”) assistance during the 2019-2020, 2020-2021,
16 2021-2022, or 2022-2023 heating seasons, as well as those residential
17 customers who are 60 to 120 days in arrears on their natural gas bills.

18
19 Finally, the Commission’s authorized recovery of extraordinary gas costs over a
20 27-month period is subject to a prudence review. To that end, the Commission

¹² See August 30, 2021 Order Point 12 which addresses the exemption for low-income customers.

¹³ August 30, 2021 Order at 20.

¹⁴ August 30, 2021 Order at 13.

1 adopted the gas utilities' proposal to continue the review of prudence of the
2 extraordinary gas costs with a Commission decision no later than August 1,
3 2022, and to establish a mechanism for the implementation of the final 12
4 months of rate recovery ("year two recovery") to ensure any adjustments or
5 offsets are incorporated into the extraordinary cost tracker. Under the approved
6 mechanism, in July of 2022, the gas utilities, Department, OAG, ECC, and CUB
7 would meet and confer regarding the recovery of costs to date and the impacts of
8 the cost recovery structure, including how many customers were exempt from the
9 surcharge rates throughout the recovery period. On or before September 1,
10 2022, MERC will submit a filing for implementation of year two rates to be
11 effective December 1, 2022, taking into account the following:

- 12 • Any determinations in the Commission's gas cost investigation, with a final
13 decision no later than August 1, 2022;
- 14 • Any other offsets such as litigation proceeds, state or federal relief, etc.;
- 15 • Actual extraordinary gas costs paid and recovered since the
16 implementation of the surcharge recovery in September 2021, including
17 the impacts of any over- or under-recovered amounts related to
18 differences in sales and the number of customers who are exempted from
19 the surcharge;
- 20 • The remaining extraordinary gas costs to be recovered over the remaining
21 12-months of recovery; and

- 1 • The impacts of the recovery structure and any proposed changes to that
2 structure such as the scope of customers exempted from the surcharge
3 rate.

4 The Executive Secretary would then have the authority to approve modifications
5 to the proposed year two rates by November 1, 2022 for implementation in
6 December 1, 2022.

7

8 Q. WHAT ELSE HAS THE COMMISSION REQUIRED WITH RESPECT TO THE
9 RECOVERY OF THE EXTRAORDINARY GAS COSTS?

10 A. In its August 30, 2021 Order, the Commission requested development of whether
11 it would be possible to assign extraordinary gas costs to customers or customer
12 classes based on their consumption during the February Market Event, and if so,
13 would it be reasonable to do so, as part of the contested case proceeding.

14

15 Q. WOULD IT BE POSSIBLE FOR MERC TO ASSIGN EXTRAORDINARY GAS
16 COSTS TO CUSTOMERS OR CUSTOMER CLASSES BASED ON THEIR
17 CONSUMPTION ON FEBRUARY 13/17, 2021?

18 A. No. It would not be possible for MERC to directly assign the extraordinary gas
19 costs to individual customers or customer classes based on actual usage during
20 the five-day February Market Event.

21

1 Q. WHY NOT?

2 A. MERC does not have daily usage data for all customers during the period
3 February 13-17, 2021. While MERC is in the process of implementing Advanced
4 Metering Infrastructure (“AMI”) technology for all of its customers, which has the
5 potential capability to provide access to more granular natural gas usage data
6 (e.g., daily usage data), such technology was not fully implemented as of
7 February 2021.

8

9 Q. EVEN IF MERC COULD DETERMINE ACTUAL USAGE FOR THE FIVE-DAY
10 PERIOD BY CUSTOMER OR CUSTOMER CLASS, WOULD IT BE
11 REASONABLE TO ASSIGN EXTRAORDINARY GAS COSTS TO CUSTOMERS
12 OR CUSTOMER CLASSES BASED ON THEIR ACTUAL CONSUMPTION
13 DURING THE FEBRUARY MARKET EVENT?

14 A. Even if daily customer meter data were available to allow for the allocation of
15 these costs based on individual customer usage during the February Market
16 Event, that assignment would not result in a more reasonable recovery of the
17 extraordinary gas costs than the recovery mechanism the Commission has
18 approved.

19

1 Q. WHY WOULD IT NOT?

2 A. I will answer that question in two parts – the first relates to the reasonableness of
3 assigning the cost to individual customers, and the second pertains to the
4 reasonableness of assigning costs to customer classes.

5
6 First, MERC's billing system, like those of the other gas utilities, is not set up to
7 charge a different rate for the same service type for different customers within the
8 same class. As such, recovering the costs associated with the February Market
9 Event from customers based on their actual usage, even if that data were
10 available, would require several, potentially thousands of different rates to be
11 established and assigned to customers within a particular customer class, such
12 as the residential class. Because such an approach is not consistent with how
13 we normally bill customers, the time it would take to design, implement and
14 validate such changes would be very long, and the associated expense would be
15 unreasonably high to be considered reasonable.

16
17 Additionally, assigning costs to customer classes is not any more reasonable
18 than the cost allocation and recovery approach agreed upon by the gas utilities,
19 OAG, Department, CUB and ECC. As previously noted, not all customers had
20 metering equipment at the time of the February Market Event that could measure
21 daily usage. Without such equipment, the usage for that period of time would
22 need to be calculated or otherwise estimated based on customers' monthly

1 usage for the billing period that included the February Market Event. This
2 process would be further complicated by a significant number of customers
3 where the February Market Event spanned two billing cycles. This estimation
4 process would require a number of assumptions and estimations – each of which
5 would cause the results to vary from the actual consumption of each customer
6 class. The result would be an estimate of usage during the February Market
7 Event, which would provide a no more reasonable approach to allocation to or
8 collection of the gas costs from customers relative to their actual usage during
9 the February Market Event.

10
11 Q. WHAT DOES THE COMPANY BELIEVE WOULD BE A REASONABLE WAY TO
12 CHARGE CUSTOMERS FOR PRUDENT EXTRAORDINARY GAS COSTS?

13 A. Consistent with what I described above, extraordinary gas costs should be
14 recovered through the volumetric surcharge with variable summer and winter
15 rates and a step in rates in the second year of recovery, with protections for low
16 income customers, that the Commission approved in its August 30, 2021 Order.
17 Phased recovery will provide time for the Commission’s prudence review to be
18 completed and to explore possible cost offsets, including federal or state funding
19 and other offsets, before the step-in recovery would be implemented in 2022.
20 Recovery over 27 months further balances considerations of intergenerational
21 inequities that result from out-of-period adjustments.

22

1 Q. HOW DOES THE VOLUMETRIC SURCHARGE RATE APPROVED BY THE
2 COMMISSION IN ITS APRIL 2021 ORDER HELP TO ENSURE A
3 REASONABLE ALLOCATION OF EXTRAORDINARY GAS COSTS TO
4 CUSTOMERS?

5 A. The volumetric recovery mechanism ensures that customers are charged based
6 on their usage. As the Commission concluded in its August 30, 2021 Order,
7 “Applying a volumetric rate will avoid the potential inequities of imposing
8 disproportionate burdens on lower-usage customers and will avoid undermining
9 the savings customers have achieved through energy-conservation investments,
10 consistent with Minn. Stat. § 216B.03.”¹⁵

11
12 Q. HOW DOES THE APPROVED SURCHARGE STRUCTURE, INCLUDING
13 SEASONALLY ADJUSTED RATES AND PHASED RATES, PROTECT
14 CUSTOMERS AND ENSURE JUST AND REASONABLE RATES?

15 A. Seasonally adjusted rates help to smooth the impacts and avoid larger impacts in
16 the winter when customers’ bills are otherwise greater due to higher natural gas
17 usage. As the Commission concluded in its August 30, 2021 Order, “Applying a
18 lower surcharge in the initial 15-month step of recovery will help to keep the
19 added financial burden lower in the near term, as Minnesotans continue to
20 recover from impacts of the COVID-19 pandemic. Additionally, the Commission
21 anticipates that the prudence review will be completed within the initial 15-month

¹⁵ August 30, 2021 Order at 15.

1 step while lower surcharge rates are in effect, which should afford ratepayers
2 protection against paying the higher year-two rates unless and until the utilities
3 prove those costs are just and reasonable.”¹⁶
4

5 VI. CONCLUSION

6 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

7 A. As supported by my testimony and the testimony of Ms. Mead and Mr. Sexton,
8 MERC’s actions and decisions before, during, and after the February Market
9 Event were reasonable and prudent. We took steps to implement our winter
10 preparedness planning, secure baseload, storage, and swing supplies to meet
11 customer needs under various potential weather, load, and market scenarios,
12 consistent with Commission-approved processes and structures. The
13 reasonableness and prudence of our actions during the February Market Event
14 must be evaluated in light of the circumstances of that event and the information
15 that was known or knowable at the time decisions needed to be made to meet
16 our customer needs. Based on that information, MERC acted reasonably to
17 utilize its available baseload and storage supplies and ensure adequate daily
18 natural gas purchases to reliably serve customers, while also avoiding the
19 potentially significant financial pipeline penalties in effect. Finally since the
20 February Market Event, the Company has worked to identify and pursue any

¹⁶ August 30, 2021 Order at 15.

1 opportunities for potential offsets or recoveries of the costs related to the event,
2 and to prevent or mitigate the potential impacts of future similar events.

3

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.

6

7

8