

January 29, 2018

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

RE: **Additional Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket Nos. G022/M-16-383 and G022/M-17-336

Dear Mr. Wolf:

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

2015 and 2016 *Annual Gas Service Quality Reports* (Reports) submitted by Greater Minnesota Gas, Inc. (Greater Minnesota or the Company).

The Reports were submitted on May 2, 2016 and May 1, 2017, respectively, by:

Kristine A. Anderson  
Corporate Attorney  
Greater Minnesota Gas, Inc.  
202 South Main Street, P.O. Box 68  
Le Sueur, Minnesota 56058

In an effort to better complete the record in this proceeding, the Department requests that the Commission accept these *Additional Response Comments*. Based on its review of Greater Minnesota's *Reply to Response Comments*, the Department recommends that the Commission accept Greater Minnesota's 2015 and 2016 Reports.

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

Sincerely,

/s/ ADAM J. HEINEN  
Rates Analyst  
651-539-1825

AJH/lt

## Before the Minnesota Public Utilities Commission

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

Docket Nos. G022/M-16-383 and G022/M-17-336

#### I. BACKGROUND

On May 2, 2016, Greater Minnesota Gas, Inc. (Greater Minnesota or the Company) filed its 2015 Annual Gas Service Quality Report (2015 Report) and, on May 1, 2017, Greater Minnesota filed its 2016 Annual Gas Service Quality Report (2016 Report) (collectively referred to as Reports). On June 16, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed *Comments* recommending that Greater Minnesota provide additional information in its *Reply Comments*. Greater Minnesota responded to these requests in its July 5, 2017 *Reply Comments*. The Department reviewed this information and filed *Response Comments* on November 14, 2017. In its *Response Comments*, the Department withheld recommendation on the Company's Reports subject to the provision of additional information in this record regarding an emergency response incident. Specifically, the Department requested that Greater Minnesota provide the following in this record:

- Clarification as to whether the call in question was one of several in the same area, or was in addition to those calls;
- Name of the other utility referenced in the Company's *Reply Comments*;
- Number of trained emergency technicians available for the geographic location in question;
- Detailed discussion of all emergency response time improvements that have been undertaken, or are planned to implemented, as a result of the incident discussed above;
- Detailed discussion of the process Greater Minnesota uses to coordinate emergency response with other natural gas utilities; and
- Detailed discussion of whether an agreement, either formal or informal, exists between Greater Minnesota and other natural gas utilities regarding mutual aid in the event that unanticipated emergency response event volumes occur.

The Department also recommended that the Company clarify whether Greater Minnesota uses information from actual mislocate incidents to help train its employees or contractor employees. If Greater Minnesota already employs this technique, the Company should alert the Commission to this fact and, if the Company does not use actual events as a training tool, the Department recommends that Greater Minnesota employ this technique on a going forward basis.

Greater Minnesota filed its *Response to Reply Comments* on November 21, 2017 providing additional information on the emergency response incident in question, emergency response training, and a discussion of service extension costs. The Department responds to the Company's *Response to Reply Comments* below.

## **II. RESPONSE TO GREATER MINNESOTA'S REPLY TO RESPONSE COMMENTS**

The Department responds separately to two issues below. First, the Department responds to Greater Minnesota's discussion regarding its application of its service extension tariff. Second, the Department responds to the Company's discussion regarding its 94-minute emergency response and the circumstances surrounding this event.

The Department notes that Greater Minnesota did not respond to, the Department's request that Greater Minnesota provide additional information regarding mislocate training, specifically, whether the Company uses actual, historical mislocate events in its employee training. The Department regrets that it did not include this request in the listed information in the CONCLUSIONS AND RECOMMENDATIONS section of its *Response Comments*, which may have contributed to Greater Minnesota's failure to respond to the Department's request. While the lack of this information does not impact the Department's ultimate recommendation in this docket, the Department continues to believe this is useful information to the Commission and a discussion should be provided in this record.

As an initial matter, the Department responds to a mischaracterization of the Department's position in Greater Minnesota's *Reply to Response Comments*. Specifically, Greater Minnesota stated:

In its *Response Comments*, the Department acknowledged that GMG's *Reply Comments* were responsive and sufficient. Nonetheless, in the interest of developing the record further and exploring two isolated situations, the Department requested additional information.

The Department notes that the Company's *Reply Comments* were fully responsive and sufficient regarding all but one very important area of concern – emergency response incidents. Further, the Company's reference to "two isolated situations" appears to minimize the issues raised by the Department. Timely responses to emergencies are an important part of a utility's overall service quality; therefore, it is important, and necessary, for a utility to thoroughly explain the circumstances surrounding an unusual event, such that the Commission is satisfied that ratepayers are being provided with a safe and reliable service. Given the information available when it filed *Response Comments*, the Department concluded that Greater Minnesota had not adequately addressed issues associated with the 94-minute emergency response incident.

A. APPLICATION OF EXTENSION TARIFF

Greater Minnesota provided requested information in its *Reply Comments* regarding payments made to individual customers related to resolving service extension complaints. The information provided by Greater Minnesota resolved the Department's concerns that the payments may have constituted preferential treatment and reflected a misapplication of the Company's service extension tariff. However, the Department recommended that the Commission require Greater Minnesota to provide in the Company's next general rate case a detailed discussion of cost recovery for any such credits provided.

Greater Minnesota provided additional discussion of this topic in its *Reply to Response Comments*. In terms of future cost recovery, the Company began its discussion by noting that this issue was best dealt with in this proceeding since the total size of the credits (\$785.98) is *de minimis* when considered overall. Greater Minnesota stated that it will decrease the book value of the assets that were installed for these customers that caused the credits in question and, as such, there will be no request for recovery in any future rate case. As part of its discussion, Greater Minnesota expressed frustration with the lack of flexibility, presumably in the light of the Department's discussion in this docket, that will be afforded the Company in exercising its business judgment despite its historical record of fairness and exceptional service. The Company also stated that a nominal amount of discretion is necessary and appropriate such that it will allow the Company to make business decisions that do not conflict with its tariff and that do not result in unfair treatment of its ratepayers.

The Department appreciates Greater Minnesota's clarification regarding its treatment of costs for these two service extensions. Given the Company's treatment, the Department no longer has concerns with the credits; however, GMG's position that the Commission should not concern itself with *de minimis* amounts is somewhat troubling.. Minnesota Statutes, section 216B.16, subd. 4 states, "The burden of proof to show that the rate change is just and reasonable shall be on the public utility seeking the change." Thus, if an issue as to reasonableness arises, the utility is obligated to support its position. If the utility is not able to, or refuses, to support its position, the related cost may be disallowed.<sup>1</sup> In terms of service extension costs, the Department notes that the Commission has made rate base adjustments for amounts similar to the credits discussed in this docket, and for similar reasons (*i.e.*, utility employee errors).<sup>2</sup>

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<sup>1</sup> Minn. Stat. section 216B.03 states, in part: "Any doubt as to reasonableness should be resolved in favor of the consumer."

<sup>2</sup> June 26, 2009 Direct Testimony of Department Witness Bryan Minder and January 11, 2010 *Order* in Docket No. G008/GR-08-1075 (Department Attachment A-1).

The Company's concern regarding the ability to retain flexibility in its business decisions appears to be misplaced. As noted in its *Response Comments*, the Department concluded that Greater Minnesota did not apply its service extension tariff in an unjust or prejudicial manner and that any adjustments to customer bills were the direct result of mistakes by the Company. The Department agrees with GMG that it is free to make business decisions that do not conflict with its tariff and that do not result in unfair treatment of its ratepayers. That being said, if the Company makes business decisions that fall outside of its tariff, or are questionable in terms of reasonableness, it risks cost disallowance or other Commission action.

**B. EMERGENCY RESPONSE**

In its initial *Comments*, the Department requested additional clarification regarding two incidences in 2016 in which it took approximately 90 minutes (*i.e.*, 94 minutes, 88 minutes) for technicians from the Company to respond to gas emergency calls. Greater Minnesota provided additional information on both incidences in its *Reply Comments*. After reviewing additional information regarding the 88-minute incident, the Department concluded that this response time was acceptable. Based on the information provided regarding the 94-minute incident, the Department expressed concern that Greater Minnesota may not have sufficient technicians available to respond to emergency calls, in particular, to a large volume of calls during a short period of time. Further, it remained unclear whether the Company is adequately coordinating with other natural gas utilities. Given these continued concerns, the Department recommended that Greater Minnesota provide additional clarifying information in the record.

The Company provided additional discussion regarding the 94-minute incident in its *Reply to Response Comments*. Greater Minnesota noted that the call in question occurred after-hours while the on-call technician was responding to another emergency. As noted earlier in this proceeding, the Company responded to several other gas calls in the same geographic area as the call in question and these calls were ultimately related to an over-odorization issue. Greater Minnesota noted that the call occurred in the Mankato area where both the Company and CenterPoint Energy have facilities. Greater Minnesota further explained that it has six trained technicians in the Mankato area along with five other employees in other parts of the Company's service territory that could be reassigned in response to an abnormal event. The Department appreciates this additional information.

The Department also requested that Greater Minnesota provide a detailed discussion of all emergency response time improvements that have been undertaken, or are planned to be implemented, because of the 94-minute incident. Greater Minnesota stated in *Reply to Response Comments* that it is constantly engaged in self-assessment following emergency response incidents and that it has regular safety meetings and, when there is an anomaly such as a lengthy response, the Company conducts tabletop exercises to improve responses.

Greater Minnesota concluded its discussion by noting that it consistently works to ensure safety and adopt best practices.

Greater Minnesota's response is positive, but very general. Based on the Company's response, it does not appear that Greater Minnesota has engaged in specific process improvements related to the incident in question. The Department does not take a position on whether this is appropriate but makes the following observation. After reviewing the additional clarifying information *Reply to Response Comments*, the Department notes that having additional technicians on-call, in light of the earlier emergency response activity in the area, may have mitigated the long response time in question and is a potential process improvement that Greater Minnesota should consider. The Department fully expects that Greater Minnesota will use all available information and operational experiences to train its technicians and emergency responders and improve its emergency response times.

The Company also stated, "The Department's Response Comments intimate that it thinks GMG should regularly rely on mutual aid agreements for emergency response." This statement is incorrect; the Department has no opinion as to the extent to which Greater Minnesota does or should rely on mutual aid agreements. The Department's request for additional information regarding cooperation with other utilities was intended to ensure that the record fully reflects the circumstances surrounding the incident, including whether mutual aid was available and/or was relied upon, particularly given the appearance that the event in question was unusual.<sup>3</sup> Based on GMG's *Reply to Response Comments*, the 94-minute incident was not an incident that would illicit support from other utilities and, it would appear, that similar situations in the future would not require additional support. The Department appreciates clarification on this subject and does not take a position on when mutual aid or cooperation is appropriate or necessary.

After reviewing the information provided in the Company's *Reply to Response Comments*, the Department recommends that the Commission accept Greater Minnesota's 2015 Report. In terms of the Company's 2016 Report, the Department also recommends that the Commission accept the filing; however, based on the record to-date, the Commission may conclude that Greater Minnesota's general response regarding its emergency response process is inadequate and therefore require the Company to use the fact situation of the 94-minute emergency response incident to develop a process improvement that may prevent a similar incident from occurring in the future.

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<sup>3</sup> The unusual nature of the events surrounding this incident are confirmed by the Company's statement that: "The situation presented an unforeseen circumstance that is not representative of GMG's emergency response times." *Reply to Response Comments*, Page 3.

### **III. CONCLUSIONS AND RECOMMENDATIONS**

Based on its review of Greater Minnesota's *Reply Comments* and *Reply to Response Comments*, the Department recommends that the Commission accept the Company's 2015 and 2016 Annual Service Quality Reports.

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1           4.    *Review of CenterPoint's Responses to the Commission's 90-563 Order*

2    **Q. Did CenterPoint respond to the Commission's request in its 90-563 Order?**

3    A. Yes. As discussed above in Section IX.D.3, CenterPoint's responses to each of the  
4    Commission's questions are provided in the Direct Testimony of Mr. Nesvig.

5  
6    **Q. Does CenterPoint adequately address the Commission's questions contained in its  
7    90-563 Order?**

8    A. Yes. As discussed above, CenterPoint includes a general discussion of the Company's  
9    position regarding each of the 6 extension policy questions. I respond to the Company's  
10   discussion and present above in my Direct Testimony the OES's view regarding each of  
11   these 6 questions.

12  
13   **Q. Earlier you mentioned the three concerns raised by the Commission in its 90-563  
14   Order. Did CenterPoint respond to each of the three concerns?**

15   A. Yes. I address below the Company's response to each of the Commission's three  
16   concerns.

17  
18           *i. Commission Concern No. 1: Whether CenterPoint Correctly and Consistently  
19           Applied its Extension Tariff Since Its Last Rate Case*

20   **Q. Please summarize CenterPoint's response regarding the Commission's first  
21   concern, whether the Company has applied its extension tariffs correctly and  
22   consistently since its last rate case.**



1 A. CenterPoint states that the Company is correctly and consistently applying its extension  
2 tariff. As discussed in greater detail below, CenterPoint bases this assertion on the results of  
3 a randomly selected sample of main line and service line extension projects completed in  
4 2005, 2006, and 2007. Table 11 below compares the total amount of service line and main  
5 line projects completed in each of these three years with the size of the Company's samples  
6 from the total annual amount of projects.

7 **Table 11: A Comparison of CenterPoint's Annual Total Extension Projects**  
8 **Completed in 2005-2007 and the Annual Sample of Total Extension Projects**  
9

<u>Type of Extension Project</u>	<u>Total</u>	<u>Sample</u>	<u>Sample as a % of Total</u>
12 Service Line Extensions in 2005	12,433	194	1.6%
13 Main Line Extensions in 2005	528	194	36.7%
14 Service Line Extensions in 2006	9,567	229	2.4%
15 Main Line Extensions in 2006	512	229	44.7%
16 Service Line Extensions in 2007	6,295	158	2.5%
17 Main Line Extensions in 2007	320	158	49.4%

18  
19 **Q. Did CenterPoint provide any description of the method it used to randomly select the**  
20 **sample of extension projects completed during the period 2005 through 2007?**

21 A. Yes. The Company's descriptions include the following:

- 22 • A file of main line extension projects and a file of service line projects were  
23 created for each year, with audit software used to determine the appropriate  
24 sample size;
- 25 • for main line extensions, the sample size selection criteria provided a 95 percent  
26 confidence level that the expected error rate in the sample would be 1.45 percent  
27 or less for the 2005 sample, 1.55 percent or less for the 2006 sample, and 1.00  
28 percent or less for the 2007 sample and the total error rate in the population  
29 would not exceed 4 percent;

- 1           • for service line extensions, the sample size selection criteria provided a 95  
2           percent confidence level that the expected error rate in the sample would be 1.28  
3           percent or less for the 2005 sample, 1.55 percent or less for the 2006 sample, and  
4           1.00 percent for the 2007 sample, and the total error rate in the population would  
5           not exceed 4 percent;
- 6           • the expected error rates in these samples were based on the actual deviation rates  
7           determined from the main line and service line extension samples in the  
8           Company's 2005 rate case; and
- 9           • the audit software used by the Company indicates that it would be acceptable to  
10          find no more than 3 errors in each of the main line and service line samples in  
11          2005, 4 errors in 2006, and 2 errors in 2007.

12          See Mr. Nesvig's Direct Testimony, page 108, line 21 through page 109, line 10.

13  
14          **Q. Did CenterPoint discuss how its sampling method in the present docket compares with**  
15          **the sampling method that the Company used in its 2005 rate case?**

16          A. Yes. CenterPoint states that the sampling methodology in both dockets are the same. See  
17          Mr. Nesvig's Direct Testimony, page 108, lines 19 through 21.

18  
19          **Q. What is your conclusion with respect to the Company's proposed sampling method?**

20          A. Since the Commission accepted the sampling method used by CenterPoint in its 2005 rate  
21          case, I do not oppose the Company's use of the same sampling method in the present  
22          docket. However, as discussed below, CenterPoint has not presented any analysis showing  
23          compliance with its extension tariff using a method approved by the Commission in Xcel

1 Energy’s 2006 natural gas rate case proceeding and, most recently, in the 2008 natural gas  
 2 case of MERC. The Commission’s method uses the amount of uncollected CIAC as a  
 3 percentage of the CIAC that should have been collected to determine compliance with the  
 4 utilities’ extension tariffs.

5  
 6 **Q. Of the extension samples selected by the Company, what is the breakout by year  
 7 between commercial and residential service line and main line extension projects?**

8 A. Table 12 below provides this information.

9 **Table 12: Breakout of CenterPoint’s Samples of**  
 10 **Residential and Commercial Extension Projects**  
 11 **(2005-2007)**

	Total	Residential	Residential	Commercial	Commercial
Type of Extension Project	Sample	Sample	Sample as a % of Total Sample	Sample	Sample as a % of Total Sample
2005 Service Line Extensions	194	179	92.3%	15	7.7%
2005 Main Line Extensions	194	158	81.4%	36	18.6%
2006 Service Line Extensions	229	210	91.7%	19	8.3%
2006 Main Line Extensions	229	160	69.9%	69	30.1%
2007 Service Line Extensions	158	141	89.2%	17	10.8%
2007 Main Line Extensions	158	110	69.6%	48	30.4%

24 **Q. Beginning with the Company’s sample of commercial and residential service line  
 25 extension projects, what results does CenterPoint report with respect to compliance  
 26 with its extension tariff?**

27 A. CenterPoint reports that in the commercial service line extension projects sampled, the  
 28 Company complied with its extension tariffs with no exceptions. See Mr. Nesvig’s Direct  
 29 Testimony, page 111, lines 8 through 13.

30 In addition, CenterPoint initially reported that in the residential service line  
 31 extension projects sampled, the Company identified 3 errors in the 2005 sample, 2 errors in

1 the 2006 sample, and 2 errors in the 2007 sample. See Mr. Nesvig's Direct Testimony, page  
2 110, lines 12 through 19. See also Mr. Nesvig's Exhibit \_\_\_\_ (KRN-WP), Volume 4,  
3 Schedule 50, Workpaper 1, page 9.

4  
5 **Q. Did the Company provide a general explanation of the nature of the 7 errors in its**  
6 **rate case filing?**

7 A. Yes. CenterPoint states that the errors the Company found were mistakes or human  
8 errors resulting from a lack of experience in performing these calculations. CenterPoint  
9 also states that the section of the Company responsible for performing the residential  
10 service line tariff calculations consists of entry level clerical positions that experience  
11 high turnover and where training occurs on the job. See Mr. Nesvig's Direct Testimony,  
12 page 110, line 21 through page 111, line 6.

13  
14 **Q. Did CenterPoint provide additional details about the circumstances surrounding**  
15 **errors in applying the extension tariff for the 7 residential service line extension**  
16 **projects as identified by the Company?**

17 A. Yes. CenterPoint provides additional information in its response to OES IR No. 923.  
18 See OES Attachment No. \_\_\_\_ (BJM-21).

19  
20 **Q. What is your observation with regard to the information provided by the Company**  
21 **relating to the 7 residential service line extension errors?**

22 A. Based on my review of information provided by CenterPoint in its response to OES IR  
23 No. 923, each of these 7 errors appears to be primarily related to employees with limited

1 experience who were attempting to correctly apply the Company's extension tariff.

2 However, I note that it is the Company's responsibility to ensure that these calculations  
3 are performed accurately. Thus, assigning calculations to entry level personnel without  
4 an adequate check of their work is not a reasonable excuse for the errors.

5  
6 **Q. Did CenterPoint discuss what steps, if any, the Company has taken to improve its  
7 service extension procedures in the future in order to reduce such errors?**

8 A. No. CenterPoint should take the opportunity to address this issue in its Rebuttal  
9 Testimony. I reserve the right to respond to the Company on this issue in my Surrebuttal  
10 Testimony.

11  
12 **Q. Did CenterPoint identify the financial impact of the residential service line extension  
13 sampling errors?**

14 A. Yes. In its response to OES IR No. 923, CenterPoint states that it undercharged \$2,348  
15 related to the 7 service line extension orders from the sample, as initially identified in the  
16 Company's rate case filing.

17  
18 **Q. Did CenterPoint extend the financial impact of the sampling errors in residential  
19 service line extensions, as identified by the Company, to the entire population of  
20 extensions?**

21 A. No. As discussed above, CenterPoint states there is no systematic problem with the  
22 Company's application of its extension tariff. Specifically, CenterPoint asserts that the

1 errors found in the service line sample were human error and were within the allowed  
2 number of errors in accordance with the sampling criteria discussed above.

3  
4 **Q. Do you agree with the Company's proposal for no disallowance associated with**  
5 **these 7 errors?**

6 A. No. Although I do not challenge the Company's sampling criteria discussed above, the  
7 dollar amount of three of these largest errors was \$220, \$816, and \$1,120. If similar  
8 patterns and dollar sizes of errors occurred in the overall annual population of residential  
9 service line extensions for 2005, 2006, and 2007, the financial impact could involve a  
10 considerable amount of under-collected CIAC. In that event, CenterPoint's errors may  
11 have resulted in existing customers unduly subsidizing new customers. Moreover, in  
12 Xcel Energy's 2006 natural gas rate case proceeding, the Commission used the amount of  
13 uncollected CIAC as a percentage of the CIAC that should have been collected to  
14 determine Xcel Energy's compliance with its extension tariff. See page 14 of the  
15 Commission's September 10, 2007 *Findings of Fact, Conclusions of Law, and Order* in  
16 Docket No. G002/GR-06-1429. The Commission also used this evaluation method in  
17 determining MERC's compliance with its extension tariff in MERC's 2008 natural gas  
18 rate case proceeding in Docket No. G007,011/GR-08-835.

19  
20 **Q. Has the Company shown compliance with its mains extension tariff using the**  
21 **Commission's evaluation method?**

22 A. No. CenterPoint has not presented an analysis showing compliance with the  
23 Commission's evaluation method.

1 **Q. Do you recommend a specific disallowance at this time?**

2 A. I do not recommend a specific allowance at this time because I do not have sufficient data  
3 to do so. As such, I reserve the right to recommend a disallowance. The data that I need  
4 to calculate a disallowance under the Commission's evaluation method includes:

- 5 • the amount of CIAC collected;
- 6 • the amount of CIAC required per the tariff;
- 7 • the total cost of each of the Company's extension samples; and
- 8 • the total cost of the Company's overall extensions included in the test year.

9 Since I do not have all of this information, I am continuing my investigation in this  
10 matter and will update my recommendations in either my Rebuttal Testimony or my  
11 Surrebuttal Testimony.

12  
13 **Q. Turning next to the Company's sample of commercial and residential main line**  
14 **extensions, what results does CenterPoint report with respect to compliance with its**  
15 **extension tariff?**

16 A. In the commercial main line projects sampled, CenterPoint reports that the Company is in  
17 compliance with its tariffs. In the residential main line extension projects sampled,  
18 CenterPoint reports that although the Company correctly applied its extension tariff in 2006,  
19 the Company did not correctly apply its extension tariff 3 times in 2005 and once in 2007.  
20 See Mr. Nesvig's Exhibit\_\_\_(KRN-D), Schedule 57.

1 **Q. What is the Company's assertion with respect to its main sample?**

2 A. CenterPoint asserts that there is no systematic problem in the Company's application of its  
3 tariffs. CenterPoint states that the errors found in the main sample were human errors and  
4 within the allowed number of errors in accordance with the sampling criteria used by the  
5 Company. See Mr. Nesvig's Direct Testimony, page 113, lines 5 through 8.

6  
7 **Q. Did CenterPoint identify the financial impact of the residential main line extension  
8 sampling errors?**

9 A. Yes. CenterPoint reports that it did not collect CIAC of \$11,484 associated with 3  
10 residential main line errors in 2005. CenterPoint also reports that it late-collected CIAC of  
11 \$1,602 from a customer in 2007. The total dollar amount of these errors is \$13,088.

12  
13 **Q. Did CenterPoint extend the financial impact of the sampling errors for the residential  
14 main line extensions, as identified by the Company, to the entire population of  
15 extensions?**

16 A. No. As discussed above, CenterPoint asserts that there is no systematic problem with the  
17 application of its extension tariff.

18  
19 **Q Do you agree with the Company's proposal for no disallowance associated with these 4  
20 errors?**

21 A. No. Although I do not challenge the Company's sampling criteria discussed above, the  
22 dollar amount of these errors is \$13,088. If similar patterns and dollar sizes occurred in the  
23 overall annual populations for 2005 and 2007, the financial impact could involve a



1 considerable amount of under-collected or late-collected CIAC. In that event, CenterPoint's  
2 errors may have resulted in existing customers unduly subsidizing new customers.

3 Moreover, as discussed above, in Xcel Energy's 2006 rate case proceeding, the Commission  
4 used the amount of uncollected CIAC as a percentage of the CIAC that should have been  
5 collected to determine compliance with Xcel Energy's extension tariff.

6  
7 **Q. Has the Company shown compliance with its service line extension tariff using the**  
8 **Commission's evaluation method?**

9 A. No. CenterPoint has not presented an analysis showing compliance with the Commission's  
10 evaluation method.

11  
12 **Q. Do you recommend a specific disallowance at this time?**

13 A. Not at this time. As discussed above, I am continuing my investigation in this matter,  
14 including the collection of sufficient data to recommend a disallowance. I will update my  
15 recommendations in either my Rebuttal Testimony or Surrebuttal Testimony.

16  
17 **Q. Please generally describe how you investigated CenterPoint's compliance with the**  
18 **Company's current tariff with respect to main line and service line extensions.**

19 A. I conducted an onsite examination of a certain number of records relating to the main line  
20 and service line extension projects that CenterPoint randomly selected, using the  
21 sampling method discussed above. These records included documents such as a list of  
22 materials used at the extension projects, project justification forms, field notes from

1 Company staff, and facilities maps. (These documents are available upon request.) I also  
2 interviewed Company staff.

3  
4 **Q. Please describe the methods you used to choose the extension records that you**  
5 **examined.**

6 A. In Mr. Nesvig's Exhibit \_\_\_\_ (KRN-WP), Volume 4, Schedule 57, Workpapers 1 through  
7 12, CenterPoint provides a description of each extension project selected by the Company  
8 for its sample. Using the information contained from this workpaper, I used several  
9 criteria to select a non-random sample of each type of extension project (*i.e.*, residential  
10 service line, commercial service line, residential main line, and commercial main line)  
11 that I used in my examination, including the following:

- 12 • at least approximately 10 percent of the total number of sampled extension  
13 projects for 2005, 2006, and 2007;
- 14 • the amount of lines required; and
- 15 • the amount of customer contribution.

1 **Q. How many of each type of extension project did you select for your examination?**

2 A. Table 13 below provides this information.

3 **Table 13: A Summary of Types of the CenterPoint's**  
 4 **Extension Projects Examined by the OES**

5 Type of Extension Project	6 Company Sample	7 OES Examined	8 Examined as a % of Sample
9 2005 Residential Service Line Extensions	179	20	11.2%
10 2005 Commercial Service Line Extensions	15	2	13.3%
11 2005 Residential Main Line Extensions	158	1	10.1%
12 2005 Commercial Main Line Extensions	36	4	11.1%
13 2006 Residential Service Line Extensions	210	23	11.0%
14 2006 Commercial Service Line Extensions	19	2	10.5%
15 2006 Residential Main Line Extensions	160	16	10.0%
16 2006 Commercial Main Line Extensions	69	7	10.1%
17 2007 Residential Service Line Extensions	141	16	11.3%
18 2007 Commercial Service Line Extensions	17	2	11.8%
19 2007 Residential Main Line Extensions	110	10	9.1%
20 2007 Commercial Main Line Extensions	48	4	8.3%
21 Total Extension Projects Examined	1,162	122	10.5%

22 **Q. Based on your examination, what observations do you have with respect to**  
 23 **compliance with the Company's extension tariff?**

24 A. I am not able to conclude at this time that CenterPoint has correctly and consistently  
 25 applied its extension tariff since its 2005 rate case. For example, Extension Project  
 26 39261664 involves a 2006 commercial main extension that required a CIAC of \$23,840  
 27 to be paid by the customer. CenterPoint has been unable to document that the customer  
 28 paid this CIAC.

30 **Q. What are your conclusions concerning the Company's responses to the**  
 31 **Commission's first concern?**

32 A. As discussed above, I conclude at this time that CenterPoint has not shown that the  
 33 Company correctly and consistently applied its extension tariff since the Company's  
 34 2005 rate case. I am continuing my investigation in this matter, including the collection

1 of sufficient data to recommend a specific disallowance, and I will present my  
2 recommendation in either my Rebuttal Testimony or Surrebuttal Testimony.

3  
4 *ii. Commission Concern No. 2: Whether CenterPoint's Service Related Additions Are*  
5 *Appropriately Cost and Load Justified.*

6 **Q. Please summarize CenterPoint's response in its rate case filing regarding the**  
7 **Commission's second concern as to whether the Company's service related**  
8 **additions are appropriately cost and load justified.**

9 A. CenterPoint states that its current tariffs are presumed to be cost and load justified.  
10 CenterPoint also asserts that since it has shown correct and consistent application of the  
11 Company's tariffs since its last rate case, CenterPoint's investments in these extension  
12 projects have been reasonable. See Mr. Nesvig's Direct Testimony, page 95, lines 4  
13 through 11.

14  
15 **Q. Did CenterPoint provide additional information with respect to the Commission's**  
16 **second concern?**

17 A. Yes. In response to OES IR No. 922, CenterPoint provides a quantitative analysis that,  
18 according to the Company, demonstrates the cost and load justification of operating  
19 under its current tariffs. CenterPoint states that the Company included a quantitative  
20 analysis viewing a typical extension (based on allowed tariffed footage lengths of both  
21 main and service lines) from a revenue requirements perspective. See OES Attachment  
22 No. \_\_\_\_ (BJM-22).

The Commission's order in the Company's last rate case was clear that the Company would be held to a high standard on exhausting its legal remedies against third parties, including its insurance company. The order explicitly held, over Company objections that deferral was unnecessary in light of its firm commitment to exhaust third-party remedies, that it was prudent "to defer some meaningful level of recovery as additional motivation to promote the Company's full exploration of the Company's rights to recover against the third parties."<sup>27</sup>

The Company has failed to demonstrate that it fully explored and pursued all possible sources of third-party recovery. It has provided no account of the sources explored, the fact-finding and analyses conducted, the conclusions reached. Importantly, it has provided no account of its investigation into potential recovery from its insurer, normally a first line of defense against catastrophic losses. It seeks ratepayer recovery without an adequate showing that no other recovery is or was available.

The burden of proof was on the Company to demonstrate that it had conducted a thoroughgoing investigation into all possible sources of third-party recovery and had diligently pursued all sources presenting any reasonable possibility of success. The Company did not meet this burden. Under Minn. Stat. § 216B.03, any doubt as to the reasonableness of any rate is to be resolved in favor of the consumer. The Commission will therefore deny rate recovery of the \$4,000,000 in Midwest Gas Replacement Project costs sought by the Company, as well as the \$500,000 sought in carrying charges.

Finally, since the Commission must deny rate recovery of the specific project costs the Company seeks to recover in this rate case for failure to meet its burden of proof, it is not necessary to address the broader and less directly related prudence issues raised by the SRA and the RUD-OAG.

## **IX. Main and Service Line Extension Costs**

### **A. Introduction**

#### **1. The Natural Gas Competition Investigation Docket**

In 1990, the Commission opened an industry-wide investigation into competition between Minnesota's natural gas utilities.<sup>28</sup> Minnesota law does not grant gas utilities exclusive service areas, as it does electric utilities, and it appeared that some gas utilities were engaged in "races" to serve new communities, often at the expense of existing customers, who bore many of the costs of the new mains and service lines required to serve the new customers. The purpose of the investigation was to explore mechanisms for ensuring that the competing interests of existing customers, individual utilities, and persons seeking access to the advantages of natural gas service were properly balanced.

One of the main mechanisms identified for ensuring equitable treatment of new and existing customers – and for preventing the proliferation of duplicative natural gas systems – was tariffs

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<sup>27</sup> *In the Matter of the Application of CenterPoint Energy Minnesota Gas, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-05-1380, Findings of Fact, Conclusions of Law, and Order (November 2, 2006) at 10.

<sup>28</sup> *In the Matter of an Inquiry into Competition Between Gas Utilities in Minnesota*, Docket No. G-999/CI-90-563.

that required new customers to pay the “excess” costs of extending service to them. “Excess” costs meant service extension costs that would not be recovered through the new customers’ rates within a specified time period, usually three to five years. Utilities were to develop formulas for determining these costs, generally on the basis of extension footage but sometimes on the basis of extension costs, and to tariff the resulting charges, called “Contributions in Aid of Construction” charges.

The Commission closed the natural gas competition docket in 1995, finding that future, individual rate cases would be the best vehicle for ensuring that utilities’ service extension policies and practices were reasonable, equitable, and consistently applied. The order asked the parties to address “the following kinds of issues” in future rate cases:

- What portion of service extensions should be free to individual customers
- How utilities should determine which extensions are economically feasible and which require charging customers excess footage charges
- Whether excess-footage service extension charges should be based on total cost or total footage
- When already-collected excess-footage service extension charges should be refunded
- Whether, and under what circumstances, customers should be permitted to use an independent contractor to install service lines
- Whether utilities should offer financing options to customers facing excess-footage service extension charges

The order also asked the Department of Public Service (now the Office of Energy Security) to investigate the following issues in future, individual rate cases:

- Whether the company is applying its excess-footage service extension tariffs correctly and consistently
- Whether the company’s service extensions are cost-justified and load-justified
- Whether wasteful additions to plant and facilities are sought to be included in rate base.

## **2. This Rate Case Filing**

The Company’s filing and the OES’s comments addressed the issues identified in the 1995 order in the docket investigating competition between Minnesota gas utilities. Neither party saw evidence of the kind of widespread uneconomic service extensions the 1990 investigatory docket was opened to address and forestall. Neither party saw evidence of systemic failure to consistently apply service extension tariffs requiring Contributions in Aid of Construction. In short, neither party saw evidence of a need for a comprehensive investigation into the Company’s service extension policies and practices.

Where the parties differed was on whether the Company had demonstrated its right to recover in rates the full costs of all new main and service extensions completed since its last rate case.

To demonstrate compliance with the 1995 order, the Company had conducted a random sampling of service and main line extensions completed since its last rate case and compared the Contributions in Aid of Construction actually assessed to new customers with the Contributions in Aid of Construction required under its tariffs. That sampling revealed eleven inaccurate tariff applications for residential customers – all resulting in the under-collection of Contributions in Aid of Construction – and none for commercial customers.

The Company contended that these under-collections were within acceptable margins of human error and required no adjustment to the costs it sought to recover from ratepayers in rates. The OES calculated the total amount of under-collected Contributions in Aid of Construction on all new service and main extensions, extrapolating from the under-collected amounts identified in the random sampling, and recommended disallowing rate recovery of \$175,421 in extension costs and related adjustments.

## **B. Positions of the Parties**

### **1. The Company**

The Company objected to the disallowance proposed by the OES on grounds that, in its last rate case, the Commission had not analyzed its service and main extension costs in the manner now proposed by the Department and that it was unfair to examine them in that manner now without prior notice.

The Company also objected that it was unfair for the OES to recommend an approach that the Commission had used in recent rate cases for other companies (the extrapolation from errors identified in random sampling), when the Company had received no notice that the Commission might or would examine its service and main extension costs in that manner.

The Company argued that its compliance with the filing requirements of the 1995 industry-wide order in the gas competition docket, together with its demonstration of substantial compliance with its service and main extension tariffs, established its right to recover its full service and main extension costs from ratepayers.

### **2. The OES**

The OES concurred with the Company that it had complied with the filing requirements of the 1995 industry-wide gas competition order and had demonstrated substantial compliance with its main and service extension tariffs.

The agency also contended, however, that, while the small number of errors identified in the Company's random sampling did not demonstrate systematic non-compliance with its tariffs, these errors did demonstrate a need to make a small adjustment in the amount the Company sought to recover from ratepayers for main and service line extensions.

## **C. The Recommendation of the Administrative Law Judge**

The Administrative Law Judge concurred with the Company that compliance with the requirements of the 1995 industry-wide order, including a demonstration of substantial compliance with its main and service extension tariffs, made its service extension costs rate-recoverable.

## **D. Commission Action**

The Commission respectfully declines to adopt the findings and recommendations of the ALJ on this issue.

The issue on which rate recovery turns is not the Company's compliance with the filing requirements of the 1995 order on competition between natural gas utilities; the issue on which rate recovery turns is whether the Company has demonstrated that the amounts it seeks to charge ratepayers for new main and service extensions are reasonable and accurate.

The record demonstrates that the Company has erroneously applied its residential service extension tariffs in a manner that has inflated its rate base by some \$175,421. These errors do not rise to a level justifying a comprehensive inquiry into the Company's service extension policies and practices. These errors do rise to a level justifying the disallowance of costs erroneously charged to ratepayers, however.

The filing requirements of the 1995 order and the normal rate case review of claimed costs and expenses perform different functions. The 1995 order requirements are designed to ensure that competition between natural gas utilities does not result in utilities exploiting their existing customer base to expand their service areas beyond economically sound parameters. Normal rate case review of claimed costs and expenses is designed to ensure that ratepayers do not bear costs that are inaccurate or that would not have been included in rates had the utility exercised reasonable care and diligence.

Charging the general body of ratepayers for costs that were, by tariff, the responsibility of individual customers is not reasonable, and rate recovery of those costs will be disallowed.

The Commission does not concur that meeting the requirements of the 1995 order ensures rate recovery of all claimed main and service extension costs; compliance with the terms of that order merely provides the information required to alert regulators if a utility is engaged in irresponsible or exploitative competition with another gas utility. The 1995 order does not speak to the issue of how the Commission should examine the reasonableness of utility requests to include main and service extension costs in rates.

Neither does the Commission concur that the Company lacked notice that the Commission would examine the reasonableness and accuracy of its claimed main and service extension costs in this case and was blindsided by the OES's recommendation. The Company appears to be mistaken in claiming that in its last rate case the Commission accepted compliance with the requirements of the 1995 gas competition order as dispositive on the issue of rate recovery.

In fact, in its last rate case the Company reduced its claimed service extension costs by some \$89,807 to reflect errors in applying its residential service extension tariffs, the same situation at issue here. The Company had originally proposed a \$44,000 reduction, but increased that amount to \$89,807 when the OES's predecessor, the Department of Public Service, challenged the accuracy of the original figure. The Commission accepted that reduction, which was ultimately recommended by the Company, the Department of Public Service, and the Administrative Law Judge, as an uncontested issue.<sup>29</sup> In its last rate case, then, the Company did not recover the full amount of its service extension costs despite its compliance with the requirements of the 1995 gas competition order.

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<sup>29</sup> *In the Matter of the Application of CenterPoint Energy Minnesota Gas, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-05-1380, Administrative Law Judge's Report, Finding 126.



Nor does the Commission concur that the Company would have needed notice in any case that the Commission would scrutinize the accuracy of its claimed main and service extension costs. Minn. Stat. § 216B.03 provides that the utility has the burden of proof to demonstrate that every proposed rate is just and reasonable and that any doubt as to reasonableness is to be resolved in favor of the consumer.

For all these reasons, the Commission will adopt the \$175,421 downward adjustment proposed by the OES. Finally, to facilitate examination of main and service line extension costs in the Company's next rate case, the Commission will require that it include in its next rate case filing an analysis of all uncollected Contributions in Aid of Construction in the sample applied to the total population of extensions.

## **X. Bad Debt Expense**

### **A. Introduction**

The Company originally calculated the bad debt factor as 2.09%, which was its actual bad debt percentage for the twelve-month period ending December 31, 2007, the most recent data then available. The 2008 calendar year data became available later and showed a bad debt percentage of 2.05%.

The OES recommended using the Company's 2008 bad debt percentage as the bad debt factor, both because it was more current and because it was consistent with the conclusion of the Company's external auditors that bad debt expense was declining. The OES also recommended adjusting the bad debt expense to reflect the final approved revenue requirement, since the Company's original bad debt expense reflected its originally requested revenue requirement.

The RUD-OAG joined in the recommendation of the OES, which the Company accepted.

### **B. The Position of the Energy CENTS Coalition**

The Energy CENTS Coalition (ECC) urged the adoption of a bad debt factor of 1.74%, based on historical bad debt expense. The ECC averaged Company bad debt expense from 2000-2006 (.95%) and then averaged that figure with the actual bad debt percentages for 2007 and 2008.

The ECC argued that the Company's bad debt costs had increased significantly in recent years due to its adoption of less customer-friendly policies on past due bills, including more frequent use of disconnection and less favorable payment arrangements on past-due and disconnected accounts.

The ECC urged the Commission to adopt the 1.74% bad debt factor and to order the Company to adopt more flexible payment arrangements for customers with past-due accounts, to increase and improve its efforts to inform low-income customers about energy assistance programs, and to modify the Company's Gas Affordability Program to target fewer, but needier, households.

### **C. The Recommendation of the Administrative Law Judge**

The ALJ recommended adopting the bad debt factor recommended by the OES, the RUD-OAG, and the Company, including the recommendation that final bad debt expense be adjusted to reflect the final revenue requirement approved in this case.

## **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. G022/M-16-383 and G022/M-17-336**

**Dated this 29<sup>th</sup> day of January 2018**

**/s/Sharon Ferguson**

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