Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: **April 1, 2014** .....*Agenda Item #7

Companies: Minnesota Energy Resources Corporation (MERC)

Docket No. G007,011/M-12-436

In the Matter of Minnesota Energy Resources Corporation's 2011 Annual Gas Service Quality Report

Issues: Should the Commission Accept Company's Annual Gas Service Quality Report?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Commission Order Setting Reporting Requirements
G-999/CI-09-409.....August 26, 2010

Commission Order Setting Further Requirements
G-002/M-11-360 .....March 6, 2012

Minnesota Energy Resources Corporation's
Annual Service Quality Report. .....May 1, 2012

Comments of the Minnesota Department of Commerce
Division of Energy Resources. .....June 15, 2012

Reply Comments of Minnesota Energy
Resources Corporation. .....June 22, 2012

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Statement of the Issues

Should the Commission accept the Company's Annual Gas Service Quality Report for 2011?

Background

On April 16, 2009, the Minnesota Public Utilities Commission (Commission) opened an investigation into natural gas service quality standards and requested comments from the interested parties in Docket No. G-999/CI-09-409. On August 26, 2010, the Commission issued an Order Setting Reporting Requirements in Docket G-999/CI-09-409 (09-409 Order). This Order prescribed a list of indicators for which data for each calendar year are to be provided by each utility in a miscellaneous tariff filing to be made by the following May 1.

In addition to the requirements in the 09-409 Order, the Commission's March 6, 2012 Order (11-360 Order) in Docket No. G-002/M-11-360, et. al directed all regulated Minnesota gas utilities to:

- In future annual reports, include data on average speed of answering calls, in addition to reporting on the percentage of calls answered within 20 seconds or less;
- Explain in their 2011 annual reports, whether the difference between the total percentage of meters (100%) and the percentage of meters read (by both the utility and customers) is equal to the percentage of estimated meter reads;
- Explain, beginning with their 2011 annual reports, the types of extension requests (such as requests for reconnection after disconnection for non-payment) they are including in their data on service extension request response times for both locations not previously served, as well as for locations that were not previously served;
- Explain, beginning with their 2011 annual reports, the types of deposits (such as new deposits from new and reconnecting customers and the total number of deposits currently held) included in the report number of "required customer deposits"; and
- Describe, beginning with their 2011 annual reports, the types of gas emergency calls included in their gas emergency response times, as well as the types of emergency calls included in their reports to the Minnesota Office of Pipeline Safety (MOPS). Provide an explanation of any difference between the reports provided to the Commission and to MOPS.

In the Commission's Order in the Commission's 360 docket, the Commission also specifically required MERC to report, beginning with the Company's 2011 annual report, the number of customers, in addition to the number of service interruptions, whose service was interrupted and the average duration of the interruption.

Also, in the 360 Order, the Commission required MERC specifically to report, beginning with the Company's 2011 annual report, gas emergency response times by region (geographic district).

On May 1, 2012, the Company filed its calendar year 2011Annual Gas Service Quality Report (Report).

Minnesota Energy Resources Corporation (MERC) 2011 Gas Service Annual Report

1. Call Center Response Time/Average Speed of Answer & Percentage of Calls Answered Within 20 Seconds or Less

Standard: Each utility is required to report call center response time in terms of the percentage of calls answered within 20 seconds.

MERC: The required information was provided in Attachment A of the Company's 2011 Report.

DOC: The Commission required each utility to provide in its annual service quality report call center response time in terms of the percentage of calls answered within 20 seconds. The DOC notes that Minnesota Rules, part 7826.1200 requires Minnesota's electric utilities to answer 80 percent of calls made to the business office during regular business hours within 20 seconds. In its Report, MERC provided the required information by month for 2011. On a monthly basis, MERC was able to answer 80 percent, or more, of its calls within 20 seconds during 7 months. The information also shows that, on an annual non-weighted average, MERC answered approximately 80 percent of its calls within 20 seconds in 2011. The DOC notes that the percentage of calls answered within 20 seconds is 1 percent less in 2011 than during 2010. These figures are not substantively different; as such, the Department concludes that the Company is providing reasonable service regarding call center response time during 2011 and expects that MERC will continue to be able to meet, or exceed, this service level during 2012.

Although not required by the Commission, the Company also provided the monthly average speed, at which phone calls were answered. For 2011 the average speed at which phone calls were answered was approximately 18.25 seconds, which, for comparative purposes, is 1.25 seconds longer than in 2010.

2. Meter Reading Performance

Standard: Each utility shall report the meter reading performance data contained in Minn. Rules, part 7826.1400. The reporting metrics include a detailed report on meter-reading performance for each customer class and for each calendar month:

- The number and percentage of customer meters read by utility personnel;
- The number and percentage of customer meters self-read by customers;

- The number and percentage of customer meters estimated;
- The number and percentage of customer meters that have not been read by utility personnel for periods of 6 to 12 months and for periods longer than 12 months, and an explanation as to why they have not been read; and
- Data on monthly meter-reading staffing levels, by work center or geographical area.

MERC: The required information was provided by the Company in Attachment B of the Company's 2011 Report. The data for self reads includes both estimates and customer self reads. MERC's system does not differentiate between an estimate and a customer read so the customer read numbers include both estimates and customer self reads.

In its March 6, 2012, Order Setting Further Reporting Requirements, the Commission also requested utilities to explain in their 2011 annual reports whether the difference between the total percentage of meters (100%) and the percentage of meters read (by both the utility and the customers) is equal to the percentage of estimated meter reads.

DOC: Specific to MERC, the Commission also required that the Company provide meter reading statistics related to farm tap customers. The Company provided, as an attachment to its Report, the meter reading performance data per Minnesota Rules and also meter reading performance related to its farm tap customers.

Based on the Company's information, the vast majority of MERC's customers (approximately 97 percent) have their meters read by MERC employees. MERC also includes data regarding the number of meters that have not been read for 6-12 months and those that have not been read in over 12 months. When excluding farm tap customers, only 6 meters, out of a total of over 2.47 million monthly meter reads, had not been read between 6-12 months, and 0 meters had not been read in over 12 months. This represents a significant improvement over 2010 figures where 71 meters had not been read in 6-12 months and 38 meters had not been read in over 12 months. The DOC appreciates MERC's improvement in meter reading performance. The Company also included a description stating that accessibility and dog issues were the primary reasons why meters were not read. When farm taps are included in the reporting metrics, the number of unread meters increases; however, it is important to note that the absolute number of meters not read for an extended period of time is still quite small (roughly one-tenth of one percent or less).

This represents the second report where these data is available, which means the Company's 2011 performance can be compared to 2010 figures. When excluding farm taps, the DOC believes that MERC's 2011 performance is reasonable and, as noted above, the Company's meter reading performance improved.

In terms of farm tap customers, the DOC notes that the number of unread meters decreased significantly between 2010 and 2011. There is a large increase in bills not read for 6-12 months at the end of 2011 but, as explained in MERC's October 7, 2011 Reply Comments in Docket 10-374, this spike in unread meters is representative of normal conditions with farm tap customers based

on contract language with Northern Natural Gas. Finally, to provide context, the Company reported that the average number of meter reading staff employed by MERC was not substantively different between 2010 and 2011.

3. Involuntary Service Disconnection

Standard: In lieu of reporting data on involuntary service disconnections as contained in Minn. Rules, part 7826.1500, each utility shall reference the data that it submits under Minn. Stat.216B.091 and 216B.096.

MERC: MERC refers to its monthly reports filed with the Commission under Minn. Stat. §§ 216B.091 and 216B.096, and attached to this report as Attachment C. In particular:

1. The number of customers who received disconnection notices is reported in item 20 of MERC's monthly report.

2. The number of customers who sought Cold Weather Rule protection under chapter 7820 is reported in item 3, and the number of customers who sought Cold Weather Rule protection and whose service was disconnected is provided in item 22 of MERC's monthly report.

3. The total number of customers whose service was disconnected involuntarily is provided in item 23 of MERC's monthly report, and the number of customers whose service was disconnected for 24 hours or more is reported in item 34.

4. The number of customer accounts granted a reconnection request are reported in item 6 of MERC's monthly report.

DOC: In response to a request by the DOC in last year's review, the Company included its monthly Cold Weather Rule reports as an attachment to its Petition. The Company provided these data in an Attachment to its current Report. The DOC reviewed this attachment and did not observe any significant events or anomalies related to involuntary service disconnections. The DOC did, however, observe that disconnection levels were higher at the beginning of calendar year 2011 than at the end of the year and reached their peak during the spring of 2011 (roughly coinciding with the end of the Cold Weather Rule period). The DOC also observed that the number of past due residential accounts were not, at any time during 2011, less than 10 percent of total residential accounts and, at some points, were approaching 25 percent of total accounts. The number of past due accounts appear high; therefore, the DOC recommends that MERC fully explain, in its Reply Comments, whether the level of past due accounts in 2011 is considered typical and, if it is not, what steps the Company could take or is taking to minimize past due accounts in the future.

MERC Reply: MERC believes the number of customers with past due accounts is typical. The

write-off dollars have continued to decrease in most part because of lower gas costs. MERC has disconnected fewer customers because of non-payment. Because of fewer disconnects and write-offs, MERC continues to lower its past due accounts and bad debt.

4. Service Extension Request Response Time

Standard: Each utility shall report the service extension request response time data contained in Minn. Rules, part 7826.1600, items A and B., except that data reported under Minn. Stat. 216B.091 and 216B.096, subd.11, is not required.

a) The number of customers requesting service to a location not previously served by the utility and the intervals between the date service was installed and the later of the in-service date requested by the customer or the date the premises were ready for service; and

b) The number of customers requesting service to a location previously served by the utility, but not served at the time of the request, and the interval between the date service was installed and the date the premises were ready for service.

MERC: The required information is provided in Attachment E. "New installs" represent new service requests at locations where no gas service exists, either because the location is new construction or because an alternate fuel source has been used there previously. "Existing" installs represent any building that has previously had natural gas service, where the service has previously been disconnected.

In its March 6, 2012, Order Setting Further Reporting Requirements, the Commission also requested utilities to explain the types of extension requests included in the data on service extension request response times for locations previously served and not previously served.

For locations not previously served, new service requests are for service where no gas exists, usually for new construction or an existing customer who requests new service to convert to natural gas. For locations previously served, new service requests consist of requests to turn on service after the service was disconnected at the previous customer's request. Disconnections for non-payment are not included in MERC's response.

DOC: The Company provided, as an attachment to its Report, the service extension request data per Minnesota Rules. Based on the DOC's review of these data, it appears that MERC's service extension requests response times to new customers has increased in 2011 when compared to 2010. Specifically, in terms of residential customers, the average response time in 2010 was 17.9 days and 25.6 days in 2011, which represents an additional week between request and installation. The DOC also observed a rather long average wait time of 50 days for July requests. In its October 7, 2011 Reply Comments in Docket 10-374, the Company stated that the average length of time between request and installation may be artificially high because a builder may request service from MERC many days before the building is ready for gas meter installation. The DOC notes that Minnesota Rule 7826.1600 requires that the response time be measured from when the date service

is requested or the date at which the customer is ready to accept service and the date the service was provided. The DOC further notes that the number of requests for new residential installations was over 20 percent greater in 2011 than 2010, which could be a contributing factor in the additional time between request and installation. That being said, the DOC recommends that MERC fully explain, in its Reply Comments, why the average installation time increased and why July's average response time was significantly longer than other months in 2011.

The average response times for existing addresses are comparable to the 2010 report; as such, the DOC believes MERC's service performance in this area is reasonable.

MERC Reply: MERC uses a manual process for tracking service installation time so the process is subject to human error. MERC inputs the date service is requested when the builder or owner applies for new service. MERC then needs to continually check these addresses to verify when service is actually ready. If field personnel do not communicate this information to the office, or the office neglects to update the service request, the information can inaccurately depict the actual installation time. MERC continues to work with all personnel on this reporting requirement, but the reporting process is the one most subject to error. Installations are also tracked by complaints, but MERC is unaware of any complaints to the Commission or MERC regarding service installations.

5. Customer Deposits

Standard: Each utility shall report the customer deposit data contained in Minn. Rules, part 7826.1900.

MERC: Sixteen customers were required to make deposits in 2011, all due to diversion (theft).

In its March 6, 2012, Order Setting Further Reporting Requirements, the Commission also requested utilities to explain the types of deposits included in the reported number of "required customer deposits." MERC had 16 new deposits in 2011 and all were required from customers because of theft of service. In total, MERC holds 881 deposits, 865 of which were required before 2011.

DOC: The DOC did not comment on the customer deposit portion of the Company's report.

6. Customer Complaints

Standard: Each utility shall report the customer complaint data contained in Minn. Rules, part 7826.2000.

MERC: The required information was provided in Attachment G of the Annual Gas Service Quality Report.

DOC: The Company provided, as an attachment to its Report, these customer complaint data per Minnesota Rules. This is the second year that MERC has reported customer complaints in the manner prescribed by Minnesota Rule 7826.2000, which allows for comparison with 2010 information. Prior to 2010, the Company did track customer complaints via its own two-tier system. However, the current reporting standard prevents an apples-to-apples comparison of annual complaints before 2010. On the other hand, since MERC has tracked total complaints in previous reports, the DOC can compare the total level of complaints between years.

In terms of total complaints, MERC reported 3,257 complaints during calendar year 2011. This represents an increase in total complaints of 744, or approximately 30 percent, over calendar year 2010. It is important to note that the increase in complaints during 2011 marks the first calendar year since 2008 that the total number of complaints increased. Further, although complaints increased, they are still significantly lower than the 5,091 complaints reported in 2008. The DOC remains encouraged that customer complaints remain significantly lower than those reported in 2008, but is concerned by the significant increase in complaints between 2010 and 2011. The DOC will continue to monitor MERC's customer complaint levels and will bring definitive trends to the attention of the Commission.

Calendar year 2011 marks the second year that MERC reports specific categories of customer complaints. Based on its review of these complaint categories, the DOC notes that the Company reported service quality and meter adjustment complaints; whereas, MERC did not report any such complaints in 2010. It is a concern that the Company reported these type of complaints in 2011 because these complaints are generally more serious since they can potentially indicate decreases in overall service quality or system integrity. In terms of meter adjustments, MERC reported 8 complaints and, in terms of service quality, the Company reported 188 instances. The number of service quality complaints are extremely high given the fact that MERC reported zero such instances in 2010. The DOC believes the increase in complaints may be related to a change in how MERC classifies various complaints; however, that conclusion is speculative at this point. As such, the DOC recommends that the Company provide, in its Reply Comments, a full explanation of why meter adjustment and service quality complaints increased between 2010 and 2011. Specifically, MERC should address whether the increase in complaints, in particular service quality, is the result of changes in how the Company classifies complaints or whether those complaints are due to operational issues.

In terms of resolution time, the vast majority of complaints were resolved during the customer's initial contact with the Company, and there were only 10 complaints that were not resolved during initial contact with the Company. In addition, of those 10 complaints, only 1 took greater than 10 days to resolve during 2011, which is lower than the 10 complaints that took longer than 10 days to resolve in 2010. During 2011, MERC reported that 12, or under 0.5 percent, of its total complaints were made with the Commission's Consumer Affairs Office (CAO). This level represents a decrease of 11 over the 23 complaints to the CAO that were reported in 2010. The DOC will continue to monitor the number of complaints forwarded to MERC by the CAO for any definitive trends.

MERC Reply: MERC spent considerable time working with the call center representatives in 2010 to help them identify and properly categorize complaints. MERC is confident that the training has resulted in a more accurate accounting of complaints.

7. Gas Emergency Calls

Standard: Each utility shall report the data on telephone answering times to its gas emergency phone line calls.

MERC: The Required information was provided in Attachment H of the Company's annual Gas Service Quality Report.

DOC: The Company provided data related to the total number of calls, the average telephone answer time, and the percentage of calls that were answered within 15 seconds. The DOC noted that this is the second year that the Company has reported these data in its annual service quality report.

According to the information provided by MERC, there were a total of 17,471 emergency phone calls during 2011, averaging approximately 1,456 per month. This represents an increase in emergency calls of 1,199 over 2010. The average telephone answer time for the year was just over 7 seconds and there was no month during 2011 where the average response time was greater than 8 seconds. These results are virtually identical, but slightly better, than those reported in 2010. In addition, the Company provides data showing that for all but one month (June at 89.49 percent); it was able to respond to over 90 percent of its emergency phone calls in 15 seconds or less. The DOC appreciates MERC providing these data and hopes that the Company is able to improve its emergency phone line response times in 2012.

8. Gas Emergency Response Times

Standard: Each utility shall report data on gas emergency response times and include the percentage of emergencies responded to within one hour and within more than one hour. CenterPoint, IPL, and MERC shall also report the average number of minutes it takes to respond to an emergency.

MERC: The required information is provided in Attachment H of the Company's annual Gas Service quality Report. The gas emergency call response times include all calls reporting a suspected gas leak, as well as all line hits.

In its March 6, 2012, Order Setting Further Reporting Requirements, the Commission also requested utilities to describe the types of gas emergency calls included in their gas emergency response times, as well as the types of emergency calls included in their reports to the Minnesota Office of Pipeline Safety (MOPS). Further, utilities must explain any difference between the

reports provided to the Commission and MOPS.

The information provided in Attachment H includes response time for all calls reporting a suspected gas leak and line hits. The information in Attachment H is the same information provided to MOPS.

DOC: Based on information provided by MERC, the DOC notes that the Company was only able to meet its 97 percent in less than an hour goal during March 2011. That being said, this marks an improvement over 2010, when MERC failed to achieve the goal during any month, and demonstrates continued improvement compared to 2008 and 2009. During 2011, there were no months where MERC was unable to respond to 93 percent or more of its emergency response calls in less than an hour and there were 9 months where the Company responded to more than 95 percent of calls in less than an hour. In addition, for the entirety of 2011, MERC responded to more than 95 percent of calls in less than an hour. During 2010, the Company was only able to reach the 95 percent response level during 7 months and its annual average did not reach this mark. In calendar years 2008 and 2009, there were two months during which MERC was only able to respond to approximately 90 percent of calls in less than an hour and, on average, the Company had an average percentage response of approximately 93 percent of calls in less than an hour. The 2011 data suggests that the Company was able to incrementally improve its emergency response time, and that MERC continues to move towards its 97 percent goal.

In terms of absolute emergency response time, the Company reported an annual average response time of 27 minutes, which was the same average response time in 2010. On a monthly basis, the DOC notes that the average response times are tightly clustered, with 29 minutes being the longest average response time (on 2 separate occasions) and 26 minutes being the shortest average response time (on 4 occasions). Given MERC's service territory characteristics (e.g. Large geographic footprint, low-density), it is not surprising that its average emergency response time would be near 30 minutes. That being said, the DOC has reviewed only two years of data regarding this metric, so it is still unclear whether the 27-minute average response time is indicative of normal operating conditions; therefore, the DOC does not make any conclusions at this time.

9. Mislocates

Standard: Each utility shall report the data on mislocates, including the number of times a line is damaged due to mismarked or failure to mark a line.

MERC: The required information is provided in Attachment I of the Company's annual Gas Service Quality Report. All of the mislocates noted in Attachment I resulted in a damaged line.

DOC: The information provided by MERC shows the total number of locates during 2011 at 69,971 and only 12 (approximately 0.02 percent) mislocates. Further, the maximum number of mislocates that occurred in a given month were 3, which happened on two occasions (October and

November). The number of mislocates in 2011 is slightly less than the number of mislocates, 21, that were reported in 2010. The number of mislocates over the past two years appear reasonable; however, the amount of time these data have been collected is still relatively short. The DOC recommends that MERC continue its efforts to minimize mislocates, and the DOC will continue to monitor this reporting requirement in future service quality reports.

10. Gas System Damage

Standard: Each utility shall report data on the number of gas lines damaged. The damage shall be categorized according to whether it was caused by the utility's employees or contractors, or whether it was due to any other unplanned cause.

MERC: The required information was provided in Attachment J of the Company's annual Gas Service Quality Report.

DOC: In its 2010 filing, MERC reported 177 total incidences of gas line damage, of which 171 were caused by parties not affiliated with the Company. For 2011, MERC reported 212 damage events, which represents an increase of approximately 20 percent in gas line damage. The vast majority of these events, 191 or 90.1 percent, were caused by parties not affiliated with the Company (e.g. Homeowners, other contractors). The Company also reported 21 events where gas line damage was caused by a utility employee or contractor. Based on these data, there was slightly more damage to gas lines, across all types of causes, in 2011 when compared to 2010. On a positive note, the Company did not report any damage events that were attributable to system issues (e.g., random equipment failure). Although the number of events increased, the Department does not believe the increase represents a significant difference between 2010 and 2011. With only two years of data available, the Department is unable, at this time, to determine a typical annual number of gas line damage incidents. The Department will continue to monitor this metric in future service quality reports and recommends that MERC continue to work to decrease these events during 2012 and into the future.

11. Gas Service Interruptions

Standard: Each utility shall report data on service interruptions. Each interruption shall be categorized according to whether it was caused by the utility's employees or contractors, or whether it was due to any other unplanned cause.

MERC: The required information is provided in Attachment K of the Company's annual Gas Service Quality Report.

DOC: The DOC notes that MERC has provided data related to service interruptions in previous service quality reports. Specifically, MERC reported 177 service interruptions events in 2008, 174 events in 2009, and 48 events in 2010. The total number of service interruptions increased

significantly in 2011. For calendar year 2011, MERC reported 156 total service interruptions, this is an increase of 108 over 2010.

Although this is a large increase in service interruptions, it is important to note that the number of reported events in 2011 is still lower than the number of events in 2008 and 2009. As such, the DOC does not believe that there were an unusual number of service interruptions in 2011.

However, in terms of sub-categories (i.e., system integrity, caused by Company employee or contractor, other causes), the DOC does have some concerns regarding the number of service interruptions related to system integrity. Although the vast majority of service interruptions in 2011 were caused by other parties (145) and Company employees or contractors (8), there were still 3 instances of system integrity related service interruptions. This figure represents approximately 2 percent of all service interruptions. Any issues related to system integrity are of serious concern and need to be addressed. The DOC recommends that the Company provide, in its Reply Comments, a detailed explanation of how the Company defines system integrity and the circumstances surrounding each of the system integrity related events in 2011.

As part of its Report, MERC also included a spreadsheet with an item-by-item breakdown of each service interruption in 2011. Generally speaking, service interruptions in 2011 involved a single customer and were short in duration. That being said, there were two instances where more than 10 customers were impacted and also several events where the duration of the interruption was greater than 1,000 minutes (i.e., 16.7 hours). The DOC would classify these as unusual events; as such, the DOC recommends that the Company provide a detailed explanation of each unusual event in its Reply Comments. These explanations should discuss what caused the service interruption and why the event impacted several customers or lasted for an extended period of time.

MERC Reply: The incident that occurred on April 13, 2011, involved a main hit by a contractor installing pole anchors. A two-inch steel main adjacent to an intersection of two four-lane streets was severed. The damaged main line is fed from three different directions. To safely stop the flow of gas so repairs could be made, the concrete roads needed to be excavated. The mains that needed to be stopped were all under concrete and the excavation took longer than normal because of safety concerns. This main is located in a commercial area and all customers affected were commercial customers.

The second incident occurred at a small airport consisting of an office and privately-owned hangars. Digging was initiated without a line locate and the main serving the airport was severed. None of the hangars had water and there was no risk of damage from freezing. MERC tagged all the hangars and advised the owners to contact MERC for relight. Airport management also contacted owners. MERC also sent letters to the owners who had not responded after several days and advised them the gas was off and they should contact MERC for a relight.

MERC reports system integrity issues caused by system failures such as inadequate pressure, or component failures such as regulator or pipeline failures. MERC reviewed the three outages attributed to system integrity and determined that they were incorrectly reported. All three outages

resulted from actions by MERC employees or its contractors.

12. MOPS Summaries

Standard: Each utility shall report summaries of major events that are immediately reportable to the Minnesota Office of Pipeline Safety (MOPS) according to the criteria used by MOPS to identify reportable events. Each utility shall also provide summaries of all service interruptions caused by system integrity pressure issues.

Each utility shall report summaries of major events that are immediately reportable to the Minnesota Office of Pipeline Safety (MOPS) according to the criteria used by MOPS to identify reportable events. Each utility shall also provide summaries of all service interruptions caused by system integrity pressure issues. Each summary shall include the following ten items:

- the location;
- when the incident occurred;
- how many customers were affected;
- how the company was made aware of the incident;
- the root cause of the incident;
- the actions taken to fix the problem;
- what actions were taken to contact customers;
- any public relations or media issues;
- whether the customer or the company relighted; and
- the longest any customer was without gas service during the incident.

MERC: The required information is provided in Attachment L of the Company's annual Gas Service Quality Report.

DOC: The Company lists 2 MnOPS reportable events during 2011. In both instances, the events were caused by other parties (not MERC employees or system integrity issues) and affected more than 10 customers. The event which impacted the most customers, 27 in total, and lasted the longest time, 8 days, occurred at an airport and only impacted airplane hangars; as such, the general public was not adversely impacted. The other reported event involved 12 customers and lasted for just under 9 hours; it was caused by a non-utility contractor hitting a MERC service. In addition, this event occurred during the summer months, so the adverse impact to customers was less than if it had occurred during the heating season. The Department appreciates the Company's response and has no additional comments on this topic.

13. Customer Service Related Operations and Maintenance Expenses

Standard: Each utility shall report customer-service related operations and maintenance expenses.

The reports shall include only Minnesota-regulated, customer-service expenses based on the costs recorded in FERC accounts 901 and 903 plus payroll taxes and benefits.

MERC: The required information is provided in Attachment O of the Company's annual Gas Service Quality Report.

DOC: In 2011, MERC reported total service quality related O&M expenses of $6,362,335, which, on an average basis, translates into approximately $530,195 of O&M expenses per month. The Company's reported O&M expenses represent a $397,545, or 6.67 percent, increase over 2010 expenses. 2011 is only the second year that these data have been provided to the DOC; therefore, it is unclear if this annual change in expense is reasonable. Given this, the DOC recommends that MERC provide a detailed discussion, in its Reply Comments, explaining whether the increases in O&M expenses are reasonable and indicative of normal growth over time.

Generally speaking, monthly O&M expenses were relatively close to the annual average with the exception of August, where the Company reports expenses of $479,949, and December, where the Company reports expenses of $589,397. The amounts in these months are noticeably different than in other months in 2011; therefore, the DOC recommends that the Company fully explain, in its Reply Comments, any, and all, reasons associated with these costs being noticeably different than the monthly average.

MERC Reply: MERC believes the increases in O&M expenses between 2010 and 2011 are normal. The greatest increase of $250,000 was in FERC account 903, which shows the costs related to its third-party billing and call center vendor Vertex. Those costs increase annually.

MERC's O&M costs in August were less because labor costs were lower – more labor was charged to capital projects that month. MERC had several projects related to compliance corrections that required employee involvement in August, which resulted in lower labor costs to O&M. December O&M costs were higher due to invoice accruals and an adjustment for thenon-executive incentive.

Staff Analysis

Staff recommends that the Commission accept MERC's filing. It appears that MERC in reply comments addressed all of the issues raised by the DOC. These issues include:

- Whether the Level of Past Due Accounts in 2011 is Typical and What Steps the Company Is Taking to Minimize Past Due Accounts;
- Why the Average Service Installation Time Increased Between 2010 and 2011 and Why July's Average Response Time Was Significantly Longer than Other Months in 2011;
- Why Meter Adjustment and Service Quality Complaints Increased Between 2010 and 2011 and Whether the Increase in Complaints Is the Result of Changes in the

Company's Classification of Operational Issues;

- Explanation of the Company's Definition of "System Integrity" and the Circumstances Surrounding Each of the Service Outages Due to System Integrity Related to Events in 2011;
- Explanation of Unusual Service Interruption Events, Including What Caused the Service Interruption and Why the Event Impacted Several Customers or Lasted an Extended Period of Time;
- Whether the Increase in O&M Expenses between 2010 and 2011 Are Reasonable and Indicative of Normal Growth over Time; and
- Explanation Why O&M Costs in August and December 2011 Were Noticeably Different Than the Monthly Average

Commission Options

1. Accept MERC's 2011 Gas Service Quality Report.

2. Do not accept MERC's 2011 Gas Service Quality Report.

Recommendation

Staff recommends that the Commission adopt alternative number 1.