



Minnesota Energy Resources Corporation  
2685 145th Street West  
Rosemount, MN 55068  
www.minnesotaenergyresources.com

February 28, 2018

**VIA ELECTRONIC FILING**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, MN 55101

**Re: In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Natural Gas Extension Project (NGEP) Cost Rider Surcharge for the Recovery of 2019 Rochester Project Costs  
Docket No. G011/M-18-\_\_\_\_**

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this Petition to the Minnesota Public Utilities Commission (“Commission”) for approval of a Natural Gas Extension Project (“NGEP”) rider surcharge to recover MERC’s 2019 Rochester Project costs.

The Commission previously approved MERC’s Rochester Project as a qualifying NGEP by Order Approving Rochester Project and Granting Rider Recovery with Conditions (“Order”) dated May 5, 2017, in Docket No. G011/M-15-895, and specifically approved NGEP rider recovery for up to 33 percent of the cost to upgrade the Rochester-area distribution system. MERC now submits this petition to implement an NGEP surcharge for recovery of its 2019 costs for the Rochester Project, as previously approved for rider recovery by the Commission. In particular, MERC seeks approval of its 2019 NGEP-eligible revenue deficiency related to the previously approved Rochester Project and approval of a per-therm NGEP surcharge to be recovered from all customers, consistent with the Commission’s determinations in its Order in Docket No. G011/M-15-895. As provided in this filing, (1) MERC’s proposed 2019 Rochester Project costs for which it is seeking recovery in this Petition are reasonable and should be approved, subject to future true-up; (2) MERC’s calculation of its 2019 revenue requirement is consistent with Minn. Stat. § 216B.1638 (“NGEP Statute”) and the Commission’s Order in Docket No. G011/M-15-895; and (3) MERC’s proposed rate design for the surcharge recovery as a per-therm charge from all customers is consistent with the NGEP Statute and the Commission’s Order. MERC has previously provided, or is providing in this filing, all required filing information under Minn. Stat. § 216B.1638.

Through this filing, MERC is requesting approval to implement an NGEP surcharge on all customers for the calendar year 2019. As discussed herein, MERC is requesting to implement a per-therm surcharge of \$0.00150 to recover the projected 2019 revenue deficiency related to the Rochester Project. MERC projects the annual impact of the proposed surcharge on an average residential customer to be approximately \$1.30 and, as discussed in this Petition, would propose to notify customers of the surcharge via bill message.

Mr. Daniel P. Wolf  
February 28, 2018  
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A copy of this miscellaneous tariff filing has been served on the Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division and the Minnesota Department of Commerce, Division of Energy Resources. A summary of the filing has been served on all parties on MERC's general service list.

Please contact me at (651) 322-8965 if you have any questions regarding the information in this Petition. Thank you for your attention to this matter.

Sincerely,

/s/ Amber S. Lee

Amber S. Lee  
Regulatory and Legislative Affairs Manager  
Minnesota Energy Resources Corporation

Enclosures  
cc: Service List

**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Nancy Lange  
Dan Lipschultz  
Matt Schuerger  
Katie Sieben  
John Tuma**

**Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner**

In the Matter of the Petition of Minnesota  
Energy Resources Corporation for Approval of  
a Natural Gas Extension Project Rider  
Surcharge for the Recovery of 2019 Rochester  
Project Costs

Docket No. G011/M-18-\_\_\_\_\_

**PETITION**

Pursuant to Minnesota Statutes section 216B.1638 and the Minnesota Public Utilities Commission's ("Commission") May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895 ("Rochester Order"), and in accordance with Minnesota Rules part 7829.1300, Minnesota Energy Resources Corporation ("MERC" or the "Company") submits to the Commission this Petition for approval of a Natural Gas Extension Project ("NGEP") rider surcharge to recover a portion of its costs of the Rochester Natural Gas Extension Project (the "Rochester Project"). In particular, MERC requests approval of:

- An ongoing Natural Gas Extension Project Cost Rider ("NGEP Rider");
- A 2019 forecasted revenue deficiency of approximately \$1.3 million for MERC's projected 2019 investments related to the Rochester Natural Gas Extension Project (the "Rochester Project") subject to future true up;
- A 2019 per-therm NGEP rate factor of \$0.00150 per therm applicable to all customer classes to be effective January 1, 2019; and
- Proposed NGEP Rider tariff sheets.

This Petition for 2019 NGEP Rider recovery of costs for MERC's Rochester Project is consistent with the Commission's May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions, issued in Docket No. G011/M-15-895. In particular, Order Point 2 of

the Commission's Order granted MERC's requested preapproval to recover Phase II costs of up to \$44 million through the combination of an NGEP rider and base rates.

This filing includes the following:

- One paragraph summary of the filing in accordance with Minn. R. 7829.1300, subp. 1;
- Petition for Approval of an NGEP Rider surcharge for the Rochester Project;
- Exhibit A: Proposed NGEP tariff sheets;
- Exhibit B: Proposed 2019 NGEP Surcharge workpapers and assumptions; and
- Exhibit C: Example of True-up Calculation.

As discussed in the Petition, MERC proposes to notify customers of the implementation of the NGEP rate via the following bill message, which will appear on bills effective the first month the NGEP surcharge takes effect:

Effective January 1, 2019, an NGEP (Natural Gas Extension Project) Surcharge of \$0.00150 per therm has been included on your bill. The NGEP Surcharge is a surcharge authorized under Minn. Stat. § 216B.1638 to recover a portion of costs related to the construction of new infrastructure or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas. The NGEP Surcharge will appear as a line item on your bill labeled "Natural Gas Extension Project – Rochester."

## **I. Summary of Filing**

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing is attached.

## **II. Service**

Pursuant to Minn. R. 7829.1300, subp. 2, MERC has served a copy of this petition on the Minnesota Department of Commerce, Division of Energy Resources and the Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division. The summary of the filing has been served on all parties on the attached general service list.

### **III. General Filing Information**

Pursuant to Minn. R. 7829.1300, subp.3, the following information is provided:

#### **A. Name, Address, and Telephone Number of Filing Party**

Minnesota Energy Resources Corporation  
2685 145th Street West  
Rosemount, MN 55068  
(651) 322-8901

#### **B. Name, Address, Electronic Address, and Telephone Number of Attorney for the Utility**

Kristin M. Stastny  
Briggs and Morgan, P.A.  
2200 IDS Center  
80 South 8th Street  
Minneapolis, MN 55402  
[KStastny@briggs.com](mailto:KStastny@briggs.com)  
(612) 977-8656

#### **C. Date of the Filing and Date Proposed Agreement Will Take Effect**

Date of Filing: February 28, 2018

Proposed Effective Date: Upon Commission Approval

MERC respectfully requests that the Commission rule on this filing by December 2018 so the Company can begin collecting under the rider with the first billing period of 2019.

#### **D. Statute Controlling Schedule for Processing the Filing**

MERC submits its request for approval of rider recovery under Minn. Stat. § 216B.1638, which authorizes a public utility to petition the Commission outside a general rate case for a rider to recover the revenue deficiency from a natural gas extension project. Under Minn. R. 7829.0100, subp. 11, this petition is a “miscellaneous” filing because no determination of MERC’s general revenue requirement is necessary. Comments on a miscellaneous filing are due within 30 days of filing, with replies due 10 days thereafter.<sup>1</sup>

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<sup>1</sup> See Minn. R. 7829.1400, subps. 1, 4.

**E. Signature, Electronic Address, and Title of Utility Employee Responsible for the Filing**



Amber S. Lee  
Regulatory and Legislative Affairs Manager  
[ASLee@integrysgroup.com](mailto:ASLee@integrysgroup.com)  
2685 145th Street West  
Rosemount, MN 55068  
(651) 322-8965

**F. Description of the Filing, Impact on Rates and Services, and Reasons for the Filing**

Pursuant to Minnesota Statutes section 216B.1638 and the Commission's May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions, in Docket No. G011/M-15-895, MERC seeks to recover a return on and of the incremental capital costs forecasted to be incurred in 2019 for the ongoing construction of the Commission-approved Rochester Project and recovery of incremental O&M , depreciation expense, and property taxes. This equates to an incremental revenue deficiency of approximately \$1.3 million. To recover the forecasted incremental revenue deficiency, MERC proposes implementation of a \$0.00150 per therm NGEP surcharge applicable to all customers, subject to a future true-up to account for actual updates to 2019 incremental rate base and the outcomes of MERC's pending 2018 test-year rate case in Docket No. G011/GR-17-563. Based on the proposed \$0.00150 per therm surcharge, the average annual residential customer impact will be approximately \$1.30. Pursuant to Minn. R. 7829.1300, MERC requests approval of the NGEP Rider surcharge as presented herein.

Pursuant to Minn. Stat. § 216B.1638, a public utility may petition the Commission outside of a general rate case for a rider that shall include all of the utility's customers to recover the revenue deficiency from a natural gas extension project. As provided for in the

Commission's May 5, 2017, Order, the Rochester Natural Gas Extension Project meets the definition of a natural gas extension project because the Project is necessary to expand the capacity of MERC's natural gas distribution system in and around Rochester, Minnesota. The Rochester area's current and expected growth has led to increasing constrained and limited natural gas pipeline infrastructure creating a lack of adequate natural gas pipeline infrastructure to meet the demand of existing or potential end-use customers. As provided for in the Order, the Commission has approved the recovery of prudent costs through the NGEP Rider and base rates.

If additional information is required, please contact Amber S. Lee at (651) 322-8965 or Kristin M. Stastny at (612) 977-8656.

DATED: February 28, 2018

Respectfully submitted,

BRIGGS AND MORGAN, P.A.

By: /s/ Kristin M. Stastny  
Kristin M. Stastny  
2200 IDS Center  
80 South 8th Street  
Minneapolis, MN 55402  
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KStastny@Briggs.com

Attorney for Minnesota Energy  
Resources Corporation

**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Nancy Lange  
Dan Lipschultz  
Matt Schuerger  
Katie Sieben  
John Tuma**

**Chair  
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In the Matter of the Petition of Minnesota  
Energy Resources Corporation for Approval of  
a Natural Gas Extension Project Rider  
Surcharge for the Recovery of 2019 Rochester  
Project Costs

Docket No. G011/M-18-\_\_\_\_\_

**SUMMARY OF FILING**

Pursuant to Minnesota Statutes section 216B.1638 and the Minnesota Public Utilities Commission (“Commission”) Order in Docket No. G011/M-15-895, and in accordance with Minnesota Rules part 7829.1300, Minnesota Energy Resources Corporation (“MERC”) submits to the Commission this Petition for approval of a Natural Gas Extension Project (“NGEP”) surcharge effective January 1, 2019, to recover the 2019 costs of the Rochester Project. Under Minn. Stat. § 216B.1638, up to 33 percent of the costs of this Project shall be recovered through the NGEP rider surcharge. Specifically, MERC seeks to recover a return on and of the forecasted incremental capital costs to be incurred in 2019 for the ongoing construction of the Commission-approved Rochester Project and recovery of incremental O&M, depreciation expense, and property taxes. This equates to an incremental revenue deficiency of approximately \$1.3 million. To recover the forecasted incremental revenue deficiency, MERC proposes implementation of a \$0.00150 per therm NGEP surcharge applicable to all customers, subject to a future true-up.



**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**Nancy Lange  
Dan Lipschultz  
Matt Schuerger  
Katie Sieben  
John Tuma**

**Chair  
Commissioner  
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In the Matter of the Petition of Minnesota  
Energy Resources Corporation for Approval of  
a Natural Gas Extension Project Rider  
Surcharge for the Recovery of 2019 Rochester  
Project Costs

Docket No. G011/M-18-\_\_\_\_\_

**PETITION FOR APPROVAL OF AN NGEPR RIDER SURCHARGE FOR THE  
RECOVERY OF 2019 ROCHESTER PROJECT COSTS**

**I. INTRODUCTION**

Pursuant to Minnesota Statutes section 216B.1638 and the Minnesota Public Utilities Commission's ("Commission") May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895 ("Rochester Order"), and in accordance with Minnesota Rules part 7829.1300, Minnesota Energy Resources Corporation ("MERC" or the "Company") submits to the Commission this Petition for approval of a Natural Gas Extension Project ("NGEP") Tariff surcharge to recover a portion of its costs of the Rochester Natural Gas Extension Project (the "Rochester Project"). In particular, MERC requests approval of:

- An ongoing Natural Gas Extension Project Cost Rider ("NGEP Rider");
- A forecasted 2019 revenue deficiency of approximately \$1.3 million for MERC's projected 2019 investments related to the Rochester Project subject to future true up;
- A 2019 NGEPR rate factor of \$0.00150 per therm applicable to all customer classes to be effective January 1, 2019; and
- Proposed NGEPR Rider tariff sheets.

This Petition seeks approval for the recovery of a portion of the costs incurred to construct the Rochester Project. The Rochester Project is designed to expand the capacity of

MERC's natural gas distribution system in and around the City of Rochester to meet current and forecasted demand. MERC seeks to recover a portion of the Project's costs under the NGEP statute, which allows rider recovery of one-third of the revenue deficiency from an eligible natural gas extension project. With this Petition, MERC proposes to recover its 2019 Rochester Project costs via a per-therm NGEP surcharge effective January 1, 2019.

The Commission approved the Rochester Project as a qualifying NGEP Project by Order dated May 5, 2017, in Docket No. G011/M-15-895:

MERC may recover up to 33 percent of its cost to upgrade the Rochester-area distribution system through an NGEP rider surcharge on all customers, with the remainder to be recovered through base rates. Recovery will be capped at the Company's initial cost estimate of \$44 million unless MERC can establish that the overruns are reasonable.<sup>2</sup>

In this proceeding MERC is requesting implementation of an NGEP rider mechanism to recover the Rochester Project costs incurred in 2019. As discussed below, MERC proposes to recover the forecasted 2019 incremental expense and additions to rate base through a per-therm charge applicable to all customers, subject to future true-up based on actual 2019 expense, rate base, and assumptions. MERC's forecasted incremental revenue requirement for 2019 Rochester Project costs is approximately \$1.6 million, amounting to a forecasted incremental revenue deficiency of approximately \$1.3 million after accounting for projected offsetting incremental revenue from new customer sales in the Rochester Project area.

## **II. NGEP STATUTE AND COMMISSION APPROVAL OF THE ROCHESTER PROJECT FOR NGEP RIDER RECOVERY**

Minnesota Statutes section 216B.1638, the Natural Gas Extension Project Rider statute ("NGEP Statute"), provides that "[a] public utility may petition the Commission outside a general rate case for a rider that shall include all of the utility's customers, including transport customers,

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<sup>2</sup> *In the Matter of a Petition by Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for Its Rochester Nat. Gas Extension Project*, Docket No. G011/M-15-895, ORDER APPROVING ROCHESTER PROJECT AND GRANTING RIDER RECOVERY WITH CONDITIONS at 3 (May 5, 2017) [hereinafter "Rochester Order"].

to recover the revenue deficiency from a natural gas extension project.” In enacting Minn. Stat. § 216B.1638, the Minnesota Legislature determined for the first time that natural gas extension and expansion projects did not need to be self-supporting to be recovered across all customers. Instead, the NGEF Statute authorized recovery of natural gas extension and expansion project costs from customers in other areas, in order to support infrastructure development.

Under the NGEF Statute, the Commission must approve an NGEF petition if it determines that (1) the project is designed to extend natural gas service to an unserved or inadequately served area, and (2) the project costs are reasonable and prudently incurred.<sup>3</sup> In Docket No. G011/M-15-895, the Commission determined that “[b]ecause the Phase II upgrades are necessary to serve ‘unserved or inadequately served areas,’ they meet the definition of a natural gas extension project under the statute.”<sup>4</sup> The Commission further determined that MERC had “demonstrated by a preponderance of the evidence that the Rochester Project is necessary, reasonable, and prudent.”<sup>5</sup> The Commission therefore determined that “the Phase II costs are eligible for rider recovery under the NGEF statute,”<sup>6</sup> and authorized MERC to recover the costs of the Rochester Project as proposed by the Company including recovery of “up to 33 percent of its costs to upgrade the Rochester-area distribution system through an NGEF rider surcharge on all customers, with the remainder to be recovered through base rates.”<sup>7</sup> Further, with respect to the design of rider recovery, the Commission approved MERC’s proposal to recover its Phase II costs from all customers across MERC’s service areas.<sup>8</sup>

MERC now submits this petition to implement an NGEF surcharge for recovery of its 2019 costs for the Rochester Project, as previously approved for rider recovery by the Commission. In particular, MERC seeks approval of its 2019 NGEF-eligible revenue deficiency

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<sup>3</sup> Minn. Stat. § 216B.1638, subd. 1(e).

<sup>4</sup> Rochester Order at 12.

<sup>5</sup> Rochester Order at 3.

<sup>6</sup> Rochester Order at 12.

<sup>7</sup> Rochester Order at 3.

<sup>8</sup> Rochester Order at 14.

related to the previously approved Rochester Project and approval of a per-therm NGEP surcharge to be recovered from all customers, consistent with the Commission's determinations in its Order in Docket No. G011/M-15-895. As discussed below, (1) MERC's proposed 2019 Rochester Project costs for which it is seeking recovery in this Petition are reasonable and should be approved, subject to future true-up; (2) MERC's calculation of its forecasted 2019 revenue requirement is consistent with the NGEP Statute and Commission Order in Docket No. G011/M-15-895; and (3) MERC's proposed rate design for the surcharge recovery as a per-therm charge from all customers is consistent with the NGEP Statute and the Commission's Order.

MERC has previously provided, or is providing in this filing, all required filing information under Minn. Stat. § 216B.1638. In particular, Minn. Stat. § 216B.1638, subd. 2, requires a utility petitioning for NGEP rider recovery to provide the following information:

- (1) a description of the natural gas extension project, including the number and location of new customers to be served and the distance over which natural gas will be distributed to serve the unserved or inadequately served area;
- (2) the project's construction schedule;
- (3) the proposed project budget;
- (4) the amount of any contributions in aid of construction;
- (5) a description of efforts made by the public utility to offset the revenue deficiency through contributions in aid to construction;
- (6) the amount of the revenue deficiency, and how recovery of the revenue deficiency will be allocated among industrial, commercial, residential, and transport customers;
- (7) the proposed method to be used to recover the revenue deficiency from each customer class, such as a flat fee, a volumetric charge, or another form of recovery;
- (8) the proposed termination date of the rider to recover the revenue deficiency; and

(9) a description of benefits to the public utility's existing natural gas customers that will accrue from the natural gas extension project.

**A. The Rochester Project is a Rider-Eligible Natural Gas Extension Project.**

As discussed above, the Commission approved MERC's Rochester Project as a qualifying NGEF Project by Order dated May 5, 2017, in Docket No. G011/M-15-895. This section of the Petition provides a description of the overall Rochester Project, the Project's construction schedule, and current proposed budget by year, including the forecasted 2019 expenditures that are the subject of this Petition. This section supports the reasonableness of the costs MERC is proposing to recover through an NGEF Rider surcharge effective January 1, 2019.<sup>9</sup>

*1. Project Description and Customers to be Served*

Minnesota Statutes section 216B.1638, subdivision 2(b)(1) requires that an NGEF rider filing include "a description of the natural gas extension project, including the number and location of new customers to be served and the distance over which natural gas will be distributed to serve the unserved or inadequately served area." As discussed in detail in Docket No. G011/M-15-895, the Rochester Project will address the system and capacity constraints within the southeastern region of Minnesota using a two-pronged approach. The first prong involves a new, 25-year contract with Northern Natural Gas ("NNG") that will increase MERC's allotted firm interstate pipeline capacity to the southeastern region. MERC will begin to recover the NNG capacity costs via its purchased gas adjustment ("PGA") beginning in the fall of 2018 when a portion of the incremental Rochester capacity will become available to MERC.<sup>10</sup>

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<sup>9</sup> In its May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions, the Commission noted MERC's agreement that the Company would be responsible to justify the actual costs of the Project in future rate case and rider proceedings. Rochester Order at 13.

<sup>10</sup> The Commission approved MERC's proposed recovery of the cost of NNG's upgrades through the MERC-NNG PGA in its May 5, 2017, Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895 (Order Point 3).

The second prong involves upgrades to the local distribution system that will address existing constraints and allow the system to handle the increased natural gas capacity from NNG. MERC has already started upgrading its distribution system as part of the Rochester Project. In 2015, the Company finished the Phase I improvements to its distribution system in Rochester.<sup>11</sup> The Commission authorized recovery of MERC's Phase I improvements of approximately \$5.6 million in the Company's 2016 rate case.<sup>12</sup>

The Phase II portion of the Project that is relevant to the NGEPRider involves the construction of a new 13-mile long high-pressure pipeline that interconnects a rebuilt town border station ("TBS") with a new TBS and new high-pressure district regulator stations ("DRS"), which will tie together the northern and southern portions of MERC's existing TBS system. These upgrades will allow MERC to efficiently manage the increased supply of natural gas delivered to its distribution system to meet customer demand.<sup>13</sup> As discussed previously in Docket No. G011/M-15-895, the Rochester Project upgrades are necessary to provide continued safe and reliable natural gas service to customers in the City of Rochester and surrounding local communities. The entire southeastern area has experienced continued population growth over the past five years, including industrial and residential expansion, in large part due to the expanding health care facilities in and around the City of Rochester. MERC forecasted growth in customer usage by customers served in the Rochester area, as discussed in Docket No. G011/M-15-895.<sup>14</sup>

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<sup>11</sup> Phase I of the Project included modernizing, standardizing, and interconnecting portions of MERC's district regulator stations and piping within the City of Rochester to more efficiently and effectively balance the flow of natural gas on this low-pressure distribution system and prepare the system for Phase II work.

<sup>12</sup> See *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION at 77 (Aug. 19, 2016).

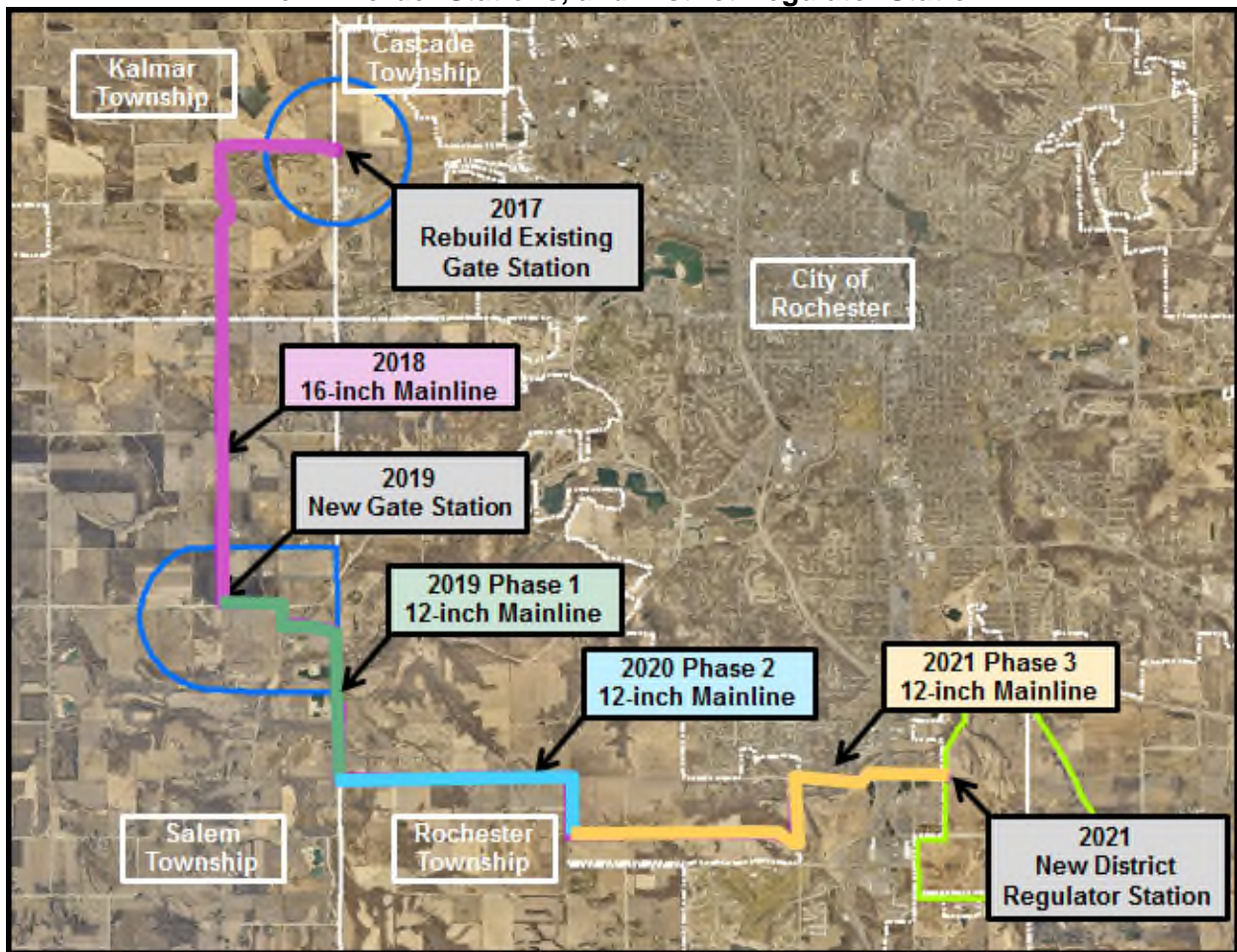
<sup>13</sup> The new pipeline was the subject of a separate route permit proceeding before the Commission in Docket No. G011/GP-15-858.

<sup>14</sup> *In the Matter of the Petition of Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for its Rochester Nat. Gas Extension Project*, Docket No. G011/GP-15-895, INITIAL FILING at 22 (Oct. 26, 2015). The projected Rochester area growth includes Olmsted County, and the communities of Kasson and Blooming Prairie located in Dodge County, immediately west of Olmsted County..

## 2. Project Construction Schedule

Minnesota Statutes section 216B.1638, subdivision 2(b)(2) requires that an NGEPR rider filing include the project's construction schedule. MERC previously provided the proposed Rochester Project schedule in Docket Nos. G011/M-15-895 and G011/GP-15-858. A general overview of the Project area and construction schedule as currently forecast is provided in Figure 1 below.

**Figure 1. Approved Rochester Route  
Town Border Stations, and District Regulator Station**



MERC started construction of Phase II in 2017, and plans to complete Phase II in 2022 or 2023. Work to be performed in Phase II includes five major construction activities:

- (1) Reconstruction of TBS #1D, which was completed and placed into service in December 2017;
- (2) Construction of approximately 5 miles of 16-inch steel mainline from TBS #1D to TBS #2, which is anticipated to be completed by the end of 2018;
- (3) Construction of new TBS #2, which is anticipated to be completed in 2019;
- (4) Construction of approximately 8 miles of 12-inch steel mainline from new TBS #2 to new DRS #90 which is planned to be completed in three phases with the first section in 2019, the second section in 2020, and the third section in 2021; and
- (5) Construction of new DRS #90.

Phase II construction activities are running ahead of schedule. The costs proposed for recovery in this Petition for 2019 are primarily related to the construction of a new TBS # 2 and the commencement of construction of the 12" steel mainline. Installation of the 12" mainline was originally expected to begin in 2020.

### *3. Project Budget and Prior Cost Recoveries*

Minnesota Statutes section 216B.1638, subdivision 2(b)(3) requires that an NGEP rider filing include the proposed project budget. Table 1 below provides the current Phase II Project spending schedule by year, including actual costs incurred in 2014-2017 and estimated costs for 2018-2023.

Actual costs incurred from 2014-2016 were primarily for the initial environmental review, consultant contract, regulatory review, engineering and design, and route surveys. Construction spending began in earnest in 2017, including surveys, easement acquisition, and additional engineering and design work, and is expected to continue through 2022 or 2023.<sup>15</sup>

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<sup>15</sup> Initial estimates included some modest project close-out costs in 2023. The current schedule projects an earlier completion date in 2022.



**Table 1 – Rochester Phase II Project Construction Activities and Costs**

	Station 1D	16-inch Mainline	Rochester #2	12-inch Mainline	Station #90	Total by Year
2014	\$ 12,188	\$ 56,436	\$ 17,872	\$ 88,573	\$ 9,996	\$ 185,066
2015	\$ 33,737	\$ 156,218	\$ 49,472	\$ 245,176	\$ 27,670	\$ 512,273
2016	\$ 99,386	\$ 460,198	\$ 145,738	\$ 722,258	\$ 81,511	\$ 1,509,092
2017	\$ 2,248,234	\$ 398,239	\$ 140,614	\$ 641,736	\$ 57,671	\$ 3,486,494
2018	\$ 117,413	\$ 11,867,082	\$ 231,579	\$ 747,521	\$ 14,046	\$ 12,977,641
2019	\$ -	\$ 51,066	\$ 3,675,308	\$ 6,499,064	\$ 138,893	\$ 10,364,331
2020	\$ -	\$ -	\$ 5,436	\$ 6,404,701	\$ 1,999,003	\$ 8,409,140
2021	\$ -	\$ -	\$ -	\$ 6,372,644	\$ 58,095	\$ 6,430,739
2022	\$ -	\$ -	\$ -	\$ 113,607	\$ 11,617	\$ 125,224
2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
					<b>Total Project</b>	<b>\$ 44,000,000</b>

MERC's Phase I Project Costs were recovered in MERC's 2016 general rate case in Docket No. G011/GR-15-736.<sup>16</sup> By Order dated February 8, 2016, the Commission moved all Rochester Project Phase II costs and issues from the general rate case to Docket No. G011/M-15-895, for separate consideration as a stand-alone contested case.<sup>17</sup> As approved, Phase II of the Project is expected to cost approximately \$44 million.

Costs incurred from 2014-2018 have been assumed to be included in base rates following completion of the Company's pending rate case proceeding in Docket No. G011/GR-17-563.<sup>18</sup> In that proceeding, MERC has forecasted a 13-month average rate base in 2018 related to the Rochester Project of approximately \$13.50 million.

Minnesota Statutes section 216B.1638, subdivision 3(c), authorizes the Commission to approve rider recovery of up to 33 percent of costs of a natural gas extension project. Total costs of this Project are estimated at \$44,006,607<sup>19</sup> and thus the NGEP Statute would permit

<sup>16</sup> See *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATION at 77 (Aug. 19, 2016).

<sup>17</sup> See *In the Matter of a Petition by Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for its Rochester Natural Gas Extension Project*, Docket No. G-011/M-15-895, NOTICE OF AND ORDER FOR HEARING at 8 (Feb. 8, 2016). However, the Commission also approved the agreement between MERC and the Department that MERC be allowed to defer Phase II capital costs with a current return. Those amounts are reflected in the 13-month average 2018 rate base in Exhibit B.

<sup>18</sup> In particular, a portion of costs were approved for recovery in rate base in MERC's 2015 test-year rate case in Docket No. G011/GR-15-736. MERC has also proposed inclusion of costs through 2018 in Docket No. G011/GR-17-563, as summarized in Exhibit B based on the 13-month average of rate base related to the Rochester Project.

<sup>19</sup> Rochester Order at 12-13 (approving a soft cap of \$44,006,607 for Phase II of the Rochester Project).

this NGEPRider recovery to be capped at \$14,522,180. Therefore, recovery of the 2019 incremental revenue deficiency of \$1,319,864 for which MERC is seeking recovery in this proceeding falls within the 33 percent statutory limitation.

#### *4. Contributions in Aid of Construction*

Minnesota Statutes section 216B.1638, subdivision 2(b)(4) and (5) require that a Petition for approval of an NGEPRider include the amount of any contributions in aid of construction and a description of the efforts made by the utility to offset the proposed revenue deficiency through contributions in aid of construction. Additionally, the Commission's Order in Docket No. G011/M-15-895 requires that MERC provide, in its annual NGEPRider filing, a discussion and supporting data explaining all work performed within the Destination Medical Center ("DMC") development district boundaries, with the amount of Destination Medical Center Corporation ("DMCC") funding applied for and received.

As discussed during the contested case in Docket No. G011/M-15-895, while new customers may be required to pay a contribution in aid of construction ("CIAC") to connect to MERC's distribution system under MERC's service extension tariffs, customers will not be connected directly to Phase II of the Rochester Project. All of Phase II relates to improvements to MERC's TBS system, which receives the natural gas transmitted by NNG and feeds it to MERC's distribution system, which then delivers the gas to customers. There is therefore no MERC customer CIAC to offset the total revenue requirements for the Project<sup>20</sup>; CIACs related to new customer connections in the Rochester area are not applicable to the Rochester Project costs.

In Docket No. G011/M-15-895, the parties and the Commission also evaluated whether any other potential funding sources were available to cover a portion of the Rochester Project costs. In particular, the parties, Administrative Law Judge, and Commission evaluated the

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<sup>20</sup> *In the Matter of the Petition of Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for its Rochester Nat. Gas Extension Project*, Docket No. G011/M-15-895, INITIAL FILING at 29-30 (Oct. 26, 2015).

potential availability of DMC funding under Minn. Stat. §§ 469.40-.47. In April 2016, MERC applied for \$5 million of funding for the Rochester Project from the DMCC and the City of Rochester. That application was denied because the Project does not fall within the DMC development district boundaries. In its Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895, the Commission acknowledged that the Rochester Project would not occur within the designated DMC development district boundaries but ordered that “to the extent any of MERC’s [future] projects qualify for funding under Minn. Stat. §§ 469.40-.47, the Company should seek such funding to offset project costs and ease the burden on its ratepayers.”<sup>21</sup>

In its September 1, 2017, NNG Annual Automatic Adjustment filing, MERC notified the Commission that it had completed, or was planning to undertake, projects within the DMC development district boundaries and that the Company intended to submit an application to the DMCC later that year to request funding for those projects.

In December 2017, MERC sought funding from the DMC for projects within the DMC development districts. MERC met with representatives from the DMCC and City of Rochester on February 7, 2018, during which the DMCC informed MERC that the projects for which it was seeking funding, while within the DMC development districts, would likely not qualify for DMC funding. MERC thus anticipates its request for proposed funding will be denied and will supplement this docket with additional information regarding the status of potential funding.

##### *5. Revenue Deficiency for 2019 Rider Recovery*

Minnesota Statutes section 216B.1638, subdivision 2(b)(6) requires that a Petition for an NGEF Rider include the amount of the revenue deficiency, and how recovery of the revenue deficiency will be allocated among industrial, commercial, residential, and transport customers. The statute defines the revenue deficiency as:

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<sup>21</sup> Rochester Order at 18.

The deficiency in funds that results when [1] projected revenues from customers receiving natural gas service as the result of a natural gas extension project, plus [2] any contribution in aid of construction paid by these customers, fall short of the total revenue requirement of the natural gas extension project.<sup>22</sup>

The calculation of the revenue deficiency “must include [1] the currently authorized rate of return, [2] incremental income taxes, [3] incremental property taxes, [4] incremental depreciation expenses, and [5] any incremental operation and maintenance costs.”<sup>23</sup>

In accordance with Minn. Stat. § 216B.1638, subd. 3(d), MERC’s revenue deficiency calculation includes the currently authorized rate of return,<sup>24</sup> incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance (“O&M”) costs. The calculation, presented in Exhibit B, was derived as follows:

- (1) MERC calculated the projected 13-month average balance of the total capital investment in 2019 and the 2019 forecasted Project O&M, depreciation expense, and property tax expense.
- (2) The actual Project costs incurred through February 2017 and the estimated incremental average rate base investment for 2018 have already been proposed to be recovered in base rates in MERC’s pending 2018 general rate case. MERC identified the 13-month average 2018 test year rate base and expense levels and subtracted them from the amounts calculated in Step 1 above to determine the incremental 2019 costs.
- (3) In order to isolate the incremental 2019 revenue requirement related to the growth in rate base, the 2019 incremental average rate base was multiplied by the last authorized rate of return (6.8842%) and then grossed up for income taxes. The tax

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<sup>22</sup> Minn. Stat. § 216B.1638, subd. 1(f). The “total revenue requirement” of a project means “the total cost of extending and maintaining natural gas service to a currently unserved or inadequately served area.” Minn. Stat. § 216B.1638, subd. 1(g).

<sup>23</sup> Minn. Stat. § 216B.1638, subd. 3(d).

<sup>24</sup> As approved in Docket No. G011/GR-15-736.

gross-up factor of 1.402 reflects the gross revenue conversion factor approved in MERC's 2016 test-year rate case in Docket No. G011/GR-15-736, updated to reflect the revised tax rate of 21 percent in effect due to the 2017 Tax Cuts and Jobs Act ("TCJA").<sup>25</sup>

- (4) Sales growth through 2018 is already recognized in the 2018 rate case. However, MERC expects to recognize additional incremental sales growth in the Rochester area in 2019, as reflected in MERC's forecast in Docket No. G011/M-15-895. Additional 2019 margin revenues of approximately \$300,000 could be realized as a result of this sales growth. Therefore, MERC subtracted the 2019 incremental revenue from the 2019 incremental costs, leaving a revenue deficiency of \$1.3 million to be recovered in the 2019 NGEPRider.
- (5) The calculated 2019 incremental revenue deficiency of approximately \$1.3 million was divided by the projected total therm sales for 2019 to yield the proposed NGEPR surcharge rate of \$0.00150. The forecasted sales of 877,001,389 are based on MERC's forecasted sales for 2018 as filed in Docket No. G011/GR-17-563, adjusted for additional incremental sales projected in the Rochester area, as reflected in MERC's forecast in Docket No. G011/M-15-895.

Because the 2018 rate case is pending, MERC is unable to utilize a final 2018 rate base or final 2018 authorized rate of return in its calculation of this proposed 2019 NGEPRider. Any differences between the estimated and final authorized numbers will be utilized in calculating a true-up for 2019 to account for actual costs and recoveries. A discussion of the true-up is provided in Section 7 below.

As shown in Exhibit B and reflected in the proposed tariff sheets in Exhibit A, MERC is proposing to allocate recovery of the Project revenue deficiency equally across all MERC

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<sup>25</sup> The official title of the TCJA is "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." Public Law No. 115-97 (Dec. 22, 2017).

customers in all customer classes (industrial, commercial, and residential) as a per-therm charge. Specifically, the calculated annual revenue deficiency of \$1.3 million has been divided by total system throughput of 877 million therms to derive a rate per therm of \$0.00150. This rate is proposed to be applied to all customers regardless of size, geographic location, or tariffed class (i.e., sales or transportation) in 2019. This proposal is consistent with the Commission's Order Approving Rochester Project and Granting Rider Recovery with Conditions in Docket No. G011/M-15-895.

MERC proposes to notify customers of the implementation of the NGEP rate via the following bill message, which will appear on bills effective the first month the NGEP surcharge takes effect:

Effective January 1, 2019, an NGEP (Natural Gas Extension Project) Surcharge of \$0.00150 per therm has been included on your bill. The NGEP Surcharge is a surcharge authorized under Minn. Stat. § 216B.1638 to recover a portion of costs related to the construction of new infrastructure or upgrades to existing natural gas facilities necessary to serve currently unserved or inadequately served areas. The NGEP Surcharge will appear as a line item on your bill labeled "Natural Gas Extension Project – Rochester."

#### *6. Allocation of Cost Recovery Among Customers*

The NGEP Statute provides that an NGEP rider "shall include all of the utility's customers, including transport customers." In its original request for approval of the Rochester Project in Docket No. G011/M-15-895, MERC proposed, and the Commission approved, to apply MERC's NGEP rider to all its customers through a flat per-therm rate.<sup>26</sup> As reflected in Exhibit B to this filing, the average annual impact of the proposed per-therm NGEP Rider surcharge by customer class is as follows:

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<sup>26</sup> Rochester Order at 13, 18 (Order Point 5).

**Table 2 – Average Annual Customer Bill Impact from Proposed NGEP Rider Surcharge**

<b>Customer Class</b>	<b>Average Annual Rate Impact of NGEP Rider Surcharge</b>
Residential	\$1.30
Small Commercial & Industrial	\$1.53
Large Commercial & Industrial	\$12.99
Small Volume Interruptible	\$151.39
Large Volume Interruptible	\$1,004.97
Super Large Volume Interruptible-Transport	\$16,846.27

*7. Proposed Method of Rider Recovery and Termination Date*

*a. Per Therm Recovery Mechanism*

Minnesota Statutes section 216B.1638, subdivision 2(b)(7) requires that the Petition include the proposed method to be used to recover the revenue deficiency from each customer class, such as a flat fee, a volumetric charge, or another form of recovery. MERC’s NGEP Rider proposal requests approval of a per-therm charge, as indicated above and calculated in Exhibit B, charged to all customers regardless of class or service selection, with a subsequent true-up, as discussed below, to account for differences in collection between the approved total and actual collections as a result of customer gas usage being over or under the forecast used to establish the per-therm charge. The rider surcharge would commence on a service rendered basis as of January 1, 2019, and the surcharge would terminate on a service-rendered basis as of December 31, 2019.<sup>27</sup> If the timing of the decision approving the NGEP Rider rate does not allow for a January 1 implementation date, MERC recommends that the rate be recalculated to recover the approved Project revenue deficiency over the remaining months of the year in order to match the timing of the cost recovery with the timing of plant going into service.

<sup>27</sup> Minnesota Statutes section 216B.1638, subdivision 2(b)(8) requires that the Petition include the proposed termination date of the NGEP Rider to recover the revenue deficiency.

Collection of the approved per-therm NGEPRider rate will be tracked as compared to the ending 2018 rate base balance as approved in MERC's pending rate case in Docket No. G011/GR-17-563. MERC proposes accruing a carrying charge to the average monthly tracker balance at a rate equal to 1/12 of MERC's currently authorized short term cost of debt per its most recent rate case order.

An additional adjustment to the true-up calculation will be needed to adjust for the starting point if the 2018 approved revenue deficiency for the Project differs from the 2018 revenue deficiency currently calculated in Exhibit B.

b. True-Up Reconciliation

MERC proposes that the rider surcharge would commence on a service rendered basis as of January 1, 2019, and the surcharge would terminate on a service-rendered basis as of December 31, 2019. MERC would thereafter submit a reconciliation of the actual tracker and proposed 2019 rider recovery in approximately April of 2020, with implementation of the reconciled per-therm surcharge upon Commission approval.

As noted above, because the 2018 rate case is pending, MERC is unable to utilize the final 2018 rate base and a 2018 authorized rate of return in its calculation of the proposed 2019 NGEPRider. Any differences between the forecasted and final authorized numbers will be utilized in calculating a true-up for 2019 so that customers are held harmless from variations in the final amounts. For example, in the event MERC's 2018 authorized rate of return is higher than the currently authorized rate of return as approved in Docket No. G011/GR-15-736, MERC would calculate the difference in the revenue deficiency under the forecasted calculation and using the final approved rate of return. Additionally, because MERC has proposed recovery of the forecasted NGEPRider costs through a per-therm charge, a true-up is necessary to adjust for the over or under recovery that results from differences between the forecast and actual gas sales. Such differences could occur for a variety of reasons that impact actual customer natural gas usage, which cannot be predicted with certainty.



An illustrative example of a potential true-up calculation is provided in Exhibit C to this filing. Exhibit C illustrates the impact to the true-up in the event the 2019 actual rate base is higher than projected (\$35,000,000 actual versus \$23,849,255 forecasted), the rate of return is updated to the proposed rate of return in Docket No. G011/GR-15-736 (updated from 6.8842% approved in Docket No. G011/GR-15-736 to 7.02% as proposed in Docket No. G011/GR-17-563), and assumes the NGEPRider revenue collected in 2019 was equal to \$1,500,000. This example is intended for illustrative purposes only and not to represent the anticipated true-up calculation.

c. Termination of Rider Recovery and Renewal

Minnesota Statutes section 216B.1638, subdivision 2(b)(8) requires that a Petition for an NGEPRider shall include the proposed termination date of the rider to recover the proposed revenue deficiency.

Recovery of the Rochester Project costs incurred in 2020 and thereafter will be either through base rate increases authorized in general rate cases, or via future NGEPRider petitions. If MERC does not file a rate case for test year 2020, MERC will file an application in early 2019 to implement an NGEPRider per therm surcharge to recover the Rochester costs incurred in 2020.

The revenue deficiency for the new NGEPRider rate will be calculated using the forecasted recovery method outlined above and subject to the 33 percent statutory limitations for an NGEPRider. As explained above, the 33 percent limitation is estimated to be approximately \$14.5 million in cumulative Project revenue requirement subject to this NGEPRider.

The NGEPRider will be reconciled and renewed annually. For instance, MERC will prepare and file the reconciliation of 2019 costs with this Commission by April 1, 2020. Because the Commission will need time to review and approve the reconciliation, it is likely that MERC will need to propose to adjust the 2020 or 2021 NGEPRider to resolve any unrecovered

or excess collections from 2019. This process would continue annually until MERC files its next rate case.

At the time of MERC's next rate case, the NGEP Rider would zero out with respect to the unrecovered 13-month average net rate base value of all Project plant in service as of the end of the test year. This unrecovered 13-month average net plant balance would be put into rate base for the test year. Further, the test year will continue to reflect the annual forecasted O&M expense, depreciation expense, and property taxes relative to the completed Project. A final reconciliation filing will resolve the disposition of any remaining NGEP Rider over/under recovery balances.

Currently, the Rochester Project is projected to be completed by December 2023. At some point in 2024 MERC expects to reach the \$14.5 million (33 percent) cap on authorized NGEP Rider recovery. If no rate case was filed between 2018 and then, the over/under recoveries identified in the 2024 reconciliation may have to be resolved in 2025 and/or 2026. Assuming that the Rochester Project will not be completed by the time MERC files its next rate case, MERC could once again file to collect the rider-eligible revenue deficiency for the portions of the Project's plant that are forecast to go into service in the following year. Such a petition would be developed using the forecasted recovery method outlined above and subject to the 33 percent statutory limitations for an NGEP rider.

#### *8. Benefits to Customers*

Minnesota Statutes section 216B.1638, subdivision 2(b)(9) requires that a Petition for an NGEP Rider shall include a description of benefits to the public utility's existing natural gas customers that will accrue from the natural gas extension project. This information was provided in MERC's original request for approval of the Rochester Project in Docket No.

G011/M-15-895.<sup>28</sup> Ultimately, the Commission determined in that proceeding that “the Rochester Project is necessary, reasonable, and prudent to provide service to MERC’s Rochester service area and its system as a whole.”<sup>29</sup>

### III. CONCLUSION

MERC respectfully requests approval for the design of the NGEF Rider and the proposed rate of \$0.00150 per therm to become effective January 1, 2019. Costs and revenues subject to the NGEF Rider will be reconciled annually and submitted to this Commission for review and approval.

If additional information is required, please contact Amber S. Lee at (651) 322-8965 or Kristin M. Stastny at (612) 977-8656.

DATED: February 28, 2018

Respectfully submitted,

BRIGGS AND MORGAN, P.A.

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Attorney for Minnesota Energy  
Resources Corporation

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<sup>28</sup> *In the Matter of the Petition of Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for its Rochester Nat. Gas Extension Project*, Docket No. G011/M-15-895, INITIAL FILING at Sections 3 and 4 (Oct. 26, 2015).

<sup>29</sup> Rochester Order at 9.

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER

1. APPLICABILITY

Applicable to bills for natural gas service provided under the Company's retail and transportation rate schedules as approved by the MPUC.

2. RIDER

The Natural Gas Extension Project (NGEP) rider statute (Minn. Stat. § 216B.1638) permits a public utility to petition the Minnesota Public Utilities Commission (MPUC) outside of a general rate case for a rider to be billed to all of the utility's customers, including transport customers, to recover the revenue deficiency from a qualifying natural gas extension project. Qualifying Projects are natural gas service extensions to unserved or inadequately served areas where the cost would otherwise have been prohibitive under the Company's present rate and service extension policy.

Nothing in this rate schedule shall obligate the Company to extend natural gas service to any area. Rather, the NGEP Rider will be used and implemented at the Company's discretion upon receipt of MPUC approval.

3. RATE

The NGEP Rider rate for any customer class will be the MPUC-approved rate for that customer class. Such NGEP Rider rates may be volumetric, a flat fee, or some other form of approved recovery.

The MPUC may not approve an NGEP Rider that allows a utility to recover more than 33 percent of the costs of a Qualifying Project.

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (Continued)

4. DEFINITIONS

- A. Revenue Deficiency: The deficiency in funds that results when projected revenues from customers receiving natural gas service as the result of a natural gas extension project, plus any contribution in aid of construction paid by those customers, fall short of the total revenue requirement of the natural gas extension project.

A standard model will be used to calculate the Revenue Deficiency related to Qualifying Project(s) for the filing period. The Revenue Deficiency will be adjusted for retail revenues (actual and/or expected) generated from incremental customers served by the Qualifying Project(s) in the one-year NGEP Rider period.

- B. NGEP Tracker: An accounting process used to accumulate any difference between the actual revenue requirement impact of Qualifying Projects and the actual revenues received through the NGEP Rider.
- C. NGEP Rider Reconciliation: The balance at the end of each calendar year in the NGEP Rider Tracker, either positive or negative, is subject to review and approval by the MPUC in an annual NGEP Rider Reconciliation filing. The approved balance is to be applied as an adjustment to the ongoing NGEP Rider rate.
- D. Qualifying Project: A project eligible for recovery via the NGEP Rider under Minn. Stat. § 216B.1638 is one used to extend or expand service to an unserved or inadequately served area, further defined as an area in Minnesota lacking adequate natural gas pipeline infrastructure to meet the demand of existing or potential end use customers.
- E. Recoverable NGEP Expenses: The annual revenue requirement for costs associated with the Qualifying Project(s) includes the currently authorized rate of return on capital investment, incremental income taxes, incremental property taxes, incremental depreciation expenses, and any incremental operation and maintenance costs relative to the Qualifying Project(s).

NATURAL GAS EXTENSION PROJECT (NGEP) RIDER (Continued)

5. NGEP RATES

A. Currently Authorized NGEP Rate

A separate NGEP Rate may be calculated for each customer class or the same rate may be applied across all or a portion of customer classes, as approved by the MPUC. The NGEP rate shall be calculated to recover the NGEP Revenue Deficiency over the period approved by the MPUC.

The NGEP Rate effective January 1, 2019 shall be \$0.00150 per therm for all customer classes.

B. Adjustment to NGEP Tracker with Changes in Base Rates

Whenever the Company implements changes in base rates as the result of a final Commission order in a general rate case, the Company shall simultaneously adjust the NGEP Tracker to remove all costs that have been included in the approved base rates.

**Minnesota Energy Resources Corporation**  
**2019 Natural Gas Expansion Program ("NGEP") Rider Calculation**

Line	Description	Reference	2018 Rate Case	2019 Forecast	Forecasted 2019 NGEP Rider
1	Expenses	O&M, Depreciation Expense, and Property Taxes	142,754	781,731	638,977
2					
3	Rate Base	13-Month Average Net Plant Value	13,496,355	23,633,985	10,137,630
4	Rate of Return	Commission Authorized 2016 Rate Case	6.8842%	6.8842%	
5	Gross Revenue Conversion Factor	Commission Authorized 2016 Rate Case1			1.402
6	Earnings on Rate Base				697,895
7	Return on Rate Base	Line 3 x Line 4 x Line 5			978,448
8					
9	<b>Total Revenue Requirement</b>	<b>Line 1 + Line 7</b>			<b>1,617,425</b>
10					
11	Offsetting Project Revenue	Based on Approved Rates from 2016 Rate Case			\$ 297,561
12					
13	<b>Project Revenue Deficiency</b>	<b>Line 9 less line 11</b>			<b>1,319,864</b>
14					
15	<b>Total Therms</b>				<b>877,001,389</b>
16					
17	<b>Per therm Increase</b>	<b>Line 13 / Line 15</b>			<b>\$ 0.00150</b>
18					
19	Average use per Residential Customer	2016 Rate Case Sales Forecast			867
20	Average annual cost increase to Residential Customer	Line 17 x Line 19			\$ 1.30
21					
22	Average use per General Service Small C&I Customer	2016 Rate Case Sales Forecast			1,015
23	Average annual cost increase to GS Small C&I Customer	Line 17 x Line 22			\$ 1.53
24					
25	Average use per General Service Large C&I Customer	2016 Rate Case Sales Forecast			8,633
26	Average annual cost increase to GS Large C&I Customer	Line 17 x Line 25			\$ 12.99
27					
28	Average use per Small Volume Interruptible Customer	2016 Rate Case Sales Forecast			100,593
29	Average annual cost increase to Small Volume Interruptible Customer	Line 17 x Line 28			\$ 151.39
30					
31	Average use per Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			667,768
32	Average annual cost increase to Large Volume Interruptible Customer	Line 17 x Line 31			\$ 1,004.97
33					
34	Average use per Super Large Volume Interruptible Customer	2016 Rate Case Sales Forecast			11,193,727
35	Average annual cost increase to Super Large Volume Interruptible Customer	Line 17 x Line 34			\$ 16,846.27

<sup>1</sup> Gross revenue conversion factor is based on the Commission-authorized 2016 factor adjusted for the new tax rates per the 2017 TCJA

**Minnesota Energy Resources Corporation  
NGEP Rider True-Up Example**

Line	Item	Description	2018 Approved Test Year	2019 Actual	2020 True-up
1	Rate Base	13-month average net plant value	\$ 13,496,355	\$ 35,000,000	
2	Rate of Return	As authorized	7.0200%	7.0200%	
3	Gross Revenue Conversion Factor	From MERC's 2018 rate case updated with new Federal Tax Rates	1.402	1.402	
4	Return on Rate Base	Line 1 x Line 2 x Line 3	\$ 1,328,317	\$ 3,444,714	
5	Incremental O&M	O&M, Depreciation Expense, Property Taxes	\$ 142,754	\$ 781,731	
6	Total Revenue Requirement	Line 4 plus Line 5	\$ 1,471,071	\$ 4,226,445	
7	Less: Incremental Project Revenues	Projected Rochester sales growth x rates approved in 2016 rate case.	\$ -	\$ 297,561	
8	Revenue Deficiency	Line 6 minus line 7	\$ 1,471,071	\$ 3,928,884	\$ 2,457,813
9	2019 Rider Revenue Collected				\$ 1,500,000
10	2020 True-up Revenue Requirement	Total shortfall to be added to the 2020 NGEP Rider calculation			\$ 957,813
11	MERC MN Sales (Therms)	2018 Rate Case Sales Forecast plus 2019 Rochester Sales Growth			877,001,389
12	True-up Rider Surcharge	Per Term amount to be added to the 2020 NGEP Rider			\$ 0.00109
13		Annual Impact on Average Residential Customer			\$ 0.95
14	Rider Charged to System Customers	2020 system sales (therms)			323,147,747
15		true-up collected from sales customers			\$ 352,924
16	Rider Charged to Transporters	2020 transportation sales (therms)			553,853,642
17		true-up collected from transporters			\$ 604,889



In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Natural Gas Extension Project Rider Surcharge for the Recovery of 2019 Rochester Project Costs

Docket No. G011/M-18-\_\_\_\_\_

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 28th of February, 2018, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Initial Filing on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 28th day of February, 2018.

/s/ Kristin M. Stastny  
Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500  Minneapolis, MN 554021498	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	No	GEN_SL_Minnesota Energy Resources Corporation_General Service List
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