

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: October 15, 2015..... **Agenda Item 2**

Company: Minnesota Energy Resources Corporation (MERC)

Docket No. **G-011/M-15-776**
In the Matter of the Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a Tariff Revision and a New Area Surcharge for the Ely Lake Project Petition to Modify Previously Approved New Area Surcharge

Issue: Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request to modify its Ely Lake New Area Surcharge (NAS) factors?

Staff: Bob Brill 651-201-2242

Relevant Documents

MERC - Initial Petition and Attachments (TS)¹ August 25, 2015
Department of Commerce (Department) - Comments..... September 22, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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October 2, 2015

¹ Trade Secret.

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Statement of the Issue

Should the Commission approve Minnesota Energy Resources Corporation's (MERC's) request to modify its Ely Lake New Area Surcharge (NAS) factors?

Background

On July 26, 2012, the Commission approved MERC's request for a New Area Surcharge (NAS) tariff in Docket No. G-007,011/M-11-1045. MERC is required to submit a miscellaneous rate change request prior to implementing any NAS factor.

On January 30, 2014, Minnesota Governor Mark Dayton issued Emergency Executive Order 14-02 and released a statement in response to the propane supply issues due to the polar vortex conditions that gripped the state.²

On September 5, 2014, the Commission issued its Order approving MERC's New Area Surcharge (NAS) for the Ely Lake project, in Docket No. G-011/M-14-524

On July 9, 2015, the Commission met and considered MERC's Petition for Approval of its Detroit Lakes – Long Lake NAS factors (Docket No. G-011/M-15-441). On July 28, 2015, the Commission issued its *Order* approving the new area surcharge for Detroit Lakes-Long Lake

On August 25, 2015, MERC petitioned the Commission for its approval to modify its Ely Lake NAS factors, in this docket, pursuant to MERC's commitment to do so at the Commission's July 9 agenda meeting.

On September 22, 2015, the Department filed its *Comments*.

MERC – Modified Petition

In Docket No. 15-441, the Commission approved two changes to MERC's NAS model based on the recommendations of the Department and PUC staff. During the 15-441 deliberations, MERC committed to modify its approved Docket No. 14-524 Ely Lake NAS factors to reflect the changes the Commission approved in Docket No. 15-441.

On August 25, 2015, MERC filed to modify its initial Docket No. 14-524 (Ely Lakes) NAS factors to reflect the following changes:

- exclude the Conservation Cost Recovery Charge (CCRC); and

² This statement listed steps that had been taken to alleviate the propane issues within the state and steps being taken to prevent future propane shortages. On March 24, 2014, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Testimony in Docket No. G011/GR-13-617 recommending that MERC pursue in a separate filing a tariff revision to extend the maximum term of service for a New Area Surcharge to some period such as the length of the expected lives of the new facilities or a period agreed to by customers in the new area.

- incorporate the 75-foot service extension allowance the Company currently provides for residential service installations.

Department Comments

The Department reviewed MERC's modified petition to ensure that MERC accurately calculated the modified Ely Lakes NAS factors in accordance with the Commission Order in Docket No. 15-441.³ After reviewing MERC's calculations the Department concluded that MERC removed the CCRC from the calculation and incorporated the existing 75-foot service extension allowance for residential service installation. This resulted in a lower required contribution in aid of construction (CIAC) of \$539,982 than was required in the original project of \$714,688.

These modifications result in a decrease in MERC's Ely Lakes NAS factors. See the following tables:

Table 1: MERC's Residential Ely Lakes NAS factors:

	Initial Petition	Revised Petition	Difference	Percentage Difference
20-year term	\$33.50	\$25.45	(\$8.05)	(24.03%)

Table 2: MERC's Commercial Ely Lakes NAS factors:

	Initial Petition	Revised Petition	Difference	Percentage Difference
20-year term	\$33.50	\$25.45	(\$8.05)	(24.03%)

The Department concluded that MERC accurately recalculated its Ely Lake NAS factors in accordance with the Detroit Lakes Project in Docket 15-441.

Department Recommendation

The Department recommended to the Commission that it approve MERC's modified petition's Ely Lakes NAS factors and MERC's related tariff language proposal made in this petition.

PUC Staff Comments

PUC staff agrees with the Department's recommendations and further staff is of the opinion that MERC should disclose this modified information to its customers.

Disclosure to Customers

In Docket Nos. 14-524 and 14-551, the Commission required MERC to disclose, at a minimum, to its Ely Lake and Detroit Lakes projects customers the monthly NAS factor, the annual cost of the NAS, and a statement that the NAS is expected to be charged for the Commission chosen

³ MERC's petition included an adjusted version of the spreadsheet used to calculate the original Ely Lake NAS.

recovery term and the related NAS amount charged for that period. PUC staff believes that the Commission should continue to require MERC to fully disclose this modified information to its Ely Lakes customers, which would help make the NAS customers more knowledgeable and possibly forestall future complaints. The customer disclosure would include, at a minimum, the following information:

- A. The new monthly surcharge rate,
- B. The fact that the surcharge is in addition to the regular monthly bill for gas service,
- C. A pro forma gas bill for the month of January, based on average customer use for that month in the Ely Lakes area, showing the surcharge as a separate line item on the pro forma bill,
- D. The annual cost of the surcharge,
- E. A statement that the surcharge is expected to continue for 20 years, and
- F. The total cost of the surcharge for the 20-year period.

Decision Alternatives

1. Approve MERC's modified petition's Ely Lakes NAS factors and MERC's related tariff language proposal made in this petition.
2. The Company shall disclose to potential customers at least the following information:
 - A. The monthly surcharge rate,
 - B. The fact that the surcharge is in addition to the regular monthly bill for gas service,
 - C. A pro forma gas bill for the month of January, based on average customer use for that month in the Ely Lakes area, showing the surcharge as a separate line item on the pro forma bill,
 - D. The annual cost of the surcharge,
 - E. A statement that the surcharge is expected to continue for 20 years, and
 - F. The total cost of the surcharge for the 20-year period.
3. Require MERC to submit a compliance filing with 20 days of the Commission's Order that includes the revised NAS tariff and customer communications materials.