Rebuttal Testimony
Theodore T. Eidukas

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

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

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

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

Overview of February Market Event and Witnesses

January 21, 2022

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Theodore T. Eidukas. My business address is 231 West Michigan Street, Milwaukee, Wisconsin 53203. I am employed by WEC Business Services ("WBS"), a wholly owned subsidiary of WEC Energy Group, Inc. ("WEC"). WEC is the parent company that owns Minnesota Energy Resources ("MERC"). My current position is Vice President – Regulatory Affairs.

Q. ARE YOU THE SAME WITNESS WHO SPONSORED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my Rebuttal Testimony is to provide an overview of the Direct Testimony filed by Minnesota Department of Commerce, Division of Energy Resources ("Department") witness Matthew J. King; Office of the Minnesota Attorney General, Residential Utilities Division ("OAG") witness Brian Lebens; and the Citizens Utility Board of Minnesota ("CUB") witnesses Ronald Nelson and Bradley Cebulko; to summarize MERC's responses to intervenors' conclusions and recommendations; and to introduce other witnesses who are providing Rebuttal Testimony on behalf of the Company. I also respond to the Department's and CUB's proposed disallowances related to curtailment of interruptible load during the period of February 13-17, 2021 ("February Market Event") and provide support for the reasonableness and prudence of MERC's decisions regarding interruptible curtailments in light the Company's Commission-approved interruptible tariffs and Commission-approved interruptible rate structure and information that was known or knowable leading up to the unprecedented market price spike. Additionally, I respond to Department witness Mr. King's recommendation regarding the design of cost recovery related to the extraordinary gas costs and confirm that the Company is already tracking customers who move from sales to transportation service, in accordance with the tariffs filed in August 2021. Finally, I address policy considerations and issues regarding the regulatory framework relevant to the review of MERC's actions and decisions before, during, and after the February Market Event.

Q. WHO IS PROVIDING REBUTTAL TESTIMONY ON BEHALF OF MERC?

A. In addition to my Rebuttal Testimony, the following witnesses, who also submitted Direct Testimony, are providing Rebuttal Testimony on behalf of MERC:

- Ms. Sarah R. Mead (1) responds to Department witness Mr. King with respect to the accuracy of the Company's load forecasting and the Company's approach to planning for supply margin in excess of forecasted load; and (2) responds to CUB witnesses Mr. Nelson and Mr. Cebulko with respect to the accuracy of the Company's load forecasting.
- Mr. Timothy C. Sexton of Gas Supply Consulting, Inc. (1) addresses areas of agreement between the Company and Department witness Mr. King including MERC's baseload purchases, geographic diversity of supply,

ratable weekend purchases, and use of storage; (2) provides further context regarding information that was known at the time MERC was planning its daily supply on February 16 for gas day February 17; and (3) responds to OAG witness Mr. Lebens's arguments that the gas utilities could have avoided extraordinary gas costs by procuring financial hedges, detailing that the identified hedges were either not available or, to the extent they were available, would have been unreasonably speculative and would not have addressed MERC's obligation to meet customer supply requirements.

Additionally, the following witnesses, who provided Direct Testimony on behalf of MERC, Xcel Energy, CenterPoint Energy, and Great Plains (collectively, the "Joint Gas Utilities"), are providing Rebuttal Testimony on behalf of the Joint Gas Utilities:

- Mr. Richard G. Smead from RBN Energy responds to OAG witness Mr. Lebens's arguments that the gas utilities could have avoided extraordinary gas costs by procuring financial hedges.
- Ms. Colette D. Honorable responds to testimony addressing the applicable prudence standard submitted by Department witness Mr. King and by CUB witnesses Mr. Nelson and Mr. Cebulko.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. The remainder of my Rebuttal Testimony is organized in the following sections:

Section II provides a brief overview of the issues raised by intervenors, in addition to other broader regulatory and policy matters, and summarizes MERC's responses to intervenors' Direct Testimony and recommendations.

Section III provides responses to Department witness Mr. King and CUB witnesses Mr. Nelson and Mr. Cebulko regarding the reasonableness of MERC's decision not to curtail interruptible customers during the event.

Section IV includes a response to Department witness Mr. King's recommendation regarding the design of extraordinary gas cost recovery.

Section V provides updates regarding MERC's actions taken after the February Market Event.

II. OVERVIEW OF ISSUES RAISED BY INTERVENORS AND REGULATORY FRAMEWORK

A. General Response to Intervenor Direct Testimony

Q. PLEASE PROVIDE AN OVERVIEW OF THE INTERVENORS' CONCLUSIONS AND RECOMMENDATIONS.

A. Department, OAG, and CUB witnesses each provide testimony recommending different levels of cost disallowance (which vary significantly for each witness) for the gas MERC purchased to serve customers during the February Market Event based on arguments that one or more of MERC's actions and decisions before and during the event were not reasonable and prudent. Their recommended disallowances, however, are each improperly based on hindsight and should not be accepted.

With respect to MERC, intervenors recommend disallowances limited to three areas – (1) load forecasting, (2) interruptible curtailments, and (3) hedging. First, both Department witness Mr. King and CUB witness Mr. Cebulko allege MERC's load forecasting was unreasonably high or overly conservative and resulted in too much gas being procured.[1] While the Department recommends a disallowance only for one day's activities, for February 17, 2021, CUB recommends a disallowance for the entire February Market Event based on load forecasting concerns for both February 14 and 17.[2] MERC witness Ms. Mead responds to these issues in her Rebuttal Testimony, providing additional support for the reasonableness of the Company's load forecasting under the circumstances of the event, including factors outside the Company's control.

Second, Department witness Mr. King and CUB witnesses Mr. Nelson and Mr. Cebulko take the position that the Company's decision not to curtail its interruptible customers in response to market uncertainty and increasing prices was not reasonable. As I discuss in more detail later in my Rebuttal Testimony, Department witness Mr. King concludes it was not unreasonable for the gas

[1] DOC Ex. ___ at 68-71 (King Direct); CUB Ex. ___ at 57-59 (Cebulko Direct).
[2] DOC Ex. ___ at 68-71 (King Direct); CUB Ex. ___ at 57-59 (Cebulko Direct); CUB Ex. ___ at 8-10 (Nelson Direct).

utilities, including MERC, to not plan on curtailing on February 12 for the four-day weekend and that calling for curtailments based on economics due to a spot gas price spike is outside how the utilities plan for and have historically used curtailments. However, Mr. King argues the utilities should have planned to curtail customers on February 16 for gas day February 17, given the additional knowledge gained over the four-day weekend and time for the utilities to have considered a different response. Based on these conclusions, Department witness Mr. King only recommends a disallowance for February 17 while CUB recommends a disallowance for the entire February Market Event. As discussed in my Rebuttal Testimony, while MERC did carefully evaluate whether economic curtailment based on the price of gas would be feasible and consistent with our Commission-approved interruptible tariffs, we reasonably and appropriately concluded that curtailing interruptible customers based on the price of gas, when we had adequate interstate pipeline capacity to meet all customer load requirements, did not have any distribution system constraints, and there were no threats to physical supplies, would not be consistent with our existing Commission-approved interruptible service.

Third, OAG witness Mr. Brian Lebens concludes the gas utilities, including MERC, could have avoided incurring any extraordinary gas costs during the February Market Event through financial hedges. MERC witness Mr. Sexton and Joint Gas Utilities witness Mr. Smead respond to the OAG's testimony on this issue, detailing that the hedging instruments Mr. Lebens urges could have been utilized to avoid extraordinary gas costs were not actual available products the Company could have procured.

Q. IN THIS PROCEEDING, WHICH ISSUES REMAIN UNDISPUTED?

A. First and foremost, no party to this proceeding contests that MERC was able to provide safe and reliable service to its customers during the extreme cold weather of the February Market Event. There were no gas service outages and all of MERC's customers had sufficient gas supplies to heat their homes and business. Second, no party challenges MERC's general gas procurement planning, including MERC's geographic diversity of gas supply. Aside from the OAG's conclusion that the natural gas utilities should have utilized certain financial hedging instruments, no party suggest MERC's gas supply procurement was unreasonable or imprudent. Third, no party challenges the fact that purchases for the four-day period February 13-16 were subject to a requirement for ratable purchases, meaning the same volume of gas must be purchased every day. The requirement for ratable purchases impacted the Company's ability to reduce its overall daily gas purchases, because MERC had to ensure adequate gas supply to meet the highest forecasted load on February 14, 2021. Fourth, no party challenges the prices that MERC paid for gas supplies for the February Market Event or the reasonableness of purchasing index-priced gas, thereby ensuring the price paid reflected the market midpoint. Similarly, no party challenges the fact that MERC is a price-taker in the daily gas market, and that market prices are driven by market forces outside the Company's control. Finally, even though gas prices began to rise heading into the February Market Event, none of the intervenors challenge the notion that the spike in natural gas prices during the February Market Event was truly unprecedented. As detailed in my Direct Testimony and the Direct Testimony of Ms. Mead, the prices that occurred during this event were outside the range of any historic experience or expectation of any market participant.

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

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

Intervenors' general depiction of the gas utilities as failing to appropriately react to weather, supply, and price information fails to recognize the fact that while prices on February 10 and 11 were above average, at $6.605/Dth to $15.68/Dth, they were still well within the range of historic experience, and past cold weather events have not necessarily resulted in price spikes, as shown in Table 3 and Table 4 of the Direct Testimony of Ms. Mead, included as Tables 1 and 2 below:

Table 1. Historic Cold Weather Events and Prices

Similar Cold Weather Incidents			
Weather Event Period (Year/Mo)	HDD Range [1/]	Max Vent $/Dth during Period	Max Demarc $/Dth during Period
Feb-21	**77-85**	**$ 154.91**	**$ 231.67**
Feb-20	77	$ 2.07	$ 2.07
Mar-19	79	$ 8.96	$ 8.48
Feb-19	77	$ 3.57	$ 3.43
Jan-19	77-99	$ 6.74	$ 4.23
Dec-17	80-85	$ 67.46	$ 3.50
Dec-16	78-81	$ 4.07	$ 4.07
Jan-16	82-83	$ 2.65	$ 2.65
Feb-15	79	$ 7.06	$ 6.81
Jan-15	80	$ 3.72	$ 3.69
Mar-14	82	$ 41.58	$ 19.14
Jan-14	79-84	$ 53.31	$ 6.22
Jan-14	91	$ 9.61	$ 6.38

[1/] Heating Degree Days (HDD) value represents the day's average temperature that is below 65 Fahrenheit, including the wind factor.

Table 2. Historic Daily Price Increases

Time Period	$/Dth Ventura	$/Dth Demarc	Additional Information
February 2021	$188-$7	$232-$15	February Market Event
December 2017	$67	$3.50	Cold weather event
March 2014	$41-$10	$19-$9	Waves of polar vortex fronts beginning Dec. 2013
February 2014	$43-$10	$35-$10	Waves of polar vortex fronts beginning Dec. 2013
January 2014	$41-$10	$6.21	Waves of polar vortex fronts beginning Dec. 2013

Additionally, none of the identified information that was known on February 12, would have supported the Company taking actions outside the range of standard industry practice, inconsistent with the Company's planning and historic operations, or inconsistent with the Company's tariffs, approved rate structure, or Commission authorization. Further, even after the magnitude of prices over the four-day weekend were known, when planning to reliably meet customer requirements on February 17, it would still not be reasonable for MERC to have taken actions outside the range of standard industry practice, inconsistent with the Company's planning and past operations, or inconsistent with Commission-approved tariffs, approved rate structures, or Commission authorizations.

Q. WHAT ARE YOUR OVERALL IMPRESSIONS OF THE INTERVENORS' TESTIMONY?

A. My general view is that despite claiming to assess the prudency of MERC's actions from what MERC knew at the time leading up to and during the February Market Event, the intervenors appear to frequently be applying perfect hindsight in their review. For instance, as discussed in the Rebuttal Testimony of Ms. Mead, with the benefit of hindsight, Department witness Mr. King and CUB witness Mr. Cebulko argue that MERC's load forecasts were unreasonably conservative. While it is easy to judge the Company's load forecasts with the benefit of hindsight, knowing actual load, transportation volumes, and temperatures, MERC did not know and could not have known actual load requirements at the time it needed to forecast customer requirements and procure gas supplies during the event. As detailed in the Rebuttal Testimony of Ms. Mead, MERC's load forecasting was reasonable under the circumstances and based on the information that was or should have been known at the time. The OAG suggests the natural gas utilities should have utilized financial hedging instruments that simply were not available and do not exist in the marketplace. However, even if such options had been available, the OAG's analysis is based in the perfect hindsight assumption that the utilities could and should have purchased options at what would have been considered an outrageously high price at that time (though significantly below where the market ultimately would end up during the February Market Event – information that is only known with the benefit of hindsight) and would have been able to sell at or near the height of the market price spike, perfectly predicting the timing of market price changes. Ultimately, the OAG's conclusions are merely hypothetical and unsupported by any real world outcome that any utility could have obtained. But even setting aside the unavailability of the products the OAG urges should have been pursued, Mr. Lebens' analysis is purely based on hindsight, and assumes MERC could have beat the market in a way that is simply ludicrous.

Additionally, as I note above, intervenors' conclusions and recommendations for disallowance are largely based on the premise that a reasonable and prudent reaction to the increasing market prices and ultimate market spike on February 12 and February 16 would have been for the gas utilities to engage in actions that are simply outside the range of standard industry practice; inconsistent with the Company's planning and past operations; and inconsistent with Commission-approved tariffs, approved rate structures, and Commission authorizations or directives.

For example, OAG witness Mr. Lebens' suggestion the Company could have entered into hedges between February 8 and February 11 based on weather forecasts and reports of the possibility of freeze offs – even if such hedges would have been available, which they were not – is entirely outside the range of standard utility practice; is inconsistent with MERC's hedging plans, which are filed and reviewed each year and in the Company's periodic hedging variance filings; and would be contrary to the conditions established in the Commission's order authorizing hedging. As a result, while the Company could not have undertaken the actions Mr. Lebens urges should have been pursued, based on the lack of availability of the hedging products advocated could have been procured, it also would not have been remotely reasonable or prudent for MERC to have done so. As noted in the Direct Testimony of Department witness Mr. King, "Although a variety of different hedging tools are available for natural gas, standard, widely available products are monthly oriented similar to baseload purchases. Financial hedges typically point to monthly [first-of-month] prices as opposed to daily prices."[3]

As a public utility, MERC's hedging objectives are to provide continuous and reliable gas supply at a reasonable overall price relative to prominent market prices at that time (including the premium associated with the hedges), while providing reasonable protection from market volatility. As noted by Mr. King, "LDCs like the Gas Utilities are ultimately obligated to provide physical service. Hedging plans consist of goals backed to some extent by financial mechanisms."[4] It would be outside standard utility practice for a public utility to engage in the type of speculative financial hedging urged by Mr. Lebens, even if such financial products were available, the goal of which is financial returns with significant risk. In authorizing MERC to engage in financial hedging, the Commission has established conditions to ensure hedging is designed to provide a value to customers as

[3] DOC Ex. __ at 23 (King Direct).
[4] DOC Ex. __ at 34-35 (King Direct).

insurance at an overall reasonable price (inclusive of the premium required to procure that insurance).

Q. DO THE INTERVENORS ACKNOWLEDGE THAT MERC PROVIDED SAFE AND RELIABLE SERVICE TO ITS CUSTOMERS DURING THE FEBRUARY MARKET EVENT?

A. Yes, the Department does. The OAG and CUB appear to ignore that the Company was able to provide continuous, safe, and reliable service to its customers during the extreme cold weather, thereby avoiding the tragic outcomes that occurred in Texas during this severe weather event. Department witness Mr. King states: "The Gas Utilities provided reliable services during the February Event but faced severe economic impacts."[5] In contrast, Mr. Nelson and Mr. Cebulko allege MERC's gas procurement decisions during the event were overly conservative.

As detailed in my Direct Testimony and the Direct Testimony of Ms. Sarah Mead, before the February Market Event, as with every winter season, MERC engaged in advanced planning, including through the preparation and submission of regulatory filings reviewed by the Department and approved by the Commission, to plan for and procure pipeline capacity and storage asset capacity to reliably provide natural gas service to our firm customers. MERC also undertook planning to develop and implement its gas procurement plan, including obtaining

[5] DOC Ex. ___ at 29 (King Direct).

Commission authority to utilize hedging instruments designed to reasonably protect customers against some of the risk of market price volatility. As Department witness Mr. King notes, the "Gas Utilities conduct annual/seasonal planning and procurement using a variety of tools, to achieve supply sufficiency and manage price volatility."[6] MERC's actions through the February Market Event ensured the Company was able to meet its obligation to provide continuous natural gas service to customers. It is not reasonable to ignore that fact, along with the fact that the costs at issue reflect actual gas commodity costs paid to suppliers to meet customer requirements, while at the same time making significant and unreasonable disallowance recommendations based on wholesale natural gas prices that were outside of MERC's control. Further, many of the actions intervenors question as imprudent were undertaken in accordance with the Company's filed and reviewed gas procurement and hedging plans and Commission-approved tariffs.

Q. DOES THE DEPARTMENT ACKNOWLEDGE THAT THE COMPANY COULD HAVE BEEN SUBJECT TO SIGNIFICANT PENALTIES IF IT HAD PROCURED INSUFFICIENT GAS TO MEET CUSTOMER DEMAND?

A. Yes. Department witness Mr. King acknowledges in his Direct Testimony the risk during the February Market Event of punitive imbalance penalties, potential supply cuts, and forecast uncertainty. As I described in my Direct Testimony, if MERC

[6] DOC Ex. ___ at 29 (King Direct).

had reduced its daily gas purchases and ended up short, pipeline penalties would have significantly exceeded avoided gas costs and risked the reliability of service to our customers during extreme cold weather. As indicated in the Direct Testimony of Ms. Mead, MERC could have incurred penalties of up to $695/Dth for under-delivery of gas needed to serve its customers. For example, on gas day February 14 alone MERC could have incurred up to $30 million in potential pipeline imbalance penalties.[7]

Q. DO YOU HAVE ANY HIGH-LEVEL OBSERVATIONS ABOUT THE DISALLOWANCES RECOMMENDED BY THE INTERVENORS?

A. Yes. MERC provided extensive discussion in Direct Testimony supporting the reasonableness and prudence of the Company's decisions before, during, and after the February Market Event, which actions ensured the Company was able to provide continuous, safe, and reliable gas service to customers. Despite focusing on the limited three issues I identify above, the recommended disallowances vary significantly, which shows little consensus in the record on factual support for any specific disallowance recommended by intervenors. On the one hand, the Department recommends a disallowance for MERC of $10,665,514, while on the other hand, CUB recommends a disallowance of $22,111,585, which is over double that of the Department's recommendation. Finally, the OAG recommends a complete disallowance of February Market Event extraordinary gas costs for all

[7] MERC Ex. __ at 57 (Mead Direct).

natural gas utilities of $661,537,779 ($64,975,882 for MERC), or over six times the Department's recommendation. And with acknowledgement of a lack of awareness whether the products advocated in support of his primary recommended disallowance even exist, the OAG also offers an alternative recommended disallowance for all natural gas utilities of approximately $71 million to $92 million ($7,017,395 to $9,427,954 for MERC). Meanwhile, as noted in the Direct Testimony of Ms. Honorable, disallowing *any* amount of costs incurred by utilities to obtain energy supplies used to meet customer needs during weather emergencies based on prudency would be unprecedented. It is noteworthy that no witness has disputed that conclusion reached by Ms. Honorable.

B. <u>Regulatory Framework</u>

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

A. In this section, I address policy considerations and issues regarding the regulatory framework relevant to the review of MERC's actions and decisions before, during, and after the February Market Event.

Q. CUB WITNESS MR. NELSON IN HIS DIRECT TESTIMONY STATES THAT BECAUSE A UTILITY IS ALLOWED TO PASS GAS COSTS TO CUSTOMERS THAT "IT REDUCES THE UTILITY'S INCENTIVE TO CONTROL AND MANAGE FUEL COSTS." DO YOU AGREE?

A. No, I do not. In addition to ensuring reasonable and stable gas costs for customers, and the fact that the Company's gas costs are subject to review for prudence through the annual automatic adjustment report, the PGA structure incentivizes the Company to protect customers from unreasonable risks related to gas commodity costs. In accordance with the PGA structure, gas commodity costs incurred are billed to customers through the monthly purchased gas adjustment rate and annual automatic adjustment with no return or interest recovered by the utility to account for the cost to finance such commodity cost payments over the period until they are recovered. Incurring gas commodity costs materially higher than the PGA commodity rate may require MERC to borrow additional funds to pay its suppliers. Such borrowing requires the Company to incur charges related to interest. While MERC must balance mitigating risk of price volatility against the premium that comes with tools that can be used to mitigate volatility, the Company has appropriate incentives under the PGA gas commodity cost recovery structure to protect customers from unreasonable risks. I do not agree that there is any "perverse economic incentive" related to utilities' recovery of gas costs as Mr. Nelson suggests, due to the longstanding Commission framework for how gas costs are permitted to be recovered.[8]

Q. AS PART OF THE COMPANY'S ENGAGEMENT WITH THE COMMISSION REGARDING ITS GAS PROCUREMENT PROCEDURES, DOES THE

[8] This framework has generally been in place since 1989, when the Commission approved changes to Minnesota Rules governing automatic adjustment of charges, which permitted gas utilities to adjust for increases and decreases in the cost of gas apart from federally regulated wholesale gas rates. *See* Docket No. G999/R-85-789.

COMMISSION ASSESS THE PRUDENCY OF THE COMPANY'S GAS PROCUREMENT IN ANY GIVEN YEAR?

A. Yes, it does. As I explained in my Direct Testimony, MERC submits a number of filings with the Commission to provide for review of the Company's design day forecasting, pipeline entitlements, storage assets, natural gas procurement planning and policies, hedging plans, and gas commodity costs. MERC's gas capacity and supply contracting and costs are reviewed on a routine basis by the Commission to ensure the reasonableness of the Company's actions and decisions with respect to securing natural gas supply and transportation capacity along with other assets and contracts for adequate natural gas supply at reasonable prices to meet customer needs.

Each year, MERC files its annual automatic adjustment ("AAA") report pursuant to Minn. R. 7825.2390 through 7825.2920, and specifically, reporting requirements outlined in Minn. R. 7825.2800 to 7825.2840. Through the AAA review, the Department and Commission review annual gas prices, daily delivery variance charges, curtailment and balancing penalties imposed, pipeline transportation sources, diversity of gas supplies, capacity release practices, purchasing practices, storage contracts and costs, and hedging practices. The AAA report summarizes MERC's policies and procedures concerning its purchases of natural gas and an analysis of the benefits of hedging contracts. The Commission's Rules under Minn. R. 7825.2920 expressly provide for Commission action related to AAA filings. The current proceeding also represents a Commission review of the prudency of utilities' gas commodity costs.

Additionally, as discussed in my Direct Testimony, in the Company's hedging petitions,[9] MERC provides information and analysis demonstrating that customers benefit from the Company's proposed hedging strategy.[10] Approval of hedging is limited to specified hedging instruments, subject to a cap of 30 percent of MERC's total projected heating season sales volumes, and subject to various review and reporting requirements.

Q. PLEASE EXPLAIN HOW THE REGULATORY FRAMEWORK FOR RECOVERY OF GAS COMMODITY COSTS PROVIDES A TRANSPARENT WAY FOR THE COMMISSION AND STAKEHOLDERS TO EVALUATE INFORMATION RELATED TO GAS PROCUREMENT AND ACTUAL GAS COMMODITY COSTS INCURRED TO SERVE CUSTOMERS.

A. Through MERC's AAA and true-up report filings, the Department and Commission review detailed information regarding gas costs, daily delivery variance charges, curtailment and balancing penalties imposed, pipeline transportation sources,

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

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

diversity of gas supplies, capacity release practices, purchasing practices, storage contracts and costs, and hedging practices. In addition to detailed schedules and reports, MERC provides supplemental information through Department information requests, ensuring transparency into the Company's gas procurement policies, practices, costs, and recoveries. Additionally, throughout the year, each month the Company submits a report for each of its PGAs (MERC-Consolidated and MERC-NNG) detailing the calculation of the monthly PGA, the calculation of the weighted average cost of gas ("WACOG") to be effective in the upcoming month, revised tariff sheets defining retail rate revisions by rate schedule, daily delivery variance charge information, estimated previous month and year-to-date commodity delivered gas cost by supplier, and a statement of changes in commodity costs, as compared to the previously submitted PGA report.

III. CURTAILMENT OF INTERRUPTIBLE CUSTOMERS

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

A. In this section, I respond to Department witness Mr. King and CUB witness Mr. Cebulko regarding curtailment during the February Market Event.

Q. WHAT DOES DEPARTMENT WITNESS MR. KING CONCLUDE REGARDING MERC'S CURTAILMENT OF INTERRUPTIBLE CUSTOMERS DURING THE FEBRUARY MARKET EVENT?

A. Mr. King states that MERC did not plan on curtailing for the four-day weekend February 13-16 and concludes that it was not unreasonable for MERC to not plan on curtailing on February 12. Mr. King acknowledges that "the traditional use of curtailment is for capacity-related needs when pipeline availability is fully utilized," and that "calling curtailment based on economics due to spot gas price is outside of how the Gas Utilities plan on and have historically used curtailments." Finally, Mr. King acknowledges that the magnitude of the price spike was unprecedented and not fully understood on February 12 when MERC had to make its purchasing decisions for the four day weekend.[11]

However, Mr. King argues that with the benefit of the knowledge gained over the holiday weekend, the gas utilities could have planned curtailments to occur February 17 and correspondingly reduced their spot purchases on February 16 (for February 17 delivery). Despite acknowledging that such curtailment would be outside of planned and historic usage, Mr. King concludes the gas utilities should have planned to curtail interruptible customers on February 17 in light of the extraordinary price spike.[12]

Q. BASED ON HIS CONCLUSIONS ABOUT CURTAILMENT FOR FEBRUARY 17, DOES MR. KING RECOMMEND A DISALLOWANCE FOR MERC?

A. Yes, Mr. King recommends a disallowance of $958,307. According to Mr. King, his recommended "disallowance is calculated based on an assumed volume of planned curtailments equal to 50% of the usage of curtailment customers on

[11] DOC Ex. ___ at 99 (King Direct).
[12] DOC Ex. ___ at 99-101 (King Direct).

February 17."[13] According to Mr. King, this recommendation reflects the utilities' planning a partial curtailment while reserving additional curtailment volume if needed.

Q. HOW DO YOU RESPOND TO MR. KING'S CONCLUSIONS REGARDING CURTAILMENT?

A. I agree that MERC's decision not curtail interruptible customers over the four-day weekend was reasonable. Mr. King is correct in his conclusion that curtailing interruptible customers based on price, rather than due to pipeline capacity limitations or distribution system constraints, is not consistent with how the Company has planned or implemented interruptible curtailments in the past and in his conclusion that the magnitude of the price spike was not known at the time purchases for the weekend needed to be completed. However, I disagree with Mr. King's conclusion that the Company should have made the decision to curtail its interruptible customers on February 17 based on the market price spike. As I discuss in more detail below, MERC's tariffs do not provide for price-based curtailment and such action is contrary to the approved interruptible rate structure.

Q. WHAT DOES CUB WITNESS MR. CEBULKO CONCLUDE REGARDING MERC'S CURTAILMENT OF INTERRUPTIBLE CUSTOMERS DURING THE FEBRUARY MARKET EVENT?

[13] DOC Ex. ___ at 100 (King Direct).

A. Mr. Cebulko concludes that based on prices for gas on February 11, pipeline warnings, and uncertainty going into the four-day weekend and, MERC should have "locked in the benefit to the system and customers by curtailing interruptible customers."[14] Mr. Cebulko also concludes MERC's decision not to curtail customers on February 17 was unreasonable in light of the fact that the settled price of natural gas was greater than $150/Dth.[15]

Q. BASED ON HIS CONCLUSIONS ABOUT CURTAILMENT FOR FEBRUARY 13 THROUGH 17, DOES MR. CEBULKO RECOMMEND A DISALLOWANCE FOR MERC?

A. Yes, Mr. Cebulko recommends a range of disallowance starting at $820,185 for MERC's not curtailing 50% of its interruptible load on February 17 to a disallowance of $4,083,076 for MERC's not curtailing interruptible load for February 13 through 17.[16] According to Mr. Cebulko, the high end of his range "assumed that MERC curtailed 50% of the interruptible load available on February 16 [the date with the most interruptible load available] over each day of the weekend to comply with the requirement for ratable spot purchases." Mr. Nelson recommends that the Commission adopt the high end of Mr. Cebulko's recommended disallowance, concluding that MERC should have curtailed interruptible customers on all five days.[17]

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[14] CUB Ex. ___ at 71 (Cebulko Direct).
[15] CUB Ex. ___ at 72 (Cebulko Direct).
[16] CUB Ex. ___ at 76-77 (Cebulko Direct).
[17] CUB Ex. ___ at 8, 10 (Nelson Direct).

Q. HOW DO YOU RESPOND TO MR. CEBULKO AND MR. NELSON'S CONCLUSIONS REGARDING CURTAILMENT?

A. First, as I note above, MERC's tariffs do not provide for price-based curtailment and such action is contrary to the approved interruptible rate structure. Further, even if MERC was permitted to curtail, it would have had to have declared a curtailment by 8:00 a.m. on Friday, February 12, 2021 for each of the following four days; however, the settled market prices were not known at that time, and MERC had no reason to expect prices would reach the unprecedented level they did. Therefore, it would not have been reasonable for MERC to issue calls for curtailment based on pricing. Contrary to Mr. Cebulko's conclusion that the index settle prices on February 11 of $15.68 at Demarc and $15.42 at Ventura required the Company to engage in price-based curtailment of more than half of its interruptible load, none of the identified information that was known on February 12 would have supported the Company taking actions outside the range of standard industry practice, inconsistent with the Company's planning and historic operations, and inconsistent with the Company's tariffs and approved rate structure. MERC has not curtailed interruptible customers based on the price of natural gas during previous market price spike events, and while such previous price spikes have been investigated in Commission investigation proceedings and through the AAA, neither the Commission nor any other participant has ever urged curtailments of interruptible customers based on gas prices.

On February 16, 2021, when planning for February 17, 2021, the Company did have knowledge of the index settle prices for the four-day weekend, and the fact that gas costs had reached unprecedented levels. However, even after the magnitude of prices over the four-day weekend were known, when planning to reliably meet customer requirements on February 17, it would still not be reasonable for MERC to have curtailed any, much less half, of its available interruptible load based solely on prices, as such action would have been inconsistent with the Company's planning and past operations and inconsistent with Commission-approved tariffs and approved rate structures. As I describe in detail below, the Company's interruptible tariff classes and rate structure have been subject to significant review and modification in the review of MERC's Rochester expansion project, the Company's most recent general rate case proceeding, and the Commission's investigation into the 2019 cold weather event. Those proceedings included detailed discussion of the Company's interruptible rate tariffs, including when and how curtailments are called, and how interruptible rates should be determined in light of the risk of customer curtailments. Curtailing interruptible customers based on price would be entirely inconsistent with that regulatory history and approved rate structure.

Q. HOW DO YOU RESPOND TO THE DEPARTMENT'S AND CUB'S CONTENTIONS THAT MERC SHOULD HAVE CURTAILED INTERRUPTIBLE CUSTOMERS FOR ECONOMIC REASONS?

A. As a public utility, MERC has an obligation to provide "safe, adequate, efficient, and reasonable"[18] natural gas service to all if its customers on demand, and thus needs the voluntary agreement by customers willing to be curtailed in order to do so under conditions and circumstances agreed upon (i.e., those approved by the Commission in MERC's interruptible tariff offerings). Further, under our long-standing regulatory framework, it is generally understood that regulated public utilities like MERC must abide by the rates, terms, and conditions provided in their approved tariffs in force at the time, which specify the scope of actions that utilities can take, and which MERC is required to file with the Commission.[19] Thus, it is critical to highlight, again, that the Company's tariffs do not provide for price-based curtailment. Instead, MERC's tariffs establish a priority of service when operational and supply conditions, not economic factors, require service interruptions. As a matter of policy, the Commission should reject the suggestion that a utility is permitted to do anything that is not explicitly prohibited by its tariff.

As discussed in my Direct Testimony, MERC did not experience any operational or supply constraints that would have supported the need to curtail its interruptible customers. MERC's practice, consistent with the Company's tariffs, previous actions, and filings with the Commission, is to curtail interruptible customers due to distribution system constraints, operational issues, or other system limitations.

[18] Minn. Stat. § 216B.04.
[19] Minn. Stat. § 216B.05, subd. 1 ("Every public utility shall file with the commission schedules showing all rates, tolls, tariffs, and charges which it has established and which are in force at the time for any service performed by it within the state.").

For interruptible system sales customers, MERC may curtail based on available pipeline capacity and supply. MERC does not curtail and has not ever curtailed customers based on pricing. As a result, MERC did not have the ability to curtail interruptible customers where there was no distribution system constraint, operational issue, or pipeline capacity limitation.

Q. WHAT BENEFIT DO INTERRUPTIBLE CUSTOMERS PROVIDE?

A. Interruptible customers reduce overall pipeline capacity costs and distribution system fixed costs for the benefit of all of MERC's general service customers, while still ensuring MERC can provide continuous and reliable natural gas service to firm customers in the event of a design day. MERC plans its pipeline capacity and sizes the distribution system only to meet firm customer load requirements in the event of design day conditions. Under such conditions, interruptible customers will be subject to curtailment so that MERC can provide continuous reliable service to its firm customers. In exchange for agreeing to curtail, interruptible customers pay a lower rate for interruptible distribution service than they otherwise would for firm distribution service.

Q. FOR WHAT REASONS DOES MERC CURTAIL ITS INTERRUPTIBLE CUSTOMERS?

A. As I discussed in my Direct Testimony and above, MERC curtails interruptible customers when necessary to maintain continuous service to firm customers. For interruptible system sales customers, MERC may curtail based on having insufficient pipeline capacity or due to distribution system constraints. MERC does not curtail customers based on pricing. This practice is consistent with MERC's Commission-approved tariffs and prior Commission proceedings addressing the Company's interruptible service offerings.[20] In particular, MERC's Tariff Sheet No. 8.40a provides:

> Company will make every reasonable attempt to maintain continuous gas service to firm service customers. Interruptible customers are subject to curtailment. The following priorities will be followed ***when operational and supply conditions require service interruptions*** with highest priorities listed first:
> 1. Residential Sales/Farm Tap Residential
> 2. Commercial & Industrial Firm Class 1 / Farm Tap Firm Class 1
> 3. Commercial & Industrial Firm Class 2/ Farm Tap Firm Class 2
> 4. Commercial & Industrial Firm Class 3/ Farm Tap Firm Class 3
> 5. Commercial & Industrial Firm Class 4/ Farm Tap Firm Class 4
> 6. Commercial & Industrial Firm Class 5/ Farm Tap Firm Class 5
>
> …[21]

The Company's tariffs contain no provision or parameters for price-based curtailments of interruptible service customers. This omission is important as there is no term or condition that would specify the price at which such curtailments would occur or the frequency or length of economic curtailments to which interruptible customers would be subject.

[20] *See, e.g.*, Docket No. G011/GR-17-563, Direct Testimony of Amber Lee at 21 ("Service to customers taking interruptible service can be curtailed as needed to maintain system reliability.").
[21] MERC Tariff Sheet No. 8.40a (emphasis added).

Q. WOULD CURTAILING INTERRUPTIBLE CUSTOMERS BASED ON PRICE INCREASE THE RISK THAT INTERRUPTIBLE CUSTOMERS WOULD BE CURTAILED?

A. Yes. While the frequency of such price-based curtailments would depend upon what price would be set under such a tariff offering, it is reasonable to expect that modifying interruptible service to include price-based curtailments would increase the frequency of curtailments. This would be a change to the character of the Company's interruptible rate offerings and would require either a reevaluation of the structure of the approved interruptible rate structure or the creation of a separate tariff class and rate that would be subject to price-based curtailments. Such a change would need to be evaluated in a rate case or other proceeding to be implemented, if at all, on a forward looking basis.

Q. HOW ARE MERC'S INTERRUPTIBLE RATES SET, AND HOW IS THAT RELEVANT TO THE CLAIM THAT MERC SHOULD OR COULD HAVE CURTAILED INTERRUPTIBLE CUSTOMERS BASED ON PRICE?

A. MERC's interruptible rates are calculated to reflect the risk associated with interruptible customers being called upon to curtail their natural gas usage in the event of inadequate interstate pipeline capacity or a distribution system constraint or issue. In Docket No. G011/GR-17-564, MERC took steps to significantly narrow the differential between firm and interruptible distribution rates to appropriately recognize the reduced risk of interruption following the addition of the Rochester pipeline capacity.[22] As discussed in that docket,

> Though [interruptible] customers will still be subject to curtailments called for distribution constraints, the likelihood that they are interrupted for any reason will decrease once the additional [Rochester Project] capacity is made available to MERC. Thus, their agreement to be interrupted when called upon provides a smaller benefit to the system and may merit a smaller discount. . . . The narrower differential is appropriate because the likelihood of interruption on MERC's system is relatively low, and correspondingly the discount for interruptible service should be relatively small. This shift in rates should encourage more customers to opt for firm service.[23]

In that proceeding, and as shown below in Table 3, the Commission approved final rates with a significant reduction in the differential between firm and interruptible rates, to reflect the reduction in the risk of curtailment that resulted from the Company increasing its interstate pipeline capacity.

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[22] These changes were undertaken in response to the Commission's direction in its order approving the Rochester Project to require MERC to address whether its interruptible sales rate structure should be adjusted to reflect the capacity provided by the Rochester Project. *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 16, 19 (May 4, 2017) ("MERC's interruptible sales and transportation rates should be reexamined in light of their reduced risk of being curtailed once the Project is completed.").

[23] *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-17-563, DIRECT TESTIMONY AND SCHEDULES OF AMBER LEE at 19, 35 (Oct. 13, 2017).

Table 3: Firm versus Interruptible Rate Differential

Current

	Therms	Firm Distribution Rate	Firm Distribution Revenues	Interruptible Distribution Rate	Interruptible Distribution Revenues	Firm vs. Interruptible Revenues	Percentage Difference
Firm GS SC&I vs Interruptible SVI	1,500	$ 0.22065	$ 331	$ 0.09740	$ 146	$ 185	56%
Firm GS LC&I vs Interruptible SVI	100,000	$ 0.16885	$ 16,885	$ 0.09740	$ 9,740	$ 7,145	42%
Firm GS LC&I vs Interruptible LVI	1,000,000	$ 0.16885	$ 168,850	$ 0.05329	$ 53,290	$ 115,560	68%
Firm GS LC&I vs Interruptible LVI	2,000,000	$ 0.16885	$ 337,700	$ 0.05329	$ 106,580	$ 231,120	68%
Firm GS LC&I vs Interruptible SLVI	4,000,000	$ 0.16885	$ 675,400	$ 0.03215	$ 128,600	$ 546,800	81%

Proposed Rates

	Therms	Firm Distribution Rate	Firm Distribution Revenues	Interruptible Distribution Rate	Interruptible Distribution Revenues	Firm vs. Interruptible Revenues	Percentage Difference
Class 1	1,500	$ 0.26259	$ 394	$ 0.22259	$ 334	$ 60	15%
Class 2	100,000	$ 0.15543	$ 15,543	$ 0.11472	$ 11,472	$ 4,071	26%
Class 3	1,000,000	$ 0.13758	$ 137,580	$ 0.09742	$ 97,420	$ 40,160	29%
Class 4	2,000,000	$ 0.11528	$ 230,560	$ 0.07242	$ 144,840	$ 85,720	37%
Class 5	4,000,000	$ 0.03993	$ 159,720	$ 0.03443	$ 137,720	$ 22,000	14%

Curtailing interruptible customers based on price would be a departure from the Company's current and consistent historic practice, as recognized by Department Mr. King. Making such a change would increase the risk of curtailment, as discussed above. As a result, the existing rate structure and narrow differential between firm and interruptible service would need to be reevaluated.

Q. REGARDING THE COMPANY'S TARIFF, WHAT IS YOUR RESPONSE TO MR. CEBULKO'S CLAIM THAT MERC'S TARIFF ALLOWS THE COMPANY TO CURTAIL INTERRUPTIBLE LOAD FOR ECONOMIC REASONS?

A. As I explained in my Direct Testimony and above, MERC's tariffs do not provide for price-based curtailment. Instead, the Company's tariffs establish a priority of service under the Company's Continuous Service Policy when operational and supply conditions, not economic reasons like gas prices, require service interruptions. Neither CUB nor the Department have pointed to specific language in the Company's gas tariff that provides for price-based curtailment. I also disagree with CUB's assertion that "operational and supply conditions" referenced in the gas tariff for priority of curtailment means that the Company may curtail based on gas prices. It is my understanding that the Company has not interpreted the gas tariff this way. Further, CUB witness Mr. Cebulko provides no support for the assertion that "[s]upply conditions are reasonably interpreted to include pricing" from either the Company or from customers on interruptible rates.[24] Mr. Cebulko's claim that understanding the term "supply conditions" to include "pricing" is "based on common industry definitions" is also false. Within the utility industry, the term supply conditions in the context of customer curtailments refers to conditions under which the utility has inadequate supply or is unable to deliver supply to customers.

Importantly, MERC's tariffs do not contain established criteria for economic curtailments, such as the price at which such curtailments could be issued. In the case of prior cold weather events and market price spikes, MERC has not curtailed interruptible customers based on the price of natural gas. The Commission has undertaken investigations into utility actions, including the curtailment of interruptible customers, but has never urged interruptible curtailments based on prices.

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[24] CUB Ex. ___ at 69 (Cebulko Direct).

Q. DID MERC REEVALUATE WHETHER IT COULD CURTAIL INTERRUPTIBLE CUSTOMERS BASED ON PRICE DURING THE FEBRUARY MARKET EVENT?

A. Yes, as detailed by Mr. Cebulko, MERC did review its tariffs and reconfirmed, consistent with historic practice, that the Company could not curtail interruptible customers based only on high prices. While Mr. Cebulko references this evaluation as evidence that the Company acted somehow imprudently, to the contrary, this demonstrates that MERC undertook all reasonable investigation into every possible avenue that could be employed to help mitigate the cost impacts of the February Market Event. The fact that the Company's evaluation concluded price-based curtailments were not a viable option does not mean that evaluation or conclusion were unreasonable. MERC has clearly and consistently applied its interruptible tariffs over time.

Q. DO YOU AGREE WITH THE DEPARTMENT'S CONCLUSION THAT MERC DID NOT ACT IMPRUDENTLY WHEN IT DID NOT CURTAIL INTERRUPTIBLE CUSTOMER LOAD ON FEBRUARY 12 FOR THE PRESIDENTS' DAY WEEKEND?

A. Yes, I agree with the Department's evaluation of the Company's actions on February 12 in this regard and I appreciate Mr. King's agreement on this point. As I stated in my Direct Testimony, MERC would have had to have declared a curtailment by 8:00 a.m. on Friday, February 12, 2021 for the following four days. Because the settled market prices were not known at that time, MERC had no reason to expect prices would reach the unprecedented level they did and did not issue calls for curtailment. MERC witness Ms. Mead further addresses the issue of timing in her Rebuttal Testimony and what was known at time when the Company procured gas for the holiday weekend.

Q. HOW DO YOU RESPOND TO CUB'S CLAIM THAT MERC'S FIRST BECOMING AWARE OF THE NATURE OF THE PRICE SPIKE OVER THE PRESIDENTS' DAY WEEKEND ON FEBRUARY 12 IS NOT REASONABLE?

A. CUB witness Mr. Cebulko questions my Direct Testimony where I testified that the Company only became aware of the unprecedented price spike the morning of February 12, arguing that increasing prices on February 10th and 11th "should have caught the attention of all the utilities."[25] While prices on February 10 and 11 were above average, at $6.605/Dth to $15.68/Dth, they were still well within the range of historic experience, and none of the identified information that was known on February 12, would have supported the Company taking actions outside the range of standard industry practice, inconsistent with the Company's planning and historic operations, or inconsistent with the Company's tariffs, approved rate structure, or Commission authorization. Further, CUB witness Mr. Nelson similarly testifies that the utilities were aware of gas prices at $15/Dth when they developed supply plans on February 12, and that the utilities had no reason to expect prices to decrease.[26] I do not agree that $15/Dth prices on February 11 placed MERC on notice that prices would rise to the unprecedented level they ultimately did, or

[25] CUB Ex. ___ at 27 (Cebulko Direct).
[26] CUB Ex. ___ at 31-32 (Nelson Direct).

that MERC should have expected prices to continue to rise, or to rise to anywhere near the level they did. It is only with the benefit of hindsight that Mr. Cebulko and Mr. Nelson can argue that the outcome was obvious. In fact, the information that was available to market participants at the time could not have allowed the Company to know how prices might settle on February 12.

Q. WHAT IS YOUR RESPONSE TO THE DEPARTMENT'S AND CUB'S RECOMMENDED DISALLOWANCE FOR MERC'S NOT CURTAILING INTERRUPTIBLE LOAD FOR FEBRUARY 17?

A. Despite acknowledging that "Gas Utilities will curtail when available supply sources are only sufficient to meet firm customer load," and "[e]ven though outside of planned and historical usage," I do not agree with Mr. King that it was nevertheless imprudent for MERC to procure gas for its interruptible load for February 17 in the spot market.[27] I also do not agree with CUB witnesses' conclusions as to the same. As I stated above and in my Direct Testimony, MERC has not curtailed interruptible load for economic reasons.

IV. EXTRAORDINARY GAS COST RECOVERY RATE DESIGN

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

A. In this section, I respond to Department witness Mr. King's recommendation that MERC track its large customers to ensure that sales service customers do not

[27] DOC Ex. ___ at 97, 100 (King Direct).

switch to transportation service in order to avoid paying for extraordinary gas costs.[28]

Q. WHAT IS YOUR RESPONSE TO MR. KING'S RECOMMENDATION?

A. MERC has already implemented this recommendation. As reflected in the Company's August 16, 2021 Compliance Filing in Docket No. G011/M-21-611:

> MERC intends to bill and track any sales customers during the cold weather period that move to transportation service during the recovery period. Accordingly, MERC has revised, and included in this filing, its Transportation Tariff, Sheet 6.01, which will cause all sales customers at the time of the Cold Weather Event to be eligible for the extraordinary cost surcharge during the recovery period as follows:
>
> "The Severe Weather Cost Recovery Surcharge, Sheet Nos. 7.25 and 7.26, applies to customers taking service under this rate that were taking sales service at any point from February 13-17, 2021."[29]

V. UPDATES ON ACTIONS TAKEN SINCE THE FEBRUARY MARKET EVENT

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

A. In this section, I briefly continue my discussion in Direct Testimony actions that the Company is undertaking or plans to undertake in response to the February Market Event.

Q. DO YOU HAVE ANY UPDATES TO POST FEBRUARY MARKET EVENT ACTIONS THAT THE COMPANY IS UNDERTAKING?

[28] DOC Ex. ___ at 107-109 (King Direct).
[29] Docket No. G011/M-21-611, MERC Compliance Filing (Aug. 16, 2021).

A. Yes. In its December 1, 2021 Quarterly Report filed in Docket No. G-011/CI-21-611, the Company confirmed that its credit from Northern Natural Gas for daily delivery variance charges ("DDVC") is $763,179.25. The Company confirmed that these credits will be returned to our customers in the Company's 2021-2022 AAA to be filed on September 1, 2022.

In addition, the Company continues to review its contracts with suppliers and pursue all available remedies to ensure that there were no overpayments to suppliers during the February Market Event. The Company will notify the Commission and any overpayments will be returned to customers as adjustments in its Year 2 recovery rate.

Finally, the Company continues to monitor FERC investigations into market manipulation and malfeasance. In FERC's Office of Enforcement Division's November 2021 Annual Report on Enforcement, FERC indicated that its investigations continue in order to determine if any market participants violated the law. FERC's 2021 Annual Report on Enforcement also summarized a joint FERC/North American Electric Reliability Corporation report that is examining the impact of the weather event in February 2021 and includes 28 formal recommendations that seek to prevent the reoccurrence of the event. The Company continues to review these reports and will notify the Commission of updates.

Q. DO ANY OF THE INTERVENORS RECOMMEND ANY NEW REGULATORY PROCESSES FOR NATURAL GAS SERVICE IN MINNESOTA?

A. No. None of the intervenors makes any recommendations for future changes. As I discussed in my Direct Testimony, MERC continues to evaluate whether there are any opportunities to participate in or advocate for forward-looking changes that could be implemented to prevent against future market events, at the national level and the state level.

Q. DOES MERC COMMIT TO WORKING WITH STAKEHOLDERS TO CONSIDER NEW WAYS TO HELP PREVENT OR MITIGATE AGAINST FUTURE MARKET EVENTS?

A. Yes. MERC is committed to working with the Department, the Commission, OAG, CUB, and other stakeholders, to identify opportunities for improvement, including advocating for possible market reforms, to the extent such reforms could provide future protection against similar market price spike events in the future. MERC welcomes the opportunity to participate in future stakeholder efforts to brainstorm possible options and other long term solutions to improving gas procurement policies to mitigate these types of events in the future. For example, MERC is open to evaluating in a future proceeding whether any changes could be made to its tariffs to provide for some type of economic curtailment. While economic curtailments would not have worked to avoid costs during the February Market Event because there was not adequate time to curtail customers prior to gas purchases going into the President's Day weekend, MERC could not have procured less gas to serve customers by calling curtailments, and because MERC's current tariffs do not allow for economic curtailment, the Commission could evaluate the possible implementation of such a service offering.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Despite claiming to assess the prudency of MERC's actions from what MERC knew at the time leading up to and during the February Market Event, the intervenors frequently apply perfect hindsight in their review. As detailed in the Rebuttal Testimony of Ms. Mead, MERC's load forecasting was reasonable under the circumstances and based on the information that was or should have been known at the time.

Mr. Lebens's testimony suggests that the natural gas utilities should have utilized financial hedging instruments that simply were not available or, to the extent they were available, would have been unreasonably speculative, and would not have addressed MERC's obligation to meet customer supply requirements. As detailed in the Rebuttal Testimony of Mr. Sexton and Mr. Smead, the OAG's conclusions are unsupported by any real world outcome that any utility could have obtained.

Additionally, as I note above, intervenors' conclusions and recommendations for disallowance are largely based on the premise that a reasonable and prudent reaction to the increasing market prices and ultimate market spike on February 12 and February 16 would have been for the gas utilities to engage in actions that are simply outside the range of standard industry practice; inconsistent with the Company's planning and past operations; and inconsistent with Commission-approved interruptible tariffs, approved interruptible rate structures, and Commission authorizations or directives.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.