Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 24, 2017 ....* Agenda Item #5

Companies: Interstate Power and Light Company
Minnesota Energy Resources Corporation

Docket No. G-001, 011/PA-14-107
In the Matter of a Request for the Approval of the Asset Purchase and Sale Agreement Between Interstate Power and Light Company and Minnesota Energy Resources Corporation

Issues: Should the Commission accept Minnesota Energy Resources Corporation's (MERC's) Annual Former Manufactured Gas Plant (FMGP) Report?

Staff: Jorge Alonso 651-201-2258

Relevant Documents

Minnesota Energy Resources Corporation - Compliance Filing .... May 1, 2017

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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August 7, 2017

Statement of the Issue

Should the Commission accept Minnesota Energy Resources Corporation's Annual Former Manufactured Gas Plant Report?

Background

In their February 4, 2014 filing, Minnesota Energy Resources Corporation (MERC) and Interstate Power and Light Company (IPL) jointly requested that the Commission approve the sale of IPL's Minnesota gas distribution system and assets and transfer of service rights and obligations in Minnesota to MERC.

As part of this transaction MERC assumed IPL's existing responsibilities for environmental remediation of former manufactured gas plant (FMGP) sites in Austin, Minnesota. Under the transaction's terms, FMGP costs of approximately $2,602,565 incurred and unrecovered by IPL would be transferred to MERC as a regulatory asset. Additionally, subject to review, MERC was also allowed to recover future Austin FMGP clean-up costs up to $3 million and one-half of any additional amounts over $3 million. Should future Austin FMGP clean-up costs exceed $3 million, then IPL would be liable for the other half of any amounts over $3 million. At the time of this transaction, the estimates of future Austin FMGP clean-up costs were between $2.665 and $4.1 million.

In its December 8, 2014 Order Approving Sale Subject to Conditions, the Commission approved the transfer of the Austin FMGP clean-up costs to MERC, along with all the related financial stipulations.

MERC's Compliance Filing

In its May 1, 2017 compliance filing, MERC reported that 2016 cleanup expenses totaled $126,666[1] and that all of charges in 2016 were related to Minnesota Pollution Control Agency ("MPCA") required remediation investigation activities conducted at the site, such as soil and groundwater samplings and analysis. MERC's reported 2016 recoveries were $557,742[2] and, at 2016's year end, the net amount of unrecovered costs were $2,202,653[3].

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[1] Attachment A

[2] Reflects the rate recovery approved by the Commission in Docket No. G-011/GR-15-736 effective January 1, 2016.

[3] Attachment B

In the final piece of the compliance filing, MERC reported on the Austin site's current status:

> An interim response action has been completed for the onsite portion of the Austin site as summarized in the Response Action Work Plan submitted to the MPCA in 2012. The plan outlined the remaining activities for groundwater at the site, which consisted of eight quarters of groundwater monitoring and institutional controls. The quarterly monitoring program identified the presence of dense non-aqueous phase liquid (DNAPL). A Phase II Site Investigation Work Plan was submitted to the MPCA and investigation activities were initiated in November of 2016. Investigation is currently ongoing.[4]

Department of Commerce Comments

None filed.

Staff Comments

During the MERC/IPL transaction's proceeding, the Commission expressed concerns that FMGP cleanup costs for all of IPL's sites went without review for many years[5]. Cleanup costs are reviewed in a rate case proceeding and, since IPL had not filed a gas rate case in almost 20 years, review of cleanup costs was not performed.

Despite MERC's more regular, every other year, rate case filings, Staff has, in an effort to address prior Commission concerns, brought this matter to the Commission.

Staff finds that MERC's filing complies with previous Orders' filing requirements; however, to have more comprehensive forward-looking information, the Commission may want to require MERC's future compliance filings to also include anticipated total future cleanup costs and the anticipated Austin Plant's closing, if known.

Finally, the table below shows MERC's annual clean-up expenditures so far have totaled $157,830; therefore, MERC would have to spend an additional $2,842,170[6] before IPL is responsible for 50% of future costs.

Year	Austin Cleanup Costs
2015	$31,164
2016	$126,666
Total	$157,830

[4] Attachment C

[5] IPL reported cleanup costs for the Austin, Rochester, Albert Lea, New Ulm, and Owatonna sites under docket G-001/M-06-1166.

[6] $3,000,000 minus $157,830 = $2,842,170

Decision Alternatives

Acceptance of MERC's compliance filing

1. Accept MERC's May 1, 2017 compliance filing.

2. Do not accept MERC's May 1, 2017 compliance filing.

Additional Compliance Requirements

3. Require MERC to include in all future FMGP compliance filings an estimate of anticipated future cleanup costs.

4. Require MERC to include in all future FMGP compliance filings an estimate of the anticipated completion date of all future cleanup costs.

5. Take no action