

Direct Testimony and Schedules
Barbara A. Nick

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to
Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-13-617

Exhibit _____

Company Background/Rate Case Overview

September 30, 2013

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Barbara A. Nick. My business address is Minnesota Energy Resources
4 Corporation (“MERC”), 2665 145th St., Rosemount, Minnesota 55068-0455.

5
6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. I am the President of MERC. MERC is a wholly-owned subsidiary of Integrys Energy
8 Group, Inc. (“Integrys”).

9
10 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

11 A. I have over 32 years of experience within the utility industry. Previous to my position
12 here in Minnesota, I worked for Wisconsin Public Service Corporation, an electric and
13 gas utility in northeast Wisconsin, and WPS Resources, the predecessor Holding
14 Company to Integrys Energy Group. Over my career I’ve had experience at various
15 levels within the utility industry including job analyst, division accountant, site
16 supervisor, wholesale electric account executive, vice president of Corporate Services,
17 Senior Vice President of energy delivery and customer service, and President of Upper
18 Peninsula Power Company. I have a Bachelor of Arts degree in Communication and
19 Business from the University of Wisconsin-Green Bay, and graduated from the Harvard
20 Business School Advanced Management Program.

21
22 Additionally, I currently serve on the Board of Directors for the Energy Center of
23 Wisconsin whose mission is to inspire real and lasting change that advances economic

1 and environmental stability. The Energy Center is a nonprofit organization dedicated
2 to wise use of energy resources. They act as a change agent, inspiring evolution in how
3 the market and policymakers approach energy efficiency.

4
5 Finally, I serve on the American Gas Association (AGA) Leadership Council and have
6 been active in several Edison Electric Institute (EE) and Electric Power Research
7 Institute (EPRI) initiatives related to energy efficiency, smart grid, and distribution,
8

9 Q. FOR WHOM ARE YOU PROVIDING TESTIMONY?

10 A. I am providing testimony on behalf of MERC.

11
12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

13 A. I will provide a company background and rate case overview of MERC's rate case that is
14 based upon a 2014 proposed test year. In addition, I will briefly discuss MERC's Petition
15 for Interim Rates.

16

1 **II. COMPANY BACKGROUND**

2 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF MERC AND THE AREA IT
3 SERVES.

4 A. MERC is a corporation organized under the laws of the state of Delaware, authorized to
5 do business in Minnesota, with its principal office located in Rosemount, Minnesota.
6 MERC is a subsidiary of Integrys. MERC is a sister company to Wisconsin Public
7 Service Corporation, Upper Peninsula Power Company, Michigan Gas Utilities
8 Corporation, The Peoples Gas Light & Coke Company, and North Shore Gas Company,
9 which provide natural gas and electric service in the states of Wisconsin, Illinois and
10 Michigan.

11
12 As of December 31, 2012, MERC sold and/or distributed natural gas to approximately
13 213,000 customers in 51 counties and 165 communities throughout Minnesota. I have
14 attached as Exhibit _____ (BAN-1) to my testimony a map of MERC's service territory.

15
16 Q. WHAT WERE SOME HIGHLIGHTS IN MERC'S LAST RATE CASE?

17 A. Yes. During MERC's last rate case, Docket No. G-007, 011/GR-10-977, MERC
18 requested an increase in distribution rates, as well as implementation of a revenue
19 decoupling pilot program, rate consolidation of MERC's two operating divisions, rate
20 consolidation of MERC's four Purchased Gas Adjustments ("PGAs") to two, and an
21 uncollectible expense tracking mechanism.

22

1 Ultimately a rate increase was granted, a decoupling pilot program was authorized, and
2 the rate consolidations were approved. The uncollectible expense tracking mechanism
3 was discussed, and was ultimately removed from MERC's request.

4
5 Q. DOES MERC PROPOSING TO ADDRESS SOME OF THESE ISSUES IN THIS
6 RATE CASE?

7 A. Yes. MERC is requesting to update the sales and the fixed charge count units used in the
8 revenue decoupling to match the forecast provided by Mr. Harry John.

9
10 Q. WHY IS MERC PROPOSING TO UPDATE THE UNITS USED IN THE
11 DECOUPLING CALCULATION?

12 A. To ensure the decoupling calculation works properly the units used in the calculation
13 need to be in sync with the units that are ultimately approved in rates. If there is a
14 difference a decoupling surcharge or refund will automatically be generated even if the
15 actual matches the approved sales forecast.

1 **III. RATE CASE OVERVIEW**

2 Q. PLEASE EXPLAIN, GENERALLY, WHY BASE RATE RELIEF IS SOUGHT AT
3 THIS TIME.

4 A. First, the historical 2012 test year study indicates that MERC had a revenue deficiency of
5 \$13,889,494 in its Minnesota Jurisdiction. MERC’s analysis of its projected 2014 test
6 year indicates a revenue deficiency totaling \$14,187,597, or 5.52% of total revenues.

7
8 Second, general inflation, not including “Known and Measurable” (“K&M”) items, has
9 increased Operations and Maintenance (“O&M”) expenses at a rate of 3.74%.

10
11 Third, MERC has identified K&M changes from 2012 to 2014 which will impact MERC’s
12 2014 costs to provide service. These items include:

- 13 1. Increased Costs from IBS-Customer Relations, related to increased third party
14 costs from Vertex, and implementation of the Integrys Customer Experience
15 (“ICE”),
16
17 2. Increased Costs associated with vacant positions that existed at MERC during
18 2012,
19
20 3. Increased Costs associated with Uncollectible Expense,
21
22 4. Increased Costs associated with a Sewer Lateral Project,
23
24 5. Increased Costs associated with Gate Station Upgrades,
25
26 6. Increased Costs associated with a Mapping Project,
27
28 7. Increased Costs associated with Additional Positions at MERC,
29
30 8. Increased Costs associated with Depreciation and Return charges from Integrys
31 Business Support (“IBS”),
32
33 9. Increased costs associated with vacant positions that existed at IBS during 2012,
34

- 1 10. Decreased Costs associated with Memberships,
- 2
- 3 11. Decreased Costs associated with General Allocation Factor,
- 4
- 5 12. Decreased Costs associated with Advertising Expense,
- 6
- 7 13. Decreased Costs associated with Long Term Incentive Pay, Restricted Stock, and
- 8 Stock Option Expense,
- 9
- 10 14. Decreased Costs associated with Economic Development,
- 11
- 12 15. Decreased Costs associated with Incentives,
- 13
- 14 16. Decreased Costs associated with an audit of Vertex, and
- 15
- 16 17. Decreased Costs associated with Benefits.
- 17

18 Fourth, MERC has included in the test year its 2013 approved Conservation
19 Improvement Plan (“CIP”) expenses.

20

21 Fifth, MERC has projected continual increase in Property Tax Expense as discussed in
22 MERC’s last rate case Docket No. G007,011/GR-10-977.

23

24 Sixth, MERC is requesting amortization of rate case expenses to occur over a two year
25 period due to a large Transmission project that is anticipated to go into service in 2015.

26

27 Lastly, MERC has a right to a reasonable opportunity to earn its authorized Return on
28 Equity (“ROE”) for its operations. MERC’s currently authorized rates will not provide
29 sufficient revenue to provide MERC a reasonable opportunity to earn its authorized ROE.

30 There are no significant cost reductions that can be made without jeopardizing service
31 quality, service reliability, and safety to the public or MERC’s employees. Without rate

1 relief, MERC would be faced with the unacceptable prospect of implementing cost
2 cutting measures which would degrade its ability to provide long-term quality, safe and
3 reliable service to its customers. MERC, therefore, believes it is necessary, just and
4 reasonable to obtain the requested rate relief.

5
6 Q. PLEASE IDENTIFY THE MERC WITNESSES AND INDICATE THE SUBJECTS
7 THEY WILL ADDRESS IN THEIR DIRECT TESTIMONY.

8 A. Ms. Noreen Cleary presents detail on Incentive and Benefit programs.

9
10 Mr. Seth S. DeMerritt presents:

- 11 1. The 2012 historical year, 2013 projected year, and 2014 proposed test year
12 information,
- 13 2. CIP expenses and calculation of MERC's proposed Conservation Cost Recovery
14 Charge factor,
- 15 3. Lead/Lag Study in support of MERC's request for cash working capital,
16
- 17 4. Interim Rate deficiency proposal,
18
19

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22
23 Ms. Lisa J. Gast presents MERC's capital structure and cost of capital.

24
25 Mr. Michael E. Gerth presents net present value analysis related to ICE.

26
27 Ms. Joylyn Hoffman Malueg presents MERC's class cost of service studies.

28
29 Mr. Harry W. Johns presents MERC's 2014 sales forecast, and supporting information on
30 the development of 20 year weather normalization for use in the sales forecast.

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Mr. Brian E. Kage presents detail related to ICE.

Ms. Tracy L. Kupsh presents testimony regarding cost allocation procedures and factors from Integrys Business Support, LLC (“IBS”).

Mr. David G. Kult presents testimony regarding service and main extensions, winter construction charges, abnormal construction charges, charges assessed for materials in situations where tampering has occurred, and the farm tap inspection program.

Mr. Paul R. Moul presents MERC’s requested ROE.

Ms. Christine M. Hans presents testimony regarding MERC’s benefits costs.

Mr. Greg J. Walters presents testimony regarding gas rate design, including rate area consolidation, the Company’s Gas Affordability Program, telemetry installation, and cost allocations related to MERC’s appliance services company, and other requested tariff changes.

Mr. John R. Wilde presents testimony regarding various tax issues.

Q. WHAT IS THE AMOUNT OF RATE RELIEF MERC IS SEEKING IN THIS PROCEEDING?

1 A. MERC's study for the proposed test year ending December 31, 2014 indicates a need for
2 an annual base rate increase of \$14,187,597 or 5.52% of total revenues. These increases
3 are based on an authorized ROE of 10.75%. MERC is also requesting that these
4 increased revenues be recovered through the rate design proposed by Mr. Greg Walters.

5
6 The rates sponsored by Mr. Greg Walters are designed to produce the requested revenue
7 requirement and to move toward the MERC goal of a rate design where each rate
8 schedule will, consistent with cost-of-service studies, return the overall allowed rate of
9 return.

10

1 **IV. CONCLUSION**

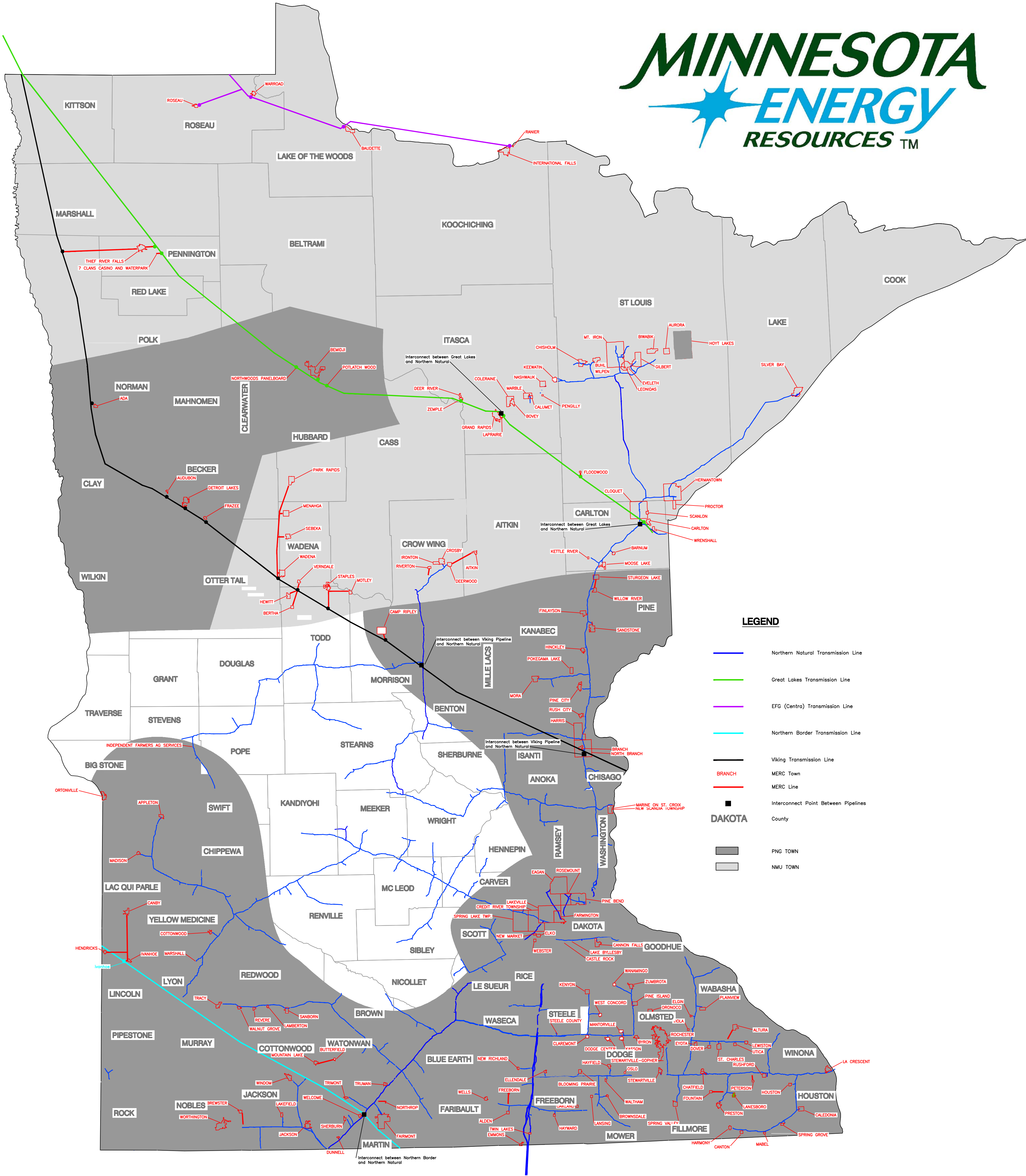
2 Q. DO YOU HAVE ANY REMARKS IN CONNECTION WITH MERC'S INTERIM
3 RATE RELIEF REQUEST?

4 A. Yes, I do. Also in this filing MERC petitions for interim rate relief. If MERC is not
5 granted an interim rate increase, it will not have a reasonable opportunity to recover its
6 prudently incurred costs of providing natural gas service to its customers, and will be
7 severely harmed by being deprived of the opportunity to earn a reasonable rate of return
8 for 2014.




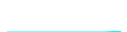






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10 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

11 A. Yes, it does.



LEGEND

-  Northern Natural Transmission Line
-  Great Lakes Transmission Line
-  EFG (Centra) Transmission Line
-  Northern Border Transmission Line
-  Viking Transmission Line
-  MERC Town
-  MERC Line
-  Interconnect Point Between Pipelines
- DAKOTA**
-  PNG TOWN
-  NMU TOWN

