COMMERCE DEPARTMENT

January 24, 2020 **PUBLIC DOCUMENT**

Ryan Barlow
Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **PUBLIC Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-19-282

Dear Mr. Barlow:

Attached are the **PUBLIC** Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

> In the Matter of the Petition of Minnesota Energy Resources Corporation [MERC] for Approval of 2020 Gas Utility Infrastructure Cost [GUIC] Rider Revenue Requirement and Revised Surcharge Factor.

The Petition was filed on April 24, 2019 by:

> Seth S. DeMerritt
> Senior Project Specialist
> 2685 145th Street West
> Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC's 2020 GUIC Rider with modifications.** The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ Dorothy Morrissey
Financial Analyst

DM/ar
Attachment

Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-19-282

I. INTRODUCTION

On April 24, 2019, Minnesota Energy Resources Corporation (MERC or the Company) requested approval from the Minnesota Public Utilities Commission (Commission) to recover capital costs and operations and maintenance (O&M) expenses, forecasted to be incurred in 2020, through a gas utility infrastructure cost (GUIC) rider (GUIC Rider), pursuant to Minn. Stat. § 216B.1635. In this petition, MERC requested recovery of an estimated $4.9 million revenue requirement for its 2020 test year GUIC Rider period, effective January 1, 2020.[1] This instant filing is MERC's second GUIC petition since its last general rate case [Docket No. G011/GR-17-563 (17-563 Rate Case)] in which final rates were implemented July 1, 2019.[2]

In Docket No. G011/GR-18-281 (18-281 GUIC or 2019 GUIC), MERC's inaugural GUIC Rider was approved by the Commission's Order issued on February 5, 2019. MERC began charging its customers the approved 18-281 GUIC Rider rate on May 1, 2019. On June 28, 2019, MERC filed in its 18-281 GUIC petition an emergency request to suspend charging its approved GUIC Rider to certain large-volume Direct Connect customers and consider whether to transfer recovery to all other MERC customers through a future true-up filing. In its Order issued September 17, 2019, the Commission granted MERC's rider rate suspension request, and deferred the issue of potential refunds or surcharges to MERC's next GUIC rate factor adjustment and true-up filing.

On August 23, 2019, the Department filed its comments recommending that the Commission approve MERC's 2020 GUIC Rider with modifications.

On September 17, 2019, MERC filed its Reply Comments.

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[1] Petition, p. 3. The $4.9 million estimated revenue requirement for 2020 test year does not include any true-up amounts for the existing 2019 GUIC revenue and costs; rather, absent a 2020 test-year general rate case filing, MERC proposes to incorporate a 2019 GUIC true-up into MERC's proposed 2021 GUIC Rider revenue requirement.

[2] In MERC's 17-563 Rate Case, which used a 2018 test year, the Commission's Order, issued December 26, 2018 approved an approximate $3.1 million increase in base rate revenues. Thus, MERC requests in this rider petition to recover 158 percent of the total revenue requirements that the Commission authorized in the Company's most recent general rate case.

II. SUMMARY AND STATUS OF THE ISSUES

The Department reviewed MERC's Reply Comments and, after careful review, maintains its conclusion that modifications to MERC's request are necessary and in the public interest to avoid establishing a rider rate that overcharges ratepayers upfront. These response comments focus on the issues that remain disputed and respond to updates MERC provided in its Reply Comments.

In our Initial Comments, the Department requested several items for MERC to provide in its Reply Comments. The Department reviewed MERC's Reply Comments and the status of the requested information is summarized in Table 1-RC below:

Table 1-RC

Requested by the Department to be Provided in MERC's Reply Comments		Status
1	*Incremental Cost Recovery Adjustment.* Adjustments to remove the 2018 level of cost recovery imbedded in base rates related to the assets being replaced due to the proposed GUIC project work included in this rider recovery mechanism;	**Disputed**
2	Schedules demonstrating its accumulated deferred income taxes (ADIT) true-up proposal under various scenarios, which result in adjustments that increase, decrease and do not affect the prorated ADIT used in setting the rider rate;	Satisfied
3	Identification of the Internal Revenue Service (IRS) Private Letter Rulings (PLRs) that MERC believes support the Company's proposed true-up method;	Satisfied
4	Affirmation or revision to the understanding that the inclusion of sales to this Michigan-located customer as a jurisdictional allocator of costs to Michigan; and	Satisfied
5	Updates to its request as needed to reflect the recent Commission decision concerning the exclusion of the GUIC surcharge to Direct Connect customers.	Satisfied

Table 2-RC below summarizes the Department's recommendations, and after review of MERC's Reply Comments, provides their current status:

Table 2-RC		
	Department Initial Recommendations	**Status**
1	Remind MERC that the utility bears the burden of showing that its proposed rates and true-ups are just and reasonable.	Agreement
2	*Incremental Cost Recovery Adjustment.* Require MERC to include adjustments to remove the 2018 level of cost recovery imbedded in base rates related to the assets being replaced due to the proposed GUIC project work included in this rider recovery mechanism.	**Disputed**
3	*Right of Way Project.* Require the amount for plant placed in service for 2020 for right of way (ROW) project work to be adjusted to reflect only the nine planned 2020 ROW projects, with MERC allowed to request recovery of any additional completed projects, or refund costs for any projects not completed, in its true-up.	**Disputed**
4	*Obsolete Materials Replacement.* Require that the estimated Obsolete Materials capital cost amount to use for setting the 2020 rider rate be reduced to a total of $5.0 million, which is a $2 million reduction to MERC's estimated cost.	**Disputed**
5	*Future Filing Requirement.* Require MERC to report certain information on its Obsolete Material Replacement project. Specifically, require MERC to report Aldyl-A project accomplishment details in its annual true-up filings. The requested reporting details should include, by listed project site: (1) a locational description of the work completed, (2) the associated work order number(s), (3) the size of Aldyl-A pipe mains replaced, (4) the size of replacement pipe installed, (5) footage of main replaced, (6) total costs net of embedded labor, vehicles, fuel, overhead, etc., and (7) total replacement costs.	Agreement (**However, Department has modified**)
6	*Stop Valve Survey (a/k/a Meter Set Survey).* Require the estimated cost amount included in MERC's 2020 rider test year for the Stop Valve Survey project to be set to $1.25 million (a $0.75 million reduction to MERC's $2.0 million proposal).	**Disputed**
7	Determine that MERC's estimated cost for the expected 2020 Sewer Cross Bore Survey activity level appears reasonable.	Agreement
8	Determine that MERC's requested rate of return and income tax gross up factors are reasonable.	Agreement

9	*Future Filing Requirement.* Require MERC to transparently disclose in its true-up filing any O&M expense not expressly included in the derivation of this petition's requested revenue requirements. Specifically, require MERC to report, identify, and discuss each expense, the account number, the reasoning that any such cost would be GUIC–eligible, the amount included, how the requested recovery amount was determined, and whether a representative amount of this type of expense was included in base rates.	Agreement
10	*Future Filing Requirement.* Require MERC to reflect the corrected revenue requirements model in any compliance and future GUIC filing schedules.	Agreement
11	*Rider Rate Design.* For rate design, determine that MERC's GUIC rider revenue requirement be apportioned using the non-gas revenue apportionment approved in MERC's last rate case (17-563 Rate Case).	**Partial Agreement/ Partial Disputed**
12	*Customer Communications.* If the rate design decided for the 2020 GUIC Rider is based upon the non-gas revenue apportionment approved in MERC's last rate case, then require MERC to create and include a bill insert as the form of customer notification to more fully explain the rider rate approved for the various classes of customers.	**Disputed**

III. DISCUSSION OF DISPUTED ISSUES AND MERC'S REPLY COMMENTS UPDATES

A. INCREMENTAL COST RECOVERY ADJUSTMENT ISSUE - REPLACED ASSETS (DISPUTED ISSUE)

The Department's August 23, 2019 comments noted on pages 11-12 that MERC did not reduce revenue requirements in the rider to offset the recovery in base rates of assets that are being replaced through the GUIC capital projects. Instead, MERC indicated that it would overcharge ratepayers and provide for such an adjustment only after-the-fact in its true-up process. The Department concluded that such an approach would not comply with Minn. Stat. § 216B.1635 and would violate Minn. Stat. § 216B.03. Specifically, the Department stated:

> The Department opposes MERC's proposal not to adjust its proposed 2020 GUIC rate for costs already recovered in base rates because it goes against the Reasonable Rate statute Minn. Stat. § 216B.03, and the "incremental" cost recovery provision specified in the GUIC Statute, thus is unreasonable.
>
> First, MERC's approach would result in the rider rate deliberately set too high, based upon a known overstated revenue requirement for the 2020 GUIC. Although MERC reasoned that it does not know with certainty what

> the downward adjustment to the 2020 GUIC rate should be to reflect recovery of costs in base rates, MERC's proposal to charge rates that are known to be too high cannot be said to satisfy the statutory requirement that "Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable."
>
> Second, this proposed approach would not resolve the "doubt" or uncertainty in favor of the consumer (ratepayers), as required by Minn. Stat. § 216B.03. A true-up should be designed only to adjust for any easily quantified and verifiable changes to specific estimates in a rate calculation, such as actual sales compared to forecasted sales. By contrast, MERC's proposed process would knowingly set the 2020 GUIC rate to double-recover costs, and account for this overcharge in the true-up process. The Department cannot recommend approval of a rate developed from a model designed to overcharge ratepayers and delay the inclusion of any adjustments that are necessary to correct the overcharges to ratepayers to a later time. Such a process does not resolve doubt in favor of customers.
>
> Third, setting the rider rate too high is not reasonable as it would force captive customers to give MERC a loan for which ratepayers not only do not earn interest on but also (for capital costs, discussed below) pay a rate of return upon.
>
> Fourth, the GUIC Statute limits cost recovery through the rider to incremental costs that are not being recovered in other rates. When estimating the GUIC test-year revenue requirement, MERC needs to make a good faith effort to recognize, reasonably calculate and include an estimated adjustment for the base rate cost recovery of existing assets that were or are being replaced by projects included in the 2020 GUIC Rider (both 2019 and 2020 work). [Footnotes omitted]

As a result, the Department requested that the MERC provide in Reply Comments adjustments to remove the 2018 level of cost recovery imbedded in base rates related to the assets being replaced due to the proposed GUIC project work included in this rider recovery mechanism. The Department expected to conduct further analysis of the information in MERC's Reply Comments.

In its Reply Comments, MERC opposed the Department's recommendation to include a line item adjustment to its revenue requirement estimate to account for facilities expected to be removed from service arguing that "the specific assets being replaced are not known with certainty."[3] MERC prefers to account for this rate-reducing adjustment at a later time, in its true-up.

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[3] MERC Reply Comments, p. 2

The Department maintains that MERC's proposal would be inappropriate for all of the reasons listed above. Instead, an adjustment must be in place upfront due to requirements in two statutes. First, Minnesota's Reasonable Rate statute, Minn. Stat. § 216B.03, directs that rates must be just and reasonable. Charging ratepayers for costs of facilities that will no longer be used and useful in providing service while at the same time charging ratepayers for the costs of facilities that would replace those resources is not just or reasonable.

Second, Minnesota's Reasonable Rate statute requires that any doubt should be resolved in favor of the consumer; hence, MERC should provide a reasonable estimate of the costs of facilities that will be removed due to its GUIC projects.

Third, Minn. Stat. §216B.1635, the GUIC statute, specifies that the GUIC Rider should include only incremental costs associated with GUIC projects and that MERC must provide "the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modifies as a result of the project."

If MERC cannot reasonably account for an estimated revenue requirement offset tied to its test year project work proposed to include in the rider recovery rate, then no costs for unidentifiable test year projects should be included in developing the proposed 2020 GUIC Rider rate. Instead, MERC's GUIC rates for 2020 projects should be set only when the Company provides the required information to comply with the GUIC statute, including the following items that MERC indicates that it cannot provide at this time for each GUIC project:

- project description and scope,
- estimated project costs,
- project in-service date,
- the governmental entity ordering or requiring the gas utility project and purpose for which the project is undertaken, and
- a description of the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project.

Regulated-utility customer rates should be based on and reflect the benefits from identifiable used and useful investments; in contrast, rates designed to serve as a capital funding source for possible, yet-to-be determined, unknown, unidentifiable project work is a shift away from cost-of-service based ratemaking toward rates based on speculation.

Given that the substance of MERC's petition request is for unknown, unidentifiable project work that the utility may incur during 2020, the initial financial funding burden for the 2020 test period should remain with the Company, and the rider true-up function should allow the utility to recover reasonable net costs once the project site and work including replacement or modification of existing infrastructure can be named. Given the lack of information – all required by statute – at this time, this approach is in the public interest because it safeguards captive customers' limited funds and ensures that rates are reasonable. Customer-sourced funds would be drawn upon only when MERC can fully comply with Minnesota statutes, including showing that the rates it proposes to charge to its customers are tied to identifiable, beneficial work and services that are being rendered to customers, netted for costs of facilities that are no longer used or useful.

MERC also argued that any rate-reducing adjustment arising from replaced assets would be limited to only depreciation expense because MERC uses group accounting and any impact to rate base would net to zero change. However, per Minn. Stat. §216B.1635, the GUIC Rider allows only incremental costs associated with GUIC projects to be charged to ratepayers, therefore to comply with the GUIC statute MERC needs to identify the incremental effects regarding the rate to be charged in the GUIC.

The Department agrees that when the asset is retired the booking transaction at that point in time could result in a net zero rate base impact; however the rate-reducing adjustment that is necessary *in the rider* is the representation of what the to-be-replaced facility's contribution was to base rates at the point in time when base rates were set. The required offset should reflect the cost recovery imbedded in the Company's base rates for the facility; therefore the facility's contribution (rate base, depreciation, etc.) at the time base rates were set is the measure that needs to be used when developing the GUIC Rider adjustment.

The Department raised and discussed this concern in Xcel Gas's 2018 GUIC petition; Xcel Gas agreed to include a rate base offset adjustment in addition to a depreciation expense offset adjustment to account for the replaced-assets' cost recovery imbedded in its base rates when developing GUIC rider rates.[4] The Commission required that "In all future GUIC rider petitions, Xcel must include only

[4] Docket No. G002/M-17-787, from the Department's Comments (filed July 3, 2018):

> [T]he Department asked where in the filing Xcel included adjustments to rate base for the old plant being removed from service; this information is needed to evaluate the extent to which the now-replaced asset is recovered in base rates so that only the cost differential of the new infrastructure is included in the GUIC rider rate base. In its response, the Company explained it is unable to identify the specific plant assets replaced due to use of the group accounting method. Group accounting is often used to treat large quantity assets of like nature as a whole, rather than individual assets. The Company's response appeared to further reason that no adjustment to plant balance was needed because when pipeline plant is retired, it is removed from the Company's books at a net zero balance, and that assets being replaced have a net book value far lower than their initial value.
>
> Though the response is informative on the *current value* assumed for the retired plant, it is not on point because it fails to show that Xcel's proposed GUIC rate base represents only the incremental change in costs compared to the amounts that continue to be charged to ratepayers in base rates for the portion of its system being replaced. Instead, the response demonstrates that Xcel did not represent the 2010 test year "snapshot" of the replaced assets' contribution to base rates to arrive at an incremental cost amount for rider recovery purposes.
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> Not all the pipelines being replaced by GUIC projects were fully depreciated at the time of Xcel's last gas rate case; this fact must be taken into account to determine the incremental costs for the GUIC Rider. … Specifically, Xcel's current base rates include a return on the balance of plant that was not fully depreciated, along with all other associated costs. … As a result, Xcel's *Petition* overstates the incremental cost for the GUIC recovery rider.

incremental rate base amounts in its GUIC rider rate base."[5] Similarly, MERC should recover only incremental amounts in its GUIC rider.

B. RIGHT OF WAY PROJECT COSTS (DISPUTED ISSUE)

1. Basis for Estimated Costs

The Department maintains its recommendation that the estimated Right of Way (ROW) Project costs to include in the GUIC Rider should be based upon the known and identifiable ROW work planned to be in service in 2020. The Department's position is not a predetermination to deny MERC recovery in future rates of their GUIC-eligible ROW work that may be incurred/achieved above and beyond the known 2020 project work. Instead, as discussed above, information regarding project scope and description, the governmental entity requiring the gas utility project, purpose of the project and other information is required by the GUIC statute. However, MERC's basis for its estimated ROW Project work cost is its historical capital spend on such work.

The Company did not provide the fundamental information relevant to the *test year's* project activity as required by the GUIC statute; therefore, the Department opposes the basis used by MERC to develop the requested 2020 GUIC Rider Rate because MERC's proposed ROW cost amount is not rooted to identifiable work expected to be completed and placed in service in 2020, and *its* estimated cost. In addition, MERC's cost-estimate basis, which is not linked to planned, sited project work to be placed in service in 2020, cannot be substantiated or used to assess project management performance.

Minn. Stat. 216B.1635, Subd. 2 reads in part:

> **Gas infrastructure filing.** A public utility submitting a petition to recover gas infrastructure costs under this section must submit […] a gas infrastructure project plan report […]. … The report must be for a forecast period of one year.

Minn. Stat. 216B.1635, Subd. 3 reads:

> **Gas infrastructure project plan report.** The gas infrastructure project plan report required to be filed under subdivision 2 shall include all pertinent information and supporting data on each proposed project including, but not limited to, project description and scope, estimated project costs, and project in-service date.

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[5] Commission's August 12, 2019 Order Authorizing Rider Recovery and Setting Reporting Requirements in Docket No. G002/M-17-787.

Regulated-utility customer rates should reflect the benefit and costs from identifiable, used and useful investments, and should not be designed to supply capital funding for possible, yet-to-be determined, unknown, unidentifiable project work. Rather, the upfront financial funding burden for unknown, unidentifiable project work that may occur during the test period should remain with the Company, as such costs are normal costs of doing business, and MERC's customers pay the Company for such risks.

Once the Company can identify the actual projects and provide all of the information required by the GUIC statute, the rider true-up function can allow the utility to recover reasonable net costs of the GUIC eligible projects completed. This approach complies with the GUIC statute, safeguards customers' limited funds and ensures that rates are based on facts tied to identifiable, beneficial work and service being rendered to customers.

2. Cost Estimate Concerns

The Department noted that MERC's annual ROW Project Cost estimates appeared overstated because it included expenditure amounts attributed to projects completed in the prior year. MERC's Reply Comments explained that those expenditures were attributed to restoration and removal work on completed projects placed in-service in the prior year. MERC stated that at times it is obligated to remove old pipe.

The Department concludes that MERC's explanation resolves one part of our initial concern but raises new concerns and supports the Department's concern that MERC's historical amounts are overstated. MERC's inclusion of replaced-facilities' removal work expenditures not only overstates what new project work costs, but also goes against regulatory accounting principles. For ratemaking and per Federal Energy Regulatory Commission (FERC) uniform system of accounts, cost of removal should not be attached to, nor capitalized as part of the replacement project's cost. Instead, such costs should be charged to the accumulated depreciation account.[6] MERC's regulatory depreciation rates and expense amount already have imbedded into them the cost recovery for future removal work of existing infrastructure. Capitalizing cost of removal thus overstates the costs of the replacement project, does not adhere to regulatory accounting practices, and will cause future depreciation expense amounts to be overstated. Even if MERC is properly recording cost of removal in Account 108, including historical cost of removal spending in the estimates of forecasted test year project capital additions leads to overstatement of plant additions.

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[6] FERC Uniform System of Accounts Gas Plant Instructions #10 – *Additions and retirements of gas plant*, reads:
(2) When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

Consequently, MERC's Reply indicates a practice that incorrectly includes expenditures that should not be part of project costs for new infrastructure installations. This revelation brings into question the soundness of the Company's project cost estimation processes. This problematic practice indicated by MERC is another reason why MERC's GUIC project work and costs includable in the GUIC rider should not be based on historical expenditures, but must be based on known, planned work for the applicable rider test period. Using known, planned work as basis for recovering GUIC project work not only allows for more effective regulatory oversight, but also provides a leverage opportunity for regulators to hold the utility accountable for project cost management.

3. Monitoring Potential Future ROW Projects

MERC reasoned that its ROW approach is justified in part because the majority of governmental authorities requesting ROW work from MERC employ short-term planning.[7] However, the GUIC statute requires utilities that choose to use this ratemaking mechanism both to describe "the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred" and to identify "the magnitude and timing or any known future gas utility projects that the utility may seek to recover under this section." That language implies that the GUIC rider anticipates more proactive utility engagement with governmental entities to gain advanced notice of work requirements to seek efficiencies and possibly reduce cost. Therefore, MERC should improve its outreach efforts, monitoring capital improvement/public works planning meetings, and communication exchange with the jurisdictions in which its gas facilities are located, to strengthen stakeholder and community awareness/relations and increase proactive collaborative opportunities to seek more advance notice of potential ROW work it may need to undertake.

C. OBSOLETE MATERIALS REPLACEMENT PROJECT (DISPUTED ISSUE)

The Department raised concerns about the high per unit cost behind the Company's requested total $7 million for its Obsolete Material Replacement project estimate, determined using the expected amount of work that MERC planned to accomplish with that total spend. The Department recommended a $2 million reduction to this estimate, based on MERC's actual cost data for similar infrastructure replacement work. The Department provides the following responses to MERC's Reply Comments on this issue.

MERC's Reply Comments argued that the proposed 2020 amount is consistent with the level of spending included in its prior GUIC filing. However, the GUIC rider is supposed to be based on expected actual projects for the relevant year; referencing the total amount for all projects included in a prior GUIC filing misses the point of setting rates to recover costs for 2020 projects, along with the requirement in statute to compare "the utility's estimated costs included in the gas infrastructure project plan and the actual costs incurred."

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[7] MERC Reply Comments, p. 6.

Further, arguing that a similar projected total spend amount does not justify the *per unit* cost differentials questioned by the Department, nor does it prove prudence. MERC has not provided its actual 2019 Obsolete Materials Replacement project work, their costs and accomplishment measures to the Commission for review. Moreover, as discussed earlier, MERC appears to include expenditures (i.e., cost of removal) that should not be treated as a cost tied to the new infrastructure. Thus, MERC's costs are overstated.

In addition, given that MERC's proposal is for the 2020 test year, in the Department's view, the Project's requested amount should not be a requested "budget allowance" amount to be directed toward this multi-year effort; rather the requested amount should be based on the cost estimate of identifiable work planned to be undertaken and placed in-service in 2020.

The Department concludes that MERC has not sufficiently proven that the unit costs it relied upon are prudent or reasonable for the upcoming planned work. MERC retains responsibility and the burden to do so. MERC's Reply Comments suggest that its cost experience doing ROW replacement work is not indicative of the Company's planned costs for Aldyl-A replacement work in 2020.[8] Although MERC offered numerous factors as to why the Department's use of MERC's actual cost experience under its ROW Project work is faulty, those reasons have not persuaded the Department to modify its position. Rather, when the Department reviewed another gas utility's similar GUIC project initiative (Xcel Gas's *Poor Performing Main and Services* project), cost data from that utility supports the Department's concern that MERC's cost estimates are overstated.

Specifically, Xcel Gas has a *Poor Performing Main and Services* GUIC project which similarly addresses replacement of pipeline and services materials with known risks (i.e., Aldyl-A). Xcel Gas's per unit cost for this project work as compared to MERC's position and the Department's recommendation are shown below:

[8] MERC Reply Comments, p. 10.

Table 3-RC

Comparison of MERC, Xcel Gas and Department Recommendation for MERC GUIC Unit Costs				
	Cost per Service	Cost per Main foot	Total Project Cost	Reference
Xcel Gas 2020 Forecast	$1,330	$45.04		G002/M-19-664, Attachment D1, included as DOC Attachment 1-RC
MERC Proposal	$2,654	$50.00	$7.0 million	Petition, Table 3
MERC 2018 Per-Unit Costs for ROW Project work	$1,803	$43.20		Petition, Exhibit D-1 (summarized in Table 3 of Department Comments)
MERC 2017 Per-Unit ROW Project Costs	$1,768	$33.87		
MERC 2016 Per-Unit ROW Project Costs	$1,790	$31.67		
MERC 2015 Per-Unit ROW Project Costs	$1,827	$41.16		
Department Recommendation for MERC (average of MERC's actual costs, 2015-2018)	$1,800	$37.48	$5.0 million	Department Comments, p. 16

Applying Xcel Gas's 2020 estimated per-unit-costs to replace obsolete materials to the amount of work MERC plans to undertake in 2020, the total cost for MERC's Obsolete Project would calculate to approximately $5.1 million.[9] Further, applying MERC's actual per-unit costs in any year from 2015-2018 to the identified feet of main and number of services for 2020 would result in much lower figures than MERC proposes for 2020 (ranging from $4,557,367 to $5,489,097).

This information supports the Department's conclusion that MERC's proposal is overstated and should be adjusted. The Department maintains its recommendation to adjust the Company's Obsolete

[9] Calculated as ($45.04 per foot x 79,525 feet of main) = $3,551,806 main work, plus ($1,330 per service X 1,139 services) = $1,514,870 services work, together totals $5,096,676 ($3,551,806 + $1,514,870). And as discussed earlier, regulated-utility customer rates should reflect the benefits from identifiable used and useful prudent investments; rate setting should not be driven by a desired capital funding level. The capital financial sourcing burden for known or unplanned work should remain with the Company. Whereas, the rider true-up function serves as a mechanism to rebalance utility cost recovery based upon actual placed-in-service project accomplishments, which may have exceeded (or fallen below) well-supported forecasted expectations.

Materials Project costs included to a total of $5 million for the development of MERC's 2020 GUIC rider rate. Rate development should be determined in favor of the consumers when there is any doubt as to reasonableness, per Minnesota's Reasonable Rate statute, Minn. Stat. § 216B.03.

MERC's Reply warned that adjusting their requested estimated project cost amount included in the 2020 GUIC Rider would "slow the pace of MERC's replacement" efforts. This statement is a concerning posture for the Company to take. The initial recovery amount approved to be included in developing 2020 GUIC Rider rates, if different from Company's request, should not be an excuse to slow or limit progress on Obsolete Materials Replacement project work that MERC may otherwise be able to accomplish in 2020. With a rider true-up mechanism, MERC will be able to recover prudent costs of GUIC-eligible work that was placed in service if project progress rate exceeds initial forecast. And as discussed earlier, regulated-utility customer rates should reflect the benefits from identifiable used and useful prudent investments; rate setting should not be driven by a desired capital funding level. The capital financial sourcing burden for known as well as unplanned work should remain with the Company.

On a different matter regarding this DIMP project, the Department recommends that the Commission require MERC to include in its next GUIC filing more in-depth details of its Aldyl-A pipe replacement plan. Specifically, the Company should be required to provide a discussion identifying the pipe manufacturer(s) of the vintage ranges of the Aldyl-A pipeline MERC plans to replace as part of this DIMP project, along with the miles of pipe per vintage year. In other utilities' recent filings, per the testimony of CenterPoint Energy's engineer and the risk scoring employed by Xcel Gas, Aldyl-A installed prior to 1975 had the inferior composition and manufacturing techniques, thus, this pipe is the focus of their respective pipeline replacement efforts.[10] However, MERC's plan, per Table 3 and Table 4 of this Petition, includes replacement of pipe vintages through 1983. Therefore, MERC should support that its plan has focused its resources on the most at-risk facilities within its system.

D. 2020 STOP VALVE SURVEY PROJECT COSTS A/K/A METER SET SURVEY (DISPUTED ISSUE)

For record clarification, the Department first recaps its intended initial recommendation.[11] The Department's corrected recommendation to Initial Comments is that the estimated cost amount to include in the 2020 GUIC Rider for the Meter Set Survey project should be set to $1.25 million; that is, the Department recommends a $0.75 million reduction to MERC's proposed total estimate of $2 million.

The basis for this recommendation is that the $15 cost per unit MERC stated in its Petition as its estimated per unit cost incurred in 2019 was determined by the Department to be at least **[TRADE SECRET DATA HAS BEEN EXCISED]** increase over the contracted high-end per unit rate of **[TRADE**

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[10] Docket No. G008/GR-19-564 (CenterPoint Energy Direct Testimony of W. Kuchar III, pp. 57-58) and Docket No. G002/M-19-664 (Xcel Gas, Attachment D2(a), page 4).
[11] The Department filed a letter on August 30, 2019 with corrections to its Initial Comments. MERC's Reply Comments, issued September 17, 2019, did not reflect the Department's corrected recommendation to include a total of $1.25 million as the estimated cost for the Meter Set Survey project.

SECRET DATA HAS BEEN EXCISED].[12] This information demonstrates that the Company's publically stated $15 per unit price basis for 2019 was unreasonable, not supported by the Company-supplied contract, and was materially overstated. Therefore, the Department concludes that, because the Company demonstrated that it overstated its per unit cost for 2019, that the Company's stated per unit cost for 2020 is suspect and likely equally flawed.

Further, MERC proposed an even higher per unit cost of $20 for its 2020 proposed GUIC estimated project cost inclusion. Given the results of the Department's review, that MERC's contracts did not support their 2019 cost estimate of $15 per unit, the reasonableness of MERC's proposed additional 33 percent increase over that already excessive 2019 per unit cost, to use for its 2020 rates, is brought into question. Therefore, the Department recommended an adjustment to remove the demonstrated, unsupported excessive price estimation practice. Specifically, the Department recommended that the 2020 total project cost inclusion be limited using the **[TRADE SECRET DATA HAS BEEN EXCISED]** overstatement factor for MERC's per unit $15 cost for 2019 when compared to the actual contract's high-end **[TRADE SECRET DATA HAS BEEN EXCISED]** for 2019. This adjustment approximates a reasonable total estimate for 2020. Applying this factor to MERC's proposed $2 million **[TRADE SECRET DATA HAS BEEN EXCISED]** resolves to $1.25 million, resulting in a $0.75 million reduction adjustment.

Because MERC demonstrated that its 2019 estimate was materially overstated, this adjustment is recommended to avoid use of an unsupported $20 per unit estimate, which is suspect and potentially derived from a likewise-inflated practice. In the unlikely event that MERC's actual costs in 2020 exceed the $1.25 million estimate that the Department recommends for the 2020 GUIC rider rate, the Company would have the extraordinary opportunity to recover the additional, prudently incurred, GUIC-eligible costs through the rider true-up mechanism.

MERC's Reply comments did not address the Department's point that the Company's 2019 per unit cost estimates were materially overstated. MERC's Reply comments instead argue that the remaining meter sets to be surveyed may require per diem costs due to dispersion of their geographic location.

The Department responds as follows. First, the Department's recommended estimate of $1.25 million for 2020 is already a **[TRADE SECRET DATA HAS BEEN EXCISED]** thus allowing for higher per unit costs in 2020 compared to 2019. Second, the location of the to-be-secured contractors relative to where the work is to be conducted is not known, so there is no certainty of any per diems above and beyond the yet-to-be-quoted per unit charge. Again, any doubt as to reasonableness should be resolved in favor of the consumer (Minn. Stat. 216B.03 Reasonable Rate).

The Company's Reply further attempts to support its $20 per unit estimate for 2020 as reasonable by arguing that its construction contractor gave MERC a cost estimate to do the work in 2019 at a rate of **[TRADE SECRET DATA HAS BEEN EXCISED]**. This argument has no merit because **[TRADE SECRET DATA HAS BEEN EXCISED]** than MERC's construction contractor's 2019 per unit cost estimate.

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[12] MERC response to DOC IR No. 16, parts D and E, included as DOC Attachment 8 to the Department's Initial Comments.

Since MERC's Reply Comments are not persuasive, the Department maintains it recommendation that it is necessary to adjust the Company's proposed 2020 estimate for the Meter Set Survey Project in order to establish a more reasonable rate. The Department recommends a $1.25 million cost estimate for this project work in 2020, resulting in a $0.75 million reduction to the Company's $2.0 million estimate.

MERC's Reply Comments include remarks stating that "delays in approval of MERC's 2020 GUIC could result in increased overall costs, as the selected contractor(s) would have shorter period in which to complete the scope of work."[13] The Department points out that MERC could commence this work in 2020 without its current GUIC petition being finalized; the Commission previously determined in MERC's prior GUIC Petition (Docket G011/M-18-281) that MERC's Meter Set Survey (a/k/a Stop Valve Survey) project was GUIC Rider eligible.

E. EXCESS FLOW VALVE (MERC REPLY UPDATE)

In Reply Comments, the Company introduced the inclusion of a new project to its GUIC Rider, *Excess Flow Valve (EFV) Assessments.* The EFV project arose from a recent Commission Order issued on July 31, 2019 in Docket G999/CI-18-41 (18-41 Docket) requiring "the gas utilities to undertake customer outreach, assessments, and installation of EFVs and natural gas service line shutoff valves."[14] The Commission's Order was issued three months after MERC filed its 2020 GUIC rider Petition, therefore, MERC's Reply proposed to update its 2020 GUIC rider revenue requirement to incorporate in its forecasted 2020 test-year costs related to EFV Assessments. Consistent with MERC's compliance filed August 1st, 2019 in the 18-41 Docket, MERC estimated a total of 3,696 customer contacts that need to occur and stated that they planned to use a third party contractor to conduct these face-to-face meetings; MERC proposed to complete this direct-contact activity over the next five years.[15,16] MERC projected a total cost of $506,970 to meet and evaluate its estimated 3,696 targeted customers and therefore proposed to include one-fifth (20 percent) of this cost, or $101,384 as an operating and maintenance expense in its 2020 GUIC Rider revenue requirement. MERC provided a high-level breakdown of their estimated total costs:

[13] MERC's Reply Comments, p. 14.
[14] MERC's Reply Comments, p. 15.
[15] The Commission specified the customer categories served by each utility that must be met with in-person: K-12 public district (and non-public) school buildings, public and private universities/colleges, hospitals, and multi-unit residential and nursing facilities. Docket No. G999/CI-18-41 Commission Orders issued August 20, 2018 and July 31, 2019.
[16] In Footnote 4 to MERC's August 1, 2019 Compliance Filing in Docket G999/CI-18-41, the Company indicated that there may be an additional 534 customers eligible to have an emergency service line shut-off valve installed; and on Page 2, MERC stated that number of customer face-to-face meetings would be based on the building/customer, though a single customer-contact may have multiple service lines.

Table 4-RC

MERC EFV Assessments Docket G999/CI-18-41 August 1, 2019 Compliance Filing, Page 4		
	Task Description	Cost
1	Face-to-Face meetings, including drive time (3,696 customers)	$443,520
2	Engineering analysis to confirm eligibility for EFV (3,696 customers)	$63,450
TOTAL		$506,970

In the 18-41 Docket, MERC's reply and two compliance filings[17] stated that the Company would use third-party contractors to complete the in-person meetings; however, MERC did not discuss who would carry out the engineering analysis to confirm customer-eligibility for EFVs. If MERC's existing internal staff conducts the engineering analysis, then the $63,450 cost (line item 2) should not be included in the GUIC Rider because it is not an incremental cost.[18]

Regarding the engineering task, on page 8 of MERC's December 18, 2018 compliance filing in the 18-41 Docket, the Company stated, "Review of the specific service line and engineering analysis must be undertaken to determine whether an EFV is a viable option based on load diversity, total connected load on the service line, system pressures, service line length, commercial availability, and other factors." Considering the extent of data necessary for an engineering review and the Company statements about how third-party resources would be used, the Department recommends removal of the $63,450 cost estimate for engineering analysis from the GUIC Rider. This recommendation results in a $12,690 reduction (20 percent of $63,450) to MERC's updated 2020 GUIC revenue requirement.

In addition, per MERC, the Company's EFV Assessment project's estimated cost did not include in its total any rate-recoverable costs for customer-requested EFV installations.[19] Instead, MERC proposed to include in their 2020 rider true-up mechanism any eligible cost-recovery for EFV installations incurred as result of the customer outreach meetings. The Department supports this proposed approach because it avoids upfront charging in rates for infrastructure work that is not planned or expected at this time in 2020.

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[17] In Docket G999/CI-18-41, MERC's compliance filings were submitted on December 18, 2018 and August 1, 2019; MERC's Reply Comments were filed on March 28, 2019.

[18] In MERC's March 28, 2019 Reply Comments in Docket G999/CI-18-41, on page 4 the Company acknowledged that use of internal staff resources would result in no incremental costs. "[…] MERC anticipates that it can use internal staff in order to gather the data and there would be no incremental costs associated will this data gathering." On page 8 of MERC's December 18, 2018 comments, it stated "Review of the specific service line and engineering analysis must be undertaken to determine whether an EFV is a viable option based on load diversity, total connected load on the service line, system pressures, service line length, commercial availability, and other factors."

[19] The Commission Order issued August 20, 2018 in G999/CI-18-41, order point 3 states "Upon an EFV being installed upon a customer's request, the customer shall pay only for the costs of excavation and surface restoration related to the installation of the EFV."

F. PROPOSED REVISIONS TO SALES FORECAST (MERC REPLY COMMENT UPDATE)

MERC's Reply Comments revised its sales forecast to remove Michigan sales and Direct Connect customer throughput. For reasons discussed next, the Department does not oppose these adjustments, however it does question the inconsistency of MERC's 2020 sales forecast provided in this docket as compared to another MERC rider docket (Docket No. G011/M-19-608).

1. Michigan Sales

The Department noted on page 25 of our Comments that the Company's proposal included sales to a customer located in Michigan and asked MERC to confirm the Company's intention on this issue. MERC's Reply Comments updated its rider sales forecast to remove the Michigan-jurisdictional sales volumes (a total[20] of 122,558,353 therms) it included in its initial proposal, stating that removing these sales is consistent with the Commission's Order issued June 18, 2019, in Docket No. G011/M-18-182 [MERC's Natural Gas Extension Project (NGEP) Rider].

From our limited review, the Department does not oppose MERC's removal of Michigan sales volume because it does not appear feasible that this geographically separated, non-jurisdictional customer location would receive benefit from Minnesota-located distribution pipeline infrastructure; in addition, doing so is consistent with the treatment applied in past general base rate cases. However, if MERC is applying the Minnesota Tariff and Rate Book to this Michigan located customer, a discussion of such an application may be more suited in a general rate case setting.

2. Direct Connect Customer Sales

MERC's Reply Comments further revised its 2020 sales forecast to remove Direct Connect customers' throughput (a total[21] of 254,728,025 therms). That is, MERC revised its petition to continue excluding Direct Connect customers from this rider. A recent Commission Order, issued on August 26, 2019 in this and other dockets, authorized the suspension of MERC's 2019 GUIC Rider rate being applied to Direct Connect customers. This suspension was in response to MERC's request for emergency rate relief to mitigate rate shock caused by the 2019 GUIC to its Direct Connect customers and their threat to bypass MERC's system. MERC's inaugural GUIC Rider implemented a GUIC rider rate that nearly doubled the volumetric rate charged to its Direct Connect customers.[22]

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[20] Calculated as 878,741,019 minus 756,182,666 = 122,558,353. Response to DOC IR No. 2 and MERC Reply Comments (issued September 17, 2019), p. 18.

[21] Calculated as 756,182,666 minus 501,454,641 = 254,728,025. MERC Reply Comments (issued September 17, 2019) p. 18.

[22] For example, a Direct Connect customer with annual usage in excess of two million therms (Class 5) is currently subject to a base rate volumetric charge of $0.00448 per therm, and MERC's 18-281 GUIC Rider uniform rate is $0.00413 per therm.

In the instant docket, MERC's Reply indicated its willingness to discontinue its current uniform-rate design, (where total costs were divided by total sales resulting in a single per-therm rate), but noted that even a shift to revenue-apportionment based rate design would result in a volumetric rider rate of $0.00120 per therm to Direct Connect customers, or a total $306,442 cost allocation to these customers, if they were not excluded from paying for the GUIC. [23] MERC estimated that its Direct Connect customers' approximate cost, if they undertook efforts to bypass MERC's system, would be about $0.00400 per therm, which may indicate that subjecting Direct Connect customers to the GUIC rider rate of $0.00120 per therm on top of the existing base rate charge of $0.00448 per therm might justify the bypass option for these customers.[24]

The Department conducted a limited review of the bypass threat herein. At this time, the Department does not oppose MERC's request to continue the suspension of the GUIC Rider for its Direct Connect customers for its 2020 GUIC Rider. However, the Department reserves the right to revisit and further evaluate this issue and the continuation of rider suspension in future proceedings. Moreover, the Department notes that reducing costs overall for all of MERC's customers may be a better approach. In any case, eventually when MERC's GUIC Rider projects are rolled into base rates, it is possible that Direct Connect customers could be allocated some of these costs if similar revenue apportionments are adopted in future general rate cases.

3. Inconsistent 2020 Sales Forecast

The Department noted above that on September 17, 2019, the Company's Reply Comments stated that for its GUIC Rider, MERC's total 2020 sales forecast was 756,182,666 therms, excluding Michigan sales.[25] However, Exhibit B to its NGEP Rider Petition, filed on September 30, 2019, showed MERC's 2020 sales forecast totaling 771,153,868, excluding Michigan sales.[26] The Department requests MERC to (1) identify and explain the reasons for the differences between its 2020 sales forecast provided by the Company in these two riders; (2) resolve differences, and (3) provide any updated 2020 sales forecast for the GUIC Rider broken down by customer class (residential, firm sales, interruptible, etc.) in a similar manner shown in Exhibit B of Docket G011/M-19-608.

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[23] MERC Reply Comments (September 17, 2019), p. 20.
[24] MERC Reply Comments (issued July 18, 2019), pp. 2 and 9.
[25] MERC Reply Comments (issued September 17, 2019), p. 18.
[26] Docket No. G011/M-19-608, Exhibit B.

G. RATE DESIGN (DISPUTED ISSUE)

In our Initial Comments, the Department recommended a rider rate design based upon the revenue apportionment approved in MERC's most recent rate case, rather than continue the current uniform rate for all classes.[27] As noted above, MERC's Reply Comments are agreeable to discontinue use of its uniform rate design; however, MERC proposed to use a modified revenue apportionment to address its concern that without modification, some customers may be incented to change rate classes under which they are served. The Department noted that MERC proposed a similar rate design modification in its pending NGEP Rider Petition, Docket G011/M-19-608.

The Department is sympathetic to MERC's concerns of customers shifting from one rate class to another; however, for the reasons discussed in our initial comments, the Department maintains its conclusion that the rider rate design should reflect the apportionment approved by the Commission in the utility's most recent rate case. Rate design, informed by the underlying cost allocations, can be a complex and often highly contested issue that the Commission considers for each of the customer classes within a general rate case proceeding involving several stakeholders. Whereas, not all of the utility's stakeholders engage in utility rider mechanisms. In addition, MERC's proposed modification, which cannot be replicated from MERC's Reply Comments, adds more complexity to the GUIC rider petition that would require increased regulatory resources and processing.

Further, in MERC's most recent rate case, the Company's current rate design, effective July 1, 2019, introduced several subset rate divisions under a customer class category, essentially based upon the customer's natural gas usage. MERC has not had much experience under its relatively new design, which thus has not been proven, and customer movement between rate class categories since its implementation may still be ongoing. The Company did not discuss whether or not their commercial and/or industrial customers are held to a contract term under the selected rate classes which they are currently served. In any event, MERC has made known that it may file a general rate case in the near term, therefore will have opportunity to reflect on its current rate design and to propose modifications should it learn that the current design does not reasonably allocate costs across the customers served.

MERC's Reply also stated that use of the revenue apportionment established in the rate case includes some allocations of customer-related costs, arguing that GUIC-related projects are more likely more a function of throughput or demand.[28] As for the infrastructure activity included in GUIC Rider, the infrastructure replaced should continue to serve the system functions that the replaced-facilities had served, so the overall make-up of MERC's system should remain relatively unchanged. Also, MERC has not shown that its GUIC project work is exclusively demand-related or capacity-related function renewal; MERC has GUIC projects that include infrastructure work on and/or assessments of facilities typically classified as wholly customer-related costs, such as service line replacements and meter surveys.[29]

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[27] Department Initial Comments (issued August 23, 2019), pp. 23-24.
[28] MERC Reply Comments (issued September 17, 2019), p. 21.
[29] Docket No. G011/GR-17-563, Ex. MERC-30, Direct Testimony of Aaron Nelson, p. 17.

In addition, the Department noted that, although MERC listed the Commission-approved revenue apportionment in Table 5 of its Reply Comments, it does not appear that MERC applied these apportionment values when determining its per therm rates shown in MERC's Table 6. In the following tables, the Department provide calculated per therm rates using Commission-approved revenue apportionment. Using the sales data MERC provided in Information Request No. 2, and using the Company's proposed revenue requirement, Table 5-RC shows the per therm rates with Michigan sales excluded.[30]

Table 5-RC

Removing Michigan Sales Reducing Transportation by:		122,558,353		17-563 Rev. Apprtnmnt	2020 GUIC Revenue Requirement:	$4,956,706	
Total Therms by Customer Class		**2020**				$/therm	
Residential		185,270,758		62.50%	$3,097,941	0.01672	
Firm		102,273,167		23.50%	$1,164,826	0.01139	
Interruptible		36,578,662		3.50%	$173,485	0.00474	
Transportation		432,060,079		10.50%	$520,454	0.00120	
Total		756,182,666					

MERC's Reply Table 6 per therm rates should match the above Table 5-RC rates. However, the Department notes that the Company's calculated per therm rates are slightly different for the Residential ($0.01679), Firm ($0.01143) and the Interruptible ($0.00467) classes. The Department requests the Company to clarify and support the revenue-apportionment percentages and sales data it used to calculate MERC's Reply Table 6 rate factors.

For informational purposes, Table 6-RC below shows the per therm rates when both Michigan and Direct Connect customer sales are excluded; in this table, both are treated as a reduction to the Transportation Class volumes.

Table 6-RC

Removing Michigan Sales and Direct Connect Sales Reducing Transportation by:		377,286,378		17-563 Rev. Apprtnmnt	2020 GUIC Revenue Requirement:	$4,956,706	
Total Therms by Customer Class		**2020**				$/therm	
Residential		185,270,758		62.50%	$3,097,941	0.01672	
Firm		102,273,167		23.50%	$1,164,826	0.01139	
Interruptible		36,578,662		3.50%	$173,485	0.00474	
Transportation		177,332,054		10.50%	$520,454	0.00293	
Total		501,454,641					

[30] MERC's unadjusted 2020 sales data was provided in response to Information Request No. 2, included in the Department's Initial Comments as DOC Attachment No. 4; Michigan and Direct Connect 2020 sales volumes discussed in MERC Reply Comments (issued September 17, 2019), p. 18.

H. CUSTOMER COMMUNICATIONS (DISPUTED ISSUE)

MERC's current GUIC Rider charges a uniform rate of $0.00413 per therm to each class of customers. Considering that the rider's rate design, not just its factor, is proposed to change to a revenue-apportionment based rate design, the resulting rate factors may be a relative decrease in the rate currently charged to some customers, but an increase in the rate charged to most customers. At the very least, MERC may need to create multiple versions of its rate change customer communications, and ensure that the relevant message prints on the customer's bill. The Department's recommendation was based on its vision that a single, more complete disclosure, such as the ones MERC uses in rate cases, would occur and be provided to every customer informing them of the rates being charged to the various customer classes through this rider. The basis for the Department's recommendation is to provide fully transparent information to all MERC's customers at the introduction of the changed rate design, and that in so doing, may merit a bill insert.

Nonetheless, if the Commission's preference is that the customer communication regarding the rate change have a limited focus on the rate applicable to the class under which that customer is currently served, then likely a bill message would be sufficient. The Department defers to the Commission to determine the extent of the communication preferred; MERC can then inform parties whether a bill message or bill insert is needed to carry out the Commission's desired level of communication.

MERC's position that use of bill inserts should be treated as an incremental cost, thus be an includable cost in its GUIC rider true-up, lacks justification. MERC's base rates already include cost recovery for occasional bill inserts, which are a part of MERC's normal operations; thus no additional cost recovery should be added to the GUIC Rider for this activity.

IV. RECOMMENDED FILING REQUIREMENTS

A. RIGHT OF WAY (ROW) AND/OR OTHER DIMP PROJECT O&M EXPENSES INCURRED

MERC agreed that if the Company incurs O&M expense associated with actual ROW relocation or other DIMP projects in 2020, it will provide in future GUIC filings details regarding the amount of the expense, the account number to which it is charged, and an explanation of how the expense fits within the GUIC-rider.[31] MERC also agrees that it will only request recovery of such O&M expense to the extent it is incremental (i.e., not being recovered in existing base rates). This filing agreement is included in the Department's summarized recommendations section.

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[31] MERC's Reply Comments (issued September 17, 2019), pp. 14-15.

B. OBSOLETE MATERIALS REPLACEMENT PROJECT

The Obsolete Materials Replacement Project is a multi-year project. The Department recommended that MERC report its Aldyl-A replacement accomplishments in its annual GUIC true-up filings, requesting the following reporting details:

- a locational description of the work completed,
- the associated work order number(s),
- the size of Aldyl-A pipe mains replaced,
- the size of replacement pipe installed,
- footage of main replaced,
- total costs net of embedded labor, vehicles, fuel, overhead, etc. and
- total replacement costs.

MERC's Reply Comments agreed to include such reporting in its future true-up filings.[32] In addition, the Department recommends that MERC include the vintage and manufacturer of the Aldyl-A pipe replaced, thus revising the third bullet point to read:

- the size, *vintage, and manufacturer* of Aldyl-A pipe mains replaced.

This modified recommendation is due to some noted disparity in the targeted pipe vintages between MERC's plan and two other utilities' focused Aldyl-A pipeline replacement efforts.[33]

C. PRORATED ACCUMULATED DEFERRED INCOME TAXES (ADIT)

As requested by the Department, Attachment C to MERC's Reply Comments incorporated a correction for formula errors related to prorated ADIT. MERC agreed to reflect the correction in any future GUIC schedules and compliance filings.[34] In addition, for true-up purposes, the Company proposed to adjust the prorated ADIT with the 13-month average of the differences between projected and actual ADIT balances. The Department's Initial Comments requested support for MERC's ADIT true-up proposal. Attachment D to MERC's Reply Comments included the Internal Revenue Service (IRS) Private Letter Rulings (PLRs) upon which the Company relies for its proposed true-up methodology. MERC's proposal appears reasonable to the Department; however, we also understand that the PLRs limit their ruling to the requestor and that none of these PLRs were issued specifically to MERC. Therefore, unless MERC's methodology contravenes future PLRs or other IRS guidance, the Department does not oppose MERC's ADIT true-up proposal.

[32] MERC's Reply Comments (issued September 17, 2019), pp. 22-23.
[33] Docket No. G008/GR-19-564 (CenterPoint Energy Direct Testimony of W. Kuchar III, pp. 57-58) and Docket No. G002/M-19-664 (Xcel Gas, Attachment D2(a), page 4).
[34] MERC's Reply Comments (issued September 17, 2019), p. 17.

D. EXPIRATION OF GUIC RIDER STATUTE

MERC's GUIC Rider is currently based on a full calendar-year test year. In light of the currently set mid-year expiration of the GUIC Statute, June 30, 2023, the Department cautioned that the Company would need to adjust their tariff language and test-year term accordingly. MERC agreed to include in the relevant future GUIC Rider filing a proposal to address the termination of the GUIC Statute.[35]

E. RATE CASE TREATMENT OF RIDER

Transferring cost recovery from a rider mechanism to base rates, and the timing for ceasing rider rate billing can create issues if not thoughtfully dove-tailed to a general rate case filing. MERC's Reply agreed that, in its next general rate case filing, it would address any GUIC Rider true-up recovery through supplemental testimony, as necessary.[36]

MERC's use of infrastructure recovery riders is new since its last filed general rate case. The Department recommends that MERC be directed to include in its next general rate case filing a discussion of its GUIC rider (and NGEP) cost recovery transition to base rate (and requested interim rate) recovery. The Department recommends that when MERC files its next rate case, MERC should roll in rider related facilities at the beginning of the rate case and terminate rider recovery. This method allows for recovery in the rider or the rate case, but not both, thus avoids double recovery concerns.

V. CONCLUSIONS AND RECOMMENDATIONS

The Department recommends that the Commission approve MERC's 2020 GUIC Rider with the following modifications:

Incremental Cost Adjustment

- Require MERC to include a line item adjustment to its revenue requirement estimate to account for the cost recovery, built into its base rates, of the facilities removed, and expected to be removed from service as a result of its GUIC project work. Alternatively, if MERC cannot reasonably account for an estimated revenue requirement offset tied to its test year infrastructure replacement spend proposed to include in the rider recovery rate, then no cost amounts for unidentifiable test year project work should be included in developing the proposed GUIC Rider rate.

[35] MERC's Reply Comments (issued September 17, 2019), p. 25.
[36] MERC's Reply Comments (issued September 17, 2019), pp. 25-26.

Right of Way (ROW) Project

- Determine that the estimated Right of Way (ROW) Project costs includable in the GUIC Rider are to be based on the known and identifiable ROW work planned to be in service in 2020.

- Direct MERC to take steps to improve its outreach efforts, capital improvement/public works planning meeting monitoring, and communication exchange with the jurisdictions in which its gas facilities are located, to strengthen stakeholder/community awareness/relations and increase proactive collaborative opportunities in effort to obtain more advance notice of potential ROW work it may need to undertake.

Obsolete Materials Replacement Project

- Determine that the estimated cost amount to include in the 2020 GUIC Rider for the Obsolete Materials Project costs be set to a total of $5 million; that is, a $2 million reduction to MERC's proposed total estimate of $7 million.

2020 Stop Valve Survey Project Costs (a/k/a Meter Set Survey)

- Determine that the estimated cost amount to include in the 2020 GUIC Rider for the Meter Stop Valve Survey project be set to $1.25 million; that is, a $0.75 million reduction to MERC's proposed total estimate of $2 million.

Excess Flow Valve (new)

- Direct MERC to remove the Excess Flow Valve (EFV) project $63,450 cost estimate for engineering analysis from the GUIC Rider. This recommendation results in a $12,690 reduction (20 percent of $63,450) to MERC's updated 2020 GUIC revenue requirement.

Revisions to Sales Forecast

- Approve MERC's proposed sales forecast update to remove Michigan sales; and approve the removal of Direct Connect customer sales, thus effectively continuing the suspended application of the GUIC rider to Direct Connect customers. Qualify that approval of each of these sales adjustments in this petition shall not be used as precedent in future rider petitions or general rate case filings.

- Direct MERC to (1) identify and explain the reasons for the differences between its 2020 sales forecast provided by the Company in this and its NGEP rider petition (Docket G011/M-19-608); (2) resolve differences, and (3) provide any updated 2020 sales forecast for the GUIC Rider broken down by customer class (residential, firm sales, interruptible, etc.) in a similar manner shown in Exhibit B of Docket G011/M-19-608.

Rate Design

- Determine that MERC's GUIC rider rate design should reflect the revenue apportionment approved by the Commission in the utility's most recent rate case.

- Direct MERC to clarify and support the revenue-apportionment percentages it used to calculate the rate factors shown in Table 6 of MERC's Reply Comments issued September 17, 2019.

Customer Communications

- Determine the extent of information MERC should include in its customer communication to either,
    (1) provide complete disclosure of the GUIC Rider rates by rate class, or
    (2) provide a focused rate change applicable to the customer under the class the customer is currently served.

- Determine that MERC's base rates already include cost recovery for customer bill messages and inserts, therefore no additional cost recovery should be added to the GUIC Rider for this activity.

Future Filing Requirements

- Require MERC to include in its next GUIC filing more in-depth details of its Aldyl-A pipe replacement plan; specifically a discussion identifying the pipe manufacturer of the vintage ranges of the Aldyl-A pipe MERC plans to replace as part of this Obsolete Materials Replacement project.

- Require MERC to transparently disclose and report in its GUIC true-up filings any O&M expense recovery requested, but not expressly included in the original revenue requirements derivation of the test year being reconciled; the information reported at a minimum should (1) identify and discuss each expense, (2) include the account number, (3) provide the reasoning it is GUIC–eligible, (4) provide the cost amount included, (5) discuss how the requested recovery amount was determined, and (6) discuss whether this type of expense was included in base rates.

- Require MERC to report its Aldyl-A pipe replacement progress details in its annual true-up filings. The requested reporting details should include, by listed project site:
    (1) a locational description of the work completed,
    (2) the associated work order number(s),
    (3) the size, *vintage and manufacturer* of the Aldyl-A pipe mains replaced,
    (4) the size of replacement pipe installed,
    (5) footage of main replaced,
    (6) total costs net of embedded labor, vehicles, fuel, overhead, etc., and
    (7) total replacement costs.

- Require MERC to reflect the corrected revenue requirements model in any compliance and future GUIC filing schedules.

- Require MERC to include in the relevant future GUIC Rider filing a proposal to address the termination of the GUIC Statute.

- Require MERC to include in its next general rate case filing a discussion of its GUIC rider cost recovery transition to base rate (and requested interim rate) recovery. Direct MERC to roll in rider recovered facilities at the beginning of its next general rate case and terminate rider recovery.

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DOC Attachment 1-RC
Page 1 of 1

Source Docket G002/M-19-664:

https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={D0C3126E-0000-C31E-B46B-81AD77DD9E60}&documentTitle=201910-156911-01

CAPITAL

Program	Regulation	WBS Structure	2018 Actuals	Cost Per Unit (CPU)	2019 Actuals [1]	2019 Forecast	2019 Total	Cost Per Unit (CPU) Assumptions	2020 Plan	Cost Per Unit (CPU) Assumptions
Distribution Valve Replacement	Code 49 CFR Part 192.1007(d).		$ 383,942	See Attachment D1(e) for actual cost results.	$ 141,360	$ 132,390	$ 273,750	2019 estimated cost per valve is $31K/valve for 8 valves.	$ -	N/A
Poor Performing Mains	PHMSA Advisory Bulletin Nos. ADB-07-01, ADB-02-07, ADB-12-05, and ADB 08-02		$ 14,747,852	$43.29/ft. for mains installed by contractors and internal resources in 2018. Difference between actuals and those on the detail tab are for restoration charges related to work in-serviced in 2017, with carryover costs in 2018. Footage and CPU were already captured within previous detail.	$ 5,155,511	$ 7,421,720	$ 12,577,231	Based on 2018 actuals, 2019 forecast is $44.16/ft. for mains installed by contractors and internal resources in 2019 (with three urban projects removed as they greatly impact the average from historic values). Difference between dollar forecast and those on the detail tab are for restoration charges related to work in-serviced in 2018, with carryover costs in 2019. Footage and CPU were already captured within 2018 detail.	$ 11,090,000	Based on 2018 actuals, 2020 forecast is $45.04/ft. for contractor-performed work and internal/local projects. Considered the best available information.
Poor Performing Services			$ 3,077,417	$1,278 per service installed by contractors and internal resources in 2018. Difference between actuals and those on the detail tab are for restoration charges related to services in-serviced in 2017, with carryover costs in 2018. Footage and CPU were already captured within previous detail.	$ 405,188	$ 7,303,438	$ 7,708,626	Based on 2018 actuals, 2019 forecast is $1,304 per service installed by contractors and internal resources in 2019 (with three urban projects removed as they greatly impact the average from historic values). Difference between forecast on 2019 tab and those on the detail tab are for restoration charges related to services in-serviced in 2018, with carryover costs in 2019. Footage and CPU were already captured within 2018 detail.	$ 6,930,000	Based on 2018 actuals, 2020 forecast is $1,330/service for contractor-performed work and internal/local projects. Considered the best available information.
Intermediate Pressure (IP) Line Assessments	Code 49 CFR Part 192.1007(d).		$ 20,358,846	See Attachment D1(d) for actual cost results.	$ 125,782	$ 131,618	$ 257,400	See Attachment D1(d) for CPU estimates by project.	$ 490,000	See Attachment D1(d) for CPU estimates by project.
TOTAL DIMP CAPITAL			**$ 38,568,057**		**$ 5,827,841**	**$ 14,989,166**	**$ 20,817,007**		**$ 18,510,000**	

O&M

Program	Regulation	WBS Structure	2018 Actuals	Cost Per Unit (CPU)	2019 Actuals [1]	2019 Forecast	2019 Total	Cost Per Unit (CPU) Assumptions	2020 Plan	Cost Per Unit (CPU) Assumptions
Intermediate Pressure (IP) Line Assessments	Code 49 CFR Part 192.1007(d).		$ 135,248	See Attachment D1(d) for actual cost results.	$ -	$ 625,000	$ 625,000	See Attachment D1(d) for CPU estimates by project.	$ 579,000	See Attachment D1(d) for CPU estimates by project.
Federal Code Mitigation	Code 49 CFR Part 192: (192.365/192.357) ; (192.745/192.747) ; (192.707/192.327/192.361) ; (192.365/192.487) ; (192.479/192.461) ; (192.357/192.353) ; (PHMSA Advisory Bulletin 08-03) ; (192.321) ; (192.455/192.457)		$ 161,868	• $485 per exception is an average, more of the 2018 cost included more meter painting, as opposed to meter raises and riser sleeves that involve different personnel and equipment.	$ (198,033)	$ 198,033	$ -	N/A	$ -	N/A
Sewer Conflict Investigation	Dockets Nos. G002/M-12-248 and G002/M-10-422		$ 2,527,134	$160.06/inspection; 15,789 inspections	$ 287,133	$ 1,866,867	$ 2,154,000	$165/inspection; 13,040 inspections	$ -	N/A
TOTAL DIMP O&M			**$ 2,824,250**		**$ 89,099**	**$ 2,689,901**	**$ 2,779,000**		**$ 579,000**	

[1] Actual costs through June 2019.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Public Response Comments

Docket No. G011/M-19-282

Dated this **24th** day of **January 2020**

/s/Sharon Ferguson

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	OFF_SL_19-282_M-19-282
Ryan	Barlow	ryan.barlow@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101214	Electronic Service	Yes	OFF_SL_19-282_M-19-282
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	Yes	OFF_SL_19-282_M-19-282
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-282_M-19-282
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_19-282_M-19-282
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Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Catherine	Phillips	catherine.phillips@we-energies.com	We Energies	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	OFF_SL_19-282_M-19-282
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-282_M-19-282
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_19-282_M-19-282
Mary	Wolter	mary.wolter@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)	231 West Michigan St Milwaukee, WI 53203	Electronic Service	Yes	OFF_SL_19-282_M-19-282