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March 10, 2015

Mr. Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
Metro Square – Suite 350  
212 7th Place East  
St. Paul, MN 55101-2147

**Re: Petition of Minnesota Energy Resources Corporation to Modify Its Main and Service Extension Model and Amend Its Extension Tariffs, Docket No. G011/M-15-165**

**Corrections to Initial Petition**

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this filing to the Minnesota Public Utilities Commission (“Commission”) to correct errors MERC made in the initial filing submitted on February 13, 2015, in the above-referenced docket.

On page five of the petition and on 3rd Revised Sheet No. 9.07, MERC incorrectly stated that the “Net Present Value (“NPV”) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the *cost of long term debt* authorized in the most recent general rate case proceeding.” (Emphasis added.) In fact, MERC proposes to use a discount rate equal to the approved overall rate of return authorized in the most recent general rate case proceeding.

Similarly, page six of the petition and 3rd Revised Sheet No. 9.08 incorrectly state that “Present Value of Cash Flows” are “cash flows that produce either revenue excesses or deficiencies are discounted to a present value using a discount rate equal to the *cost of long-term debt* established in the most recent general rate proceeding.” (Emphasis added.) The filings should have stated that the cash flows are discounted to a present value using a discount rate equal to the approved overall rate of return established in the most recent general rate proceeding.

Additionally, MERC wants to clarify that the proposed Customer Extension Model allows shareholders and *new* customers to share in the cost of line extensions. MERC’s revised Customer Extension Model does not require existing customers to share the costs of service line extension because those costs are recovered through a contribution in aid of construction if the new line is not a net revenue generator over the course of the line’s life.

Attached to this filing are corrected pages to the petition and corrected Revised Tariff Sheet Nos. 9.07 and 9.08. MERC apologizes for these errors. Please contact me at 612-340-2881 if you have any questions regarding this matter.

Sincerely,

/s/ Michael J. Ahern

Michael J. Ahern

Enclosures

cc: Service List

existing customer base. Rate base and earnings growth benefit the Company and shareholders. As a result of recent increases to the demand for new services, MERC determined it was time to update and revise its extension model and assumptions to address current costs and conditions.

Accordingly, the proposed revised Customer Extension Model allows shareholders and newexisting customers to share in the cost of line extensions. Mindful of the Commission's concerns that existing customers should not subsidize growth, the new model only allows for a sharing of the burden if existing customers benefit from the extension. If the new line extension is not a net revenue generator over the course of the line's life, the Company recovers the deficiency from the new customer through a CIAC. Public and nonpublic versions of the proposed Customer Extension Model are submitted as Attachment A to this filing.

**B. Description of Proposed Revisions to Feasibility Model for Extensions of Company Mains and Services**

*1. Method*

For residential customers where both a main and service extension is required and for all extensions to serve commercial and industrial customers, regardless of whether a main extension is involved, MERC is proposing to use a standard Customer Extension Model that is designed to calculate the total revenue requirement for each year of the average service life of the plant installed. The Customer Extension Model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists. For residential customers, the proposed Customer Extension Model incorporates the cost for a 75-foot service line, with any excess footage billed after the installation not to exceed \$5.00 per foot. Customers who need only service line extensions will still receive the 75-foot allowance, even though the Customer Extension Model will not be applicable. As with other residential customers, excess footage is capped at \$5.00 per foot and charged after installation.

The Net Present Value (“NPV”) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the ~~cost of long-term debt~~approved overall rate of return authorized in the most recent general rate case proceeding. A total NPV of approximately zero (\$0) will show a project is self-supporting. Any costs in excess of the NPV will be recovered through a CIAC.

## 2. Assumption and Input Descriptions

As included in the proposed revised tariff sheets (Tariff Sheet Nos. 9.00-9.13 (included as Attachment B to this filing)), the following terms describe the contents and general operation of the revised Customer Extension Model. The terms and contents proposed below correspond directly to the terms and contents approved in MERC’s NAS model.

- 1) Time Period: Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.
- 2) Year.
- 3) Gross Plant Investment: Cumulative plant in service at the end of the year reduced by the net present value of revenues in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.
- 4) Accumulated Depreciation Reserve: Book depreciation for the current year plus all previous years.
- 5) Net Plant In Service: The difference between Gross Plant Investment and Accumulated Depreciation Reserve
- 6) Average Net Plant.
- 7) Average Accumulated Deferred Income Taxes: The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on contribution in aid of construction. At the end of the service life of the plant installed the balance of ADIT will be zero.
- 8) Average Rate Base: Total of Average Net Plant plus Average Accumulated Deferred Income Taxes.

- 9) Allowed Return: Allowed Rate of Return as determined in the Company's most recent general rate proceeding.

The Allowed Rate of Return multiplied by the Average Rate Base equals the Allowed Return.

- 10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment. The depreciation factor used is based on a weighted average of depreciation rates used in Company's most recent general rate proceeding.
- 11) O & M Expense: In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses. The calculation is average customers multiplied by incremental cost per customer.
- 12) Property Tax: In any year shall be a factor of the gross plant investment (after contribution-in-aid-of-construction). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.
- 13) Total Revenue Requirement: Total of Allowed Return, Book Depreciation, O & M Expenses, and Property Tax
- 14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.
- 15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement and the amount of Retail Revenue. Excess occurs when the Total Revenue Requirement in a given year is less than the total Retail Revenue generated. Deficiency occurs when the Total Revenue Requirement in a given year is more than the total Retail Revenue generated.
- 16) Present Value of Cash Flows: The cash flows that produce either revenue excesses or deficiencies are discounted to a present value using a discount rate equal to the ~~cost of long-term debt~~ approved overall rate of return established in the most recent general rate proceeding.

### 3. *Specific Inputs and Additional Changes*

As part of revising the existing Feasibility Model, MERC proposes to change how the Company calculates incremental operation and maintenance ("O&M") expenses. Finally, MERC plans to make other, non-substantive changes to its extension tariffs.

## EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)F. Title To Facilities

Title to all facilities herein provided for, together with all necessary right-of-way, permits and easements shall be and remain in the Company. As a condition of receiving service, the customer shall grant to the Company, without cost, all rights-of-way, easements, permits and privileges which are necessary for the rendering of gas service.

G. ExhibitsMethod:

A standard Customer Extension Model will be used that is designated to calculate the total revenue requirement for each year of the average service life of the plant installed. The model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists. For residential customers, the revenue requirement includes the cost of a 75 foot service line.

The Net Present Value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the approved overall rate of return ~~cost of long term debt~~ authorized in the most recent general rate proceeding. A total NPV of approximately zero (\$0) will show a project is self-supporting.

Customer Extension ModelDefinitions:

All terms describe contents and general operation of the Customer Extension Model used to determine whether a CIAC is required from a customer(s).

- 1) Time Period: Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.
- 2) Year.
- 3) Gross Plant Investment: Cumulative plant in service at the end of the year reduced by the net present value of the CIAC in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.
- 4) Accumulated Depreciation Reserve: Book depreciation for the current year plus all previous years.
- 5) Net Plant In Service: The difference between Gross Plant Investment and Accumulated Depreciation Reserve.
- 6) Average Net Plant.

## EXTENSION OF NATURAL GAS SERVICE

2. EXTENSIONS OF COMPANY MAINS AND SERVICES (Continued)G. Exhibits (Continued)

7) Average Accumulated Deferred Income Taxes: The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on the CIAC. At the end of the service life of the plant installed the balance of ADIT will be zero.

8) Average Rate Base: Total of Average Net Plant plus Average Accumulated Deferred Income Taxes.

9) Allowed Return: Allowed Rate of Return as determined in the Company's most recent general rate proceeding.

The Allowed Rate of Return multiplied by the Average Rate Base equals the Allowed Return.

10) Book Depreciation: The straight line cost recovery of the life of the assets for Gross Plant Investment. The depreciation factor used is based on a weighted average of depreciation rates used in Company's most recent general rate proceeding.

11) O & M Expense: In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses. The calculation is average customers multiplied by incremental cost per customer.

12) Property Tax: In any year shall be a factor of the gross plant investment (after the CIAC). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.

13) Total Revenue Requirement: Total of Allowed Return, Book Depreciation, O & M Expenses, and Property Tax.

14) Retail Revenue: This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.

15) Revenue Excess or (Deficiency): Revenue excess or deficiency is the difference between the Total Revenue Requirement and the amount of Retail Revenue. Excess occurs when the Total Revenue Requirement in a given year is less than the total Retail Revenue generated. Deficiency occurs when the Total Revenue Requirement in a given year is more than the total Retail Revenue generated.

16) Present Value of Cash Flows: The cash flows that produce either revenue excesses or deficiencies are discounted to a present value using a discount rate equal to the ~~cost of long-term debt~~ approved overall rate of return established in the most recent general rate proceeding.

The model will determine what the CIAC would be for a customer in order for the sum of the present value calculations over the life of the project is zero, or as close to zero as possible, the model demonstrates that the project is "self-supporting." That is, the customer's CIAC is the proper amount of customer-contributed capital necessary to support the project at the projected level of retail revenues.

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA            )  
  ) ss  
COUNTY OF HENNEPIN        )

Kristin M. Stastny hereby certifies that on the 10th day of March, 2015, on behalf of Minnesota Energy Resources Corporation, she electronically filed a true and correct copy of the attached Corrections to MERC’s Petition on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny  
Kristin M. Stastny

Subscribed and sworn to before me  
This 10th Day of March, 2015.

/s/ Alice Jaworski  
Notary Public, State of Minnesota



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