COMMERCE DEPARTMENT

September 14, 2020 **PUBLIC DOCUMENT**

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: **PUBLIC Comments of the Minnesota Department of Commerce – Division of Energy Resources**
Docket No. G011/M-17-409

Dear Mr. Wolf:

Attached are the **PUBLIC** comments of the Minnesota Department of Commerce (Department) in the following matter:

> Petition of Minnesota Energy Resources Corporation (MERC) for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC's Modified Alternative Proposal with modifications.** The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ NANCY CAMPBELL
Analyst Coordinator, CPA

/s/ MICHAEL ZAJICEK
Rates Analyst

NC/MZ/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

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

Docket No. G011/M-17-409

I. INTRODUCTION

On May 19, 2017, Minnesota Energy Resources Corporation (MERC or the Company) filed a Petition for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting (MERC's Initial Petition) in the above-referenced docket. MERC requested approval from the Minnesota Public Utilities Commission (Commission) of a capital investment plan for the replacement of customer-owned fuel lines located between the interstate pipeline tap and the customers' premises, commonly known as farm taps, with utility-owned service lines to address significant safety concerns related to the existing farm tap customer-owned lines (Farm Tap Replacement Project). MERC's initial, high-level estimate of the costs of replacing all farm tap lines was $45 million.

MERC proposed a two-step regulatory approval process for the Farm Tap Replacement Project. First, MERC requested Commission approval to proceed with an initial scoping phase to complete engineering and design work to refine the total cost estimate to replace the existing lines (Planning and Design Phase), including approval to apply deferred accounting to the costs related to the Planning and Design Phase. Second, MERC proposed to submit the results of the Planning and Design Phase and to seek approval for the implementation of the Farm Tap Replacement Project (Implementation Phase).

In September and October 2017 comments, the Department and the Office of the Attorney General–Residential Utilities and Antitrust Division (OAG) identified additional options and variations to be considered and evaluated as alternatives to MERC's Farm Tap Replacement Project proposal.

On November 30, 2017, the Commission issued an Order Approving Phase 1 of Farm Tap Replacement Project with Conditions (Order). In its Order, the Commission approved MERC's proposed Planning and Design Phase to develop a refined project scope and cost estimate for potential replacement of customer-owned fuel lines. The Commission ordered MERC to address several of the additional proposals presented by the Department and the OAG.[1] The Commission also authorized MERC's request for deferred accounting treatment of the costs to complete the Planning and Design Phase and to evaluate other alternatives.[2] While recognizing the concern for continued safety and sustainability of privately-owned farm tap lines, the Commission concluded that it was impossible at that time to determine whether MERC's proposal to replace all non-conforming customer-owned fuel lines with

[1] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 11-12 (November 30, 2017).

[2] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 9-10, and 12.

Company-owned mains and service lines was the most prudent and reasonable approach relative to possible alternatives.

With respect to the evaluation of alternatives, the Commission required MERC to:

1. Provide a cost estimate of requiring [maximum allowable operating pressure] MAOP testing of the small number of locatable lines, and the potential savings that could be realized if the Company were to assume control of the lines with acceptable MAOP rather than replacement;

2. Provide cost estimates associated with refunding farm tap customers for lines replaced in the last 10 years that meet MERC's safety standards for the farm tap program which the Company would plan to take over and maintain as part of the farm tap program; and

3. Provide a cost estimate of converting current farm tap customers to either propane or electric service.[3]

The Commission further determined that it would be helpful for MERC to provide additional analysis and information related to possible rate design alternatives for future evaluation of the implementation of the Farm Tap Replacement Project.[4] In addition to information regarding the customer bill impacts of MERC's proposal to socialize all of the costs of the Farm Tap Replacement Project, the Commission's Order required that MERC:

1. Provide a cost estimate of what farm tap customers would pay for the new service lines assuming MERC applied its current tariff for service line extensions;

2. Provide a cost estimate of what farm tap customers would pay under MERC's current service extension tariff assuming a greater free footage allowance due to farm tap customers having longer service lines than the typical firm customer; and

3. Provide an analysis of other rate design options MERC has considered that would allow for possible recovery of the program's costs directly from farm tap customers to reduce the costs to be socialized across MERC's entire customer base, along with a description of the cost implications of those options.

Finally, the Commission's Order required that MERC provide a detailed and specific procedural proposal for the Implementation Phase including dates, times, and locations for public hearings and a proposed notice to all customers regarding the farm tap project. The Order specified that the notice include MERC's proposal to socialize all costs of the project, associated customer bill impacts, and identification of all possible alternatives.[5]

[3] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 11.
[4] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 6.
[5] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 11.

On December 30, 2019, MERC filed its Report of Farm Tap Planning and Design for Phase I and Procedural Proposal for Phase II (MERC's Farm Tap Report or Report). Based on the results of the Planning and Design Phase, MERC's evaluation of the alternatives identified in the Commission's Order, and evaluation of possible additional alternatives and rate impact considerations, MERC identified a revised proposal aimed at mitigating the safety risks associated with continued service to farm tap customers while also attempting to mitigate the potential rate impacts associated with full replacement of all existing farm tap customer-owned fuel lines at this time. The details of MERC's Modified Alternative Proposal are discussed in detail below.

II. DEPARTMENT ANALYSIS

A. OVERVIEW OF MERC'S MODIFIED ALTERNATIVE PROPOSAL

Based on the Company's analysis and evaluation and results of the Planning and Design Phase, MERC proposes a Modified Alternative Proposal that the Company believes will address the risks posed by existing customer owned farm tap lines while balancing the associated costs and customer service. Specifically, MERC proposes:

- Implementation of additional farm tap customer safety education and outreach along with an initial replacement of only those farm taps within proximity (defined as one mile) from MERC's distribution system, with those costs to be socialized across all customers. For other farm tap customers, MERC proposes to apply its Commission-approved customer extension model to determine any customer contributions in aid of construction (CIAC) that would be needed to extend utility-owned main and services to those customers if they choose to take such service from MERC;

- Outreach to other natural gas utilities serving areas near existing farm tap customers to determine the feasibility of connecting those customers to existing distribution systems;

- Providing service to new farm tap customers only with express approval from the Commission and under the terms and conditions of MERC's existing tariff extension rules and upon receipt of payment, as appropriate, of any customer CIAC;

- Submitting a report within five years of approval of its proposal providing information, lessons learned, and a status update on farm tap customer service including the number of customers who converted to distribution service or were disconnected due to inactivity, leaks/damaged lines, or other reasons. With that report, MERC would propose additional steps to manage the risks related to remaining farm tap customers; and

- Farm tap customers, in the meantime, could use MERC for ongoing maintenance of customer-owned lines at a cost of time and materials and for upgrades of service provided the customer can demonstrate the safety of their current customer-owned fuel lines. Farm tap customers would also have the option to have maintenance and/or upgrades completed by a qualified third-party contractor.

According to MERC this Modified Alternative Proposal would cost \$7.1 million for the costs of installing main, services, meters, internal labor costs, and a ten percent contingency. The Company believes that this alternative would allow the Company to most efficiently and effectively address the safety and service issues related to farm taps while balancing cost and other considerations related to continued service to farm tap customers.

Based on the Department's review of MERC's Modified Alternative Proposal, we consider this proposal to be a significant improvement over MERC's Initial Proposal (provided in MERC's May 19, 2017 Petition) as it provides several steps in the right direction for addressing customer-owned farm taps.

Below the Department addresses the specifics of MERC's Modified Alternative Proposal, its update to its Initial Proposal and MERC's review of Alternatives Ordered by the Commission.

B. ANALYSIS OF MERC'S MODIFIED ALTERNATIVE PROPOSAL

1. Enhanced Customer Safety Education

First, MERC proposed enhancements to current farm tap customer safety education efforts including the following:

- Distribution of updated annual safety information and improved delivery to encourage customers to open and read the relevant information;
- Updated safety information on MERC's website specifically targeted at farm tap customers; and
- Creation of a safety calendar specific to farm tap customers with meter read dates and safety information that would be provided to the customers at an annual customer visit. MERC proposes that the first such calendar would be for 2021 and distributed in person to farm tap customers in the summer of 2020.

MERC proposes these enhancements to current farm tap customer safety education as a minimum step toward addressing the risks associated with continued service to these customers through meters owned by Northern Natural Gas (NNG) and customer-owned fuel lines. If approved, the Company proposes to defer the incremental O&M costs associated with these improvements for recovery in a future gas utility infrastructure cost (GUIC) rider or rate case. MERC stated that the incremental costs of these education efforts will not exceed \$250,000 per year.[6]

[6] Incremental costs could include costs to produce safety materials, mileage, and costs for a third-party contractor to make personal visits to certain farm tap customers in remote areas of the state.

The Department considers MERC proposal for Enhanced Customer Safety Education to be reasonable. However, the Department recommends that the Commission require MERC to demonstrate in its upcoming rate recovery filings that the costs proposed for recovery are truly incremental, least-cost and are not recovered elsewhere.

2. *Extend Distribution System to Farm Tap Customers within One Mile*

Second, MERC proposes to extend its existing utility distribution system to serve any farm tap customers within one mile of such existing distribution facilities. This proposal would impact approximately 210 of MERC's farm tap customers (approximately 14 percent of total farm taps).

Extending MERC's distribution service to farm tap customers rather than continuing to serve those customers through existing farm taps on the NNG interstate pipeline would ensure that those customers receive the same natural gas distribution service as other customers on MERC's system, while mitigating the safety risks associated with existing farm tap service. This proposal would also ensure that the facilities serving farm tap customers are equivalent to the current infrastructure comprising MERC's system. Moreover, extending MERC's distribution system would result in the elimination of some existing facilities that require maintenance (e.g., odorizer fills). Existing farm taps are also above-grade facilities, which are at higher risk of being damaged by farm equipment, passing cars, or other external forces. By extending MERC's existing distribution system to farm tap customers within one mile of such existing distribution facilities, the risk of damage to these above-grade facilities is minimized.

The estimated cost to extend MERC's distribution system to serve customers within one mile is approximately $7.1 million.[7] MERC proposes to separately meter each customer building, consistent with its current practices for installing service to new customers, which may result in multiple meters at a farm tap customer's location where there is currently only one.[8] MERC proposed to recover these infrastructure costs through a future rate case filing or its GUIC rider, dependent on the timing of a Commission decision in this proceeding.

MERC proposes that the farm tap customers identified as being within one mile of its existing utility distribution system who refuse to have their existing farm tap and customer-owned fuel lines replaced with utility-owned distribution facilities would be required to find another utility to serve them with natural gas or to switch to an alternative fuel within three years. MERC proposes that it would not continue to provide service of any kind to those customers on behalf of NNG via the customers' existing farm taps beyond the three-year period.[9] As a result of extending its existing distribution system to serve farm tap customers in close proximity, MERC estimates that it could extend service to as many as 240 additional customers in those areas. Any new customers added to the system in this manner would be assessed a customer CIAC in accordance with MERC's standard feasibility model.

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[7] The cost estimate of $7.1 million includes main, services, meters, internal labor costs, and a ten percent contingency.
[8] MERC stated that customers would incur separate meter charges for each meter and the service lines would be appropriately sized to the underlying gas usage requirements.
[9] Page 14 of MERC's December 30, 2020 Petition.

These incremental new loads would eventually result in additional incremental revenues to offset the costs of socializing the expansion of the distribution system.

For the purposes of this proposal, MERC requests that the parameters of MERC's "existing utility distribution system" be defined as of the date of the Commission order in this Phase II of the farm tap proceeding. The Company states that this approach would enable MERC to establish a defined project scope and avoid customer confusion as its system grows naturally during Phase II.

The Department requested clarification on MERC's proposal in Department information request no. 49. Specifically, the Department asked:

> a) Please substantiate the proposition that it is permissible for MERC to stop serving existing customers, as noted in the first sentence above.
> b) As noted in the second sentence, "MERC proposes that it would not continue to provide service of any kind to those customers on behalf of NNG via the customers' existing farm taps beyond the three-year period." Please specify whether this statement is referring only to the farm tap customers within one mile of MERC's distribution system or if this statement is referring to all farm tap customers?
> c) Please substantiate your position that it is permissible for MERC to no longer provide "service of any kind" for farm tap customers after a three-year period?

MERC provided the following response:

> a) As noted in MERC's Phase II filing, due to the safety risks associated with the farm taps, MERC is not willing to take ownership of any customer-owned line. Therefore, if a farm tap customer has been offered the option to replace their existing farm tap line with a MERC-owned distribution line, and the customer refuses that option, it is MERC's position that it is not reasonable for the Company to continue to serve that customer due to the safety risks associated with farm tap customer-owned fuel lines.
>
> Further, MERC believes that three (3) years is a reasonable period of time for a farm tap customer to decide whether or not to grant MERC the necessary rights so that the Company can locate its facilities on the landowner's property. And, as part of MERC's Phase II filing, MERC is seeking Commission approval to serve new farm tap customers, should they desire to be served by MERC, under the terms and conditions of MERC's existing tariff extension rules.

b) MERC is referring only to farm tap customers within 1 mile of MERC's distribution system.
c) See response to (a) above.

In Department information request no. 47, we asked MERC a) to explain why each building served with gas through farm tap needs its own meter and additionally b) to provide the cost for a meter and how many meters the average farm tap customer requires. MERC provided the following responses:

a) This practice is consistently used by MERC for new customers on its distribution system. If a building is used for a combination of residential and non-residential usage, the customer meter will be assigned to the class for which more than 50% of the usage is attributed to. If service is extended to a new location with multiple buildings, each would have its own meter. MERC believes that this practice is especially well-suited for farm locations in which multiple buildings could easily be separated by significant distances. Separate company-owned service lines and meters for each building will facilitate locating services as needed for leak surveys and emergency work.

b) MERC estimates that the average farm tap customer will require two meters at an average cost of $1,058.32 each. See Attachment E – Estimate Detail, page 2, provided with the December 30, 2019, Report on Farm Tap Planning and Design and Phase II Procedural Proposal in this docket.

The Department concludes that MERC's response regarding meters to be reasonable.

In Department information request no. 48, we asked MERC to provide a breakout by costs categories of the $7.1 million cost estimate for replacement of farm taps within one mile of MERC's distribution system. MERC provided the following response:

TOTAL COST - 1 MILE EXTENSION

Farm Tap Customers: 208

	Cost
Construction Total	$ 5,590,549.61
Internal Labor	$ 838,582.44
Contingency	$ 642,913.21
Total	$ 7,072,045.26

The Department supports MERC's proposal to extend its distribution system to farm tap customers within one mile of MERC's existing distribution system, thereby replacing approximately 210 farm taps and improving the safety of the overall system.

The Department appreciates MERC's commitment not to cease serving customers who are not within one mile of a distribution system after the three-year period. The Department considers MERC's $7.1 million cost estimate to be reasonable, except for the same concerns with Internal Labor and Contingency noted in the full replacement option as discussed further below. For rate recovery purposes we do not support MERC's proposal to charge its ratepayers for Internal Labor costs of $839,000 since it is not an incremental cost, nor for contingency costs of $643,000, at least until they are incurred (because they may not be incurred). In other words, MERC is already recovering labor costs of existing employees in MERC's existing rates; as a result, we do not support additional recovery of this cost since Internal Labor is not an incremental cost. Further, MERC should not be able to include these contingency costs through its rates via riders or rate cases until incurred and reviewed.

The Department recommends that the Commission allow MERC to charge only its $5.6 million construction cost amounts first, before claiming additional costs in the contingency category. MERC should also be required to show in its future rate case or rider that all costs (especially legal and environmental services) are incremental costs and are clearly differentiated from the representative amounts already being charged to ratepayers in existing rates. For example, if MERC has $2.0 million in legal costs built into existing rates, then only legal costs above and differentiated from the $2.0 million and directly related to the farm tap docket would qualify as incremental costs recoverable through deferred accounting.

3. *Other Farm Tap Customers May Request Distribution Extension*

For farm tap customers who are not located within one mile of MERC's existing distribution system at the time of the Commission's order in this Phase II proceeding, MERC proposes to apply its existing Commission-approved customer extension model to evaluate any CIAC to be required. Those customers may choose to request that MERC extend utility facilities to serve them but would be required to pay any CIAC as determined through the model. Essentially, they would be viewed as a new customer to MERC under the feasibility model, consistent with how they would be treated if they went to another utility for service instead of MERC.

While MERC hopes that some farm tap customers will come forward after receiving the enhanced safety information, it is likely that such customers will do so when they experience a problem (e.g., a leak or other repair) with their existing customer-owned facilities.

The Department discusses below MERC's application of the Company's current Commission-approved natural gas extension model or a variation of that model to the evaluation of customer contributions for farm tap customers outside of the one-mile radius of the Company's existing distribution system.

The Department supports MERC's proposal to treat customers located further than one mile from MERC's system as new customers, with the application of MERC's Commission-approved extension model to evaluate CIAC that would be required for such customers. However, as a practical matter as noted by MERC, even if footage allowances were increased from 75 feet to 600- or 1,000-feet footage allowances, the CIAC would still likely result in a cost prohibitive option for such farm tap customers.

4. *Encourage Other Gas Utilities to Extend Service to Nearby Farm Tap Customers*

Additionally, MERC intends to engage in further investigation and outreach to other natural gas distribution utilities providing distribution service near other farm tap customers to determine the feasibility of those utilities extending service to any farm tap customers. Ultimately, given the cost prohibitions, the Company does believe that extending it natural gas distribution service to these farm tap customers would be the best long-term solution to ensure adequate, reliable, and safe natural gas service.

The Department supports MERC's recommendation to encourage other gas utilities to extend service to nearby farm tap customers. The Department recommends that MERC include a discussion of how it facilitated this option in its 5-year report.

5. *Inactive and New Farm Tap Service*

To avoid increasing the scope of the issues to be addressed, MERC requested Commission approval to decline extending farm tap service as it currently exists (i.e., allowing customers to install their own service lines) to any new customers exercising their NNG easement rights for the first time. Instead, MERC would extend existing distribution service to new customers if they are within one mile of MERC's existing distribution system, but any other prospective customers could only have service extended under MERC's Commission-approved customer extension model discussed above. If a farm tap easement holder requesting new farm tap service is in closer proximity to another natural gas utility, MERC would attempt to work with that customer to see whether service could be extended by that utility.

Additionally, MERC proposed that currently inactive farm tap customers and those that become inactive during this Phase II period may not reactivate their farm tap service under the current terms and conditions. MERC proposed to consider a farm tap customer inactive if no natural gas usage has been recorded for 12 consecutive months. MERC also proposed to provide notice to customers that farm tap service will be suspended for any inactive customers and may only be reinstated if they meet the requirements of a new farm tap customer.

In Department information request no. 50, we asked MERC to respond to the following questions:

a) Please substantiate the proposition that it is permissible for MERC to decline to extend farm tap service to new customers with NNG easement rights.

b) Please substantiate the proposition that it is appropriate and reasonable to have the Commission preempt customers with NNG easement rights.
c) Please specify whether MERC intends the Commission to prevent landowners with NNG easement rights from installing their own service lines with no involvement from MERC or whether MERC only intends for the Commission to not require MERC to serve new farm tap customers.
d) If MERC intends the Commission to prevent landowners with NNG easement rights from installing their own service lines in cases where MERC has no involvement, please substantiate the proposition that the Commission has authority to take this action.
e) Please provide a sample easement that is representative of an NNG farm tap easement. If there are several formats used for these easements, please provide a copy of each type of easement.

MERC provided the following responses:

> a) As indicated in MERC's response to Department Information Request No. 33 dated June 27, 2017, MERC is not a party to the easement agreement between NNG and the landowners. As a result, MERC has no obligations under such agreements. As discussed in the Company's May 19, 2017 Petition in this docket, MERC's farm tap customers do not have the same conditions of service or rights and responsibilities as other traditional gas utility customers. Instead, MERC has provided specified services to Farm Tap customers under the terms of the 1987 Farm Tap Services Agreement with NNG and subsequent Commission orders. In particular, the 1987 Agreement provides that Peoples, MERC's predecessor, would respond to farm tap leaks; service farm tap odorizers and check delivery pressures; receive and record customers' meter readings, bill customers, and collect money; read all meters annually to true-up with customer readings; respond to customer requests for appliance relights; total, report, and account to NNG for the volumes delivered monthly; initiate request for new farm tap facilities, revisions to existing facilities, and/or termination and removal of facilities; close NNG's inlet valve when deemed appropriate for safety or non-payment of bills; and comply with state regulations for service to the farm tap customers. The 1987 Agreement states that it can be terminated any time after May 31, 2017, by providing six months' written notice. The Agreement may also be continued to a month-to-month basis after May 31, 2017. MERC notified NNG of its intent to continue the 1987 Agreement on a month-to-month basis after May 31, 2017 by notice dated November 1, 2016. (See MERC's Response to Department Information Request No. 18).
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> Beyond the easement agreements and 1987 Agreement, Minn. Stat. 216B.04 requires "every public utility shall furnish safe, adequate, efficient, and reasonable service; provided that service shall be deemed

adequate if made so within 90 days after a person requests service. Upon application by a public utility, and for good cause shown, the commission may extend the period for not to exceed another 90 days." Under MERC's existing Commission-approved tariffs, such service extensions are conditional and may require a customer contribution in aid of construction (CIAC). In order for MERC to extend natural gas service to a new non-farm tap customer, that customer must provide MERC with all the necessary easements in order to MERC to proceed with installation of service (see MERC's tariff sheet No. 9.07, which provides, "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"). Additionally, the Company conducts a Customer Extension Model to determine whether any customer CIAC is required for the customer extension. Through its Phase II filing, MERC is similarly proposing limitations on the extension of new service to customers who have unexercised easements with NNG and requesting Commission approval to decline extending farm tap service as it currently exists. In particular, MERC would extend existing distribution service to new customers if they are within one mile of MERC's existing distribution system, but any other prospective customers could only have service extended under MERC's Commission-approved customer extension model, including payment of necessary CIAC. Such conditions are reasonable and appropriate to avoid increasing the scope of the issues to be addressed and are in line with other Commission-approved requirements for the extension of new natural gas service.

b) As indicated to the response to (a), MERC is not a party to the easement agreement between the landowner and NNG. Therefore, MERC does not agree that there are any easement rights for which the Commission would or could preempt for those customers which have NNG easement rights as a result of any decision made in this docket.

c) No, MERC does not intend the Commission to prevent landowners with NNG easement rights from installing their own customer-owned fuel lines with no involvement from MERC. However, MERC *does* intend for the Commission to not require MERC to serve new farm tap customers through customer owned-fuel lines (i.e., absent those customers being connected to the distribution system through Company-owned main and services).

d) See response to (c).

e) See Attachment A to MERC's May 19, 2017 Petition for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting in Docket No. G011/M-17-409.

The Department believes that it is unclear whether the Commission would have the authority to prevent a farm tap customer to exercising its easement rights with NNG. However, the Department agrees that the Commission does not need to require MERC to install and service new farm tap lines and can allow MERC to use its Commission-approved customer extension model for service to new customers.

6. Shut off Service to Farm Taps Where Leaks are Identified

MERC stated that it performs leak surveys on 20 percent of the farm tap fuel lines annually, using flame ionization equipment. The survey is performed at least 100 yards away from significant structures along the assumed/apparent direction of the fuel line. If a dangerous leak is detected on a farm tap customer-owned fuel line in the regular course of MERC's annual inspection or as a result of an emergency or other customer call, MERC intends to shut-off service to that customer.[10] In such cases, MERC proposes that:

> …service will not be restored to a customer that has been shut-off for a leak unless and until (1) the customer has repairs performed by MERC or another contractor from a MERC-approved list of contractors and provides proof of the repairs, or (2) the customer has repairs made by a contractor of their choosing and provides proof of the repairs along with a signed waiver indicating they have made repairs at their own risk. If the customer does not restore service under these conditions within 12 months of the shut-off date, they will be considered inactive and ineligible for future farm tap service.[11]

The Department considers MERC's recommendation to shut off service to farm taps where leaks are identified until and unless they are property repaired within a 12-month period to be reasonable.

7. Upgrading and Maintaining Service to Existing Farm Tap Customers

Existing farm tap customers occasionally require upgrades to their existing farm tap configuration to accommodate growth in their load. MERC states that its role in this process has historically been advisory, where MERC designs the necessary facilities to accommodate the request.

[10] Non-hazardous leaks are documented and followed up on. MERC will shut off gas if deficiencies are not corrected.
[11] Petition at page 15.

MERC also performs maintenance on customer-owned facilities such as three-way valves and odorizers. MERC proposes to continue providing these services only in circumstances where MERC can determine if the customer-owned facilities are safe, as specified in part (f) above.

Further, MERC proposes to charge the customer for the time and materials required to perform maintenance of customer-owned facilities.

The Department considers MERC's recommendation regarding upgrading and maintaining service to existing farm tap customers to be reasonable.

8. Report of Status and Next Steps

MERC believes that, within five years following implementation of MERC's proposed plan, the Company will have gathered additional information, customer feedback, and lessons learned. At that time, MERC proposes to file a report and proposal for additional steps to manage the risk of continued service to remaining farm tap customers. The Company believes that this measured approach would allow MERC to address safety concerns with farm taps "most efficiently and effectively" while "balancing the cost impacts of replacements."[12]

The Department considers MERC's recommendation to provide a status report and next steps for farm taps in five years to be reasonable. The Department recommends that MERC include in this five-year report a discussion regarding MERC actions to encourage other gas utilities to extend service to farm tap customers.

C. UPDATE TO ITS INITIAL PROPOSAL AND REPORT ON PLANNING AND DESIGN PHASE RESULTS

MERC's Planning and Design Phase consisted of completing engineering planning and design work on a statistically significant sample of farm tap lines to develop a more reliable total cost estimate for the overall Farm Tap Replacement Project. On February 14, 2018, the Company issued a Farm Tap Conversion Feasibility Study Scope of Work (SOW) inviting companies to submit a proposal to perform a feasibility study on converting farm tap customer-owned fuel lines to utility main and service lines. MERC included a copy of the SOW is included as Attachment A to their petition. MERC received six responses to the SOW from two construction firms and four engineering firms, ultimately selecting HDR Engineering, Inc. (HDR) to perform the work because HDR offered the least-cost proposal.

HDR gathered information to scope the current load infrastructure of randomly selected farm tap customers and calculated cost estimates to replace those customer-owned lines with utility installed mains, services, and meters. From that data, MERC extrapolated costs to the entire group of farm tap customers. MERC also considered information regarding growth opportunities, whether customer-owned lines are locatable, and whether customers have replaced their lines within the past ten years.

[12] Petition at 16.

MERC in its Initial Petition determined that a sample size of approximately 300 customers would be appropriately representative of MERC's 1,801 farm tap customers.[13] Based on MERC's updated farm tap customer counts at the beginning of the Planning and Design Phase, including an updated number of inactive customers and customers who have had their farm taps removed, MERC reduced the target sample size to 275 farm taps for the Planning and Design Phase. MERC estimated a total of 1,550 farm taps in the replacement project by 2023.[14]

MERC randomly selected farm tap customers in a series of mailings and mailed a Customer Notice for Participation in Engineering Study. MERC selected 323 customers in its first round of notices sent in April 2018, 97 customers in its second round of notices sent in May 2018, and 100 customers in its third round of notices sent in June 2018 (for a total of 520 notices in all) to obtain 275 farm tap customers agreeable to participate in the study.

According to MERC, HDR initiated the information-gathering phase of study in April 2018. After collecting the preliminary information from customers via phone, HDR scheduled and performed site visits. With customers' permission, HDR collected the following information: (1) a hand sketch of the new line to be installed; (2) GPS coordinates of the current farm tap; (3) GPS coordinates of each building on the property; and (4) GPS coordinates of the proposed running line. From the information gathered, HDR produced a proposed design for replacing the customer-owned fuel lines and corresponding construction time and material cost estimate for the below-grade facilities for each farm tap assessed in the sample set. To develop a consistent approach to the design and estimate of the below-grade facilities, the following design principles were followed:

- Each building served with gas shall have a meter installed;
- Common pipe segments serving more than one meter were designed to be 2-inch plastic main;
- Pipe segments serving an individual meter were designed to be 1-inch plastic service; and
- Pipe installation method was estimated to be open trench unless a significant obstacle existed that required boring.

MERC included an example design in Attachment C and an example cost estimate in Attachment D of MERC's Farm Tap Report. Based on the engineering and design work and interviews conducted by HDR of the sample of farm tap customers, MERC developed a cost estimate for the replacement of customer-owned lines with utility main and service lines for all active farm tap customers. MERC also developed high-level cost estimates regarding alternatives identified in the Commission's Order, as discussed below.

[13] Petition at 12 (May 19, 2017). The number for farm tap customers in 2016 was 1,801.

[14] MERC reported 1,801 farm taps in 2016; by May 2019, there remained only 1,686 active taps. Approximately 90 farm taps will no longer be active as a result of NNG's abandonment of it's A-line and J-line in southern Minnesota in 2023. MERC therefore assumes that approximately 1,550 farm taps would remain active by 2023 that could be subject to replacement.

The Department reviewed and supports MERC's selection process and selection of HDR to perform the engineering planning and design work. The Department considers MERC's sample size of 275 out of 1,550 farm tap customers to be reasonable as it represents 17.7% of existing farm tap customers and is slightly higher than the original planned 300 or 16.7 percent out of 1,801 farm tap customers.

D. REFINED COST ESTIMATE FOR FARM TAP REPLACEMENT PROJECT

Upon completion of the feasibility study, MERC assessed the data resulting from the planning and design work and updated the cost estimate for the Farm Tap Replacement Project based on the study results. MERC used the 275 cost estimates from the feasibility study to create an average farm tap replacement cost by county that was then extrapolated out to the total 1,550 farm taps in the replacement project. MERC estimates that the Farm Tap Replacement Project would cost approximately $46.6 million, broken down by cost categories provided in MERC's Table 1 below:

Table 1. Cost Estimate of Farm Tap Replacement Project

	Cost
Customer Contact & Design	$ 1,765,575
Project Management	$ 600,000
Construction Total	$ 26,150,947
Environmental Services	$ 800,000
Real Estate Services	$ 3,562,580
Legal Services	$ 1,000,000
Customer Notices	$ 500,000
Agency Assessments	$ 650,000
Internal Labor	$ 784,528
Contingency	$ 10,744,089
Total	**$ 46,557,719**

According to MERC, the cost estimate for the Farm Tap Replacement Project is based on a five-year construction schedule, with construction starting in 2020 and concluding in 2024.

1. Customer Contact and Design

As shown in Table 1, MERC estimates $1.8 million for Customer Contact and Design, which totals approximately 3.8 percent of total project costs. This cost category includes reaching out to customers and visiting them on-site to investigate farm tap locations, mapping these locations, and creating proposed routes. Charges already incurred for the customer contact and design performed by HDR for the 275 sample farm taps are included in this total.

2. Project Management

The Company estimates $600,000 in project management costs, which is approximately 1.3 percent of total project costs. This estimate assumes that MERC would hire a third party to oversee the project for the project duration including answering customer and contractor questions, managing documentation, and generally ensuring that the project is moving along in a timely fashion. Because the farm tap customers are geographically disbursed throughout the state, a contractor devoted to project management will be much more effective than allocating the tasks among current employees who have other utility responsibilities.

3. Construction Total

As shown in Table 1, the majority of costs for the Farm Tap Replacement Project are associated with construction. MERC calculated the total construction costs to be $26.2 million, which is approximately 56.2 percent of the total Farm Tap Replacement Project costs. MERC estimated the total costs of the Farm Tap Replacement Project using preliminary designs of the sample of farm taps completed and extrapolated those costs to the remaining farm tap customers. These construction costs include the installation costs for main and service lines as well as restoration costs. MERC provided details of the construction cost estimate in Attachment E to its petition.

4. Environmental Services

MERC estimates $800,000 (or approximately 1.7 percent of total project costs) for costs associated with environmental services including permitting and environmental review. MERC proposes to contract with a third party to conduct this environmental review. The cost estimate includes contractor costs, desktop reviews, permitting, and field work. The estimate includes an environmental study of 1,400 parcels but does not account for any actual remediation or modifications to address any issues that might arise as a result of the studies. If environmental issues are identified, additional costs could occur (e.g., rerouting to avoid certain areas identified as having an environmental impediment).

5. Real Estate Services

MERC estimates real estate services costs to be approximately $3.6 million for the Farm Tap Replacement Project, or approximately 7.7 percent of total project costs. This amount includes external third-party labor for on-site acquisition support, reimbursement for crop damage, surveying of farm tap parcels for easement data, and transaction costs to obtain necessary easements and permits. MERC proposes to prepare easement documentation internally. The $3.6 million estimate assumes that all of the farm tap parcels will require easements but does not account for easement compensation. If a customer does not want to grant an easement to a neighbor, MERC would need to reroute the service line.

6. Legal Services, Customer Notices, and Agency Assessments

The costs in these categories, totaling $2.15 million, were authorized to be spent in the Planning and Design Phase and deferred for future recovery.[15]

[15] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 7.

7. Internal Labor

MERC estimates that incremental costs associated with internal labor will total approximately $800,000, which is about 1.7 percent of the total project cost. The Company assumed that incremental internal labor would total three percent of the total construction costs. This expense is related only to the Farm Tap Replacement Project. MERC also anticipates increased operation and maintenance (O&M) expense related to ongoing maintenance on and service to the replaced facilities.

8. Contingency

MERC included a $10.8 million contingency allowance, which is 30 percent of the costs prior to the contingency and approximately 23.1 percent of the total project costs with the contingency. MERC stated that, because the Farm Tap Replacement Project will require cooperation from landowners and neighbors to obtain easements that were previously held between farm tap customers and NNG – a level of complexity that is not typical in other utility replacement projects – the contingency would not only cover unforeseen costs, it would also cover potential litigation costs.

The Department asked MERC in Department Information Request No. 48 to provide support for the $10.7 million or 23.1 percent contingency in the $46.6 million (Full Replacement) estimated compare to the $710,000 or 10 percent contingency in the $7.1 million estimate (One-Mile Replacement). MERC provided the following responses:

a) The large project contingency rate that MERC has used in the past, including the Rochester pipeline expansion project, is 20.0 percent. In this instance, we allowed for additional contingency after factoring in the intricacies of the easement rights, the remote locations, the longer distances to MERC's distribution system, and even the landowner apathy experienced in the original survey process. Based on consideration of the specific project factors, the average contingency for the full farm tap replacement project came out to be 23.1 percent.

b) The smaller scale farm tap proposal – only replacing farm taps within one mile – was assumed to be easier to forecast actual costs and the work was expected to be somewhat more straightforward, resulting in a lower contingency allowance of 10.0 percent.

c) The 23.1 percent contingency on the full replacement of farm taps is higher due to the potential for increased litigation costs and the fact that this type of installation does not meet MERC's typical standards for new installation, which could also have unforeseen additional costs. Costs could be higher due to a number of reasons, including installing near unlocatable customer fuel lines, drain tile damage and

> repair, additional depth requirements in agricultural lands, etc. With regards to the one-mile extension option, MERC applied a lower contingency since this will be similar to a standard extension project, which lowers the risk of incurring additional unforeseen costs.

The Department supports MERC's Modified Alternative Proposal that proposes replacement of Farm Taps within one mile of MERC's distribution system, at an estimated cost of around $7.1 million, rather that the MERC's Initial Proposal to replace all Farm Taps at an estimated cost of $46.6 million.

However, the Department offers recommendations on the $46.1 million cost estimate in case the Full Replacement option is considered or approved by the Commission. The Department considers MERC's overall cost estimate to be reasonable, except for rate recovery of the Internal Labor of $800,000 and Contingency costs of $10.8 million.

As noted above, internal labor costs of existing employees are already included in MERC's existing rates and should not be charged to ratepayers again as these are not incremental costs. In addition, the $10.8 million or 30% contingency is rather high. However instead of arguing about the right contingency cost level at this time **the Department recommends that, if the Commission chooses to require MERC to replace all existing farm taps, the Commission should not allow MERC to include these contingency costs through its rates via riders or rate cases until those costs are incurred and reviewed.**

The Department recommends that MERC use its $26.2 million construction cost amounts first, before claiming additional costs in the contingency category**. The Commission should also require MERC to show in its future rate case or rider that all costs (especially legal and environmental services) are incremental costs that exceed and are differentiated from amounts already provided in existing rates.** For example, if MERC has $2.0 million in legal costs built into existing rates, then only legal costs above the $2.0 million and directly related to the Farm Tap Replacement Project would qualify as incremental costs recoverable through deferred accounting.

E. ALTERNATIVES TO FARM TAP REPLACEMENT PROJECT ORDERED BY THE COMMISSION

1. Cost Estimate of Pressure Testing Locatable Lines

The Commission's Order required that MERC "provide a cost estimate of MAOP testing of the small number of locatable lines, and the potential savings that could be realized if the Company were to assume control of the lines with acceptable MAOP rather than replacement."[16]

This requirement was in response to the Department's recommendation that MERC determine the potential for cost savings if the Company were to assume ownership of lines that pass an MAOP test.

[16] Order Approving Phase I of Farm Tap Replacement Project with Conditions at 11 (Ordering Paragraph 1a).

MERC noted that in regard to this recommendation, the Department acknowledged the safety risks if MERC were to ultimately acquire and use these lines: "Due to the low number of locatable lines, and the fact that often the materials and condition of the line are unknown, it is likely not useful to have the Company use existing Farm Tap lines that pass MAOP testing similar to the results of the Iowa and Nebraska proceedings."[17]

MERC noted that it continues to have these concerns:

> Pressure testing locatable lines would not fully address the significant safety risks posed by these customer-owned lines. As discussed in MERC's previous filings, the requirements adopted by the regulatory commissions in Iowa and Nebraska for the utility to take ownership of and operate the customer-owned lines include much more than pressure testing. In particular, the customer lines must:
>
> - Meet Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) pipeline safety standards;[18]
> - Be locatable;
> - Be constructed of approved materials (for Nebraska, the line must be constructed of materials that meet the utility's approved safety standards and the O&M requirements imposed by the Nebraska State Fire Marshal); and
> - Pass an MAOP test[19] (for Iowa, the line must be able to pass a pressure test of 100 psi).[20]

MERC added that the utility must be able to legally access the line on the customer's property. If the line runs across properties owned by persons other than the customer, the customer must obtain an easement to receive service.

According to MERC, Nebraska and Iowa utilities have requirements such that, if the customer-owned lines fail any of these requirements, the utility will not assume ownership of the customer-owned line. Moreover, if, in the utility's sole opinion, any condition exists that is determined to be dangerous to life

[17] Department Comments at 11 (September 18, 2017).
[18] On March 26, 2019, PHMSA issued an announcement of enforcement discretion with respect to portions of its regulations established in March 2017 that pertain to farm taps. *See* PHMSA, *Pipeline Safety, Exercise of Enforcement Discretion Regarding Farm Taps*, 82 FR 7972 (Mar. 20, 2019), *available at* https://www.federalregister.gov/documents/2019/03/26/2019-05677/pipeline-safety-exercise-ofenforcement-discretion-regarding-farm-taps.
[19] PHMSA regulations specify the engineering-based criteria that must be used to determine the pipeline's MAOP. A pipeline's design characteristics, pipe strength, diameter, and wall thickness are used to calculate the maximum pressure the pipeline can be subjected to without damage.
[20] Petition at 9.

or property, the utility may discontinue service.[21] Despite these concerns, MERC agreed to collect additional information, provide an estimate of the cost to complete MAOP testing on potentially-locatable lines, and further evaluate the viability and usefulness of MAOP testing during the Planning and Design Phase.[22]

At the time of MERC's Petition filing, the Company estimated that fewer than ten percent of the farm tap customer-owned lines were locatable.[23] During the Planning and Design Phase customer outreach, HDR asked selected customers whether their gas lines were locatable. Approximately 5.5 percent (15 out of the sample of 275) said yes. MERC believes that even fewer customer-owned lines will actually be fully locatable, but used this information to develop a general cost estimate to test customer-owned lines that are locatable and meet the other requirements and testing in accordance with the Commission's Order:

Table 2. Cost Estimate of Pressure Testing Locatable Lines[24]

Per Farm Tap	$ 2,340
Total	$ 198,866

MERC noted that Black Hills Iowa submits annual status reports on its farm tap inspection and replacement project. Black Hills Iowa's February 28, 2019 report indicated that of the 1,031 inspections completed, only 330 lines passed inspection. Further, Black Hills Iowa determined that, of those that passed inspection, only 24 met all criteria for purchase, with 318 classified as having passed but needing to be re-built with associated costs. As of the end of 2018, Black Hills identified only 22 existing farm tap lines to be purchased.

Of the lines that failed the inspection, 657 failed due to being non-locatable, 55 failed due to unsafe materials, and one failed pressure testing. Additionally, ten farm taps had leaks reported or otherwise did not complete the normal inspection process.[25] According to MERC, the results in Iowa further support MERC's concerns that pressure testing locatable lines will not sufficiently address the significant safety concerns associated with customer-owned fuel lines.

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[21] Black Hills/Nebraska Gas Utility, LLC, d/b/a Black Hills Energy, Farm Tap Safety Proposal, Docket No. NG-0090, STIPULATION AND AGREEMENT at Ex. 1 (Redline and Clean Tariffs) (July 20, 2017), *available at* http://www.psc.nebraska.gov/natgas/NG0090/Complete%20Filing%20Documents%20w%20Exhibits.pdf.
[22] MERC Reply Comments at 5 (Sept. 28, 2017).
[23] MERC Petition at 17 (May 19, 2017) ("MERC estimates that approximately 90 percent of the lines are not locatable for excavation safety because the lines were not installed with tracer wire and there is no way to locate the line without a complete excavation. Further, though leak surveys are generally valuable tools to identify potential hazards and safeguard the distribution system, MERC's technicians cannot conduct an accurate leak survey if the line is not locatable.").
[24] This cost estimate is based on projected labor and travel time for a three-man crew to undertake testing for a total of 85 customer-owned lines (5.5 percent) at 2020 contract rates.
[25] The February 28, 2019, Black Hills results are included as Attachment F to this filing.

MERC concluded that after considering the results of the data collection in Phase 1 of the Farm Tap Replacement Project, MERC is still not willing to take ownership of any customer line, even if it met all of the Nebraska and Iowa requirements. MERC does not believe that these lines are adequate for utility distribution and does not support the Commission requiring MAOP testing on locatable lines to determine the potential for cost savings.

Based on the above information, the Department considered the following:

1) locatable lines are likely less than the 5.5 percent and therefore do not solve much of the farm tap problem,
2) MERC's concern that these lines are not adequate for utility distribution and possible safety concerns,
3) no good solution has been presented for who should pay for these costs, and
4) MERC under its Modified Alternative Proposal is now agreeing to continue ongoing maintenance for customer-owned lines.

As a result, **the Department no longer recommends that MERC take control over these possibly locatable customer owned farm taps at this time.**

2. Cost Estimate for Lines Installed in the Last Ten Years

The Commission's Order required the Company to "provide cost estimates associated with refunding farm tap customers for lines replaced in the last 10 years that meet MERC's safety standards for the farm tap program which the Company would plan to take over and maintain as part of the farm tap program."[26] This request was in response to the Department's recommendation that MERC provide an estimate of the costs associated with paying farm tap customers for lines that were recently installed.

MERC previously noted that in both the Nebraska and Iowa farm tap proceedings, which the Department relied upon to develop its proposal to evaluate potential reimbursement, farm tap customers are only reimbursed if their lines both (1) meet all of the MAOP and safety requirements, and (2) the customer is able to document that the line was installed within the past ten years, and at what cost. Thus, MERC assumes that any reimbursement proposal would also require that the customer-owned line meet specified criteria and pass testing, consistent with the approach in Nebraska and Iowa, and in accordance with the language of the Commission's Order, which limits potential refunding to lines that meet MERC's safety standards.

While MERC previously discussed calculating potential reimbursement to customers with lines that had been installed during the past ten years using the percentage of actual installation costs as approved in the Nebraska farm tap proceedings, customers generally did not have ready access to documentation regarding the cost of installation at the time of the Planning and Design Phase site visits. Thus, MERC developed a cost estimate based on the $10 per foot amount as approved by the Iowa Utilities Board.

[26] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 11.

During the Planning and Design Phase, HDR asked selected customers whether their natural gas lines had been replaced within the past ten years. Of the 275 customers surveyed, 35 customers (approximately 12.7 percent) responded that their lines had been replaced within the last ten years. Based on this information, MERC developed the following high-level estimate by extrapolation, assuming 12.7 percent of the total pool of farm tap customers had their lines replaced within the past 10 years.

Table 3. Cost Estimate to Reimburse Customers for Recently Replaced Lines[27]

Per Farm Tap	$ 10,250
Total	$ 2,022,045

MERC noted that under the reimbursement parameters agreed to in the Nebraska farm tap proceedings, the utility takes ownership of customer-owned lines that meet the necessary safety standards if the customer can prove that the line was installed within the last ten years and the customer has receipts showing the total costs of the installation. If the customer can satisfy these requirements, the Nebraska utility will compensate the customer based on the age of the installed line.

MERC stated it continues to have concerns with acquiring the farm tap customer-owned lines for all the reasons discussed above. MERC does not seek approval to acquire any existing farm tap customer-owned lines regardless of their age.

The Department notes that the same four concerns as those listed above apply to facilities built in the last ten years, as locatable lines, and in addition the need for customers to verify that the lines were installed in the last ten years, along with receipts for total costs of installation. **Therefore, the Department no longer recommends MERC take control over these less than 10 years old customer owned farm taps at this time.**

3. *Cost Estimate of Converting to Propane or Electric Service*

The Commission's Order required MERC to "provide a cost estimate of converting current farm tap customers to either propane or electric service."[28] MERC noted in its comments that converting appliances from natural gas to propane, conversion kits for furnaces, dryers, and stoves cost anywhere from approximately $12 to $54 plus labor costs for installation. These costs are minimal and could reasonably be paid for by either the farm tap customers or socialized over MERC's remaining customer base. MERC also noted that "conversion from natural gas to electricity, however, would require all new appliances and, depending on how the structure was initially wired, may require an electrician to

[27] Based upon an average footage, including main and service, of 1,025 feet.
[28] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 11.

install a significant number of outlets."[29] These costs could be high; MERC notes that "the average cost to install an electric furnace is $3,551 with a typical range of $1,197 to $5,904."[30]

In either case, the farm tap customers would incur substantially more expensive energy costs every year by switching from natural gas to alternative fuels. MERC's Attachment G provided a high-level comparison of natural gas utility service to propane and electricity, suggesting that, annually, propane may be $862 more expensive than natural gas and electricity $1,979 more expensive than natural gas.

MERC continues to maintain that paying to convert customers to an alternate fuel is not a preferred option for all existing farm tap customers. However, under MERC's proposal, customers whose farm taps are more than a mile away from MERC's system would of course be able to explore alternatives to taking service from MERC as a new customer.

The Department concludes that MERC's Modified Alternative Proposal would be a reasonable way to address safety concerns and would allow farm tap customers whose farm taps are located further than one mile from MERC's distribution system to choose whether to pay a CIAC to stay on MERC's system, switch to propane, electricity or other forms of energy.

F. *EVALUATION OF COST RECOVERY AND RATE DESIGN ALTERNATIVES*

1. *Socialization of Costs and Rate Design Alternatives*

MERC presented a detailed analysis on rate design options, evaluating the impact of the socialization of the costs of replacing all farm tap customer-owned lines and MERC's proposed alternative to replace only those lines within one mile of the Company's existing distribution system. MERC also analyzed several other options, including the costs for customers of requiring a CIAC charge and a specific fixed and volumetric charge for farm tap customers and/or other customers. MERC proposed to recover the costs for replacing customer-owned lines within one mile of MERC's existing system though the GUIC rider from all customers. As noted above, MERC estimated that to replace all customer lines it would cost approximately $46.6 million, while the Company's proposed replacement of only lines within one mile of the Company's system would cost an estimated $7.1 million.

In Department information request no. 51, we asked MERC to provide the revenue requirement assumptions for 1) the $5,056,640 annual revenue requirement based of the $46.6 million estimate for the Full Farm Tap Replacement; and 2) the $998,541 annual revenue requirement based on the $7.1 million estimate for the Modified Alterative Proposal (One-Mile Replacement from MERC's distribution system). These revenue requirements are found on MERC's Tables 4a and 4b, on page 17 of MERC's Report. Based on our review of these revenue requirements, the Department notes that MERC has also included the $2.3 million in deferred accounting for Phase I and the $250,000 in additional safety

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[29] Petition at 11.
[30] HomeAdvisor, *New Electric Furnace Costs*, https://www.homeadvisor.com/cost/heating-andcooling/electric-furnace-prices/ (last visited Dec. 26, 2019). These estimated are based on actual project costs as reported by 174 Home Advisor members.

education costs for Phase 2 in its revenue requirements calculations. (The Department addresses cost recovery of deferred accounting issues below.)

Based on a limited review of the revenue requirement assumptions, one concern the Department notes is that MERC is assuming a 40-year depreciation life for the Farm Tap facilities. However, MERC's most recent depreciation study in Docket No. G011/D-19-377 shows the following depreciation lives that are applicable to Farm Tap type of facilities on the schedule "Statement IC":

Mains – 65.0 average year life;
Services – 56.0 average year life; and
Meters – 39.0 average year life.

Based on our review of revenue requirements, the Department recommends that the Commission require MERC to use most recent applicable depreciation lives as approved by the Commission. The Department also recommends that a more detailed review of final revenue requirements should occur in MERC's future rate case or GUIC rider.

The Department reviewed the rate design proposals presented by the Company. MERC's analysis shows that, using the 2020 GUIC allocation methodology replacing all customer lines would add about $5 million per year to the Company's GUIC rider, while replacing only those lines within one mile of the MERC's existing system would only add about $1 million per year to the GUIC. Table 3 below compares the rate impact on impacted classes of these two proposals.

Table 3: Project Scope Rate Design Comparison

	All Farm Tap Lines				Farm Tap Lines Within One Mile			
Customer Class	Proposed GUIC Rider Surcharge (Per Therm)	Annual Average Cost	Average Percentage Increase in Customer Annual Bill	Total Annual Cost Recovery	Proposed GUIC Rider Surcharge (Per Therm)	Annual Average Cost Per Customer	Average Percentage Increase in Customer Annual Bill	Total Annual Cost Recovery
Residential	$0.01821	$16	2.2%	$3,400,932	$0.00360	$3	0.4%	$671,586
Class 1 & 2 Firm	$0.01094	$49	1.6%	$1,073,976	$0.00216	$10	0.3%	$212,079
Class 1 & 2 Interruptible, Class 1 & 2 Grain Drying, Class 1 Electric Generation	$0.01094	$465	2.5%	$204,775	$0.00216	$92	0.5%	$40,437
Class 3 & 4 Firm	$0.00184	$305	0.3%	$7,306	$0.00036	$60	0.1%	$1,443

Class 3 & 4 Interruptible, Class 3 Grain Drying	$0.00184	$1,036	1.1%	$185,989	$0.00036	$203	0.2%	$36,728
Class 5, Flex, Class 2 Electric Generation, Transport-for-Resale	$0.00184	$8,003	10.5%	$183,663	$0.00036	$1,566	2.0%	$36,268
Direct Connect	$0	$0	NA	$0	$0	$0	NA	$0
Total			$5,056,640					$998,451

As shown above in Table 3, complete replacement of the farm tap lines would cause a 2.2 percent increase in the yearly bill for the residential class, while only replacing farm tap lines within a mile of the Company's system would cause a far more modest 0.4% increase.

MERC noted that, if these costs are recovered through the GUIC, the Direct Connect customers would not be charged for these costs. MERC indicated that these customers are not assessed the current 2020 GUIC Surcharge either (Docket No. M-19-282). However, as the Commission noted long ago,[31] NNG installed these farm tap lines decades ago, in exchange for easements on the rural landowners' property, so that NNG could provide service to these large Direct Connect customers and thus these farm tap services exist in large part due to the Direct Connect customers. Further **the Department notes that because replacement of the Farm Taps within one mile of MERC's distribution line is a safety issue for the MERC system, it is reasonable for all ratepayers to pay for these costs. As a result, rate recovery in MERC's rate case rather than GUIC rider would be more appropriate.**

2. Recovery Through the GUIC Rider

If the Commission concludes instead that recovery though the GUIC is more appropriate the Department also reviewed MERC's proposal to recover the costs associated with the Farm tap replacement project though the GUIC rider mechanism. MERC states that the farm tap replacement proposal meets the requirements for recovery though the GUIC rider mechanism as the project meets the definition of "gas utility projects" as defined by Minn. Stat. § 216B.1635, which states in part:

> (c) "Gas utility projects" means:
> (1) replacement of natural gas facilities located in the public right-of-way required by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota, or a political subdivision; and

[31] For example, the Commission's May 25, 1993 Order in Docket No. G011/M-91-989.

> (2) replacement or modification of existing natural gas facilities, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure that is required by a federal or state agency.

The Department agrees that the Project meets the definition of "gas utility project" as the Commission approved the evaluation and assessment of alternative to address the ongoing safety, reliability, and service to farm tap customers in its November 30, 2017, order in the instant docket, and the project is clearly a replacement of existing natural gas facilities.

Further Minn. Stat. § 216B.1635 states that to qualify as GUIC costs related to gas utility projects these costs:

> (1) do not serve to increase revenues by directly connecting the infrastructure replacement to new customers;
> (2) are in service but were not included in the gas utility's rate base in its most recent general rate case, or are planned to be in service during the period covered by the report submitted under subdivision 2, but in no case longer than the one-year forecast period in the report; and
> (3) do not constitute a betterment, unless the betterment is based on requirements by a political subdivision or a federal or state agency, as evidenced by specific documentation, an order, or other similar requirement from the government entity requiring the replacement or modification of infrastructure.

The Department agrees that the project does not connect new customers and that the farm tap lines are not currently included in rate base. Finally, the Department agrees that while the project may be considered a betterment, a Commission order requiring the Company to replace these farm tap lines for safety reasons would qualify as a required betterment by a state agency. Thus, the Department concludes that recovery of the costs of the farm tap replacement project though the GUIC would be permissible. **However as stated above since the Direct Connect customers would not pay for the project if costs are recovered though the GUIC, and as this is a replacement for a safety issue for lines that were built to obtain easements to serve the Direct Connect customers, it is reasonable for all customers to pay for it, and thus recovery though a rate case would be more appropriate.**

3. Application of MERC's Tariff Feasibility Model and Residential Footage Allowance

The Commission's Order also required that MERC "provide a cost estimate of what farm tap customers would pay for the new service lines assuming MERC applied its current tariff for service line extensions."[32] Consistent with the Commission's Order, MERC applied its current customer extension

[32] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 11 (Ordering Paragraph 1.d.).

model, inclusive of the Residential 75-foot service line footage allowance, to determine the estimated customer CIAC that would be required for (1) replacement of all 1,550 farm tap customer-owned fuel lines with utility-owned main and service, and (2) MERC's alternative proposal to connect only the farm tap customers within one mile of the Company's distribution system to the distribution system.

Applying MERC's customer extension model and 2018 excess footage charges to the replacement of all existing farm tap customer-owned fuel lines with utility-owned main and service lines would require estimated customer contributions of approximately $9.86 million.[33]

This amount includes customer CIACs totaling $7.87 million plus $1.99 million in excess footage charges.[34] Based on the results of the Planning and Design Phase, MERC estimates approximately 68 percent of all farm tap customers would be required to pay excess footage charges under a 75-foot allowance. Additionally, approximately 19 percent of farm tap customers would be required to pay a CIAC under MERC's customer extension model. Thus, there would be an average excess footage charge of $1,879 per customer and an average CIAC of $27,384.

In contrast, applying MERC's customer extension model to MERC's alternative proposal to extend the Company's existing distribution system to serve farm tap customers located within one mile of the existing distribution system would require customer contributions of approximately $4.32 million plus $180,000 in excess footage costs.

Based on MERC's analysis, 64 percent of the 210 customers located within 1 mile would be required to pay for excess footage under a 75-foot allowance. The average excess footage charge for each affected customer would be approximately $1,321. Such excess footage costs would be in addition to any CIAC required under the customer extension model. MERC estimates that approximately 52 percent of customers would be obligated to pay a CIAC under the customer extension model, resulting in an average CIAC per customer of $39,601. Such contributions would likely be cost-prohibitive for affected customers.[35]

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[33] MERC applied 2018 excess footage rates to calculate customer contributions. Those rates increase each year based on actual negotiated contract rates and are currently authorized up to $5.00 per foot.

[34] Applying the customer extension model would not require a CIAC from every farm tap customer. As a result, some customers would not be charged a CIAC and others would have a CIAC much greater than the average based on the facilities required to provide service.

[35] As noted above, applying the customer extension model would not require a CIAC from every farm tap customer. As a result, some customers would not be charged a CIAC and others would have a CIAC much greater than the average based on the facilities required to provide service.

Table 5. Farm Tap Customer Out-Of-Pocket Estimates Consistent with Current Customer Extension Model

	Estimated CIAC	Estimated Excess Footage Charges	Total Farm Tap Customer Out-of-Pocket Costs
Full Replacement of All Farm Tap Customer-Owned Lines	$7,871,748	$1,991,376	$9,863,124
Replace Only Customer-Owned Lines within One Mile	$4,316,555	$178,324	$4,494,879

According to MERC, these cost estimates were based on the following assumptions:

- Customer usage is based on existing farm tap customers' actual usage in 2018.
- Current rates and customer classes as approved in Docket No. G011/GR-17-563.
- All impacted farm tap customers are considered as new customers for purposes of applying the customer extension model.
- For Residential customers, the customer extension model only includes the cost of the main installation. Excess footage charges are applied for any service line greater than 75 feet in length based on the 2018 rate of $3.63 per foot.
- For Commercial and Industrial customers, the customer extension model includes the cost of the main and service line installation.
- For the full replacement of all farm tap customer-owned fuel lines with utility-owned main and service lines, estimates include the estimated farm tap modification costs.
- For the extension to customers within one mile of MERC's existing distribution system, farm tap customers were combined into one customer extension model if they are expected to be on the same route. The model does not include the costs or benefits of any potential new customers along the extension route typically included on a standard customer extension model.[36]This analysis does not incorporate specific costs associated with abnormal construction, which would require additional customer contributions under MERC's current tariffs. It is likely that abnormal conditions (such as rock) would be encountered on at least a portion of the facilities to be installed. MERC incorporated contingency costs to recognize such unknown but likely costs.

MERC concluded that such contributions or Out-of-Pocket Costs for Farm Tap Customer would likely be cost-prohibitive for affected customers. **The Department agrees that charging the average Farm Tap Customer approximately $41,000 in Out-of-Pocket Costs to cover CIAC and excess footage charge for each Farm Tap assuming MERC's current tariff for service line extensions, is likely cost-prohibitive, especially in light of current financial difficulties being experienced by farmers.**

[36] Including all of the potential customers identified along the proposed route would result in an estimated CIAC that is approximately $500,000 lower.

4. Analysis of Alternative Footage Allowance

The Commission also required that the Company "provide a cost estimate of what farm tap customers would pay under MERC's current service extension tariff assuming a greater free footage allowance due to farm tap customers having longer service lines than the typical firm customer."[37] Consistent with the Commission's Order, MERC performed the same analysis described in part (2) above but assuming free footage allowances of 600 and 1,000 feet instead of the currently-authorized 75-foot allowance. MERC evaluated both (1) replacement of all farm tap customer-owned fuel lines with utility-owned main and service, and (2) MERC's alternative proposal to connect farm tap customers within one mile of the Company's distribution system to the distribution system. MERC provided in Tables 6 to 9 on pages 22-23 of its Petition, the various analysis of Farm Tap Customer Out-of-Pocket Charges.[38]

The Department notes that Tables 6 and 8 are for the Full Farm Tap Replacement Project, and show Total Farm Tap Customers Out-of-Pocket Costs (for estimated CIAC and excess footage charges) starting at $8.2 million up to $13.9 million, depending on the excess footage charge estimate and footage allowance. This amount results in an average Farm Tap Customer paying at least $33,000 and up $41,000 in Out-of-Pocket Costs for CIAC and excess footage charges.

The Department notes that Tables 7 and 9 are for the One Mile Extension Project and show Total Farm Tap Customers Out-of-Pocket Costs (for estimated CIAC and excess footage charges) starting at $4.3 million up to $4.9 million, depending on the excess footage charge estimate and footage allowance. The amount results in an average Farm Tap Customer paying around $44,000 in Out-of-Pocket Costs for CIAC and excess footage charges (assuming the $10.97 excess footage charge estimate).

MERC concluded that such contributions or Out-of-Pocket Costs for Farm Tap Customer would likely be cost-prohibitive for affect customers. **The Department agrees that charging the average Farm Tap Customer between $33,000 and $44,000 in Out-of-Pocket Costs to cover CIAC and excess footage charge for each Farm Tap, even with considering alternative footage allowances and Full Replacement compared to One-Mile Replacement, is likely cost-prohibitive, especially in light of current financial difficulties being experienced by farmers.**

G. CONTINUATION OF COST DEFERRAL

In the November 30, 2017, Order, the Commission approved MERC's request for deferred accounting treatment of Phase I costs including costs related to the Planning and Design Phase engineering and information gathering work, regulatory proceeding, and customer notices.[39] Costs for these tasks were estimated to be in the amount of $2.3 million.

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[37] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 11 (Ordering Paragraph 1.e).
[38] In response to Department information request no. 53, MERC provided the trade secret assumptions, supporting calculations and formulas for MERC's Tables 5 to 9.
[39] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 10.

MERC requests continuation of the accounting deferral of these types of costs through Phase II of the Farm Tap Replacement Project. MERC states that it will continue to incur costs for regulatory proceedings and customer notices, but the total is still estimated to remain under the initial estimate of $2.3 million. Additionally, as discussed above, MERC requests authorization to defer capital and O&M costs related to implementation of Phase II of the Farm Tap Replacement Project. In particular, MERC proposes to defer costs incurred to implement enhanced safety education and to replace customer-owned fuel lines with utility-owned distribution main and service for customers within one mile of MERC's existing distribution system. MERC requests continued deferred accounting treatment until the recovery of the Phase I and Phase II costs can be determined in either a GUIC Rider or a general rate proceeding.

According to MERC the costs proposed to be deferred for implementation of Phase II satisfy the Commission's criteria for deferred accounting. Those costs are (1) related to MERC's utility operations for which ratepayers have incurred costs or received benefits; (2) significant in amount; (3) unforeseen, unusual, or extraordinary; and (4) subject to review for reasonableness and prudence. MERC's costs for Phase II enhanced customer safety education and preliminary facility replacements are related to ensuring continued safe, adequate, and reliable natural gas service to all customers. Additionally, the incremental costs associated with enhanced customer safety education ($250,000) and the capital costs to connect farm tap customers within one mile of MERC's existing distribution system to distribution service ($7.1 million) are significant in amount to MERC's gas distribution business. MERC states that these ongoing costs are large enough to have a substantial impact on the Company's financial condition. Further, as the Commission previously recognized in granting deferred accounting for Phase I, the timing and specific nature of the replacement projects are unusual and extraordinary for utility service in Minnesota. Finally, MERC agrees that all costs are subject to review for reasonableness and prudence in a future rate case or GUIC rider filing.

Since Commission already approved MERC's deferred accounting, the Department considers MERC's additional request for $250,000 for enhanced customer safety education related to Phase II to be reasonable, subject to MERC showing in its future rate case or GUIC rider that these costs are actually incremental costs. For example, MERC's costs of regulatory proceedings are generally not incremental since the Company's base rates include regulatory costs. As an example of how incremental costs are treated, if MERC has $1.0 million in education costs built into existing rates, then only education costs above the $2.0 million and directly related to the farm tap issue would qualify as incremental costs recoverable through deferred accounting.

H. PROCEDURAL PROPOSAL FOR PHASE II AND REQUEST TO REFER MATTER TO THE OFFICE OF ADMINISTRATIVE HEARINGS TO CONDUCT PUBLIC HEARINGS

The Commission's November 30, 2017, Order further required that the Company provide a detailed and specific procedural proposal for the Implementation Phase of the Farm Tap Project (Phase II), including dates, times, and locations for public hearings.[40]

[40] Order Approving Phase 1 of Farm Tap Replacement Project with Conditions at 10, 11 (Ordering Paragraph 2).

MERC proposes the following procedural schedule for consideration and evaluation of MERC's revised Farm Tap Phase II proposal and alternatives.

MILESTONE	DATE(S)
Filing of Results of Planning and Design Phase, Proposal for Implementation of Phase II	December 2019
Other Parties' Comments on Initial Planning/Design Analysis and Replacement Proposal, Proposed Procedure for Phase 2, and Request for Assignment of ALJ to Conduct Public Hearings	January 2020[43]
Reply Comments on Initial Planning Design Analysis and Proposal	February 2020
Commission Meeting on Request for Assignment on ALJ to Conduct Public Hearings	March 2020
Commission Order Requesting Office of Administrative Hearings to Assign an ALJ to Conduct Public Hearings	March 2020
Public Hearings to be Held in Eveleth, Cloquet, North Branch, St. Cloud, Litchfield, Lakeville, Granite Falls, Rochester, Mankato, and Jackson.[44]	April 2020
ALJ Summary of Public Hearings and Public Comments	May 2020
Commission Hearing	August 2020

The Commission's Order also required MERC to develop a notice to send to all of its customers at the beginning of Phase II regarding the farm tap project including MERC's proposal to socialize all of the costs of this project, associated customer bill impacts, and all possible alternatives. MERC provided a copy of its proposed notice in Attachment H to its petition.

In Department information request no. 53, we asked MERC to provide an update of the procedural schedule, which MERC provided as follows:

MILESTONE	DATE(S)
Filing of Results of Planning and Design Phase, Proposal for Implementation of Phase II	December 2019
Other Parties' Comments on Initial Planning/Design Analysis and Replacement Proposal, Proposed Procedure for Phase 2, and Request for Assignment of ALJ to Conduct Public Hearings	August 2020
Reply Comments on Initial Planning Design Analysis and Proposal	September 2020
Commission Meeting on Request for Assignment of ALJ to Conduct Public Hearings	October 2020
Commission Order Requesting Office of Administrative Hearings to Assign an ALJ to Conduct Public Hearings	October 2020
MILESTONE	DATE(S)
Public Hearings to be Held in Eveleth, Cloquet, North Branch, St. Cloud, Litchfield, Lakeville, Granite Falls, Rochester, Mankato, and Jackson.[1]	Nov-Dec 2020
ALJ Summary of Public Hearings and Public Comments	January 2021
Commission Hearing	April 2021

The Department considers MERC's proposed schedule above to be very optimistic but defers this scheduling issue to Commission staff. The Department notes that since customer notices are under the Commission's staff's purview, we also defer the review of MERC's customer notices to Commission staff.

III. CONCLUSIONS AND RECOMMENDATIONS

MERC requests that the Commission:

(1) find that MERC's revised Phase II farm tap proposal as presented in this report is the most prudent and reasonable approach in this record and allow MERC to move forward with the proposal;
(2) accept the Company's Phase I report and permit continued deferred accounting of the costs incurred through the evaluation and implementation of Phase II;
(3) find that MERC has provided the information required in the Commission's November 30, 2017, Order;
(4) approve the proposed procedural schedule for the implementation of Phase II, as discussed above; and
(5) determine that the costs incurred in Phase I and Phase II of the farm tap project, as approved in this proceeding, satisfy the definition of gas utility infrastructure costs under Minn. Stat. § 216B.1635, subd. 1, and are therefore, eligible for recovery in a future GUIC Rider filing.

Based on our review, the Department concludes and recommends the following:

Based on the Department's review of MERC's Modified Alternative Proposal, we consider this proposal to be a significant improvement over MERC's Initial Proposal (provided in MERC's May 19, 2017 Petition) as it provides several steps in the right direction for addressing customer-owned farm taps.

The Department considers MERC proposal for Enhanced Customer Safety Education to be reasonable. However, the Department recommends that the Commission require MERC to demonstrate in its upcoming rate recovery filings that the costs proposed for recovery are truly incremental, least-cost and are not recovered elsewhere.

The Department supports MERC's proposal to extend its distribution system to farm tap customers within one mile of MERC's existing distribution system, thereby replacing approximately 210 farm taps and improving the safety of the overall system.

The Department supports MERC's proposal to treat customers located further than one mile from MERC's system as new customers, with the application of MERC's Commission-approved extension model to evaluate CIAC that would be required for such customers.

The Department supports MERC's recommendation to encourage other gas utilities to extend service to nearby farm tap customers. The Department recommends that MERC include a discussion of how it facilitated this option in its 5-year report.

The Department believes that it is unclear whether the Commission would have the authority to prevent a farm tap customer to exercising its easement rights with NNG. However, the Department agrees that the Commission does not need to require MERC to install and service new farm tap lines and can allow MERC to use its Commission-approved customer extension model for service to new customers.

The Department considers MERC's recommendation to shut off service to farm taps where leaks are identified until and unless they are property repaired within a 12-month period to be reasonable.

The Department considers MERC's recommendation regarding upgrading and maintaining service to existing farm tap customers to be reasonable.

The Department considers MERC's recommendation to provide a status report and next steps for farm taps in five years to be reasonable. The Department recommends that MERC include in this five-year report a discussion regarding MERC actions to encourage other gas utilities to extend service to farm tap customers.

The Department reviewed and supports MERC's selection process and selection of HDR to perform the engineering planning and design work.

The Department supports MERC's Modified Alternative Proposal that proposes replacement of Farm Taps within one mile of MERC's distribution system, at an estimated cost of around $7.1 million, rather that the MERC's Initial Proposal to replace all Farm Taps at an estimated cost of $46.6 million.

The Department recommends that, if the Commission chooses to require MERC to replace all existing farm taps, the Commission should not allow MERC to include these contingency costs through its rates via riders or rate cases until those costs are incurred and reviewed.

The Commission should require MERC to show in its future rate case or rider that all costs (especially legal and environmental services) are incremental costs that exceed and are differentiated from amounts already provided in existing rates.

The Department no longer recommends that MERC take control over these possibly locatable customer owned farm taps at this time.

The Department no longer recommends MERC take control over these less than 10 years old customer owned farm taps at this time.

The Department concludes that MERC's Modified Alternative Proposal would be a reasonable way to address safety concerns and would allow farm tap customers whose farm taps are located further than one mile from MERC's distribution system to choose whether to pay a CIAC to stay on MERC's system, switch to propane, electricity or other forms of energy.

Based on our review of revenue requirements, the Department recommends that the Commission require MERC to use most recent applicable depreciation lives as approved by the Commission. The Department also recommends that a more detailed review of final revenue requirements should occur in MERC's future rate case or GUIC rider.

The Department notes that because replacement of the Farm Taps within one mile of MERC's distribution line is a safety issue for the MERC system, it is reasonable for all ratepayers to pay for these costs. As a result, rate recovery in MERC's rate case rather than GUIC rider would be more appropriate.

Since the Direct Connect customers would not pay for the project if costs are recovered though the GUIC rider, and as this is a replacement for a safety issue for lines that were built to obtain easements to serve the Direct Connect customers, it is reasonable for all customers to pay for it, and thus recovery though a rate case would be more appropriate.

The Department agrees that charging the average Farm Tap Customer approximately $41,000 in Out-of-Pocket Costs to cover CIAC and excess footage charge for each Farm Tap assuming MERC's current tariff for service line extensions, is likely cost-prohibitive, especially in light of current financial difficulties being experienced by farmers.

Since Commission already approved MERC's deferred accounting, the Department considers MERC's additional request for $250,000 for enhanced customer safety education related to Phase II to be reasonable, subject to MERC showing in its future rate case or GUIC rider that these costs are actually incremental costs.

The Department considers MERC's proposed schedule above to be very optimistic but defers this scheduling issue to Commission staff. The Department notes that since customer notices are under the Commission's staff's purview, we also defer the review of MERC's customer notices to Commission staff.

/ja

PUBLIC DOCUMENT

Department Attachment No. 1

Department Information Requests and
Minnesota Energy Resources Corporation (MERC) Responses

Docket No. G011/M-17-409

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corp Date of Request: 4/27/2020
Type of Inquiry: General Response Due: 5/7/2020

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Michael Zajicek, Dorothy Morrissey
Email Address(es): michael.zajicek@state.mn.us; dorothy.morrissey@state.mn.us
Phone Number(s): 651.539.1830; 651.539.1797

ADDITIONAL INSTRUCTIONS:
Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy.

Request Number:	**44**
Topic:	**Extension of Distribution to Farm Tap Customers within one Mile**
Reference(s):	**Petition, p. 13**

Request:

Please provide a narrative explaining how the MERC chose the one mile extension cut off for the Company's proposed extension of distribution to farm tap customers.

Response:

MERC reviewed the number of farm tap customers within 1 mile (208 customers), 1.5 miles (306 customers) and 2 miles (362 customers) of its existing distribution system and estimated the cost to replace them. The first 208 customers within 1 mile represented almost 14% of the total farm taps served and within 2 miles would encompass over 23% of the total farm taps served. However, MERC found that the incremental cost to add each additional customer in excess of the 1 mile radius was more than double the cost of those within the 1 mile radius. MERC therefore determined that the one mile extension could be a reasonable start to a phased-in replacement of the farm tap facilities.

To be completed by responder

Response Date:	May 7, 2020
Response by:	Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corp Date of Request: 4/27/2020
Type of Inquiry: General Response Due: 5/7/2020

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Michael Zajicek, Dorothy Morrissey
Email Address(es): michael.zajicek@state.mn.us; dorothy.morrissey@state.mn.us
Phone Number(s): 651.539.1830; 651.539.1797

ADDITIONAL INSTRUCTIONS:
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Request Number:	**45**
Topic:	**Billing Impacts**
Reference(s):	**Petition Pages 17-18**

Request:

Please provide a spreadsheet showing the percent increase for an average customer's bills, both monthly and yearly, for all customer classes and for both the replacement of all farm tap lines and MERC's proposal.

Response: Please see attached spreadsheet. These estimates do not include gas costs.

	Proposed		Annual		Monthly	
	Rate/Therm	$/Customer	Avg Bill	% Increase	Avg Bill	% Increase
Residential	$ 0.00360	$ 3	$ 720	0.4%	$ 60	0.4%
Class 1-2 Firm (Sales and Transport)	$ 0.00216	$ 10	$ 3,081	0.3%	$ 257	0.3%
Class 1-2 Interruptible (Sales and Transport), Class 1-2 Ag Grain Dryer, and Class 1 Power Gen	$ 0.00216	$ 92	$ 18,676	0.5%	$ 1,556	0.5%
Class 3-4 Firm (Sales and Transport)	$ 0.00036	$ 60	$ 96,406	0.1%	$ 8,034	0.1%
Class 3-4 Interruptible (Sales and Transport) and Class 3-4 Ag Grain Dryer	$ 0.00036	$ 203	$ 91,761	0.2%	$ 7,647	0.2%
Class 5, FLEX, Transport for Resale, and Class 2 Power Gen	$ 0.00036	$ 1,566	$ 76,551	2.0%	$ 6,379	2.0%
Direct Connect	$ -	$ -				

	Total Replacement		Annual		Monthly	
	Rate/Therm	$/Customer	Avg Bill	% Increase	Avg Bill	% Increase
Residential	$ 0.01821	$ 16	$ 720	2.2%	$ 60	2.2%
Class 1-2 Firm (Sales and Transport)	$ 0.01094	$ 49	$ 3,081	1.6%	$ 257	1.6%
Class 1-2 Interruptible (Sales and Transport), Class 1-2 Ag Grain Dryer, and Class 1 Power Gen	$ 0.01094	$ 465	$ 18,676	2.5%	$ 1,556	2.5%
Class 3-4 Firm (Sales and Transport)	$ 0.00184	$ 305	$ 96,406	0.3%	$ 8,034	0.3%
Class 3-4 Interruptible (Sales and Transport) and Class 3-4 Ag Grain Dryer	$ 0.00184	$ 1,036	$ 91,761	1.1%	$ 7,647	1.1%
Class 5, FLEX, Transport for Resale, and Class 2 Power Gen	$ 0.00184	$ 8,003	$ 76,551	10.5%	$ 6,379	10.5%
Direct Connect	$ -	$ -				

To be completed by responder

Response Date: May 7, 2020
Response by: Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address: mary.wolter@wecenergygroup.com
Phone Number: (414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
Phone Number(s): 651-539-1821 or 651-539-1830

ADDITIONAL INSTRUCTIONS:
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Request Number:	**46**
Topic:	MERC's Revised Proposal – Ongoing Maintenance
Reference(s):	Page 4 second bullet of MERC's Petition

Request:

MERC on page 4 of its December 30, 2019 Petition stated:

Farm tap customers, in the meantime, could utilize MERC for ongoing maintenance of customer-owned lines at a cost of time and materials and for upgrades of service provided the customer can demonstrate the safety of their current customer-owned fuel lines. Farm tap customers would also have the option to have maintenance and/or upgrades completed by a qualified third-party contractor.

a) Does MERC propose to change in any way how it will provide ongoing maintenance of customer-owned lines compared to the 1987 Agreement with Northern Natural Gas and MERC (which expired in May 2017) or compared to how MERC was providing month-to-month services starting in June 2017? If yes, please explain any changes and why these changes are reasonable.

b) Please provide estimated cost of time rate and estimated material costs, for the above referenced maintenance, assuming 2020 cost levels. Please provide supporting information.

c) Please provide any proposed tariff language to implement MERC's Ongoing Maintenance Proposal. Include any draft language if no proposed tariff language is finalized.

To be completed by responder

Response Date:	August 20, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
Phone Number(s): 651-539-1821 or 651-539-1830

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Response:

a) Not at this time. MERC currently maintains the three-way valves and odorizers for farm tap customers and anticipates continuing to do so under the current month-to-month agreement. MERC also has Commission approval to provide maintenance and repair services to customer-owned fuel lines and appliances on a non-regulated basis and anticipates that we will continue to do this as needed. As is currently the case, if MERC is aware of a safety concern and the customer cannot demonstrate that their facilities are safe then MERC can, and will, turn off the customer's access to the pipeline system. See MERC's tariff at Sheet No. 8.11 (attached). Over time, with Commission support, MERC would like to be able to terminate the month-to-month agreement and serve any remaining farm taps as standard distribution customers.

b) Attached as an example is a current pricing estimate for replacing odorizers . This includes a labor cost rate of $96/hour. Estimated costs to provide other maintenance services will vary widely by customer. Since MERC is not currently providing other maintenance services, the requested pricing information is not available.

c) MERC's tariff already provides for customer payment for repairs to customer-owned lines that are performed as a result of an inspection or an emergency leak call. See the attached Sheet No. 8.11. In addition, Sheet No. 8.40 already provides for charging customers for the following:

> Chargeable Services on Customer Premises – All other services on the customer's premises are chargeable to the customer. This includes such items as lighting pilots; adjusting appliances; changes, modifications and repair of house piping and service lines; repair or replacement of controls and other appliance parts; and cleaning and inspecting customer owned gas burning devices for malfunctions.

To be completed by responder

Response Date: August 20, 2020
Response by: Mary Wolter
Email Address: mary.wolter@wecenergygroup.com
Phone Number: (414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
Phone Number(s): 651-539-1821 or 651-539-1830

ADDITIONAL INSTRUCTIONS:
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Request Number:	**47**
Topic:	Meters
Reference(s):	Page 5 of MERC's Petition

Request:

a) Please explain why each building that is served with gas through farm tap needs its own meter?

b) What is the cost for a meter and how many meters does the average farm tap customer require? Please support your response.

Response:

a) This practice is consistently used by MERC for new customers on its distribution system. If a building is used for a combination of residential and non-residential usage, the customer meter will be assigned to the class for which more than 50% of the usage is attributed to. If service is extended to a new location with multiple buildings, each would have its own meter. MERC believes that this practice is especially well-suited for farm locations in which multiple buildings could easily be separated by significant distances. Separate company-owned service lines and meters for each building will facilitate locating services as needed for leak surveys and emergency work.

b) MERC estimates that the average farm tap customer will require two meters at an average cost of $1,058.32 each. See Attachment E – Estimate Detail, page 2, provided with the December 30, 2019, Report on Farm Tap Planning and Design and Phase II Procedural Proposal in this docket.

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
Phone Number(s): 651-539-1821 or 651-539-1830

ADDITIONAL INSTRUCTIONS:
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Request Number:	**48**
Topic:	Cost Contingencies & Estimates
Reference(s):	Table 1 Page 6 and Footnote 24 Page 14 of MERC's Petition

Request:

a) Please provide support for the $10.7 million contingency (or 23.1 percent) in the $46.6 million cost estimate for replacement of all farm taps.
b) Please provide support for the $710,000 contingency (or 10.0 percent) in the $7.1 million cost estimate for replacement of farm taps within one mile of MERC's distribution system.
c) Please explain the wide variation in contingencies 23.1 percent compared to 10.0 percent.
d) Please provide a breakout by cost categories of the $7.1 million costs estimate for replacement of farm taps within one mile of MERC's distribution system.

Response:

a) The large project contingency rate that MERC has used in the past, including the Rochester pipeline expansion project, is 20.0 percent. In this instance, we allowed for additional contingency after factoring in the intricacies of the easement rights, the remote locations, the longer distances to MERC's distribution system, and even the landowner apathy experienced in the original survey process. Based on consideration of the specific project factors, the average contingency for the full farm tap replacement project came out to be 23.1 percent.

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409
Requested From: Minnesota Energy Resources Corporation (MERC)
Type of Inquiry: General

☐Nonpublic ☒Public
Date of Request: 8/7/20
Response Due: 8/17/20

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
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b) The smaller scale farm tap proposal – only replacing farm taps within one mile – was assumed to be easier to forecast actual costs and the work was expected to be somewhat more straightforward, resulting in a lower contingency allowance of 10.0 percent.

c) The 23.1 percent contingency on the full replacement of farm taps is higher due to the potential for increased litigation costs and the fact that this type of installation does not meet MERC's typical standards for new installation, which could also have unforeseen additional costs. Costs could be higher due to a number of reasons, including installing near unlocatable customer fuel lines, drain tile damage and repair, additional depth requirements in agricultural lands, etc. With regards to the one mile extension option, MERC applied a lower contingency due to the fact that this will be similar to a standard extension project, which lowers the risk of incurring additional unforeseen costs.

d) The requested breakout of cost categories is provided below:

TOTAL COST - 1 MILE EXTENSION

Farm Tap Customers: 208

	Cost
Construction Total	$ 5,590,549.61
Internal Labor	$ 838,582.44
Contingency	$ 642,913.21
Total	$ 7,072,045.26

To be completed by responder

Response Date: August 17, 2020
Response by: Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address: mary.wolter@wecenergygroup.com
Phone Number: (414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).
Assigned Analyst(s): Nancy Campbell/Michael Zajicek
Email Address(es): nancy.campbell@state.mn.us or michael.zajicek@state.mn.us
Phone Number(s): 651-539-1821 or 651-539-1830

ADDITIONAL INSTRUCTIONS:
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Request Number:	**49**
Topic:	No longer providing service
Reference(s):	Page 14 of MERC's Petition

Request:
MERC on page 14 of its December 30, 2020 Petition stated:

> MERC proposes that the farm tap customers identified as being within one mile of its existing utility distribution system who refuse to have their existing farm tap and customer-owned fuel lines replaced with utility-owned distribution facilities would be required to find another utility to serve them with natural gas or to switch to an alternative fuel within three years. MERC proposes that it would not continue to provide service of any kind to those customers on behalf of NNG via the customers' existing farm taps beyond the three-year period.

As used in this IR, "substantiate" means to identify: (1) the full legal and factual basis in support of the referenced proposition; and (2) all documents relating to the proposition.

a) Please substantiate the proposition that it is permissible for MERC to stop serving existing customers, as noted in the first sentence above.
b) As noted in the second sentence, "MERC proposes that it would not continue to provide service of any kind to those customers on behalf of NNG via the customers' existing farm taps beyond the three-year period." Please specify whether this statement is referring only to the farm tap customers within one mile of MERC's distribution system or if this statement is referring to all farm tap customers?
c) Please substantiate your position that it is permissible for MERC to no longer provide "service of any kind" for farm tap customers after a three-year period?

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	414-221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC) Date of Request: 8/7/20
Response Due: 8/17/20
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MERC Response:

a) As noted in MERC's Phase II filing, due to the safety risks associated with the farm taps, MERC is not willing to take ownership of any customer-owned line. Therefore, if a farm tap customer has been offered the option to replace their existing farm tap line with a MERC-owned distribution line, and the customer refuses that option, it is MERC's position that it is not reasonable for the Company to continue to serve that customer due to the safety risks associated with farm tap customer-owned fuel lines. Further, MERC believes that three (3) years is a reasonable period of time for a farm tap customer to decide whether or not to grant MERC the necessary rights so that the Company can locate its facilities on the landowner's property. And, as part of MERC's Phase II filing, MERC is seeking Commission approval to serve new farm tap customers, should they desire to be served by MERC, under the terms and conditions of MERC's existing tariff extension rules.

b) MERC is referring only to farm tap customers within 1 mile of MERC's distribution system.

c) See response to (a) above.

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	414-221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

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Request Number:	**50**
Topic:	NNG Easement Rights
Reference(s):	Page 15 of MERC's Petition

Request:
MERC on page 15 of its December 30, 2020 Petition stated:

> In order to avoid increasing the scope of the issues to be addressed, MERC requests Commission approval to decline extending farm tap service as it currently exists (i.e., allowing customers to install their own service lines) to any new customers exercising their NNG easement rights for the first time. MERC would extend existing distribution service to new customers if they are within one mile of MERC's existing distribution system, but any other prospective customers could only have service extended under MERC's Commission-approved customer extension model, discussed above. In the event a farm tap easement holder requesting new farm tap service is in closer proximity to another natural gas utility, MERC would attempt to work with that customer to see whether service could be extended by that utility.

As used in this IR, "substantiate" means to identify: (1) the full legal and factual basis in support of the referenced proposition; and (2) all documents relating to the proposition.

a) Please substantiate the proposition that it is permissible for MERC to decline to extend farm tap service to new customers with NNG easement rights?
b) Please substantiate the proposition that it is appropriate and reasonable to have the Commission preempt customers with NNG easement rights?

(Continued on next page)

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	414-221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409
Requested From: Minnesota Energy Resources Corporation (MERC)
Type of Inquiry: General

☐Nonpublic ☒Public
Date of Request: 8/7/20
Response Due: 8/17/20

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c) Please specify whether MERC intends the Commission to prevent landowners with NNG easement rights from installing their own service lines with no involvement from MERC or whether MERC only intends for the Commission to not require MERC to serve new farm tap customers.
d) If MERC intends the Commission to prevent landowners with NNG easement rights from installing their own service lines in cases where MERC has no involvement, please substantiate the proposition that the Commission has authority to take this action.
e) Please provide a sample easement that is representative of an NNG farm tap easement. If there are several formats used for these easements, please provide a copy of each type of easement.

Response:

a) As indicated in MERC's response to Department Information Request No. 33 dated June 27, 2017, MERC is not a party to the easement agreement between NNG and the landowners. As a result, MERC has no obligations under such agreements. As discussed in the Company's May 19, 2017 Petition in this docket, MERC's farm tap customers do not have the same conditions of service or rights and responsibilities as other traditional gas utility customers. Instead, MERC has provided specified services to Farm Tap customers under the terms of the 1987 Farm Tap Services Agreement with NNG and subsequent Commission orders. In particular, the 1987 Agreement provides that Peoples, MERC's predecessor, would respond to farm tap leaks; service farm tap odorizers and check delivery pressures; receive and record customers' meter readings, bill customers, and collect money; read all meters annually to true-up with customer readings; respond to customer requests for appliance relights; total, report, and account to NNG for the volumes delivered monthly; initiate request for new farm tap facilities, revisions to existing facilities, and/or termination and removal of facilities; close NNG's inlet valve when deemed appropriate for safety or non-payment of bills; and comply with state regulations for service to the farm tap customers. The 1987 Agreement states that it can be terminated any time after May 31, 2017, by

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To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	414-221-2374

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC) Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

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Assigned Analyst(s): Nancy Campbell/Michael Zajicek
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providing six months' written notice. The Agreement may also be continued to a month-to-month basis after May 31, 2017. MERC notified NNG of its intent to continue the 1987 Agreement on a month-to-month basis after May 31, 2017 by notice dated November 1, 2016. (See MERC's Response to Department Information Request No. 18).

Beyond the easement agreements and 1987 Agreement, Minn. Stat. 216B.04 requires "every public utility shall furnish safe, adequate, efficient, and reasonable service; provided that service shall be deemed adequate if made so within 90 days after a person requests service. Upon application by a public utility, and for good cause shown, the commission may extend the period for not to exceed another 90 days." Under MERC's existing Commission-approved tariffs, such service extensions are conditional and may require a customer contribution in aid of construction (CIAC). In order for MERC to extend natural gas service to a new non-farm tap customer, that customer must provide MERC with all the necessary easements in order to MERC to proceed with installation of service (see MERC's tariff sheet No. 9.07, which provides, "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"). Additionally, the Company conducts a Customer Extension Model to determine whether any customer CIAC is required for the customer extension. Through its Phase II filing, MERC is similarly proposing limitations on the extension of new service to customers who have unexercised easements with NNG and requesting Commission approval to decline extending farm tap service as it currently exists. In particular, MERC would extend existing distribution service to new customers if they are within one mile of MERC's existing distribution system, but any other prospective customers could only have service extended under MERC's Commission-approved customer extension model, including payment of necessary CIAC. Such conditions are reasonable and appropriate to avoid increasing the scope of the issues to be addressed and are in line with other Commission-approved requirements for the extension of new natural gas service.

To be completed by responder

Response Date: August 17, 2020
Response by: Mary Wolter
Email Address: mary.wolter@wecenergygroup.com
Phone Number: 414-221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
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Response Due: 8/17/20
Type of Inquiry: General

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b) As indicated to the response to (a), MERC is not a party to the easement agreement between the landowner and NNG. Therefore MERC does not agree that there are any easement rights for which the Commission would or could preempt for those customers which have NNG easement rights as a result of any decision made in this docket.

c) No, MERC does not intend the Commission to prevent landowners with NNG easement rights from installing their own customer-owned fuel lines with no involvement from MERC. However MERC *does* intend for the Commission to not require MERC to serve new farm tap customers through customer owned-fuel lines (i.e., absent those customers being connected to the distribution system through Company-owned main and services).

d) See response to (c).

e) See Attachment A to MERC's May 19, 2017 Petition for Approval of Farm Tap Customer-Owned Fuel Line Replacement Plan, Tariff Amendments, and Deferred Accounting in Docket No. G011/M-17-409.

To be completed by responder

Response Date: August 17, 2020
Response by: Mary Wolter
Email Address: mary.wolter@wecenergygroup.com
Phone Number: 414-221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC)
Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

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Request Number:	**51**
Topic:	NNG Easement Rights
Reference(s):	Page 17-18 of MERC's Petition

Request:

MERC on pages 17-18 on Tables 4a and 4b of its December 30, 2020 Petition provides the surcharge rates and revenue requirement impacts for both Full Farm Tap Replacement and Revised Farm Tap Proposal.

a) Please provide all of the revenue requirement assumptions for Table 4a with the $5,056,640 total revenue requirement, including but not limited to taxes, depreciation rates, rate of return, capital costs, operating and maintenance expenses, etc. Please provide support for all MERC's assumptions, especially for depreciation lives used.

b) Please provide all of the revenue requirement assumptions for Table 4b with the $998,541 total revenue requirement, including but not limited to taxes, depreciation rates, rate of return, capital costs, operating and maintenance expenses, etc. Please provide support for all MERC's assumptions, especially depreciation lives used.

c) For Tables 4a and 4b, please provide all assumptions, supporting calculations and formulas in a spreadsheet format. Please address if all customers will be charged, or support for any customers that will not be charged.

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter – Director Gas Regulatory Planning & Policy
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC) Date of Request: 8/7/20
Response Due: 8/17/20
Type of Inquiry: General

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Assigned Analyst(s): Nancy Campbell/Michael Zajicek
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Response:

The requested supporting assumptions and workpapers are attached. Support for Table 4a can be found in "DOC-51(a) - Workpaper Farm Tap GUIC Rate Design.xlsx". Support for Table 4b can be found in "DOC-51(b) - Workpaper Farm Tap GUIC Rate Design.xlsx".

The depreciation rate for these long-lived assets was assumed to be 40 years. Any difference between the assumed 40-year life in this model (a rate of 2.5%/year) and the actual depreciation rate and lives of the installed assets would be addressed through the GUIC forecast filing and true-up process based on approved depreciation rates and lives.

The only customers not charged the proposed surcharge would be the Direct Connect customers. These customers are not assessed the current 2020 GUIC Surcharge either (Docket M-19-282).

To be completed by responder

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Response by: Mary Wolter – Director Gas Regulatory Planning & Policy
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Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
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Date of Request: 8/7/20
Response Due: 8/17/20
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Request Number:	**52**
Topic:	Excess Footage Charge
Reference(s):	Page 21 of MERC's Petition

Request:
MERC on page 21 of its Petition stated:

Table 6 below summarizes the estimated out-of-pocket charges due from the farm tap customers for the full replacement project, assuming greater footage allowances of 600 feet and 1,000 feet. These cost estimates assume that the currently authorized excess footage charge38 would be applied to footage in excess of these two amounts. Based on MERC's Planning and Design Phase, approximately 25 percent of farm tap customers would be obligated to pay for excess footage under a 600-foot allowance and approximately 9 percent of farm tap customers would be required to pay for excess footage under a 1,000-foot allowance. **Based on the results of the Planning and Design Phase, the average excess footage charge for each farm tap customer who would be obligated to pay under a 600 and 1,000 excess footage allowance would be approximately $1,802 and $2,638 respectively.**

a) Please explain whether the 600 excess footage allowance is $1,802 or $2,638?

b) If the 600 excess footage allowance is $2,638, please explain why it is more than the 1,000 excess footage allowance?

Response:
The 600 excess footage allowance is $1,802 and the 1,000 excess footage allowance is $2,638.

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

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Request Number:	**53**
Topic:	Tables 5, 6, 7, 8, 9 and Milestone
Reference(s):	Page 20-23 of MERC's Petition

Request:

a) For Tables 5, 6. 7, 8 and 9, please provide all assumptions, supporting calculations and formulas in a spreadsheet format.

b) Please update MERC's Milestone table with updated dates assuming Other Parties' Comments will be filed August 31, 2020.

Response:

a) Tables 5, 6 and 8 reference the "full farm tap replacement" project. All of the supporting calculations for the "full farm tap replacement" can be found in "DOC-53 - Attachment - Estimate Breakdown PUBLIC.xlsx". For the full replacement project, these are broken down by county on the "Est" tab, extrapolated from the data collected from the survey on the "Sample – 275" tab.

   Calculations supporting Tables 5, 7 and 9 that reference the "one mile extension" can be found in "DOC-53 Attachment – Farm Tap Proximity 1mi PUBLIC.xlsx".

To be completed by responder

Response Date:	August 17, 2020
Response by:	Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address:	mary.wolter@wecenergygroup.com
Phone Number:	(414) 221-2374

Minnesota Department of Commerce
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Information Request

Docket Number: G011/M-17-409 ☐Nonpublic ☒Public
Requested From: Minnesota Energy Resources Corporation (MERC) Date of Request: 8/7/20
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The nonpublic versions of DOC-53 - Attachment - Estimate Breakdown and DOC-53 Attachment – Farm Tap Proximity 1mi contain private customer data and trade secret data including project cost information, project designs, customer names, addresses, and energy usage data. This information in maintained by MERC as private customer data and trade secret data and is generally not known to, or readily ascertainable by, vendors and competitors of MERC who could obtain economic value from its disclosure. This information qualifies as "trade secret data" pursuant to Minnesota Statutes Section 13.37, subdivision 1(b).

b) An updated proposed Milestone Chart is provided below. This timing would coincide with the Commission's request for investments that could commence in Spring of 2021 in Docket E, G999/CI-20-492.

MILESTONE	DATE(S)
Filing of Results of Planning and Design Phase, Proposal for Implementation of Phase II	December 2019
Other Parties' Comments on Initial Planning/Design Analysis and Replacement Proposal, Proposed Procedure for Phase 2, and Request for Assignment of ALJ to Conduct Public Hearings	August 2020
Reply Comments on Initial Planning Design Analysis and Proposal	September 2020
Commission Meeting on Request for Assignment of ALJ to Conduct Public Hearings	October 2020
Commission Order Requesting Office of Administrative Hearings to Assign an ALJ to Conduct Public Hearings	October 2020

To be completed by responder

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MILESTONE	DATE(S)
Public Hearings to be Held in Eveleth, Cloquet, North Branch, St. Cloud, Litchfield, Lakeville, Granite Falls, Rochester, Mankato, and Jackson.[1]	Nov-Dec 2020
ALJ Summary of Public Hearings and Public Comments	January 2021
Commission Hearing	April 2021

[1] MERC proposes to determine the specific dates and times based on party and venue availability upon referral to the Office of Administrative Hearings to conduct public hearings.

To be completed by responder

Response Date: August 17, 2020
Response by: Mary Wolter, Director Gas Regulatory Planning & Policy
Email Address: mary.wolter@wecenergygroup.com
Phone Number: (414) 221-2374

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
Comments

Docket No. G011/M-17-409

Dated this **14th** day of **September 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_17-409_M-17-409
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-409_M-17-409
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_17-409_M-17-409
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_17-409_M-17-409
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