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February 14, 2020

VIA ELECTRONIC FILING

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: **Additional Reply Comments of Minnesota Energy Resources Corporation**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Utility Infrastructure Cost (GUIC) Rider Revenue Requirement and Revised Surcharge Factor
Docket No. G011/M-19-282

Dear Mr. Seuffert:

Minnesota Energy Resources Corporation ("MERC" or the "Company") submits these additional Reply Comments in response to the January 24, 2020, Response Comments filed by the Minnesota Department of Commerce, Division of Energy Resources (the "Department") on MERC's Petition for Approval of 2020 Gas Utility Infrastructure Cost ("GUIC") Rider Revenue Requirement and Revised Surcharge Factors. MERC thanks the Department for its additional review and comments. As the Department summarized in its Table 1-RC, many issues have been resolved between the Department and the Company. And while many of the unresolved issues and recommended modifications raised in the Department's Response Comments were already addressed in detail in MERC's September 17, 2019, Reply Comments ("September Reply Comments"), MERC responds to the Department's additional recommendations and requests for information.

1. Incremental Costs and Forecasted Adjustment for Replaced Facilities

First, the Department recommends that MERC be required to include a line item adjustment to its revenue requirement estimate to account for the cost recovery built into its base rates for facilities removed and expected to be removed from service as a result of GUIC project work.[1] Alternatively, the Department recommends that no cost recovery amounts for unidentified test year project work be included in developing the proposed GUIC rider rate, arguing that MERC has not satisfied the requirements of the GUIC statute with respect to such projects.[2]

[1] Department Response Comments at 6.
[2] Department Response Comments at 6 ("Instead, MERC's GUIC rates for 2020 projects should be set only when the Company provides the required information to comply with the GUIC statute…").

The Department's position that MERC has not provided sufficient detail regarding the proposed 2020 GUIC rider projects is contrary to the Commission's decision in Docket No. G011/M-18-281, where the Commission considered and rejected such arguments. In its February 5, 2019, Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing, the Commission found the Department's and the Minnesota Office of the Attorney General – Residential Utilities Division's (the "OAG") concerns regarding the level of project-specific detail provided by the Company "misplaced," concluding:

> The GUIC statute anticipates the use of estimated costs. As MERC has explained, it generally is not informed of future right-of-way relocation work with enough lead time to include specific projects in its forecasts. Therefore, MERC's petition relies on historic spending to support its requested amount. This amount will be trued up annually to actual costs, eliminating any possibility that forecasting will result in overrecovery.[3]

In its April 25, 2019, Order Approving Compliance filing in Docket No. G011/M-18-281, the Commission again reiterated its prior conclusion that MERC had provided information sufficient to comply with the requirements of the GUIC rider statute, again rejecting the same Department arguments raised in comments on MERC's compliance filing:

> In its February 5 order approving MERC's GUIC rider, the Commission found that the information MERC submitted in its petition complied with the GUIC statute. The order explained that MERC's use of estimates for certain project costs is contemplated in the statute, and that the annual true-up will eliminate "any possibility that forecasting will result in overrecovery."
> …
>
> As for the information required by Minn. Stat. § 216B.1635, subds. 3–4, the February 5 order explains that MERC "generally is not informed of future right-of-way relocation work with enough lead time to include specific projects in its forecasts." MERC therefore submitted estimates of its right-of-way relocation costs based on historic spending. When MERC submits its annual GUIC true-up filing, it will submit the project-specific information required by Minn. Stat. § 216B.1635, subds. 3–4, at which point the Commission will review the projects and costs for reasonableness and prudence.[4]

The Department has not only failed to acknowledge the Commission's prior determination regarding the level of information required to satisfy the GUIC statute but has provided no new argument or justification to support a shift from the Commission's previous determinations.

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[3] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6-7 (Feb. 5, 2019).
[4] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING COMPLIANCE FILING at 2 (Apr. 25, 2019).

MERC has provided significant detail and analysis in support of its forecasted 2020 GUIC rider projects and proposed revenue requirement, consistent with the Commission's decision in Docket No. G011/M-18-281 and Minn. Stat. § 216B.1635. The Company has recognized its obligation to demonstrate reasonableness and prudence of actual costs at the time of true-up and has developed its 2020 forecast based on a comprehensive analysis of historic spending on distribution integrity management plan ("DIMP") and right-of-way ("ROW") projects, the scope of obsolete materials replacement work remaining to be completed, and an evaluation of the rate impacts of completing necessary ROW and integrity management work.

MERC has only requested recovery of GUIC-eligible project costs which are incremental in that they relate to work that is different from DIMP work and ROW relocation work that was completed in the past and recovered in past or current rates. The capital costs MERC has proposed for recovery in the 2020 GUIC rider are related to projects that will be undertaken and placed into service in 2020. Thus, as the Commission found in its February 5, 2019, Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing in Docket No. G011/M-18-281, "[b]oth the capital costs and the O&M costs derive from new projects that are not currently reflected in the Company's base rates or the rates that will flow from the pending rate case; *the costs are therefore incremental as required by the GUIC statute*."[5] The Department's suggestion that 2020 project costs are not incremental simply because a representative amount of capital costs were included in MERC's 2018 test year is incorrect.[6] MERC's current rates as approved in Docket No. G011/GR-17-563 reflect forecasted capital additions based on a 13-month average of 2018 test-year additions and, as a result, it is evident that no recovery for any projects in 2019 or 2020 are included in the Company's base rates.

Further, as explained in the Company's April 24, 2019, Petition and September Reply Comments, and consistent with the treatment that was approved by the Commission in MERC's 2019 GUIC rider proceeding in Docket No. G011/M-18-281, because the specific facilities to be replaced are not known with certainty, the Company has proposed to separately track the replaced and removed plant and to include an adjustment related to the associated depreciation expense in the true-up to fully account for that expense.[7] As addressed in MERC's 2019 GUIC rider and September Reply Comments in this docket, the adjustment related to replaced or removed assets would be limited to the depreciation expense associated with the replaced assets. The assets to be replaced are all pipes and valves and are accounted for using group depreciation accounting. Under group accounting (used for utility poles and gas pipes, etc.

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[5] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 5, 2019).

[6] Department Response Comments at 7 ("MERC also argued that any rate-reducing adjustment arising from replaced assets would be limited to only depreciation expense because MERC uses group accounting and any impact to rate base would be net to zero change. However, per Minn. Stat. § 216B.1635, the GUIC Rider allows only incremental costs associated with GUIC projects to be charged to ratepayers, therefore to comply with the GUIC statute MERC needs to identify the incremental effects regarding the rate to be charged in the GUIC.").

[7] MERC Petition at 26 (Apr. 24, 2019); *see also In the Matter of the Petition of Minn. Energy Res. Corp.'s Request for Approval of Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, MERC REPLY COMMENTS at 15-16 (Aug. 17, 2018).

because they are too numerous to track individually), distribution retirements are recorded by debiting Account 108, Accumulated Depreciation Reserve, and crediting Account 101, Utility Plant, resulting in $0 impact to rate base. This is consistent with the FERC Code of Federal Regulations, Title 18, Chapter I, Subchapter F, Part 201, Gas Plant Instructions 10B(2), which provides:

> When a retirement unit is retired from gas plant, *with or without replacement,* the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, *the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property.* The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

The Department's recommendation to include an additional adjustment to rate base is inconsistent with utility accounting and ratemaking treatment as well as with previous Department recommendations and the Commission's decision on MERC's 2019 GUIC rider in Docket No. G011/M-18-281.[8] For example, in MERC's last rate case in Docket No. G011/GR-17-563, the Department agreed that units of property that are retired are properly subtracted from both the plant balance and the accumulated depreciation reserve balance, such that there is no net rate base reduction.[9] And while both the Department and MERC also have agreed that there is an associated impact to depreciation expense, MERC's proposal to account for that

[8] The Department also suggests that the Commission's decision on Xcel Energy's GUIC rider in Docket No. G002/M-17-787 supports requiring MERC to forecast an adjustment to rate base and depreciation expense for facilities to be replaced as a result of GUIC work. However, the facts and circumstances of MERC's 2020 GUIC rider and projects differ from those of Xcel Energy in Docket No. G002/M-17-787. Specifically, as discussed in that docket, Xcel Energy similarly noted that no adjustment to plant balance was needed because when pipeline plant is retired, it is removed from the Company's books at a net zero balance. Nevertheless, Xcel Energy did not object to the Department's recommendation in part based on the "significant period of time since [Xcel's] last rate case." Conversely, MERC's last rate case was completed less than seven months ago. Further, MERC's inclusion of ROW projects in addition to DIMP projects makes forecasting the appropriate depreciation expense adjustment for retired assets significantly more difficult because the Company has no control over where and when ROW projects will be necessary. Finally, MERC notes that the Commission previously concluded MERC's forecasted costs are incremental, in accordance with the GUIC rider statute, based on the same methodology proposed for this 2020 GUIC rider revenue requirement calculation. *See In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 4, 2019) ("Both the capital costs and the O&M costs derive from new projects that are not currently reflected in the Company's base rates or the rates that will flow from the pending rate case; the costs are therefore incremental as required by the GUIC statute.").

[9] *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-17-563, FINDINGS OF FACT, SUMMARY OF PUBLIC TESTIMONY, CONCLUSIONS OF LAW, AND RECOMMENDATION at 29 (Sept. 21, 2018) (citing Campbell Surrebuttal Testimony at 36).

adjustment through the true-up is reasonable and consistent with the Commission's decision on MERC's 2019 GUIC rider.

As MERC stated in its September Reply Comments, forecasting the depreciation expense adjustment would be particularly challenging with respect to the ROW relocation projects, because those projects typically are not known in advance.[10] Federal, state, and local government units request MERC to relocate facilities within the ROW according to their own project schedules. Further, initial project proposals can, and frequently do, change as a result of budget constraints or other numerous factors that are all outside of the utility's control. As a result, the specific projects, quantity replaced, and vintage of replaced assets are not known in advance. And as discussed in more detail below, no amount of communication or outreach with the governmental units responsible for ROW work could change that fact.

Further, as explained in the Company's Reply Comments in Docket No. G011/M-18-281, and response to OAG Information Request Nos. 6[11] and 7,[12] the depreciation expense adjustment related to replaced assets is expected to be relatively small.[13] The main drivers of the magnitude of the annual true-up will be actual spending and actual sales, not depreciation, property taxes, or deferred taxes. The return on and of capital spent on GUIC projects accounted for less than one third of the 2019 GUIC revenue requirement, and depreciation, property tax, and deferred tax impacts reflect a small fraction of that.

Finally, the Department's characterization that MERC would "overcharge ratepayers and provide for such an adjustment only after-the-fact in its true-up process"[14] is not supported, given that MERC's annual ROW projects have increased year-over-year in recent years. Further, the delay in implementation of MERC's 2020 GUIC rider rates into 2020 will most likely result in an under-recovery of the authorized revenue requirement in 2020, assuming the Commission sets 2020 GUIC rider rate factors on a full 12 months of sales, which will be addressed in a future rate case proceeding or true-up filing.

For the reasons outlined above and in MERC's September Reply Comments, the Company continues to advocate that its proposal to address the depreciation expense adjustment in the true-up reconciliation is reasonable, is consistent with the Commission's prior decision on MERC's GUIC rider and the GUIC statute.

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[10] MERC Petition at 4, 11.
[11] Included as Attachment A to MERC's September Reply Comments.
[12] Included as Attachment A to these Additional Reply Comments.
[13] For example, in MERC's 2018 rate case, Docket No. G011/GR-17-563, Department witness Ms. Nancy Campbell calculated a three-year average of retirements of $6.7 million, which resulted in a retirement adjustment of $2.6 million which was agreed to by MERC. The result of this $2.6 million retirement adjustment was a depreciation expense reduction of $55,101.
[14] Department Response Comments at 4.

2. Recovery of ROW Project Costs

a. 2020 Forecast is Reasonable and Supported

The Department also continues to recommend that the Commission deny MERC's forecasted 2020 ROW costs and instead only allow the Company to recover costs associated with currently known and identifiable projects planned to be in service in 2020.[15] The Commission already considered and expressly rejected the same position advocated by the Department in MERC's 2019 GUIC rider in Docket No. G011/M-19-182, concluding that MERC's forecast developed based on historic ROW costs was "supported by sufficient detail to meet the information requirements of the GUIC statute."[16] The Commission explicitly recognized that "MERC is not informed of future right-of-way relocation work with enough lead time to include specific projects in its forecasts. Therefore, MERC's petition relies on historic spending to support its requested amount."[17] The Commission further recognized that the Company provided evidence supporting the fact that its annual ROW costs have been trending higher in recent years.[18]

The Department has provided no new argument or support for the need to reevaluate the Commission's prior decision, instead making the same arguments that were previously considered and rejected. In contrast, the Company provided even greater support for the reasonableness of its forecasted 2020 ROW costs in this docket, including detailed historic data and trend analyses supporting its 2020 ROW cost forecast. Rather than responding to that substantial supporting analysis, however, the Department continues to advocate an interpretation of the GUIC statute's requirements that was already fully considered and rejected by the Commission, adding unnecessary time and expense to this proceeding.[19]

As explained in MERC's Petition and September Reply Comments, to most accurately forecast 2020 ROW project costs for purposes of forecasted GUIC recovery, MERC performed a trend analysis of spending related to these projects. Figure 1 from the Company's Petition illustrates the results of that trend analysis.

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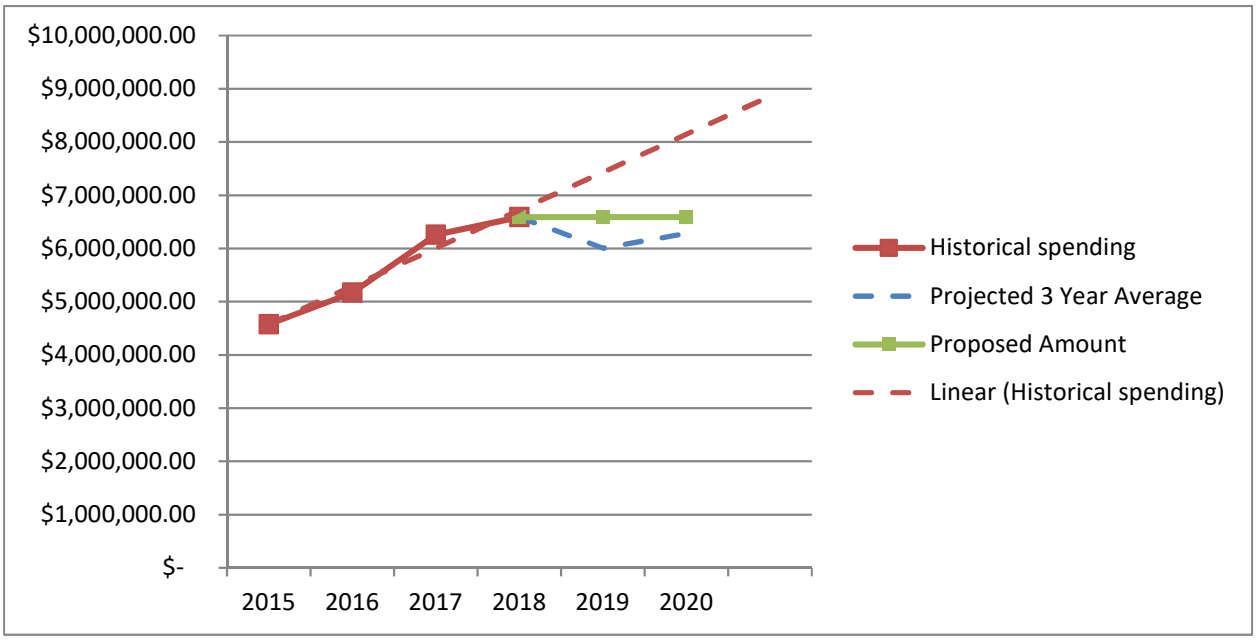
[15] Department Response Comments at 8-9.
[16] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 4, 2019).
[17] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 4, 2019).
[18] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 7 (Feb. 4, 2019).
[19] The Department's assertion that its proposal to only allow recovery of actual projects "complies with the GUIC statute," is false. As recognized by the Commission in Docket No. G011/M-18-281, in rejecting the same arguments, the GUIC statute anticipates the use of estimated costs, providing that a GUIC rider petition "must be for a forecast period of one year." *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 4, 2019) (citing Minn. Stat. § 216B.1635, subd. 2).

Figure 1. ROW Project Cost Trend Analysis



As shown in Figure 1, historic spending year-over-year indicates an increasing trend line. As a result of this increasing trend, the estimate for the ROW work for 2020 is based on MERC's actual spending on ROW projects in 2018. Although MERC utilized a three-year average of historic costs for its 2019 GUIC rider forecast, based on recent experience, 2018 actual costs reflect the most reasonable estimate of 2020 project costs.[20]

MERC has fully supported its proposed 2020 project costs related to ROW projects based on historic relocation work and analysis of project and cost trends over time. The Company's proposal to utilize 2018 actual costs is reasonable and supported in consideration of the detailed information provided regarding historic costs, trends, and experience related to ROW relocation work.

b. Governmental Authorities Do Not Provide Complete Forecasts

As addressed in detail in Docket No. G011/M-18-281 and in MERC's Petition and September Reply Comments in this proceeding, the need to utilize historic ROW project costs as a basis for forecasted spending stems from the fact that MERC is not notified in advance of actual ROW

[20] This approach is consistent with Commission precedent in light of MERC's trend analysis. In particular, "[t]he Commission often employs averaging in ratemaking to smooth costs that vary from year to year. However, where the variation follows a clear trend, averaging can obscure the trend, resulting in inaccurate rates." *In the Matter of a Petition by Minn. Energy Res. Corp. for Auth. to Increase Nat. Gas Rates in Minn.*, Docket No. G011/GR-13-617, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18 (Oct. 28, 2014).

relocation work that must be undertaken each year.[21] While some government authorities utilize longer-range planning, the level of detail needed to determine the specific affected facilities and to design a relocation project still generally is not known until winter or early spring for that construction season, such that MERC is not able to design projects by the end of the calendar year.[22] The majority of municipalities and townships requesting ROW relocations utilize short-term planning due to funding approvals and, as a result, MERC is often not provided notice of the need to relocate facilities until a couple of months to a week before a ROW project begins. These municipal ROW projects are also often modified after their initial presentation or delayed due to funding or other considerations by the local governmental unit. While MERC takes steps to obtain information as early as possible for ROW relocation projects to allow the Company to undertake the necessary planning for work to be performed for the relocations, the nature of the planning and funding for these ROW projects means that MERC will never have a complete picture of upcoming relocation projects prior to the beginning of a construction season.

Nevertheless, the Department, in its Response Comments, now recommends that the Commission direct MERC to take steps to improve its outreach efforts, capital improvement/public works planning meeting monitoring, and communication exchange with the jurisdictions in which its gas facilities are located to strengthen stakeholder/community awareness and relations and increase proactive collaborative opportunities in an effort to obtain more advance notice of potential ROW work it may need to undertake. As explained in detail in MERC's Petition and September Reply Comments, and in response to discovery, MERC undertakes significant outreach efforts to ensure it has the most timely, accurate, and up-to-date information possible regarding planned ROW relocation work. However, as discussed in response to Department Information Request No. 8,

> MERC is not aware of any transportation plans or capital improvement plans that would assist the Company in identifying and planning for future right-of-way relocation projects. Such plans are generally focused on high-level policy goals and priorities and do not provide the types of information that would be necessary to identify specific utility facilities that will be required to be relocated or to design a relocation project.

While MERC requests that governmental units provide as much lead time and detail as possible for ROW relocation projects to allow the Company to undertake the necessary planning for work to be performed for the relocations, the nature of the planning and funding for these ROW projects makes more advanced planning difficult. The timeliness of complete and detailed information on ROW projects is not due to any lack of outreach or communication on the part of

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[21] MERC responded to extensive discovery both in Docket No. G011/M-18-281 and in this docket regarding the process, lead time, and communication with governmental entities regarding ROW relocation work, in support of the fact that the details of specific ROW projects are not known in advance. The Commission recognized this fact in both its February 9, 2019, Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing and its April 25, 2019, Order Approving Compliance Filing in Docket No. G011/M-18-281.

[22] See MERC's response to Department Information Request No. 9, included as Attachment B to MERC's September Reply Comments.

the Company but is the nature of these ROW projects due to the budgeting processes involved in undertaking them.

The Department's recommendation to require MERC to "improve its outreach efforts" with governmental entities is unsupported by the record in this proceeding and the Commission should decline to adopt such a requirement. The Company already has every interest in obtaining accurate, complete, and timely information regarding ROW projects and makes every possible effort to do so.

A more effective means of achieving the goal of "seek[ing] efficiencies and possibly reduce[ing] costs" would be to allow MERC to implement its multi-year DIMP projects to provide benefits to customers beyond increased safety and reliability through a proactive approach to distribution integrity management. The multi-year proactive approach advocated for by the Company benefits customers because work undertaken systematically and strategically reduces costs compared to work undertaken in a reactionary or immediate threat mode, and allows MERC to engage in regional planning to minimize inconvenience to impacted communities. As the Commission has recognized,

> The clear thrust of the GUIC statute is to establish a mechanism by which utilities may recover out-of-test-year infrastructure investments mandated by federal or state agencies. The costs of these investments can vary widely from year to year and are difficult to forecast with accuracy. Approving a rider…[provides] the ability to implement multi-year pipeline-replacement programs, adjusting the rates annually to correct for over- or under-recovery.[23]

Despite the clear policy objective reflected in the plain language of the GUIC statute and recognized by the Commission in its prior decisions, the Department continues to urge an interpretation of the GUIC statute that would foreclose MERC from engaging in such long-term replacement programs, forcing the Company to reargue the same interpretation of the GUIC statute each year.

c. MERC's Accounting for Removal and Restoration Costs Is Appropriate

Finally, with respect to approximately $137,000 of costs incurred in 2018 for projects placed into service in 2017, the Department asserts that MERC's inclusion of replaced-facilities' removal work expenditures is contrary to regulatory accounting principles in that "costs of removal should not be attached to, nor capitalized as part of the replacement project's cost. Instead, such costs should be charged to the accumulated depreciation account."[24]

The Department is correct that under FERC accounting, removal costs are charged to the accumulated depreciation account rather than capitalized as part of the replacement project. MERC does account for removal costs in accordance with FERC accounting requirements (i.e.,

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[23] *In the Matter of the Petition of N. States Power Co. d/b/a Xcel Energy, for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G002/M-14-336, ORDER APPROVING RIDER WITH MODIFICATIONS at 7 (Jan. 27, 2015).
[24] Department Response Comments at 9.

by crediting such removal costs to accumulated depreciation). However, this accounting does not impact the revenue requirement calculation with respect to 2020 ROW projects because the net book value upon which MERC has calculated a return is unchanged regardless of whether removal costs are included with construction costs as part of the capital project or charged to accumulated depreciation.[25]

Additionally, MERC notes that restoration costs for construction projects are properly accounted for as a project cost. MERC also occasionally has carry-over work, such as additional service replacements after main is put into service. As discussed in MERC's September Reply Comments, there are a number of reasons MERC may incur construction costs after a project has been placed into service and is used and useful in providing natural gas service, including restoration that is required as part of an ROW relocation project. With respect to the carryover work identified by the Department totaling approximately $137,000, as referenced in MERC's Exhibit D-1 to the Company's Initial Petition, many of these costs are related to cases where MERC completed the relocation of main during one calendar year and had to complete additional service line relocation work in the subsequent year.

Finally, as discussed above, MERC's ROW relocation costs have continued to increase year-over-year in recent years, from approximately $4.57 million in 2015 to approximately $6.59 million in 2018. MERC's forecasted 2020 ROW costs are not overstated but reasonably reflect the Company's anticipated costs for 2020 ROW projects given recent experience with respect to increasing ROW relocation work.

3. Obsolete Materials Replacement Capital Costs

With respect to MERC's 2020 Obsolete Materials Replacement project, the Department, in its Response Comments, continues to recommend that the amount used to set the 2020 rider rate be reduced by $2 million to a new total of $5 million, arguing that this reduction is appropriate "based on MERC's actual cost data for similar infrastructure replacement work."[26] As discussed

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[25] The following example illustrates that there is no impact to the revenue requirement amount as a result of accounting for removal costs with construction project costs or crediting such costs to accumulated depreciation. Including removal costs as part of the overall construction costs, MERC would earn a return on the total cost until it is rolled into base rates in a general rates case:

Construction Cost	$80
Removal	$10
Total Cost	$90

Without a GUIC rider, MERC would earn a return on the net book value if a rate case were filed:

Asset	$80
Acc Depr	$10
Net Book Value	$90

[26] Department Response Comments at 10. In particular, the Department recommends the 2020 GUIC rider be based on MERC's forecasted footage of main to be replaced but utilize a cost of $37.48 per foot rather than the $50 per foot provided by the Company. Similarly, the Department recommends using a

in the Company's September Reply Comments, the Department relies on information regarding MERC's costs for *ROW relocation projects* to support its conclusion that the Company's forecasted Aldyl-A replacement costs are too high, recommending that a four-year average for ROW main and service replacement costs instead be used to set 2020 Aldyl-A replacement recovery. MERC included detailed discussion in its Initial Petition and September Reply Comments explaining why an average cost per foot for ROW projects does not reflect the circumstances or anticipated costs for Aldyl-A replacement projects. Further, the Company provided significant data in support of its proposed costs, including average cost for recent DIMP projects, which provide the basis for the Company's forecast.

In particular, MERC identified the following factors supporting the cost differential between ROW projects and MERC's obsolete materials replacement projects:[27]

- Older vintage Aldyl-A has sometimes been found to be non-locatable. In such circumstances, additional costs will be experienced in order to vacuum excavate to locate mains.

- Obsolete materials replacements require MERC to complete all associated restoration activities following construction. In contrast, ROW relocation projects often have more limited restoration costs because restoration is undertaken by the governmental unit completing the road project.

- The older vintage Aldyl-A to be replaced generally is in more established neighborhoods with larger and more established trees, requiring additional boring to install replacement pipe.

- Surveys are often required for obsolete materials replacement projects to identify any existing ROWs and determine the need for any additional easements. If easements are needed, there are also costs to acquire such easements. In contrast, ROW relocation projects are located within a public ROW with the relevant governmental authority determining the relocation.

- Obsolete materials replacement projects generally will require city or county permitting while ROW replacement projects generally do not because they are driven by the governmental entity.

- For ROW road projects, the ROW and roadway are generally stripped, so that MERC's installation method is more often trenching rather than (more expensive) directional boring.

- Some communities require dual main to be installed for new and replacement installations to minimize service crossings, resulting in more installed footage for the replacement of pipe. While some communities have required dual main for ROW

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cost of $1,800 per service for service line replacements rather than the $2,654 average based on the Company's proposed 2020 costs.

[27] MERC Reply Comments at 11-12.

replacement projects, these requirements are more common for utility-initiated replacement projects.

- Larger replacement projects require MERC to prepare storm water pollution prevention plans whereas the road contractor is often responsible for such plans for ROW road relocation projects.

In its Response Comments, the Department disregards MERC's analysis, data, and detailed support, stating simply that the "Department concludes that MERC has not sufficiently proven that the unit costs it relied upon are prudent or reasonable for the upcoming planned work. . . Although MERC offered numerous factors as to why the Department's use of MERC's actual cost experience under its ROW Project work is faulty, those reasons have not persuaded the Department to modify its position."[28] The Department offers no explanation as to why it is unpersuaded or what additional data or analysis the Company could provide to persuade it. MERC has amply supported the basis for its proposed forecast. Further, the Company has acknowledged, consistent with the Commission's decision in Docket No. G011/M-18-281, that it has the obligation to demonstrate the reasonableness and prudence of all costs actually spent at the time of the true-up.[29]

Further, the Department's comparison to another natural gas utility's average unit costs with respect to poor performing main and services[30] does not support the Department's recommendation to reduce MERC's 2020 GUIC rider costs by $2 million. MERC has fully supported the reasonableness of its 2020 GUIC rider cost estimates based on the Company's actual experience with Aldyl-A and other obsolete material replacement projects and the proposed scope of work for 2020. A comparison to Xcel Energy's per-unit costs for an entirely different scope of work does not undermine the reasonableness of MERC's forecasted costs.[31] The actual cost per service line replaced will depend on the length of the service line, the scope of each project, any abnormal construction conditions that are encountered, and other project-specific factors.

MERC's proposal to spend approximately $7 million on the replacement of obsolete materials in 2020 is reasonable and appropriate to continue this important effort to replace known risks on the Company's distribution system in accordance with MERC's DIMP. This level of capital spending for obsolete materials replacements in 2020 is also consistent with the level of spending approved by the Commission for MERC's 2019 GUIC rider in Docket No. G011/M-18-

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[28] Department Response Comments at 11.
[29] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 5, 2019).
[30] Department Response Comments at 11-12.
[31] For example, Xcel Energy's poor performing main and services projects include "mains made from PEA" and "segments of vintage coated steel pipe to be removed due to the mechanical couplings that were used to join the pipe." *In the Matter of Xcel Energy's Gas Util. Infrastructure Cost Rider, True-up Report for 2019, Revenue Requirements for 2020, and Revised Adjustment Factors*, Docket No G002/M-19-664, INITIAL PETITION at Attachment D, Page 5 of 22 (Oct. 25, 2019).

281.[32] MERC's forecasted 2020 costs reflect a reasonable projection of costs to be incurred in 2020 for the replacement of Aldyl-A based on the Company's historic costs, experience with obsolete materials replacements, and unique factors affecting Aldyl-A replacements. Furthermore, the GUIC rider is subject to annual true-up, with the cost of each replacement having the potential to vary based on specific project circumstances (i.e., abnormal conditions such as rock, non-locatable pipe, and the length of affected services).

4. 2020 Meter Set Survey Project

With respect to the meter set survey, the Department recommends a $0.75 million reduction to MERC's proposed 2020 forecast of $2 million.[33] The Department bases its recommended reduction on its conclusion that MERC's 2019 estimate was materially overstated.[34]

As discussed in the Company's Petition and September Reply Comments, MERC's 2020 cost estimates are based on completion of approximately 104,000 meter sets remaining to be surveyed as well as the additional travel time that will be required to survey the Company's more dispersed service areas. As explained in the Company's Petition, in 2019, MERC is undertaking surveys of its meter sets in Rochester and Rosemount, the most densely populated areas that MERC serves.[35] But MERC serves 179 communities across the State of Minnesota with a service area that stretches from the northernmost border of the state to the Iowa border, across the entirety of the state. While the costs for 2019 surveys were lower than the $20 per meter forecasted for the 2020 scope of work, this is to be expected given the areas where the initial surveys are being performed. For the scope of work remaining in 2020, selected contractors will need to spend significantly more time traveling and may require a per diem due to the geographic location of the surveys to be performed. As a result, MERC continues to support its forecasted cost of $20 per meter.

In its Response Comments, the Department dismisses MERC's justification for its higher forecasted per-meter costs for 2020, stating that "the location of the to-be-secured contractors relative to where the work is to be conducted is not known, so there is no certainty of any per diems above and beyond that yet-to-be-quoted per unit charge."[36] While MERC acknowledges that it has not yet secured contractor(s) for the 2020 scope of work, due in part to not having a determination on this 2020 GUIC rider Petition, delays in finalizing contracts are likely to increase costs as contractors commit to other jobs. Further, while the Department is correct in noting that the location of to-be-determined contractors is unknown at this time, it certainly would not be cost-effective or practical for the Company to hire separate contractors across the entire state of Minnesota.

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[32] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 10 (Feb. 5, 2019).
[33] Department Response Comments at 13.
[34] Department Response Comments at 14.
[35] MERC Petition at 23 ("This cost estimate is based on the bids MERC received for the work to be performed in 2019 and consider[ing] the travel time that will be required to survey the more disperse portions of MERC's service area that will remain after 2019.").
[36] Department Response Comments at 14.

In light of the remaining work to be completed on the meter set surveys and the unique nature of MERC's service area, the Company continues to request approval of its forecasted costs for 2020.

5. Excess Flow Valve ("EFV") Assessment and Customer Outreach Costs

With respect to the inclusion of costs related to EFV assessments and customer outreach, the Department concluded in its Response Comments that MERC's proposals to recover the forecasted cost for a third-party contractor to conduct face-to-face meetings and to address any costs associated with EFV installations in the Company's true-up filing are both reasonable.[37] However, with respect to forecasted 2020 costs to conduct engineering analysis to confirm eligibility, the Department recommends removal of the $63,450 cost estimate ($12,690 for 2020) from the GUIC rider considering the extent of data necessary for engineering review and the Company's statements about how third party resources would be used.[38] In particular, the Department notes that "MERC did not discuss who would carry out the engineering analysis to confirm customer-eligibility for EFVs. If MERC's existing internal staff conducts the engineering analysis, then the $63,450 cost (line item 2) should not be included in the GUIC rider because it is not an incremental cost."[39]

MERC responds that, as stated in the Company's filings in Docket No. G999/CI-18-41, the Company does not have internal resources available to undertake the assessment and customer outreach work stemming from the Commission's decision in Docket No. G999/CI-18-41. MERC clarifies that the Company intends to use a third-party contractor to complete engineering analysis in the event there is significant interest in having EFVs installed. While MERC acknowledges the uncertainty around the level of interest customers will have as a result of the EFV outreach efforts, MERC believes its cost estimates for this scope of work are reasonable and appropriate for inclusion in the GUIC. The Commission's July 31, 2019, Order Accepting Compliance Filings, Requiring MERC to Submit Additional Information, Requiring Annual Compliance Reporting, and Taking Other Action in Docket No. G999/CI-18-41, expressly authorized recovery of EFV compliance costs through GUIC rider filings, concluding:

> [T]he cost to communicate with affected customers fit squarely within the definition of "gas utility infrastructure costs" under the GUIC statute, as the costs are related to the modification of existing gas facilities, including surveys, assessments, and other work necessary to determine the need for replacement or modification of existing infrastructure required by a federal or state agency. The Commission, as a state agency, has required the gas utilities to undertake the outreach, assessments, and installation of EFVs and natural gas service line shutoff valves, which give rise to such costs.

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[37] Department Response Comments at 15-16.
[38] Department Response Comments at 16.
[39] Department Response Comments at 16.

> Accordingly, the Commission will allow recovery of prudently incurred EFV costs through GUIC rider filings.[40]

In the event engineering analysis is performed by internal resources, actual costs will be accounted for through the GUIC rider true-up.

As discussed in the Department's Response Comments, MERC has not proposed to include any forecasted costs for customer-requested EFV installations in its 2020 GUIC rider. MERC's proposal to address such installation costs in a future true-up but to include forecasted costs associated with engineering analysis is reasonable and appropriately balances the uncertainty of potential expense and customer interest in EFV installation. Given MERC's intention to utilize third-party contractors to assist with engineering analysis in the event of significant customer interest, the proposed $12,690 expense for 2020 is incremental and should reasonably be included in the Company's 2020 GUIC rider revenue requirement.

6. Sales Forecast Used to Calculate Rider Surcharge Recovery

With respect to the sales forecast to be used to calculate the 2020 rider surcharge rates, the Department, in its Response Comments, recommends that the Commission approve MERC's proposed sales forecast update to remove Michigan sales and Direct Connect customer sales. Additionally, the Department requests that MERC explain the reasons for the difference between its 2020 sales forecast provided in this docket and in its 2020 Natural Gas Extension Project ("NGEP") rider petition in Docket No. G011/M-19-608 and provide an updated 2020 sales forecast by customer class, in a similar manner as provided in Exhibit B to MERC's NGEP petition filed in Docket No. G011/M-19-608.

There are two differences between MERC's sales forecast provided in support of the Company's proposed surcharge rates submitted with its September Reply Comments in this docket (501,454,641 therms after excluding direct connect customer sales) and the sales forecast submitted in MERC's Initial Petition in Docket No. G011/M-19-608 (771,153,868 therms) to calculate the proposed 2020 NGEP rider surcharge rates.

First, as discussed in the Company's September Reply Comments and agreed to in the Department's Response Comments, MERC has proposed to exclude Direct Connect customers and Michigan sales from the 2020 GUIC Rider. In contrast, MERC excluded Michigan sales in Docket No. G011/M-19-608 but proposed a per-therm rate applicable to Direct Connect customers.

Second, with respect to the total Minnesota jurisdictional sales forecast applied, in Docket No. G011/M-19-608, MERC used its 2020 sales forecast from the Company's pre-filed sales forecast data in Docket No. G011/GR-17-563, resulting in 2020 Minnesota jurisdictional sales of 771,153,686. This approach is consistent with the Department's recommendations and the Commission's Order Approving NGEP Rider Surcharge with Modifications in Docket No.

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[40] *In the Matter of a Comm'n Investigation into Nat. Gas Utils.' Practices, Tariffs, and Assignment of Cost Responsibility for Installation of Excess Flow Valves and Other Similar Gas Safety Equipment*, Docket No. G999/CI-18-41, ORDER ACCEPTING COMPLIANCE FILINGS, REQUIRING MERC TO SUBMIT ADDITIONAL INFORMATION, REQUIRING ANNUAL COMPLIANCE REPORTING, AND TAKING OTHER ACTION at 6 (July 31, 2019).

G011/M-18-182.[41] In that proceeding, MERC initially proposed to calculate the surcharge based on the Company's test-year 2018 sales forecast, adjusted for projected growth in the Rochester area. Ultimately, the Company agreed with the Department's recommendation to incorporate projected growth outside of the Rochester area and thus to utilize the sales forecast from the Company's pre-filed sales forecast data in Docket No. G011/GR-17-563.

In comparison, the 2020 GUIC sales forecast is based on the approved 2018 test year Minnesota jurisdictional sales forecast of 753,081,025 therms from the Company's last rate case, adjusted based on the forecasted Rochester area growth rate, consistent with the methodology used in the 2019 GUIC Rider. This approach is consistent with the sales forecast applied in Docket No. G011/M-18-281.

Table 1 provides the initially filed Minnesota jurisdictional 2020 GUIC sales forecast by customer class compared to the sales forecast by customer class used in Docket No. G011/19-608.

Table 1. Comparison of 2020 Sales Forecasts by Customer Class

Customer Class	Forecasted Sales from September Reply Comments	2020 Forecasted Sales from NGEP Docket No. G011/M-19-608
Residential	184,540,781	186,792,651
Firm Class 1	9,120,241	9,369,628
Firm Class 2	88,794,464	88,800,475
Firm Class 3	3,979,429	3,979,699
Interruptible Sales Class 1 and Power Generation Class 1	402,296	400,875
Interruptible Sales Class 2	15,911,333	15,855,124
Interruptible Sales Class 3	17,289,326	17,228,250
Interruptible Sales Class 4	3,520,892	3,508,454
Interruptible Transport Class 2	2,370,725	2,462,087
Interruptible Transport Class 3	57,002,766	58,662,264
Interruptible Transport Class 4	21,289,552	21,909,346
Interruptible Transport Class 5	37,606,775	38,679,262
Power Generation	40,391,392	41,567,290
Flex and Transport for Resale	19,234,671	19,794,642
Direct Connect	254,728,025	262,143,820
Total	**756,182,666**	**771,153,868**

[41] *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval of a Nat. Gas Extension Project (NGEP) Cost Rider Surcharge for the Recovery of 2019 Rochester Project Costs*, Docket No. G011/M-18-182, ORDER APPROVING NGEP RIDER SURCHARGE WITH MODIFICATIONS (June 18, 2019).

MERC would not object to calculating 2020 GUIC rider surcharge rates based on the same 2020 sales forecast applied in Docket No. G011/M-19-608 utilizing the rate design approach discussed in MERC's September Reply Comments and below. MERC provides the results of that update in Attachment B and Table 2 below.

Table 2. Revised 2020 GUIC Rider Surcharge Rates Based on Docket No. G011/M-19-608 Sales Forecast by Customer Class

Customer Class	Proposed GUIC Rider Surcharge	Average Annual Cost	Total $	% of 2020 GUIC revenue requirement
Residential[42]	$ 0.01658	$ 15	$ 3,097,941	62.5%
Class 1 & 2 Firm (Sales and Transport)	$ 0.00997	$ 44	$ 978,294	19.7%
Class 1 & 2 Interruptible (Sales and Transport), Class 1 & 2 Grain Dryer, Class 1 Electric Generation	$ 0.00997	$ 424	$ 186,531	3.8%
Class 3 & 4 Firm (Sales and Transport)	$ 0.00522	$ 866	$ 20,788	0.4%
Class 3 & 4 Interruptible (Sales and Transport); Class 3 Grain Dryer	$ 0.00522	$ 5,630	$ 529,184	10.7%
Class 5, FLEX, Class 2 Electric Generation, Transport-for-Resale	$ 0.00144	$ 1,321	$ 143,967	2.9%
Direct Connect[43]	N/A	N/A	$0	0%
Total			$4,956,706	100%

7. Rate Design

With respect to MERC's proposed rate design, the Department recommends that the Commission order the Company to establish surcharge rates based exclusively on the revenue apportionment percentages approved in Docket No. G011/GR-17-563 rather than approve the proposed surcharge rate structure as proposed by the Company in its September Reply Comments. The Department also requests that MERC clarify its proposed revenue apportionment percentages that were used to calculate the rate factors shown in Table 6 of the Company's September Reply Comments. MERC responds to the Department's recommended rate design and request for additional information below.

[42] The residential and firm class rates include both farm tap and non-farm tap customers.
[43] Note that all other customer class surcharge rates exclude any Direct Connect customers within those rate classes.

MERC confirms that it used the revenue apportionment percentages approved in Docket No. G011/GR-17-563 as the starting basis for determining its proposed surcharge allocation. However, MERC utilized different groupings of customer classes for its recommended revenue apportionment, as shown in the table below:

Table 3. Application of Revenue Apportionment to Proposed GUIC Rider

Rate Case Customer Groupings	Revenue Apportionment Factors Approved in GR-17-563	Proposed GUIC Customer Groupings	Revenue Apportionment Factors Used in GUIC Rate Design
Residential	62.5%	Residential	62.5%
Firm Sales	23.5%	Small Firm & Interruptible Sales & Transport	23.5%
Interruptible Sales	3.5%		
Transport	10.5%		
		Medium Firm & Interruptible Sales & Transport	11.1%
		Large Firm & Interruptible Sales & Transport	2.9%

Using the revised sales forecast as provided in Table 1 above, the revenue apportionments tie out to the proposed categories as follows:

Table 4. Revised 2020 GUIC Rider Surcharge Rates and Apportionment based on Docket No. G011/M-19-608 Sales Forecast by Customer Class

Customer Class	Sales Forecast (Therms)	GUIC Rider Surcharge	Revenue by Group	Revenue Apportionment
Residential	186,792,651	$0.01658	$3,097,941	62.5%
Class 1-2 Small Firm and Interruptible Sales and Transport	116,888,199	$0.00997	$1,164,826	23.5%
Class 3-4 Medium Firm and Interruptible Sales and Transport	105,288,003	$0.00522	$549,972	14.0%
Class 5 Large Firm and Interruptible Sales and Transport	100,041,194	$0.00144	$143,967	
Direct Connect	262,143,820	-	-	-
Total	**771,153,868**		**$4,956,706**	**100.0%**

Ultimately, as discussed below, MERC continues to advocate that its proposed rate design approach for determining the 2020 GUIC rider surcharge rates is the most reasonable and consistent with the public interest. It is simplified into four general categories by customer usage classification. Further, MERC's proposed approach provides that sales and transportation customers pay the same GUIC rate based on their size, not their service type, because the type of service the customer is taking is not affected by the type of projects that are being recovered through the GUIC rider.

In contrast, the Department's recommended surcharges based on equivalent charges applicable to all firm, all interruptible, and all transport customers would result in inappropriate price signals and potential unintended and harmful consequences. As discussed above, MERC would not object to updating the sales used to calculate the surcharge rates to be consistent with the 2020 sales provided in Docket No. G011/M-19-608, applying the same rate design approach as discussed in the Company's September Reply Comments.

a. MERC's GUIC Rider Rate Design is in the Public Interest

With respect to MERC's 2020 surcharge rates, the Department appears to recommend the same per-therm rate be applied to all firm customers, regardless of customer class; to all interruptible customers, regardless of customer class; and to all transport customers, regardless of customer class, as reflected in Tables 5-RC and 6-RC of the Department's Response Comments.[44] Table 5 below provides a summary of the Department's recommended surcharge rates compared to MERC's proposed surcharges, based on the Company's September Reply Comment revenue requirement:

[44] Department Response Comments at 20.

Table 5. Comparison of MERC and Department Recommended Surcharge Rates

Customer Class	MERC Updated Proposed GUIC Rider Surcharge[45]	Department Proposed Surcharge Rates[46]
Residential[47]	$ 0.01658	$0.01672
Class 1 & 2 Firm (System Sales)	$ 0.00997	$0.01139
Class 1 & 2 Firm (Transport)	$0.00997	$0.00293
Class 1 & 2 Interruptible, Class 1 & 2 Grain Dryer, Class 1 Electric Generation (System Sales)	$ 0.00997	$0.00474
Class 1 & 2 Interruptible, Class 1 & 2 Grain Dryer, Class 1 Electric Generation (Transport)	$0.00997	$0.00293
Class 3 & 4 Firm (System Sales)	$ 0.00522	$0.01139
Class 3 & 4 Firm (Transport)	$0.00522	$0.00293
Class 3 & 4 Interruptible; Class 3 Grain Dryer (System Sales)	$ 0.00522	$0.00474
Class 3 & 4 Interruptible; Class 3 Grain Dryer (Transport)	$ 0.00522	$0.00293
Class 5, FLEX, Class 2 Electric Generation, Transport-for-Resale (System Sales)	$ 0.00144	$0.00474
Class 5, FLEX, Class 2 Electric Generation, Transport-for-Resale (Transport)	$ 0.00144	$0.00293
Direct Connect[48]	N/A	N/A

At the outset, MERC notes that application of the revenue apportionment percentages uniformly across all customer classes within each grouping (firm, interruptible, transportation) as proposed by the Department is not consistent with the rate design implemented in the Company's last rate case, Docket No. G011/GR-17-563. While the Commission approved revenue apportionment percentages at a high level (Residential, firm sales, interruptible sales, transport), the actual customer charges and distribution rates were set by customer class (Class 1, Class 2, Class 3, etc.), as shown in Table 6 below. Notably, there is no difference in distribution rates for system sales versus transportation customers within each class (e.g., Class 3).

[45] Based on updated sales consistent with MERC's sales forecast by customer class as filed in Docket No G011/M-19-608 and discussed above.
[46] Based on MERC's 2020 GUIC revenue requirement from the Company's September Reply Comments. Department Response Comments at 20, Table 6-RC.
[47] The residential and firm class rates include both farm tap and non-farm tap customers.
[48] Note that all other customer class surcharge rates exclude any Direct Connect customers within those rate classes.

Table 6. MERC Distribution Rates by Class, Docket No. G011/GR-17-563

Customer Class	Distribution Rate
Residential	$0.24686
C&I Firm Class 1	$0.22251
Agricultural Grain Dryer Class 1	$0.12953
C&I Firm Class 2	$0.16857
C&I Firm Class 3	$0.12453
Power Generating Unit Class 1	$0.09953
C&I Interruptible Class 2	$0.10453
C&I Interruptible Class 3	$0.09453
Agricultural Grain Dryer Class 2	$0.08150
C&I Interruptible Class 4	$0.04823
Agricultural Grain Dryer Class 3	$0.05860
C&I Interruptible Class 5 – CIP Exempt	$0.00448
Transport for Resale	$0.07614

As discussed in detail in the Company's September Reply Comments, in developing the proposed customer class surcharge rates, MERC began with volumetric GUIC rider surcharge rates based on the non-gas revenue apportionment approved in MERC's most recent rate case, consistent with the Department's recommendations.[49] In particular, the Commission approved the following revenue apportionment in its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-17-563:

Table 7. Revenue Apportionment Approved in Docket No. G011/GR-17-563

Customer Class	% of Revenue Requirement (excluding gas costs)
Residential	62.5%
Firm Sales	23.5%
Interruptible Sales	3.5%
Transport	10.5%

However, MERC identified concerns with these results, which supported adjustments from the straight revenue apportionment percentages to ensure the proposed rate design is in the public interest in accordance with Minn. Stat. § 216B.1635, subd. 4.

First, as agreed to by the Department,[50] exclusion of the Direct Connect customer class is necessary and appropriate to prevent bypass by that class of customers and results in those costs being reallocated among remaining customer classes. In particular, MERC proposed to redistribute the costs that would otherwise have been collected from the Direct Connect

[49] Department Comments at 23-24.
[50] Department Response Comments at 18 ("At this time, the Department does not oppose MERC's request to continue the suspension of the GUIC Rider for its Direct Connect customers for its 2020 GUIC Rider.").

customers to all but the Residential class. Based on this approach, MERC proposed a Residential GUIC rider rate of $0.01679 per therm, consistent with the 62.5 percent apportionment approved in Docket No. G011/GR-17-563; and a surcharge rate of $0.00148 per therm applicable to Class 5, Flex, Transport-for-Resale, and Electric Generation Class 2, in consideration of the price-sensitivity of those classes.

Second, as stated in MERC's September Reply Comments, "establishing differential rider rates for firm, interruptible, and transportation service customers *within the same class* (i.e., class 1, 2, 3, 4, and 5) has the potential to create inappropriate price signals and encourage customers to move from firm to interruptible or from system-sales to transportation service based on the rider rates."[51] With respect to this concern, the Department noted in its Response Comments that "[t]he Department is sympathetic to MERC's concerns of customers shifting from one rate class to another; however, for the reasons discussed in our initial comments, the Department maintains its conclusion that the rider rate design should reflect the revenue apportionment approved by the Commission in the utility's most recent rate case."[52]

MERC clarifies that the concern at issue is not the potential for customers to move from one usage class to another. Rather, MERC is concerned that establishing different per-therm surcharges for the same class of firm versus interruptible and system sales versus transportation customers would result in inappropriate price signals and unintended consequences, potentially to the detriment of MERC's other customers.

Under MERC's tariff offerings, commercial and industrial customers may elect to take distribution service on a firm or interruptible basis where interruptible customers have a lower priority than firm customers, agreeing to curtail their service when called upon to do so. Commercial and industrial customers also can elect to have MERC arrange for their interstate gas commodity deliveries (these customers are referred to as system-sales customers) or to have a third party marketer or other entity arrange for their gas commodity deliveries (referred to as transportation customers).

Customers will receive the same benefits resulting from the GUIC project investments on MERC's distribution system regardless of whether they purchase their interstate natural gas deliveries from MERC or a third-party marketer. Establishing differential GUIC rider surcharge rates for a customer with the same usage depending on whether the customer elects to have MERC or a third party arrange for interstate pipeline gas deliveries creates unreasonable price signals and could encourage customers to move to transportation service. A lower GUIC rider rate for transportation customers establishes an unreasonable price signal because GUIC investments are investments in MERC's *distribution system* and are in no way impacted by whether the customer purchases their gas supply from MERC. A pricing structure that unreasonably encourages customers to move from system sales to transportation service has the potential to increase costs for MERC's other system sales customers. This has the potential to most negatively impact MERC's Residential customers.

Similarly, establishing differential per-therm surcharge rates for a customer electing firm versus interruptible service fails to recognize the benefits of the GUIC investments for both firm and

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[51] MERC Reply Comments at 20 (emphasis added).
[52] Department Response Comments at 19.

interruptible customers, creating inappropriate price signals. MERC's base distribution rate structure already appropriately reflects the increased risk borne by interruptible customers in electing to take interruptible service. Those customers receive a reduced distribution rate in exchange for being subject to curtailment when called upon to interrupt their usage. Recently, MERC has taken steps to significantly narrow the differential between firm and interruptible distribution rates to appropriately recognize the reduced risk of interruption following the addition of the Rochester pipeline capacity.[53] In Docket No. G011/GR-17-563, MERC proposed, and the Commission approved a significant reduction to the differential between interruptible and firm rates. As discussed in Docket No. G011/GR-17-563:

> Though [interruptible] customers will still be subject to curtailments called for distribution constraints, the likelihood that they are interrupted for any reason will decrease once the additional capacity is made available to MERC. Thus, their agreement to be interrupted when called upon provides a smaller benefit to the system and may merit a smaller discount. . . . The narrower differential is appropriate because the likelihood of interruption on MERC's system is relatively low, and correspondingly the discount for interruptible service should be relatively small. This shift in rates should encourage more customers to opt for firm service.[54]

The Department's recommendation to now establish GUIC rider surcharge rates that differ significantly depending on whether a customer elects firm or interruptible service undermines the objective of narrowing this differential in MERC's most recent rate case.

Because establishing differential rider rates for firm, interruptible, and transportation service customers within the same class (i.e., class 1, 2, 3, 4, and 5) has the potential to create unreasonable price signals and encourage customers to move from firm to interruptible or from system-sales to transportation service, MERC proposes to allocate the GUIC revenue requirement to the class 1 and 2 firm, interruptible, and transportation customers at one rate per therm and to the class 3 and 4 firm, interruptible, and transportation customers at another rate per therm. This appropriately recognizes that the proposed GUIC-related work does not benefit a system-sales customer more than a transportation customer.

MERC continues to believe its recommended rate design approach to determining 2020 GUIC rider surcharge rates is reasonable, consistent with the public interest, and best addresses various rate design considerations with respect to the GUIC rider. MERC requests that its

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[53] These changes were undertaken in response to the Commission's direction in its order approving the Rochester Project to require MERC to address whether its interruptible sales rate structure should be adjusted to reflect the capacity provided by the Rochester Project. *In the Matter of a Petition by Minn. Energy Res. Corp. for Evaluation and Approval of Rider Recovery for its Rochester Nat. Gas Extension Project*, Docket No. G011/M-15-895, ORDER APPROVING ROCHESTER PROJECT AND GRANTING RIDER RECOVERY WITH CONDITIONS at 19 (May 4, 2017).

[54] *In the Matter of the Application of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn.*, Docket No. G011/GR-17-563, DIRECT TESTIMONY AND SCHEDULES OF AMBER LEE at 19, 35 (Oct. 13, 2017).

proposed rate design be adopted for the 2020 GUIC Rider surcharges rather than a flat per-therm rate or one based solely on the 2018 rate case revenue apportionment.

In summary, based on updated 2020 sales by customer class as filed in Docket No. G011/M-19-608, MERC proposes that the Commission approve the following 2020 GUIC rider surcharge rates by customer class based on 12-months of 2020 sales.

Table 8. MERC Proposed 2020 GUIC Rider Surcharge Rates

Customer Class	MERC Updated Proposed GUIC Rider Surcharge
Residential	$ 0.01658
Class 1 & 2 Firm (Sales and Transport)	$ 0.00997
Class 1 & 2 Interruptible (Sales and Transport), Class 1 & 2 Grain Dryer, Class 1 Electric Generation	$ 0.00997
Class 3 & 4 Firm (Sales and Transport)	$ 0.00522
Class 3 & 4 Interruptible (Sales and Transport); Class 3 Grain Dryer	$ 0.00522
Class 5, FLEX, Class 2 Electric Generation, Transport-for-Resale	$ 0.00144
Direct Connect[55]	N/A

Given that this docket is still currently pending before the Commission, MERC notes that the final 2020 GUIC rider surcharge rates will not be implemented for 12 months in 2020 as proposed. In Docket No. G011/M-18-281, the Commission ordered MERC to calculate its 2019 GUIC rider rate factor based on a full 12 months of sales to help smooth the increase to customer rates, noting that any resulting under-recovery of 2019 GUIC costs can be addressed in a future rider proceeding.[56] If the Commission similarly orders MERC to set its 2020 GUIC rider surcharge rates based on 12 months of sales, MERC will most likely not recover the actual 2020 revenue requirement in 2020 and any under-recovery of 2020 GUIC costs would be addressed in a future rider true-up adjustment.

Additionally, consistent with the approach approved in Docket No. G011/M-18-281, in the event that the Commission does not approve implementation of MERC's 2021 GUIC rider rates (or interim rates in the event MERC files a 2021 test year rate case), on January 1, 2021, MERC proposes that the approved 2020 GUIC rider surcharge rates continue to be applied until the Commission authorizes implementation of new rates in order to ensure MERC is able to recover its annual revenue requirements on the approved GUIC-eligible projects. Actual costs and

[55] Note that all other customer class surcharge rates exclude any Direct Connect customers within those rate classes.
[56] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 9 (Feb. 5, 2019).

recoveries will be tracked through the tracker mechanism to ensure any over-recoveries are refunded or that any under-recoveries are collected in a future true-up adjustment.

8. Customer Communications

With respect to notifying customers about the new GUIC rider surcharge rates, MERC initially proposed to utilize a bill message effective on the first month the new GUIC surcharge rates take effect. In making this proposal, MERC noted that while the Commission ordered the Company to include both a bill message and bill insert to notify customers regarding the initial implementation of the GUIC rider in 2019, a bill message for the 2020 surcharge rate implication was reasonable and appropriate for three reasons:

- Customers were already provided with detailed information regarding the GUIC rider implementation in 2019 in the form of a bill insert developed in consultation with the Commission's Consumer Affairs Office so customers were recently informed about the purpose and implementation of this rider. The only change customers will experience for 2020 is the per therm rate they will see on their bill.
- A bill message (as opposed to a bill insert) will help to reduce overall customer costs by eliminating the cost to print a separate bill insert.
- Customers are more likely to review a message located on their bill as opposed to a separate insert included with their bill.

In its September Reply Comments, in response to the Department's recommendation to require a bill insert rather than bill message, MERC responded that the Company would provide whatever form of customer communication the Commission deems appropriate but proposed to recover the actual incremental costs if the Commission required a bill insert, through the 2020 GUIC true-up reconciliation.

MERC continues to propose a bill message to appear on the first customer bill containing the revised GUIC rider surcharge rates to inform customers of the 2020 Commission-approved GUIC rider rates, for the reasons discussed in the Company's September Reply Comments. In addition, MERC believes that a bill message is more effective for supporting the change in the rate because it cannot be physically separated from the bill itself and can be readily referenced by the customer. It is also more effective for those customers that do not receive paper bills. MERC also proposes that the same bill message would appear on all customer bills, regardless of rate class, as a customer-specific bill message would require significant additional programming and expense. Accordingly, MERC proposes the following message based on the proposed updated GUIC surcharge rates reflected in these Comments:

> Effective [**DATE**], the GUIC (Gas Utility Infrastructure Cost) Rider Surcharge has been adjusted from $0.00413 per therm to the following per therm rate for each of these rate classes: Residential: $0.01658; Class 1 & 2 Firm (Sales and Transport): $0.00997; Class 1 & 2 Interruptible (Sales and Transport), Class 1 & 2 Grain Dryer, and Class 1 Electric Generation: $0.00997; Class 3 & 4 Firm (Sales and Transport): $0.00522; Class 3 & 4 Interruptible (Sales and Transport) and Class 3 Grain Dryer: $0.00522; and Class 5, Flex,

> Class 2 Electric Generation, and Transport-for-Resale: $0.00144. The GUIC Surcharge will continue to appear as a line item on your bill labeled "Infrastructure Rider."

In its Response Comments, the Department states that "MERC's position that use of bill inserts should be treated as an incremental cost, thus be an includable cost in its GUIC rider true-up lacks support. MERC's base rates already include cost recovery for occasional bill inserts, which are part of MERC's normal operations; thus, no additional cost recovery should be added to the GUIC Rider for this activity."[57]

MERC responds that the costs associated with a bill insert for this GUIC rider are incremental costs not reflected in current base rates and should therefore be included for recovery through the GUIC rider true-up as a reasonable and necessary cost to ensure customers are informed of the rider rates. While the Department correctly notes that MERC recovers the costs for regular bill inserts through base rates, those bill inserts, which include cold weather rule notifications and safety information, continue to be required. A bill insert to communicate the implementation of new GUIC rider surcharge rates as a result of a Commission decision in this proceeding is additional and thus incremental to any costs already included in MERC's base rates. MERC therefore continues to request approval to recover the actual costs of such customer communications through the GUIC rider true-up as a necessary and incremental cost, if the Commission orders MERC to provide a bill insert.

9. Future Filing Requirements

Finally, with respect to future filing requirements, the Company and the Department have reached agreement on a number of the Department's recommendations. In particular, MERC agreed as follows:

- If the Company incurs O&M expense associated with actual ROW relocation or DIMP projects in 2020, it will provide details regarding the amount of the expense, the account number to which it is charged, and an explanation of how the expense fits within the GUIC rider. MERC also agrees that it will only request recovery of such O&M expense to the extent it is incremental (i.e., not being recovered in existing base rates).

- To report on Aldyl-A project accomplishment details in the Company's annual true-up filing, including, by project site: (1) locational description of work completed, (2) associated work order number(s), (3) size of Aldyl-A pipe mains replaced, (4) size of replacement pipe installed, (5) footage of main replaced, (6) total costs net of embedded labor, vehicles, fuel, overhead, etc., and (7) total replacement costs.[58]

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

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[57] Department Response Comments at 21.
[58] The Department modified its recommendation with respect to this reporting, as discussed below.

- To include in the relevant future GUIC rider filing a proposal to address the termination of the GUIC statute.

- To include in the Company's next general rate case filing a discussion of its GUIC rider cost recovery transition to base rates (and requested interim rate) recovery and to roll in rider recovered facilities at the beginning of its next general rate case.

In its Response Comments, the Department proposed an additional requirement that MERC include the vintage and manufacturer of the Aldyl-A pipe replaced in future true-up reports.[59]

> In other utilities' recent filings, per the testimony of CenterPoint Energy's engineer and the risk scoring employed by Xcel Gas, Aldyl-A installed prior to 1975 had the inferior composition and manufacturing techniques, thus, this pipe is the focus of their respective pipeline replacement efforts.
>
> However, MERC's plan, per Table 3 and Table 4 of this Petition, includes replacement of pipe vintages through 1983. Therefore, MERC should support that its plan has focused its resources on the most at-risk facilities within its system.[60]

As MERC has already provided available information regarding planned Aldyl-A replacement manufacturer and installation vintage, MERC responds that this additional proposed reporting would be duplicative of data already provided.[61]

Based on available records, all of the Aldyl-A main and services MERC plans to replace were manufactured by DuPont. Verification of pipe manufacturer during replacement projects would be difficult or impossible and would increase the cost of these projects unnecessarily. Further, given that MERC's records indicate the Aldyl-A on the Company's system is DuPont manufactured Aldyl-A, there is limited value in attempting to verify the pipe manufacturer during replacement projects.

With respect to reporting on the vintage of Aldyl-A pipe that is replaced through the obsolete materials replacement program in future true-up reports, MERC already provided available information regarding the installation year of to-be-replace facilities in its Initial Petition. MERC does not have additional historic detail beyond the installation vintage information that has already been provided.

The basis for the Department's recommendation to require additional reporting on the manufacturer and vintage of Aldyl-A pipe is the Department's conclusion that Aldyl-A installed after 1973 does not pose a risk on MERC's system. However, MERC has previously provided

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[59] Department Response Comments at 13, 22.
[60] Department Response Comments at 13.
[61] In particular, Table 3 at page 19 of MERC's Initial Petition included detailed information regarding the location, vintage, and footage of Aldyl-A to be replaced.

support for the scope of its proposed replacements, including for the replacement of Aldyl-A installed after 1975.

On April 23, 1998, the National Transportation Safety Board ("NTSB") issued a Special Investigation Report, *Brittle-Like Cracking in Plastic Pipe for Gas Service*, NTSB/SIR-98/01. The report described the results of the NTSB's special investigation of polyethylene gas service pipe, which addressed three major safety issues: (1) vulnerability of plastic piping to premature failures due to brittle-like cracking; (2) adequacy of available guidance relating to the installation and protection of plastic piping connections to steel mains; and (3) effectiveness of performance monitoring of plastic pipeline systems to detect unacceptable performance in piping systems.

The NTSB found that failures in polyethylene pipe in actual service are frequently brittle-like, slit failures, not ductile failures. It concluded the number and similarity of plastic pipe accident and non-accident failures indicate past standards used to rate the long-term strength of plastic pipe may have overrated the strength and resistance to brittle-like cracking for much of the plastic pipe manufactured and used for gas service from the 1960s through the early 1980s.

The NTSB made several recommendations to the Pipeline and Hazardous Materials Safety Administration ("PHMSA") and to trade organizations in its 1998 special investigation report. In response, PHMSA issued advisory bulletins advising natural gas pipeline distribution system operators of the potential for brittle-like cracking of plastic pipes installed between the 1960s and early 1980s[62] and identifying several environmental, installation, and service conditions in which plastic piping is used that could lead to premature brittle-like cracking failure.[63]

On June 11, 2014, the California Public Utilities Commission issued a Hazard Analysis & Mitigation Report on Aldyl A Polyethylene Gas Pipelines in California, summarizing the history and risks associated with Aldyl-A pipes.[64] As discussed in that report, while DuPont modified the resin formula used in Aldyl-A pipe over the years, subsequent resin formulations continued to experience low resistance to slow crack growth.

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[62] ADB–99–01, Potential Failure Due to Brittle-Like Cracking of Certain Polyethylene Plastic Pipe Manufactured by Century Utility Products Inc., 64 FR 12211 (Mar. 11, 1999).
[63] ADB–02–07, Notification of the Susceptibility to Premature Brittle-Like Cracking of Older Plastic Pipe, 67 FR 70806 (Nov. 26, 2002).
[64] California Public Utilities Commission, Hazard Analysis & Mitigation Report on Aldyl A Polyethylene Gas Pipelines in California (June 11, 2014), *available at* https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=8947.

Approximate Years of Manufacture	Alathon Resin	Relative Resistance to Slow Crack Growth
1965-1970	5040	Low
1970-1972	5043, LDIW	Low
1970-1983	5043, non-LDIW	Medium
1983-1988	5046-C	Medium High
1988-1992	5046-U	High
1992-1999	5046-O	Very High

On May 26, 2016, the Plastic Pipe Database Committee ("PPDC") released an update on in-service failures of plastic pipe and components.[65] For the past 16 years, the PPDC has been receiving information on in-service plastic piping system failures and/or leaks with the objective of identifying possible performance issues. According to the report:

> Aldyl failure data continues to be reported. Moreover, as depicted in Figure 1, there are now two peaks of failure data submissions (2000-2005, 2010-2014). Analysis has determined that the range of installation years for these peaks appears consistent. Therefore the installation years are more reflective of materials experiencing failures/leaks. Failure causes demonstrate that installation practices and the operating environment can greatly impact the service life of the Aldyl piping.
>
> Operators should look at the performance of their own piping systems. Each operator serves a unique and defined geographic area and their system infrastructures vary widely based on a multitude of factors, including facility condition, past engineering practices and materials. Each operator should evaluate the actions in light of system variables, the operator's independent integrity assessment, risk analysis and mitigation strategy.

Based on MERC's DIMP and risk assessment, the Company has determined that replacement of Aldyl-A, as outlined in MERC's Petition, is appropriate to reduce known risks on the Company's system.

[65] The PPDC is composed of representatives from the American Public Gas Association, the American Gas Association, Plastics Pipe Institute, National Association of Regulatory Utility Commissioners, National Association of Pipeline Safety Representatives, NTSB, and the U.S. Department of Transportation's PHMSA.

CONCLUSION

Based on the foregoing, MERC respectfully requests that the Commission approve its 2020 GUIC revenue requirement of $4,956,706, inclusive of forecasted costs for 2020 related to compliance with the Commission's requirements in Docket No. G999/CI-18-41. MERC also requests that the Commission approve the proposed GUIC rider surcharge rates as proposed in the Company's September Reply Comments or as updated in these Additional Reply Comments.

Please contact me at (414) 221-2374 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely,

Mary L. Wolter
Director – Gas Regulatory Planning & Policy

Enclosures
cc: Service List

OAG No. 007

State Of Minnesota
Office Of The Attorney General
Utility Information Request

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Utility Infrastructure Cost Rider Revenue Requirement and Revised Surcharge Factor.	**MPUC Docket No.**	G011/M-19-282

Requested from:

Minnesota Energy Resources Corporation

By:	Peter Scholtz	**Date of Request:**	July 1, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 12, 2019

Reference: Docket No. 18-692, Xcel Petition at 18-20 (Nov. 1, 2018)

Comment on the feasibility of offsetting the GUIC rider revenue requirement to account for assets replaced by GUIC projects, similar to how Xcel does this for its GUIC rider. Is there any reason that a forecasted offset or adjustment cannot be calculated and factored into the GUIC rate factor to minimize the magnitude of the annual true-up? If so, what is the reason?

Response:

Please see the response to OAG-006. MERC agreed to an offset for depreciation at the time of true-up, although the impact of that offset is anticipated to be small. As reflected in MERC's response to OAG-006, MERC does not agree that any further adjustments to rate base for replaced assets would be appropriate.

The 2019 GUIC Rider is the first for MERC. Over time, as we track GUIC spending and the related replacements/retirements, it may be possible to include a forecasted depreciation adjustment with the forecasted rider calculation, subject to true-up.

It should be noted that the main drivers of the magnitude of the annual true-up will be actual spending and actual sales, not depreciation, property taxes or deferred taxes. The return on and of capital spent on GUIC projects account for less than 1/3 of the 2019 GUIC revenue requirement, and depreciation, property tax, and deferred tax impacts reflect a small fraction of

Response by Mary Wolter
Title Director-Gas Regulatory Planning & Policy
Department State Regulatory Affairs
Telephone 414-221-2374

that. The majority of the GUIC spending is driven by two significant O&M projects that will progress as time and resources allow.

Response by Mary Wolter
Title Director-Gas Regulatory Planning & Policy
Department State Regulatory Affairs
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Rate Case Revenue Requirement on GUIC projects

Line	Description	Reference	Approved (M-18-281) 2019	As-Filed 2020	MN Jurisdiction Only: Revised 2020	Rate Case Apportionment 2020	Proposed 2020
1	Expense	O&M Expense	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
2	Expense	Depreciation Expense *(see Note 2)*	133,090	351,489	351,489	351,489	351,489
3	Expense	EFV O&M Expense *(see Note 3)*	-	-	101,394	101,394	101,394
4	Rate Base *(see Note 1)*	13-Month Average Net Plant Value	5,250,459	16,005,916	16,005,916	16,005,916	16,005,916
5	Accumulated Deferred Income Tax Proration Adj		2,581	151,600	10,370	10,370	10,370
6	Adjusted Rate Base	13-Month Average Net Plant Value	5,253,040	16,157,516	16,016,286	16,016,286	16,016,286
7	Rate of Return	Commission Authorized 2018 Rate Case	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%
8	Earnings on Rate Base	Line 6 x Line 7	351,801	1,082,085	1,072,627	1,072,627	1,072,627
9	Gross Revenue Conversion Factor	2018 Rate Case Adjusted for Tax Reform	1.402	1.402	1.402	1.402	1.402
10	Return on Rate Base	Line 8 x Line 9	493,225	1,517,083	1,503,823	1,503,823	1,503,823
11							
12	**Total Revenue Requirement**	**Line 1 + Line 2 + Line 3 + Line 10**	**3,626,315**	**4,868,572**	**4,956,706**	**4,956,706**	**4,956,706**
13							
14	Offsetting Project Revenue						
15							
16	**Project Revenue Deficiency**	**Line 12 less line 14**	**3,626,315**	**4,868,572**	**4,956,706**	**4,956,706**	**4,956,706**
17							
18	**Total Therms - All Jurisdictions**	*(see Note 4)*	**877,001,389**	**878,741,019**			
19	**Total Therms - MN Jurisdiction Only**	*(see Note 4)*			**771,153,868**	**771,153,868**	**771,153,868**
20							
21	**Average Rate Per therm**		**$ 0.00413**	**$ 0.00554**	**$ 0.00643**		

		Revised 2020		Rate Case Apportionment 2020		Proposed 2020	
		Rate/Therm	$/Customer	Rate/Therm	$/Customer	Rate/Therm	$/Customer
22	**Residential**	$ 0.00643	$ 6	$ 0.01658	$ 15	$ 0.01658	$ 15
23	**Class 1-2 Firm (Sales and Transport)**	$ 0.00643	$ 29	$ 0.01140	$ 51	$ 0.00997	$ 44
24	**Class 1-2 Interruptible (Sales and Transport), Class 1-2 Ag Grain Dryer, and Class 1 Electric Gen**	$ 0.00643	$ 273	$ 0.00144	$ 61	$ 0.00997	$ 424
25	**Class 3-4 Firm (Sales and Transport)**	$ 0.00643	$ 1,066	$ 0.01140	$ 1,891	$ 0.00522	$ 866
26	**Class 3-4 Interruptible (Sales and Transport) and Class 3 Ag Grain Dryer**	$ 0.00643	$ 6,927	$ 0.00144	$ 1,551	$ 0.00522	$ 5,630
27	**Class 5, FLEX, Transport for Resale, and Class 2 Electric Gen**	$ 0.00643	$ 5,899	$ 0.00144	$ 1,321	$ 0.00144	$ 1,321
28	**Direct Connect**	$ 0.00643	$ 210,621	$ 0.00144	$ 47,156	$ -	$ -

Notes

1 GUIC related road and replacement service construction expenditures go into service as spent.

2 Assumes an average life of 60 years based on current Distribution Assets at MERC.

3 Projected cost for communications and engineering related to Excess Flow Valves as authorized in Docket No. G999/CI-18-41, Final Order dated July 31, 2019, pg 6.

4 The 2020 sales are from MERC's 2020 sales forecast filed in Docket No. G011/GR-17-563 and consistent with that used in the Natural Gas Expansion Project (NGEP) Rider Docket No. G011/M-19-608.

2020 GUIC RIDER RATE DESIGN

2020 GUIC Revenue Requirement $ 4,956,706

			Rate Case Apportionment 1				Option 1				Option 2			
	Therm Sales	Customer Count	Revenue Apportionment	Initial Apportionment	Rate/Therm	$/Customer	Redistribute	Apportionment	Rate/Therm	$/Customer	Redistribute	Apportionment	Rate/Therm	$/Customer
Residential	186,792,651	212,647	62.5%	$ 3,097,941	$ 0.01658	$ 14.57	$ 207,193	$ 3,305,134	$ 0.01769	$ 15.54		$ 2,026,714	$ 0.01085	$ 9.53
Firm Sales	102,149,802	22,042	23.5%	$ 1,164,826	$ 0.01140	$ 52.85	$ 77,905	$ 1,242,730	$ 0.01217	$ 56.38		$ 1,108,333	$ 0.01085	$ 50.28
Interruptible Sales	36,992,703	467	3.5%	$ 173,485	$ 0.00469	$ 371.49	$ 11,603	$ 185,088	$ 0.00500	$ 396.33		$ 401,374	$ 0.01085	$ 859.47
Transport	124,600,988	155		$ 145,657	$ 0.00117	$ 939.72	$ 9,742	$ 155,398	$ 0.00125	$ 1,002.57		$ 1,351,930	$ 0.01085	$ 8,722.13
Class 5, FLEX, Trans for Resale	58,473,904	21	10.5%	$ 68,355	$ 0.00117	$ 3,255.01	$ -	$ 68,355	$ 0.00117	$ 3,255.01	$ -	$ 68,355	$ 0.00117	$ 3,255.01
Direct Connect	262,143,820	8		$ 306,442	$ 0.00117	$ 38,305.28	$ (306,442)	$ -	$ -	$ -	$ (306,442)	$ -	$ -	$ -
Michigan Mines	n/a	n/a		n/a	n/a		n/a	n/a	n/a		n/a	n/a	n/a	
	771,153,868	235,340		$ 4,956,706			$ -	$ 4,956,706			$ (306,442)	$ 4,956,706		

			Rate Case Apportionment 2				Option 3				Option 4			
	Therm Sales		Revenue Apportionment	Initial Apportionment	Rate/Therm	$/Customer	Redistribute	Apportionment	Rate/Therm	$/Customer	Redistribute	Apportionment	Rate/Therm	$/Customer
Residential	186,792,651	212,647	62.5%	$ 3,097,941	$ 0.01658	$ 14.57		$ 3,097,941	$ 0.01658	$ 14.57		$ 3,097,941	$ 0.01658	$ 14.57
Class 1-2 Firm (Sales and Transport)	98,170,103	22,018	23.5%	$ 1,119,445	$ 0.01140	$ 50.84		$ 1,119,445	$ 0.01140	$ 50.84		$ 978,294	$ 0.00997	$ 44.43
Class 3-4 Firm (Sales and Transport)	3,979,699	24		$ 45,381	$ 0.01140	$ 1,890.87		$ 45,381	$ 0.01140	$ 1,890.87		$ 20,788	$ 0.00522	$ 866.16
Class 1-2 Interruptible (Sales and Transport), Class 1-2 Ag Grain Dryer, and Class 1 Electric Gen	18,718,096	440		$ 26,937	$ 0.00144	$ 61.22		$ 85,768	$ 0.00458	$ 194.93		$ 186,531	$ 0.00997	$ 423.94
Class 3-4 Interruptible (Sales and Transport) and Class 3 Ag Grain Dryer	101,308,304	94	14.0%	$ 145,790	$ 0.00144	$ 1,550.96		$ 464,204	$ 0.00458	$ 4,938.34		$ 529,184	$ 0.00522	$ 5,629.62
Class 5, FLEX, Transport for Resale, and Class 2 Electric Gen	100,041,194	109		$ 143,967	$ 0.00144	$ 1,320.80		$ 143,967	$ 0.00144	$ 1,320.80		$ 143,967	$ 0.00144	$ 1,320.80
Direct Connect	262,143,820	8		$ 377,245	$ 0.00144	$ 47,155.61	$ (377,245)	$ -	$ -	$ -	$ (377,245)	$ -	$ -	$ -
Michigan Mines	n/a	n/a		n/a	n/a		n/a	n/a	n/a		n/a	n/a	n/a	
	771,153,868	235,340		$ 4,956,706			$ (377,245)	$ 4,956,706		$ 4,956,706	$ (377,245)	$ 4,956,706		

Customer Class	Proposed GUIC Rider Surcharge	Average Annual Cost	Total $	% of 2020 GUIC revenue requirement
Residential	$ 0.01658	$ 15	$ 3,097,941	62.5%
Class 1-2 Firm (Sales and Transport)	$ 0.00997	$ 44	$ 978,294	19.7%
Class 1-2 Interruptible (Sales and Transport), Class 1-2 Ag Grain Dryer, and Class 1 Electric Gen	$ 0.00997	$ 424	$ 186,531	3.8%
Class 3-4 Firm (Sales and Transport)	$ 0.00522	$ 866	$ 20,788	0.4%
Class 3-4 Interruptible (Sales and Transport) and Class 3 Ag Grain Dryer	$ 0.00522	$ 5,630	$ 529,184	10.7%
Class 5, FLEX, Transport for Resale, and Class 2 Electric Gen	$ 0.00144	$ 1,321	$ 143,967	2.9%
Direct Connect	$ -	$ -	$ -	0.0%
Total			$ 4,956,706	100%

MERC

SUMG MERC Fcst201703
Units Therms

Calendar Sales	Jan 2020	Feb 2020	March 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Total	
NNG-MERC														
Residential Cal	28,498,787	24,458,138	19,385,542	11,295,418	5,841,088	2,168,814	1,394,468	1,574,207	3,958,279	10,426,843	17,199,027	25,616,492	151,817,103	
SC&I Cal	1,443,711	1,273,809	903,996	455,981	224,967	69,298	36,470	44,089	145,239	419,891	707,341	1,171,320	6,896,112	
LC&I Cal	12,268,515	10,608,346	8,522,391	5,199,002	2,960,313	1,453,805	1,136,207	1,209,441	2,184,390	4,829,450	7,593,737	11,028,723	68,994,320	
Joint Cal	23,595	23,621	20,096	14,935	11,710	7,407	4,214	4,320	5,738	9,585	10,299	15,294	150,814	
Interruptible Cal	3,849,418	3,391,593	2,816,348	1,899,856	1,282,492	867,042	779,458	799,653	1,068,516	1,797,944	2,560,253	3,507,520	24,620,093	
Transport Cal	46,992,360	45,576,140	43,778,034	40,889,669	38,944,232	37,637,289	37,369,394	37,439,639	38,289,103	40,589,403	42,989,795	45,975,897	496,470,955	
Company Use Cal	14,257	14,519	12,803	9,732	5,676	3,361	2,258	2,179	2,527	4,313	7,186	11,155	89,966	
Total NNG-MERC	93,090,643	85,346,166	75,439,210	59,764,593	49,270,478	42,207,016	40,722,469	41,073,528	45,653,792	58,077,429	71,067,638	87,326,401	749,039,363	749,039,363
Consolidated-MERC														
Residential Cal	4,998,204	4,288,381	3,456,355	2,087,827	1,105,997	336,472	77,814	157,865	719,335	1,905,921	3,051,496	4,502,020	26,687,687	
SC&I Cal	460,026	392,123	312,482	181,473	87,465	13,779	-11,000	-3,350	50,394	163,984	273,643	412,471	2,333,490	
LC&I Cal	3,613,298	3,238,629	2,608,577	1,678,001	1,021,808	539,842	427,664	413,985	531,918	1,131,502	1,884,995	2,983,853	20,074,072	
Joint Cal	38,499	33,970	28,674	20,023	13,808	8,949	7,311	7,808	11,328	18,766	25,936	35,006	250,078	
Interruptible Cal	1,326,829	1,184,907	1,018,878	746,586	551,437	398,689	347,389	363,226	474,288	708,772	934,825	1,220,731	9,276,557	
Transport Cal	6,955,452	6,828,245	6,632,784	6,209,525	5,365,016	5,023,344	5,017,687	5,012,164	5,006,268	5,386,485	5,379,957	5,868,522	68,685,449	
Company Use Cal	23,150	23,241	21,253	17,143	13,458	10,178	8,156	7,766	8,584	11,457	15,262	20,071	179,719	
Total Consolidated-MERC	17,415,458	15,989,496	14,079,003	10,940,578	8,158,989	6,331,253	5,875,021	5,959,464	6,802,115	9,326,887	11,566,114	15,042,674	127,487,052	127,487,052
ABL-MERC														
Residential Cal	1,599,117	1,367,160	1,076,115	613,689	302,146	92,643	48,835	59,124	194,651	562,035	946,402	1,425,944	8,287,861	
SC&I Cal	25,150	21,719	17,404	10,522	5,884	2,761	2,103	2,256	4,280	9,773	15,517	22,657	140,026	
LC&I Cal	355,139	343,469	328,807	305,445	289,709	279,119	276,887	277,401	284,255	302,848	322,279	346,424	3,711,782	
Joint Cal														
Interruptible Cal	369,535	332,624	286,246	212,357	162,584	129,089	122,028	123,656	145,332	204,141	265,599	341,970	2,695,161	
Transport Cal	195,945	190,992	184,769	174,855	168,176	163,681	162,734	162,952	165,861	173,752	181,999	192,246	2,117,962	
Company Use Cal													0	
Total ABL-MERC	2,544,886	2,255,964	1,893,341	1,316,868	928,499	667,293	612,587	625,389	794,379	1,252,549	1,731,796	2,329,241	16,952,792	16,952,792
Total-MERC														
Residential Cal	35,096,108	30,113,679	23,918,012	13,996,934	7,249,231	2,597,929	1,521,117	1,791,196	4,872,265	12,894,799	21,196,925	31,544,456	186,792,651	
SC&I Cal	1,928,887	1,687,651	1,233,882	647,976	318,316	85,838	27,573	42,995	199,913	593,648	996,501	1,606,448	9,369,628	
LC&I Cal	16,236,952	14,190,444	11,459,775	7,182,448	4,271,830	2,272,766	1,840,758	1,900,827	3,000,563	6,263,800	9,801,011	14,359,000	92,780,174	
Joint Cal	62,094	57,591	48,770	34,958	25,518	16,356	11,525	12,128	17,066	28,351	36,235	50,300	400,892	
Interruptible Cal	5,545,782	4,909,124	4,121,472	2,858,799	1,996,513	1,394,820	1,248,875	1,286,535	1,688,136	2,710,857	3,760,677	5,070,221	36,591,811	
Transport Cal	54,143,757	52,595,377	50,595,587	47,274,049	44,477,424	42,824,314	42,549,815	42,614,755	43,461,232	46,149,640	48,551,751	52,036,665	567,274,366	
Company Use Cal	37,407	37,760	34,056	26,875	19,134	13,539	10,414	9,945	11,111	15,770	22,448	31,226	269,685	
Total-MERC Calendar Sales	113,050,987	103,591,626	91,411,554	72,022,039	58,357,966	49,205,562	47,210,077	47,658,381	53,250,286	68,656,865	84,365,548	104,698,316	893,479,207	893,479,207
Total MERC Losses (2.00%)	2,261,020	2,071,833	1,828,231	1,440,441	1,167,159	984,111	944,202	953,168	1,065,006	1,373,137	1,687,311	2,093,966	17,869,584	17,869,585
Total MERC Inc. Compuse,Transp and losses	115,312,007	105,663,459	93,239,785	73,462,480	59,525,125	50,189,673	48,154,279	48,611,549	54,315,292	70,030,002	86,052,859	106,792,282	911,348,791	911,348,792
Test to verify Billed + Unbilled = Calendar Sales	113,050,987	103,591,626	91,411,554	72,022,039	58,357,966	49,205,562	47,210,077	47,658,381	53,250,286	68,656,865	84,365,548	104,698,316	893,479,207	893,479,207
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
												Less: Company Use		-269,685
												Less: MI Jurisdiction		-122,055,654
														771,153,868

Customer Count	January	February	March	April	May	June	July	August	September	October	November	December	
MERC CONSOL GS RES	30,822	30,845	30,869	30,893	30,916	30,939	30,963	30,986	31,008	31,031	31,053	31,076	30,950
MERC CONSOL GS SCI	2,290	2,292	2,294	2,296	2,298	2,300	2,301	2,303	2,305	2,306	2,308	2,309	2,300
MERC CONSOL GS LCI	3,185	3,185	3,185	3,185	3,184	3,184	3,184	3,184	3,184	3,183	3,183	3,183	3,184
MERC CONSOL INTERRUPTIBLE	60	60	59	59	59	58	58	58	58	57	57	57	58
MERC CONSOL JOINT	4	4	4	4	4	4	4	4	4	4	4	4	4
MERC CONSOL TRANSPORT	52	52	52	52	52	52	52	52	51	51	51	51	52
MERC NNG GS RES	171,817	171,830	171,894	171,986	172,054	172,149	172,212	172,321	172,455	172,518	172,654	172,738	172,219
MERC NNG GS SCI	6,976	6,982	6,989	6,995	7,001	7,007	7,013	7,019	7,024	7,030	7,035	7,040	7,009
NNG GS LCI	8,734	8,729	8,724	8,719	8,715	8,710	8,707	8,703	8,700	8,697	8,694	8,691	8,710
MERC NNG INTERRUPTIBLE	360	360	359	359	359	359	359	359	359	358	358	358	359
MERC NNG JOINT	3	3	3	3	3	3	3	3	3	3	3	3	3
MERC NNG TRANSPORT	134	134	134	134	134	134	134	134	134	134	134	134	134
ABL Residential _Customer	9,474	9,475	9,475	9,476	9,477	9,477	9,478	9,479	9,480	9,480	9,481	9,482	9,478
ABL SC&I _Customer	36	36	36	36	36	36	36	36	36	36	36	36	36
ABL LC&I _Customer	802	802	802	802	802	802	802	802	802	802	802	802	802
ABL Interruptible _Customer	37	37	37	37	37	35	35	35	35	37	36	36	36
Transport _Customer	5	5	5	5	5	5	5	5	5	5	5	5	5
													235,340

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Utility Infrastructure Cost (GUIC) Rider Revenue Requirement and Revised Surcharge Factor

Docket No. G011/M-19-282

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 14th day of February, 2020, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Additional Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 14th day of February, 2020.

__/s/ Kristin M. Stastny_____
Kristin M. Stastny

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_19-282_M-19-282
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_19-282_M-19-282
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-282_M-19-282
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_19-282_M-19-282
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Catherine	Phillips	catherine.phillips@we-energies.com	We Energies	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	OFF_SL_19-282_M-19-282
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-282_M-19-282
Elizabeth	Schmiesing	eschmiesing@winthrop.com	Winthrop & Weinstine, P.A.	225 South Sixth Street Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-282_M-19-282

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Colleen	Sipiorski	Colleen.Sipiorski@wecenergygroup.com	Minnesota Energy Resources Corporation	700 North Adams St Green Bay, WI 54307	Electronic Service	No	OFF_SL_19-282_M-19-282
Kristin	Stastny	kstastny@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 South 8th St Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_19-282_M-19-282
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_19-282_M-19-282
Mary	Wolter	mary.wolter@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)	231 West Michigan St Milwaukee, WI 53203	Electronic Service	Yes	OFF_SL_19-282_M-19-282