

The Commission met on **Wednesday, September 24, 2014**, with Chair Heydinger, and Commissioners Boyd, Lange, Lipschultz, and Wergin present.

The following matters were taken up by the Commission:

ENERGY AGENDA

E017/M-03-30

In the Matter of Otter Tail Power Company's Petition for a Monthly Fuel Clause Adjustment True-Up Mechanism

Commissioner Wergin moved to adopt the Department's recommendation to approve Otter Tail Power Company's compliance report and annual true-up debit.

The motion passed 5 – 0.

G008/M-14-650

In the Matter of the Petition of CenterPoint Energy Resources Corp d/b/a CenterPoint Energy Minnesota Gas for Approval of a Tariff Revision

Commissioner Lange moved to adopt the Department's recommendation to approve CenterPoint's request.

The motion passed 5 – 0.

G002/M-14-583

In the Matter of a Request by Northern States Power Company for Approval of New Area Surcharge Riders for the Cities of Barnesville, Holdingford and Pillager

Chair Heydinger moved to take the following actions:

1. For Barnesville, approve the surcharge as proposed by the Company, but with a \$1 per month reduction to the residential surcharge, and require that any of the gas costs (demand and commodity) from the Greater Minnesota Transmission agreement that are not recovered by the surcharge cannot be recovered in a rate case or any other docket for the 15 year term of the agreements (November 1, 2014 – October 31, 2029).
2. For Holdingford, approve the surcharge as proposed by the Company. Require that any of the gas costs (demand and commodity) from the Greater Minnesota Gas agreement that are not recovered by the surcharge cannot be recovered in a rate case or any other docket for the 15 year term of the agreements (November 1, 2014 – October 31, 2029).
3. For Pillager, approve the new area surcharge as proposed by the Company.
4. For this case only, approve the update to Xcel's cost of capital as proposed by the Company.

5. Require Xcel to confer with the Department and Commission staff to determine a method of accounting for costs recovered through the Barnesville and Holdingford surcharges that would allow recovery of expenses and recovery of gas costs as necessary only for extending service to these communities. Require Xcel to file a compliance filing detailing how these surcharges will be accounted for.
6. Require Xcel to file an annual report on each March 1 that includes an update on the projects comparing what was projected to happen and what actually happened with the expansion and provide the following information as provided in the tariff:

The model will be run each year subsequent to the initial construction phase of a project wherein actual amounts for certain variables will be substituted for projected values to track recovery of expansion costs and potential to discontinue the customer surcharge before the full term. The variables which will be updated in the model each year will be:

- a. Number of customers used to calculate the surcharge revenue and the retail margin revenue,
- b. The actual surcharge and retail revenue received to date and the projected surcharge revenue for the remaining term of the surcharge, and
- c. The actual capital costs and projected remaining capital costs for the project

The motion passed 5 – 0.

E002/M-04-1956

In the Matter of a Petition for Approval of a Modification to Low-Income Discount Program

Commissioner Lipschultz moved to take the following actions:

1. Approve Xcel's proposal to implement a flat \$15 participant discount effective with bills issued on and after October 1, 2014 and approve Xcel's proposed tariff sheet revision to reflect that change.
2. Allow Xcel to maintain the current customer surcharge levels and direct Xcel to file a proposal to include recovery of its Low-Income Program costs through base rates in its next rate case.
3. Approve Xcel's proposal to implement the automatic funding increase feature of the statute by submitting a compliance filing in Docket Nos. E002/M-04-1956 and E-002/GR-13-868 within 30 days of the Commission's rate case Order providing:
 - Current customer surcharge amounts;
 - The approved residential rate increase percentage; and
 - The new customer surcharge amounts and implementation plan.

The motion passed 5 – 0.

G007,011/GR-10-977

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

Commissioner Lange moved to take the following actions:

1. Accept MERC's revenue decoupling evaluation report for 2013.
2. Accept MERC's revenue decoupling adjustment calculations and approve their implementation effective April 1, 2014.
3. Require that MERC's next Annual Report shall include an estimate of each class' revenues under the following decoupling scenarios
 - No decoupling.
 - Partial decoupling.
 - Full decoupling.
4. Approved moving the Annual Decoupling Evaluation Report deadline to May 1 to coincide with MERC's Annual CIP Status Report.

The motion passed 5 – 0.

G-011/GR-13-617

In the Matter of a Petition by Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota

1. Block Motion

Chair Heydinger moved to take the following actions:

A. Rate Case Expense

1. *Amount of Rate Case Expense*—Reduce MERC's test year rate case expense by \$21,925.
2. *Unamortized Rate Case Expense*—Remove \$1,312,704 of rate case expense and the related deferred taxes of \$540,106 from MERC's proposed rate base.
3. *Amortization Period*—Approve a two year amortization period for rate case expenses and allow MERC to include \$741,065 (\$1,482,130 divided by 2 years) in test year rate case expenses.
4. *ALJ Findings*—For the purpose of clarification, amend ALJ Findings 437, 439 and 442 as described on pp. 31-32 of the Department's exception comments and on p. 12 of the staff briefing papers.
5. *Tracking Rate Recovery*—Require MERC to track rate case expense recoveries exceeding the authorized test-year expense, for possible crediting against the revenue requirement in the next rate case.

- B. Charitable Contributions***— Reduce MERC's test year administrative and general expense by \$16,105 for the test year charitable contributions.

- C. *Gate Station Remote Monitoring***—Increase MERC’s test year operations and maintenance expense by \$330,000 for costs associated with the gate station remote monitoring project.
- D. *Sewer Lateral Legacy Pilot Project***—Increase MERC’s test year operations and maintenance expense by \$340,000 for costs associated with the sewer lateral legacy program.
- E. *Test Year Depreciation Expense***—Upon filing of its next rate case, require the Company to provide a schedule showing the test year monthly depreciation expense calculations and show by FERC account the:
1. average monthly plant balance,
 2. depreciation rates used,
 3. monthly depreciation expense, and
 4. totals.
- F. *Customer Service Line Extensions***— Adopt the recommendation of the Administrative Law Judge and reduce this docket’s rate base by \$35,803.18 and restate the Commission March 31, 1995 Order requirements:
1. Continue to address the three Commission concerns referred to in its March 31, 1995 Order requirements, and
 2. continue to address the six Commission questions listed in its March 31, 1995 Order requirements.
- G. *New Area Surcharge***—Adopt the Administrative Law Judge recommendation and let the NAS term be addressed in a separate docket; Docket No. 14-524.
- H. *Winter Construction Charges***—Adopt the recommendation of the Administrative Law Judge and
1. accept the Department recommendation that MERC complied with the requirements of the Commission 07-1188 Order, and
 2. continue the 07-1188 and 08-835 Order requirements in MERC’s next rate case for reporting winter construction charges.
- I. *Farm Tap Safety Inspection Program***— Adopt the Department recommendations and approve the continuation of the farm tap inspection program and clarify that MERC
1. shall continue to send farm-tap safety and information brochures to new farm tap customers before they take service and to all existing farm customers annually,
 2. shall continue to file annual reports on its farm tap inspection program on or before April 1 of each year, and within 90 days of the end of each five-year inspection cycle and in each general rate case, and

3. shall file with the Commission, the Department, and the Minnesota Office of Pipeline Safety a five-year report including cumulative results of the inspection program and any recommendations for future improvements.

J. Cost Allocations

1. Adopt the ALJ's finding that MERC's IBS Cost Allocation adjustment is consistent with the Commission's preferred general allocation method and should be approved in this rate case.
2. Adopt the ALJ's finding that MERC's cost allocations to ServiceChoice are reasonable and should be accepted in this rate case.

K. Interest Synchronization—Adopt the agreed upon interest synchronization methodology and order that the final adjustment be based on final Commission-approved figures.

L. Cash Working Capital

1. Adopt the ALJ's finding that MERC's Test Year Working Capital adjustment should be adjusted as described in Ms. St. Pierre's Direct Testimony and require Cash Working Capital to be updated to reflect the final decisions of the Commission.
2. Accept MERC's agreement and require MERC in future rate cases to provide a schedule that reconciles the expenses in the cash working capital to the expenses in MERC's test-year Income Statement.
3. Accept MERC's agreement and require MERC in future rate cases to base its cash working capital schedule on number of days rather than percentages.

M. Other Gas Revenue-Miscellaneous Service Receipt

1. Adopt the ALJ's finding that an increase of \$51,493 to MERC's test-year other revenue from miscellaneous service is proper in this rate case.
2. Require MERC to provide direct testimony in future rate cases explaining all large differences between base year and test year rate base, other income, and expense data.

N. Incentive Pay

1. Adopt the ALJ's finding that administrative and general expense should be reduced by \$27,857 with respect to executive incentive compensation.
2. Retain the existing refund mechanism, with the existing reporting requirements, under which MERC will return the funds to ratepayers in the event incentive compensation payouts are lower than the approved test-year level.
3. Require that any refunds from the incentive compensation refund mechanism be calculated beginning with the 2014 test year, based upon the incentive compensation and customer counts approved in this docket.
4. Approve total test year incentive compensation of \$1,231,630.

O. Conservation Improvement Program Expenses

1. *Compliance with Documentation Requirements in November 27 Order*— Accept MERC’s response as satisfying the Commission’s November 27th Order requirements.
2. *Requirements of Minn. Stat. § 216B.16, subd. 1*— Adopt the Department’s finding that MERC has met the requirements of Minn. Stat. 216B.16, subd. 1.
3. *Test Year CIP Expenses*— Adopt the ALJ finding that MERC recover \$9,396,422 in test year CIP expenses.
4. *Impact of Sales Forecast*— Adopt the ALJ recommendation and approve the Department’s adjusted sales forecast for calculating the final compliance report’s CCRC factor.
5. *Unamortized CIP Tracker Balance*— Allow MERC to keep its ongoing CIP tracker balance within its CCRA tracker mechanism and do not require MERC to “roll-in” its CIP tracker balance into MERC’s CCRC calculation.

P. Capital Structure— Use the Company’s proposed capital structure comprised of 50.31 percent common equity, 44.64 percent long-term debt, and 5.05 percent short-term debt.

Q. Cost of Long-term Debt— Adopt MERC’s proposed cost of long-term debt of 5.5606 percent.

R. Cost of Short-term Debt— Adopt MERC’s proposed cost of short-term debt of 2.3487 percent.

S. Sales Forecast— Adopt the Department’s forecast.

T. Future Rate Cases— Adopt some or all of the following Department recommendations and require MERC to, in future rate case filings, include:

1. A summary spreadsheet that links together the Company’s test-year sales and revenue estimates, its CCROSS, and its rate design schedules;
2. A spreadsheet that fully links together all raw data, to the most detailed information available and in a format that enables the full replication of MERC’s process, that the Company uses to calculate the input data it uses in its test-year sales analysis;
3. If, in the future, MERC updates, modifies, or changes its billing system, a bridging schedule that fully links together the old and new billing systems and validates that there is no difference between the two billing systems;
4. Any, and all, data used for its sales forecast 30 days in advance of its next general rate case; and
5. Detailed information sufficient to allow for replication of any and all Company derived forecast variables.

U. *Curtailement Rules and Practices*— Adopt the Administrative Law Judge’s recommendation and approve the reconciliation service for MERC’s firm customers with its customers providing the required data by August 1 of each year.

V. *Housekeeping and Compliance Issues*

1. *Financial Schedules in Final Order*—State that the final order in this docket shall contain summary financial schedules including: a calculation of MERC’s authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission’s final decision.
2. *Compliance Filings*—Require MERC to make the following compliance filings within 30 days of the date of the final order in this docket:
 - a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
 - i. Breakdown of Total Operating Revenues by type;
 - ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
 1. Total revenue by customer class;
 2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
 3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
 - iii. Revised tariff sheets incorporating authorized rate design decisions;
 - iv. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
 - b. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
 - c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
 - d. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.
3. *CCRC Filings*—Direct MERC to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct MERC to file a schedule detailing, by month with all supporting calculations, the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.

4. *Comments*— Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on MERC’s proposed customer notice.
5. *Editorial Corrections*— State that the written order memorializing these decisions may: (a) rearrange, reorganize, or renumber the items included as necessary for clarity and may standardize or correct abbreviations, phraseology, punctuation, and format, and (b) correct other (arguably more substantive) errors as necessary. For example, please see pp. 30-31 of the Department’s exception comments for a list of typographical errors in the ALJ Report.

The motion passed 5-0.

2. Conservation Improvement Program

Chair Heydinger moved to take the following actions:

A. Uncollected CCRC Revenues from Prior Years

1. *Northshore Mining Revenues*—Adopt the Administrative Law Judge and the Department recommendations on the treatment of uncollected CIP revenues associated with Northshore Mining with the clarification to ALJ Finding 610 below and require the following:

ALJ Finding #610: As noted above, MERC agreed to credit the CIP tracker inclusive of carrying charges for the under-recovery of CIP charges from Northshore. The credit would be allocated between to MERC’s Consolidated CIP Tracker because and MERC- PNG’s CIP tracker based on the period Northshore should have been charged is projected to be reduced to a zero balance by the end of November 2014.

2. *Tracker Credit*—Require MERC to credit the CIP tracker for uncollected amounts (CCRC and CCRA) from July 2006 through December 2013 before Northshore’s CIP exemption was effective January 1, 2014;
3. *One-Time Carrying Charge*—Require MERC to add a one-time carrying charge to the un-collected CIP revenue balance at MERC’s approved overall rate of return during this period; and
4. *Compliance Filing*—require MERC to report the funding of the un-collected CIP amounts in its final rates compliance filing in this rate case.

B. CCRC Calculation—Adopt the ALJ recommendation that the final rates compliance filing include the calculation of the CCRC rate based upon terms of the Commission’s Order.

C. Ongoing Carrying Charges— Adopt the ALJ recommendation to allow MERC to apply to its CIP tracker account carrying charges that are equal to the overall rate of return approved for MERC in this general rate case.

D. *Revenue Deficiency Calculation*— Choose not to adopt the ALJ Findings 580-582 and instead provide that MERC shall collect all of its test-year CIP expenses through the CCRC with the CCRC being set at \$0.02448 and \$0.00000 being added to the CCRA at the time of final rate implementation; MERC shall continue its current CCRC calculation methodology by including the CCRC factor in its base distribution rate and maintain its CCRA factor in its current format.

E. *Future Pre-Rate-Case Meetings*— Adopt PUC staff’s recommendation that would require MERC to have a pre-meeting with the Department and PUC staff before filing subsequent rate cases (structured similar to the required pre-filing meeting on sales forecast).

F. *Interim Rate Period CCRC Factor*

1. Adopt the ALJ’s recommendation that MERC CCRC calculation methodology is reasonable, but adopt PUC staff’s recommendation to require MERC to update its CCRC factor to reflect the Department recommended 2014 CIP expenses of \$9,396,422 and to correct its CIP applicable volumes to the Department recommended level in its final rates compliance.
2. Adopt the ALJ recommendation that would require MERC to report in its final rates compliance filing the calculation of the CCRC rate based upon terms of the Commission’s Order.
3. Adopt the ALJ recommendation that in future general rate-case filings, MERC should change the CCRC rate at the beginning of interim rates and again at final rates.

G. *Over/Under-Collected Interim Period CIP Revenues*

1. Adopt the ALJ recommendation to the Commission that MERC’s proposal to credit the CIP tracker balance, in the event that it under-collects CIP expense during interim rate period, is reasonable.
2. Adopt the ALJ recommendation and in addition adopt PUC staff recommendation to add “to debit the CIP balance, in the event that it over-collects the CIP expense during the interim period, is reasonable.”

H. *Future Presentation of CCRC and CCRA*—Require no change to MERC’s current handling of its CIP revenues and expenses. Require MERC to continue its current CCRC calculation methodology by including the CCRC factor in its base distribution rate and maintain its CCRA factor in its current format.

I. *Class Revenue Apportionment*—Adopt the proposed revenue allocation agreed upon between MERC and the Department and recommended by the ALJ.

The motion passed 5-0.

3. *Property Tax Expense*

Commissioner Wergin moved to take the following actions:

- A. Approve a 2014 test year Taxes Other than Income Expense of \$7,195,869.
- B. Require the Company to:
 - a. Refund the amount of Kansas property taxes collected from customers for the years under appeal, less the amount ultimately paid to Kansas for all years under appeal;
 - b. Remit any refunds due to ratepayers with interest;
 - c. Notify the Commission of any court rulings issued prior to the Commission's final order in this proceeding; and
 - d. Make a compliance filing upon resolution of either the Minnesota property tax appeal or the Kansas ad valorem tax litigation.

The motion passed 5-0.

4. *Regulatory Assets and Liabilities and Related Deferred Taxes*

Commissioner Boyd moved to take the following actions:

- A. Adopt the ALJ's proposed findings 498 through 501 and require MERC to reduce rate base by \$11,281,942 for the Regulatory Assets and Liabilities adjustment and its related deferred taxes of \$4,294,542 for a net adjustment that reduces the rate base by \$6,987,400.
- B. Strike the words "averaging of" and "[i]n the view of the Administrative Law Judge" from ALJ findings 489 and 490.

489. ~~In the view of the Administrative Law Judge, t~~The Department has the better of the two arguments. First, notwithstanding the practice agreed to in MERC's prior rate case, the multi-year averaging of cumulative amounts that occurred in that case is both different from what is proposed for this test year and not ideal.

490. It bears mentioning that the ~~averaging of~~ cumulative amounts, in the prior case, resulted in a reduction to the size of the rate base.

The motion passed 5-0.

5. *Non-Fuel O&M Expense/Inflation*

Commissioner Boyd moved to adopt the ALJ's findings and not require MERC to adjust the methodology used to develop test year non-fuel O&M expense.

The motion passed 5-0.

6. *System Mapping Project*

Commissioner Lange moved to amortize the cost of the system mapping project over two years at \$165,000 per year and reduce the test year distribution expense by \$165,000.

The motion passed 5-0.

7. Travel, Entertainment, and Related Employee Expenses

Chair Heydinger moved to take the following actions:

- A. Reduce Administrative and General Expenses by the \$7,770 agreed to between the Company and the Department, an additional \$956 in corporate aircraft expense, and an additional \$3,496 for dues to the Edison Electric Institute.
- B. Require the Company in future rate case filings to meet the reporting requirements of Minn. Stat. § 216B.16, subd. 17 for all T&E Expenses, including expenses related to employees working for MERC affiliates.
- C. Require the Company in future rate case filings to allocate any costs not specific to Minnesota based on the allocation factor MERC files in its Direct Testimony and identify which costs have been allocated.

The motion passed 3-2. Commissioners Lange and Lipschultz voted no.

8. Taxes for Net Operating Losses Carryforward

Commissioner Boyd moved to approve MERC's Deferred Tax Asset of approximately \$2.2 million for inclusion in the test year.

The motion passed 5-0.

9. Integrys Business Services (IBS) Customer Relations

Commissioner Wergin moved to take the following actions:

- A. Adopt ALJ Finding 275 that:

In the view of the Administrative Law Judge, the \$408,455 in costs relating to the Vertex contract is both "used and useful." Vertex is now providing the same billing and customer relations services to MERC ratepayers that it has for many years.

- B. Adopt the OAG's suggested modification to ALJ finding 276 and require the expenses in the amount of \$322,226 for ICE costs plus \$29,070 for depreciation and return cross charges be removed from test year O&M expenses. Instead, MERC will be permitted to defer its actual IBS customer relations expense plus actual depreciation and return on cross charges as a regulatory asset with deferred accounting treatment, with the following conditions:
 - a. The ICE 2016 project expenses shall not be included in rate base as the project is not used and useful at this time; MERC did not include the expenses as construction work in progress.
 - b. Any discussion of amortization period shall be resolved during MERC's next rate case.
 - c. The deferred expenses shall be subject to a reasonableness review in MERC's next rate case.

- C. Order MERC to provide, in the initial filing of its next rate case, a detailed breakdown of all deferred ICE-related expenses.

The motion passed 5-0.

10. Employee Benefit Costs

Commissioner Wergin moved to take the following actions:

- A. Adopt MERC's agreement with the Department to update the measurement date for the plan asset values for pension expense and post-retirement life expense to December 31, 2013.
- B. Adopt MERC's proposal, accepted by the Department, to use the updated March 1, 2014 plan asset values in the calculation of the test year post-retirement medical expense.
- C. For test year pension expense, adopt the ALJ's finding 250 and require MERC to calculate test year pension expense using a discount rate equal to the five-year historical average of discount rates.
- D. Require MERC to use a five-year historical average of discount rates to calculate test year post-retirement medical plan and post-retirement life insurance expense.
- E. Open a generic inquiry into how the discount rate should be derived and applied in calculating future pension expenses for setting rates in Minnesota.
- F. Clarify ALJ finding 254 by replacing the words "rate base" with "expense."
- G. Correct finding 209 by replacing the words "expected return on plan assets" with "plan asset values as of December 31, 2013."

The motion passed 5-0.

Chair Heydinger moved to amend the ALJ's Report as necessary for consistency with the decisions just made.

The motion passed 5-0.

11. Uncollectable Expense

Commissioner Boyd moved to adopt the Department's position to use the 2013 ratio of 0.549760% and apply to test year forecasted tariff revenues at present rates as determined by the Commission's decisions in this rate case and the new base cost of gas, determined in accordance with requirements set in this case, plus the approximate revenue deficiency determined by the Commission's decisions (i.e., rounded down to the closest million to eliminate the circular reference).

The motion passed 5-0.

12. Adequacy of Vertex Billing Audit

Commissioner Lipschultz moved to take the following actions:

- A. Require MERC to review its CIP billing process and require MERC to submit a compliance filing in this docket reporting its findings from this review process. Also require MERC to file annual compliance filings with MERC's annual tracker filing, to document on an annual basis that MERC's CIP exempt customers are properly identified and billed.
- B. Consider MERC's previous Vertex billing system responses as sufficient and further consider prior Commission precedent as a deterrent to MERC to police its billing system, and require no further action.

The motion passed 5-0.

13. Cost of Gas

Chair Heydinger moved to require MERC to provide a filing within seven days in this docket that updates the base cost of gas reflecting NYMEX pricing estimates for January through December 2015. These figures shall be used to adjust the revenue deficiency amount identified in decision option 54, and MERC shall use these figures as the new base cost of gas.

The motion passed 5-0.

14. Gas Storage Balance

Chair Heydinger moved to adopt an appropriate gas storage balance number based on the base cost of gas decision made in this case as reflected in the compliance filing required under section 13 above.

The motion passed 5-0.

15. Cost of Equity

Chair Heydinger moved to take the following actions:

- A. Adopt the Department's recommended cost of equity of 9.29 percent.
- B. Determine that the discounted cash flow method, checked for reasonableness, is appropriate for estimating the cost of equity for MERC Energy in this proceeding.
- C. Adopt the Department's clarifications and corrections for Findings 160 - 162:
 - a. 160. Application of the ECAPM analysis resulted in an estimated ROE mean for the NGCG of 9.76 ~~9.96~~ percent with flotation costs. [FN: Ex. 200 at 33 (Amit Direct)]
 - b. 161. In Dr. Amit's Direct Testimony, the ECAPM's ROE was appreciably higher than Dr. Amit's CAPM's ROE and somewhat close to the mean of his DCF's ROE for the NGCG.
 - c. 162. In his Direct Testimony, Dr. Amit's CAPM and ECAPM results for the NGCG lie within the range of Dr. Amit's DCF/TGDCF estimated ROEs - specifically, between 8.61 percent and 10.14 percent.
- D. Amend the ALJ's findings as necessary to be consistent with these decisions.

Commissioner Boyd moved to amend the motion to set the cost of equity at 9.35%, averaging the results of Dr. Amit's initially filed DCF analysis and his final, updated DCF analysis.

The motion to amend passed 3-2. Chair Heydinger and Commissioner Lipschultz voted no.

The motion as amended passed 5-0.

16. Overall Cost of Capital

Chair Heydinger moved to adopt an overall cost of capital reflecting the decisions made above, including the 9.35% cost of equity.

The motion passed 5-0.

17. Class Cost of Service Study (CCOSS)

Commissioner Wergin moved to determine that although a CCOSS is not precise, it can be a useful tool for setting rates and to amend the ALJ's Report as necessary to reflect this determination.

The motion passed 5-0.

18. CCOSS Issues

Chair Heydinger moved to take the following actions:

- A. *Income Tax Allocation*—Determine that, for the Class Cost of Service Study, taxable income should be based on allocation of costs within the Class Cost of Service Study (allocated by class on the basis of taxable income that fully and only reflects the CCOSS.)
- B. *Meter Reading Costs*—Approve MERC's proposed allocation of FERC Account 902: Meter Reading.
- C. *Correction to ALJ's Report on Meter Reading*— Modify Finding 649 as proposed by the OAG to be consistent with the OAG's position that it does not agree that MERC's allocation is reasonable.
- D. *Customer Records and Accounts*— Determine that MERC's allocation of Account 903 costs are reasonable.
- E. *Main Distribution Cost Studies*—Adopt the OAG's proposed modifications to Finding 631 to provide more explanation of the differences between the minimum size method and the zero-intercept method.
- F. *Main Distribution Cost Allocation*— Determine that 68.3 percent of MERC's distribution mains were classified as customer costs and 31.7 percent were classified as demand costs.

The motion passed 5-0.

19. Allocating Income Tax Costs in Future Rate Cases

Commissioner Wergin moved to determine that, in future rate cases, MERC should allocate income taxes by class on the basis of taxable income that fully and only reflects the CCOSS.

The motion failed 2-3. Chair Heydinger and Commissioners Lange and Lipschultz voted no.

20. Use of CCOSS in this Case

Commissioner Wergin moved to accept MERC's CCOSS as a useful tool for the purpose of setting rates.

The motion passed 5-0.

21. CCOSS in Next Rate Case

Chair Heydinger moved to require MERC to submit two CCOSSs in its next rate case. One study should be based on the zero-intercept method and the other on the minimum distribution method.

The motion passed 5-0.

22. Data Collection for Future CCOSS

Chair Heydinger moved to require MERC to take the following actions in preparing future Class Cost of Service Studies:

- A. collect data on additional variables that impact the unit cost of mains installation;
- B. avoid aggregating or averaging data and use data at the finest level reasonable;
- C. check OLS regression assumptions and correct for violations; and
- D. make any future zero-intercept analysis more transparent to ensure that MERC's work can be easily replicated.

The motion passed 5-0.

23. Customer Charges

Commissioner Wergin moved to take the following actions:

- A. Adopt the agreed upon proposal between MERC and the Department and the recommendation by the ALJ to increase the Residential monthly basic customer charge to \$9.50;
- B. Adopt the proposed increases by MERC that were agreed to by the Department and recommended by the ALJ for the monthly fixed charges for these customers.

The motion passed 3-2. Commissioners Lange and Lipschultz voted no.

24. Joint Rate Service

Commissioner Lange moved to adopt findings that address PUC staff subsidy concerns regarding MERC's joint service and require MERC and the Department to work together to resolve and address the subsidiary concerns and make a compliance filing within 90 days from the date of the Commission Order in this docket.

The motion passed 5-0.

25. ALJ's Report

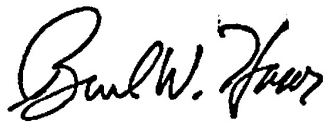
Chair Heydinger moved to take the following actions:

- A. Adopt the ALJ's Report and recommendation to the extent the ALJ's Report is consistent with the decisions made by the Commission at this meeting.
- B. The written order memorializing these decisions may clarify, as necessary, whether, and the extent to which, the Commission is adopting, clarifying, amending, modifying, not accepting or rejecting particular ALJ findings and recommendations.

The motion passed 5-0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: November 19, 2014



Burl W. Haar, Executive Secretary