

June 23, 2014

PUBLIC DOCUMENT

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota, 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce,
Division of Energy Resources**
Docket No. G011/PA-14-437

Dear Dr. Haar:

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

In the Matter of the Petition of Minnesota Energy Resources Corporation (MERC) for Approval of Caledonia, Minnesota Property Acquisition.

The petition was filed on May 28, 2014 by:

Gregory J. Walters
Minnesota Energy Resources Corporation
519 First Avenue SW
P.O. Box 6538
Rochester, MN 55903-6538

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** MERC's Petition and is available to answer any questions the Commission may have.

Sincerely,

/s/ SAMIR OUANES
Rates Analyst

SO/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/PA-14-437

I. SUMMARY OF PROPOSAL

On May 28, 2014, Minnesota Energy Resources Corporation (MERC or the Company) submitted a petition (Petition) to the Minnesota Public Utilities Commission (Commission) seeking approval to acquire a property in Caledonia, Minnesota, which MERC will renovate and use as a work center.

Since May 1995, MERC has leased the current office and warehouse space, totaling 1,200 square feet, within a car wash building in La Crescent, Minnesota (current facility). The current facility employs five field technicians and one full-time meter reader who support 7,000 meters within nine surrounding communities.¹ MERC's current lease expires in April 2015. In its Petition, MERC describes several deficiencies of the current facility, including limited storage space, lack of room for work stations and to accommodate an additional employee, safety concerns due to limited floor space and security concerns as a result of sharing the car wash building. In response to these problems, MERC proposes to terminate its lease and purchase a 3,564 square foot building (proposed property) in Caledonia that the Company would be able to customize to meet its needs with various capital upgrades.

II. FILING REQUIREMENTS

Minnesota Rule 7825.1800 contains the filing requirements for property acquisition petitions. Specifically, the rule states:

Petitions for approval to acquire property shall contain one original and three copies of the following information, either in the petition or as exhibits attached thereto:

¹ Source: Petition at 2.

A. Petitions for approval of a merger or of a consolidation shall be accompanied by the following: the petition signed by all parties; all information, for each public utility, as required in parts 7825.1400 and 7825.1500; the detailed reasons of the petitions and each party for entering into the proposed transaction, and all facts warranting the same; the full terms and conditions of the proposed merger or consolidation.

B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.

C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.

D. Other pertinent facts or additional information that the commission may require.

Subpart A above applies specifically to mergers and consolidations, and thus is not applicable in the instant Docket.

Subpart B references Minnesota Rule 7825.1400, which contains the filing requirements for capital structure petitions. On the first page of its Petition, MERC states that because no securities will be paid in consideration for the transaction at issue, Minnesota Rule 7825.1400, items A to J, are not relevant to the proposed property acquisition. The Department notes that items A to D of Minnesota Rule 7825.1400 are not specific to securities issuances, and MERC's Petition contains the information required by them. Items E to J are specific to securities issuances and are therefore not relevant to this Docket. Additionally, the Petition includes the purchase price and the terms for payment. The Department concludes that MERC has met the filing requirements of subpart B.

With respect to subpart C, the Petition includes a description of the property, and states that "MERC will book the property at its purchase price with no depreciation reserve."²

² Source: Petition at 3.

The Department concludes that MERC has met all filing requirements for property acquisition petitions.

III. DEPARTMENT ANALYSIS

A. STATUTORY REQUIREMENTS

Minnesota Statute 216B.50, subd. 1 states:

No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

Based on the above statute, the Department discusses the reasonableness of the proposed property acquisition and whether it is consistent with the public interest.

B. REASONABLENESS OF THE PROPOSED PROPERTY TRANSACTION

To determine whether the proposed property acquisition is consistent with the public interest, the Department first assesses MERC's need to move out of its current facility. Finally, the Department assesses whether the new building is the best option available considering both cost and MERC's business needs.

1. MERC's Need to Move Out of Current Facility

As stated on pages 3 and 4 of the Petition, MERC proposes to terminate its lease at the current facility and purchase the proposed property to: 1) gain additional square footage, 2) provide working space for its technicians and a work center supervisor, and 3) improve the safety and security of the work center.

On page 4 of the Petition, MERC describes the limitations of the current facility as follows:

In MERC's current leased facilities, space is limited for storage, resulting in some records and materials being stored in Rochester that would be best stored locally. This inadequacy results in additional trips between work centers and more storage would, therefore, improve the efficiency of MERC's operations. In addition, the storage area in the La Crescent Work Center is inadequate for the meters, fittings, and other materials that need to be stored in the facility. Further, at the current facility, all meters, materials, and supplies must be carried into the Work Center by hand. The area is very cramped and will not accommodate a forklift or a truck for loading and unloading. Moreover, the lighting is extremely poor and it takes a constant effort to organize and shuffle materials to create room for safety. Finally, because of the limited floor space, and because it is a leased facility, MERC is unable to apply yellow lines on the walking surface to identify safe walking paths, which is a best practice for safety. The new property offers additional space to address these safety and storage issues and is better designed to meet MERC's needs.

In addition to the above safety concerns, because the currently used La Crescent facility is leased and is shared with a car wash, MERC does not have total control of the security of the building. All of the doors have locks but there are no other devices (cameras or key card access) to further ensure the safety of MERC employees and property. In contrast, the new space will be owned and occupied solely by MERC, allowing MERC to provide for appropriate security measures at the facility.

With regard to staffing improvement provided by a new facility, it is MERC's plan to have a supervisor at this location more often in the future. It is important for employee relations and efficiency to have our supervisors in the field as much as possible. To date, MERC has not been able to have a supervisor regularly present at the La Crescent Work Center because the space is too small to accommodate an additional employee. Furthermore, the La Crescent Work Center lacks room for employees to work on computer modules and complete paperwork. It is not nearly large enough to adequately conduct the monthly workshops. Handouts are often used when a

computer presentation would be preferred. As owner of the new work center, MERC would be able to design and configure its work space to accommodate its technicians, an on-site supervisor, additional storage, and efficient deliveries.

While MERC has been able to adapt to the limitations of the current facility for more than 19 years, the Department understands the Company's desire to move out of a facility which requires materials to be loaded and unloaded by hand, lacks sufficient space, and does not fully address safety and security concerns. Thus, the Department concludes that the Company has adequately demonstrated that its current facility is not ideal, and that the elimination of the described deficiencies would justify the increase in annual costs to operate the facility from [TRADE SECRET DATA HAS BEEN EXCISED] to [TRADE SECRET DATA HAS BEEN EXCISED]³

2. Alternatives to Proposed Property

The Department asked MERC to explain whether the Company explored alternatives to purchasing the proposed property.

In its response to the Department's discovery, MERC stated:

MERC explored other alternatives before deciding to purchase and renovate the facility located at 614 Esch Drive in Caledonia, Minnesota. Specifically, MERC considered, as an alternative, purchasing land and constructing a new facility. In order to newly construct a similarly sized facility to the proposed Caledonia renovation (3564 sq. ft.), the total cost would have been approximately [TRADE SECRET DATA HAS BEEN EXCISED] as compared to the proposed Caledonia renovation which has a total cost of approximately [TRADE SECRET DATA HAS BEEN EXCISED] In other words, cost of purchasing the Caledonia facility and renovating it was approximately [TRADE SECRET DATA HAS BEEN EXCISED] per square foot as compared to [TRADE SECRET DATA HAS BEEN EXCISED] per square foot to construct a new facility.

As compared to staying in our current lease at the La Crescent location, the operating costs per square foot, per year is [TRADE SECRET DATA HAS BEEN EXCISED] at our current La Crescent location as compared to [TRADE SECRET DATA HAS BEEN EXCISED] at the proposed Caledonia renovation location.

³ Source: Schedule A of the Petition.

MERC was able to find no other commercial properties available for lease that would have suited our needs. Thus, we were unable to further evaluate specific pricing proposals for a leasing option because no properties were available.

In the end, we determined the proposed Caledonia property was the most cost-effective option.

The Department concludes that MERC has adequately explored alternatives to the proposed property.

The Department also concludes that MERC has adequately demonstrated that the proposed property is the least cost option when considering the Company's business needs. As a result, the cost of the proposed property (including the purchase price and the cost of upgrades) is reasonable.

Therefore, the Department concludes that MERC's proposed property acquisition is reasonable and consistent with the public interest and recommends that the Commission approve the Petition.

IV. DEPARTMENT RECOMMENDATIONS

The Department concludes that MERC's proposed property acquisition is reasonable and consistent with the public interest and recommends that the Commission approve the Petition.

The Department notes, however, that these costs will be subject to review for prudence in MERC's next rate case, and any of the costs of the proposed property acquisition may be disallowed if they exceed MERC's estimates.

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CERTIFICATE OF SERVICE

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

**Minnesota Department of Commerce
Public Comments**

Docket No. G011/PA-14-437

Dated this 23rd day of June 2014

/s/Sharon Ferguson

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