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Rosemount, MN 55068  
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June 28, 2019

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

**VIA ELECTRONIC FILING**

Re: Emergency Request to Suspend Collection of Gas Utility Infrastructure Cost Rider and Natural Gas Extension Project Rider Surcharges for Direct Connect Customers

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Gas Utility Infrastructure Cost (GUIC) Rider  
Docket No. G011/M-18-281

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Natural Gas Extension Project (NGEP) Cost Rider Surcharge for Recovery of 2019 Rochester Project Costs  
Docket No. G011/M-18-182

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this filing to the Minnesota Public Utilities Commission (“Commission”) requesting emergency approval to suspend the collection of the gas utility infrastructure cost (“GUIC”) and natural gas extension project (“NGEP”)<sup>1</sup> rider surcharges from the Company’s direct connect customers. MERC has determined that this emergency request is essential to avoid a number of direct connect customers exercising their right to bypass MERC’s system, thereby negatively impacting all of MERC’s customers.

If action is not taken immediately, the Company believes the direct connect customers will bypass MERC’s system, resulting in real and substantial harm to MERC’s remaining customers. Bypass will result in a substantial loss of revenue from those customers who can easily leave MERC’s system and will trigger a significant and permanent increase in costs for MERC’s remaining customers. The loss of those customers would result not only in lost revenues from base rates but would also result in lost revenues recovered through the GUIC and NGEP riders. MERC respectfully urges the Commission to grant this emergency relief to mitigate those adverse impacts to all of the Company’s customers.

On February 5, 2019, the Commission issued an Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing Order in the Docket No.

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<sup>1</sup> The NGEP rider surcharge implementation remains pending at the time of this filing, with a compliance filing due by June 28, 2019 and anticipated rider implementation July 1, 2019.

G011/M-18-281, authorizing MERC to establish a GUIC rider and begin cost recovery in 2019 utilizing a uniform rate factor across all customer classes based on 12 months of sales. In its April 25, 2019 Order Approving Compliance Filing, the Commission approved a GUIC rider surcharge of \$0.00413 per therm effective May 1, 2019, on all customer bills.

On May 15, 2019, the Super Large Gas Intervenors (“SLGI”)<sup>2</sup> submitted a letter in Docket Nos. G011/18-182 and G011/M-19-282, raising concerns regarding the potential risk of bypass by the SLGI customers as a result of the additional costs proposed to be charged to those customers through the GUIC and NGEF riders.

On June 18, 2019, in Docket No. G011/M-18-182, the Commission issued an Order Approving NGEF Rider Surcharge with Modifications, declining to take action regarding the issues raised by SLGI in the NGEF rider docket. As stated in the Commission’s Order “[t]he volumetric rate design proposed by MERC and the SLGI’s option to bypass MERC’s system to avoid MERC’s upcoming rate case and the 2020 Gas Utility Infrastructure Docket can be better addressed in those proceedings.” At the time of that Order, the volumetric 2019 GUIC rider surcharge had already been approved and implemented effective May 1, 2019. And while MERC does have a 2020 GUIC rider petition pending, the Company has not committed to file a 2020 test year rate case.

MERC serves fourteen direct connect customers<sup>3</sup> whose 2018 usage was in excess of 330 million therms. As direct connect customers, they require minimal MERC-owned facilities and, unlike all other customers, arguably do not benefit from the expansion or improvement of MERC’s distribution facilities. Since the implementation of the Company’s 2019 GUIC rider surcharge effective May 1, 2019, MERC’s direct connect customers have objected to the new GUIC charges and have threatened to bypass MERC’s system. Should they bypass MERC, the loss of their contribution to the system’s fixed costs would result in significant and permanent rate increases for all remaining customers, and without a rate case, MERC will not have the opportunity to forestall bypass by mitigating the rate impacts to the direct connect customers through interim and final rate adjustments.

Based on the impacts to the direct connect customers from the volumetric 2019 GUIC rider surcharge and the soon-to-be-implemented 2019 NGEF rider surcharge, a very real possibility exists that without action, those customers will bypass MERC’s system, which would harm the remaining customers. To prevent these harmful events from occurring, the Company requests that the Commission authorize MERC to suspend collection of both the

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<sup>2</sup> SLGI is comprised of ArcelorMittal USA; Hibbing Taconite Company; Northshore Mining Company; United States Steel Corporation; United Taconite LLC; and USG Interiors Inc.

<sup>3</sup> For purposes of this request, direct connect customers are limited to those customers meeting the definition under MERC’s revised tariffs implemented July 1 in Docket No. G011/GR-17-563. In particular, a direct connect customer (1) is a customer who is directly connected to the interstate pipeline with no Company-owned underground distribution facilities where (2) no non-Direct Connect customers are served off of the same point of interconnection. Farm Tap customers do not qualify as direct connect customers.

GUIC and NGEF rider surcharges<sup>4</sup> for direct connect customers on an emergency basis effective August 1, 2019, and authorize MERC to refund the amounts collected for the period May 1, 2019 through the suspension.

The Commission authorized the GUIC rider surcharge of \$0.00413 effective May 1, 2019, based on 12-months of sales, to continue until the Commission authorizes implementation of a new GUIC rider rate. Absent suspension and refund, the Company estimates that the direct connect customers would be responsible for approximately \$1.4 million over 12-months of recovery with respect to the GUIC rider. With respect to the NGEF rider surcharge, absent suspension and refund, MERC estimates that direct connect customers would be responsible for approximately \$132,000 of the 2019 authorized revenue requirement.

MERC proposes to continue to assess the approved per-therm GUIC rider surcharge of \$0.00413 and the to-be-filed NGEF rider surcharge to all other remaining customers and requests authorization to address the under-recovered revenues that result from the exclusion of these direct connect customers in the future true-up for 2019 rider costs.

While the Company recognizes the timing of this request is not ideal, recent circumstances and customer responses have made clear that the potential for bypass is both real and imminent if no action is taken to mitigate the rates for the direct connect customers. If those customers were to leave MERC's system, the loss of their contribution to the system's fixed costs would result in significant and permanent rate increases for remaining customers. Once the customers bypass MERC's system, they would have no reason to return, regardless of any actions taken in the future. In addition to the loss of revenues from those customers' distribution rates, bypass would also result in a revenue shortfall for the GUIC and NGEF riders, necessitating true-up recovery from remaining customers.

As a result, MERC respectfully requests that the Commission take action on an emergency basis to avoid the potential bypass and loss of those direct connect customers. MERC requests that the Commission issue an Order:

- 1) Authorizing the suspension of the 2019 GUIC rider surcharge from direct connect customers by August 1, 2019;
- 2) Authorizing the suspension of the 2019 NGEF rider surcharge from direct connect customers by August 1, 2019;

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<sup>4</sup> MERC acknowledges that the Commission previously rejected a proposal from SLGI to exclude the Super Large Volume customers from the NGEF rider surcharge assessment. The Company also acknowledges that the NGEF Rider statute, Minn. Stat. §216B.1638, subd. 2, allows a utility to petition the commission for a rider that "shall include all of the utility's customers, including transport customers." Nevertheless, MERC believes the Commission should grant the relief requested to exclude the direct connect customers from the collection of the GUIC rider surcharge. As set forth in this letter, this request is in the public interest and necessary to mitigate potential harm to all of MERC's customers that would result from bypass by the direct connect customers.

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- 3) Authorizing the refund of all amounts collected from direct connect customers prior to suspension on both the NGEF and GUIC rider surcharges;
- 4) Authorizing MERC to recover the resulting under-recovered revenues for both the GUIC rider and NGEF rider through the 2019 rider true-up calculations.

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,

A handwritten signature in blue ink that reads "Mary L. Wolter". The signature is written in a cursive style with a large initial "M".

Mary L. Wolter  
Director – Gas Regulatory Planning & Policy

cc: Service List

In the Matter of the Petition of Minnesota  
Energy Resources Corporation for  
Approval of a Gas Utility Infrastructure  
Cost (GUIC) Rider

Docket No. G011/M-18-281

In the Matter of the Petition of Minnesota  
Energy Resources Corporation for  
Approval of a Natural gas Extension  
Project (NGEP) Cost Rider Surcharge for  
Recovery of 2019 Rochester Project Costs

Docket No. G011/M-18-182

CERTIFICATE OF SERVICE

I, Colleen T. Sipiorski, hereby certify that on the 28th day of June, 2019, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Letter on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 28th day of June, 2019.

/s/ Colleen T. Sipiorski  
Colleen T. Sipiorski

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_18-182_M-18-182
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-182_M-18-182
Ian	Dobson	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_18-182_M-18-182
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Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_18-182_M-18-182
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