

June 10, 2015

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-15-441

Dear Dr. Wolf:

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

Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a
New Area Surcharge for the Detroit Lakes—Long Lake Project.

The Petition was filed on June 20, 2014 by:

Seth DeMerritt
Minnesota Energy Resources Corporation
700 North Adams Street
Green Bay, Wisconsin 54301
(920) 433-2926

As discussed in greater detail in the attached Comments, the Department recommends that the Minnesota Public Utilities Commission (Commission) approve MERC's Petition. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ LAURA B. OTIS
Rates Analyst

LBO/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/M-15-441

I. BACKGROUND

On July 26, 2012, the Minnesota Public Utilities Commission (Commission) approved Minnesota Energy Resources' (MERC or the Company) request for a New Area Surcharge tariff.¹ MERC's New Area Surcharge Rider enables the Company to extend service into a new area it would be uneconomic to serve at tariffed rates. MERC's New Area Surcharge Rider allows the term of service to vary from area to area, depending on the project; however, the maximum surcharge term was set at 15 years.

On January 30, 2014, Governor Mark Dayton issued Emergency Executive Order 14-02 and released a statement in response to the propane supply issues due to the polar vortex conditions that gripped the state.² This statement listed steps that had been taken to alleviate the propane issues within the state and steps being taken to prevent future propane shortages. On March 24, 2014, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Testimony in Docket No. G011/GR-13-617 recommending that MERC pursue in a separate filing a tariff revision to extend the maximum term of service for a New Area Surcharge to some period such as the length of the expected lives of the new facilities or a period agreed to by customers in the new area. On June 20, 2014, MERC submitted a filing (Petition) to the Commission in Docket No. G011/M-14-524 to:

- Modify the Company's New Area Surcharge tariff sheet to allow a New Area Surcharge to remain in effect for a term not to exceed thirty (30) years; and
- Establish a New Area Surcharge for customers located near Ely Lake in the Cities of Eveleth and Gilbert in northern Minnesota.

¹ Docket No. G-007,011/M-11-1045

² See Attachment 1

On September 5, 2014, the Commission approved the Company's request for approval of a revision to its New Area Surcharge tariff and a New Area Surcharge for the Ely Lake Project of \$33.50 per month for residential and existing small business class customers.

On May 11, 2015, MERC filed its petition for approval of a NAS for the Detroit Lakes—Long Lake Project in the instant docket.

MERC proposed that the New Area Surcharge for customers located near Detroit Lakes be in effect for a period not to exceed fifteen (15) years and commence on approximately November 1, 2015. The proposed NAS monthly rates are \$28.40 for Residential customers and 53.81 for all other customer classes. MERC used the NAS model approved by the Commission and incorporated into its tariff book to calculate NAS rates that will bring the net present value of the project to approximately \$0 over the life of the project. MERC indicated that it would terminate the surcharge when project revenue deficiency is satisfied or at the end of 15 years, whichever occurs first.

II. THE DEPARTMENT'S ANALYSIS

A. MERC'S FILING

The Commission's July 26, 2012 Order in Docket No. G007,011/M-11-1045 requires the Company to make a miscellaneous rate change filing for any specific New Area Surcharge project. The Company calculated a New Area Surcharge that would allow extension of service to the citizens in the Detroit Lakes Area. According to the filing, a surcharge level of \$28.40 for residential customers and \$53.81 for all other customers³ is required in order to bring the Net Present Value of the project to approximately \$0 over the project's life. MERC proposed that the surcharge be in effect until the projected revenue deficiency is satisfied, but for no longer than 15 years. MERC stated that the proposed surcharge is reasonably designed so as to recover the portion of the cost of service attributed to uneconomic service extensions, and to ensure that existing customers will not subsidize new area customers. MERC stated that the proposed New Area Surcharge is in the public interest due to the lower cost of natural gas as compared to alternative fuel sources. MERC also stated that there will be no need for demand entitlement changes, as and that new customers in these areas would be served off existing supply contracts.

MERC included an updated tariff sheet, the work papers the Company used to calculate the surcharge, and a proposed customer notice. In addition, MERC included a map of the Detroit Lakes—Long Lake Project. Further, the Company provided a surcharge amount for each customer class, regardless of whether any customers of the class are anticipated.

³ No customers in the large commercial, interruptible, or transport services are currently expected, but there is a potential for additional customers in these classes, and therefore, a surcharge is proposed to comply with the Commission's requirements and to prevent a duplicate filing in the future.

B. DEPARTMENT ANALYSIS

The NAS rider is governed by the Commission's July 26, 2012 Order in Docket No. G007,011/M-11-1045, the NAS pages in the Company tariff book, and Minnesota Rules Part 7829.1300—Miscellaneous Tariff and Price List Filings.

Minnesota Rules Part 7829.1300 lays out filing content and service requirements for miscellaneous tariff filings, such as NAS petitions. The Department has reviewed the requirements under Minnesota Rules Part 7829.1300 and concludes that the Company complied with all requirements.

The Commission's July 26, 2012 Order in Docket No. G007,011/M-11-1045 requires that any filing for a miscellaneous rate change for a specific NAS project shall include at a minimum:

- an updated surcharge tariff sheet and its related spreadsheets with and without the proposed surcharge for each new surcharge area;
- its work papers showing all underlying assumptions concerning interest rates, costs, depreciation, demographics, rate structure, etc.
- a surcharge rate for each customer class, even if no customers are anticipated for the class;
- the Company's proposed customer notice; and
- all pertinent contract demand entitlement change requests as soon as the required information is ascertained.

As discussed above, MERC provided the required information in its initial filing. Specifically, MERC provided updated tariff sheets in Exhibit A, its workpapers in Exhibit C, surcharge rates for each class in the body of the Petition, a proposed customer notice in Exhibit D, and finally noted that it expects no change to contract demand entitlement in the body of the petition.

The New Area Surcharge Rider in MERC's tariff book describes the availability, rate, applicability, methodology, term, expiration, and model guidelines that the Company must follow in all NAS riders. The Department has reviewed MERC's proposal under these parameters, and has found that the Detroit Lakes—Long Lake project proposal complies with all parameters.

While the Department has found MERC's application and model to be in compliance with prior Commission orders and the Company's current tariff, the Department conducted further analysis regarding extension of the surcharge term. MERC requested a maximum 15 year term for the project. The Department requested that MERC provide an analysis of the effects of extending the term beyond 15 years to 16, 17, 18, 19, or 20 years due to the suspicion that extending the term would decrease monthly surcharges for customers, therefore making the surcharge rates more affordable for potential customers.

The reasoning behind the Department’s request follows the logic employed by MERC in requesting a modification to its tariff to extend the maximum allowed term for a NAS:

The modification to MERC’s New Area Surcharge tariff will provide opportunity for MERC to make extensions more affordable by extending the surcharge period and thereby lowering the monthly surcharge amount.⁴

The Commission agreed with MERC in its Order⁵, stating:

. . . it is reasonable to permit a longer surcharge period, which will serve to promote affordability of the surcharge and increase customer participation.

MERC provided the requested data, which showed that both residential and commercial surcharge rates would decrease under extended surcharge periods.

NAS Rates (\$)		
Term	Residential	Commercial
15	28.40	53.81
16	27.09	51.33
17	25.96	49.19
18	24.96	47.29
19	24.08	45.63
20	23.31	44.17

Table 1

The Department calculated the percent change in rates as compared to the percentage change in the total amount paid by customers over the life of the surcharge. This analysis shows that the percentage decreases in the monthly surcharge amounts far exceed the percentage increases in total amounts paid over the life of the surcharge.

% Change, Monthly NAS Rate		
Term	Residential	Commercial
16	-4.61%	-4.61%
17	-8.59%	-8.59%
18	-12.11%	-12.12%
19	-15.21%	-15.20%
20	-17.92%	-17.91%

Table 2

% Change, Amt. Paid Over Life ⁶ of the NAS		
Term	Residential	Commercial
16	1.75%	1.75%
17	3.60%	3.60%
18	5.46%	5.46%
19	7.40%	7.41%
20	9.44%	9.45%

Table 3

⁴ Initial Filing, Docket No. G-011/M-14-524

⁵ September 9, 2014 Order Approving New Area Surcharge and Proposed Tariff Modification

⁶ Assuming the surcharge does not end early.

Therefore, adjusting the term of the Detroit Lakes – Long Lake NAS from 15 to 20 years results in a decrease in monthly surcharge rates of over \$5 per month for residential customers, and over \$9 per month for Commercial customers—decreases of approximately 18 percent from the 15-year rates proposed in the petition. While the Department notes that increasing the NAS term from 15 to 20 years would increase the total amount paid by approximately 9.4 percent, the extension would make the surcharge more affordable for customers, and may help encourage increased participation in the communities served by the project. Higher-than-expected participation could result in early discontinuation of the surcharge.

The Department recommends that the Commission approve the model with an adjusted term of 20 years, rather than 15.

III. DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission approve MERC's petition for approval of a NAS for the Detroit Lakes – Long Lake project with the following changes:

- Adjust the surcharge term from 15 years to 20 years; and
- Adjust the surcharge rates to \$23.31 per month for residential customers and \$44.17 per month for all other customer classes.

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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
Comments**

Docket No. G011/M-15-441

Dated this 10th day of June 2015

/s/Sharon Ferguson

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