PUBLIC VERSION

STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

Katie Sieben	Chair
Dan Lipschultz	Vice Chair
Valerie Means	Commissioner
Matt Schuerger	Commissioner
John Tuma	Commissioner

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

DOCKET NO. G-011 / M-18-281

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

DOCKET NO. G-011 / M-18-182

REPLY COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL

INTRODUCTION

The Office of the Attorney General—Residential Utilities and Antitrust Division ("OAG") respectfully submits these Reply Comments in response to the Commission's July 2, 2019 Notice of Comment Period on Minnesota Energy Resources Corporation's ("MERC's" or "the Company's") June 28, 2019 "emergency request" to suspend its Gas Utility Infrastructure Cost ("GUIC") and Natural Gas Extension Project ("NGEP") riders for direct-connect transportation customers and to recover the resulting revenue shortfall from its remaining ratepayers. The OAG continues to recommend that the Commission deny MERC's request because it is inconsistent with the law and standard regulatory practice, because the record does not establish a threat of bypass by direct-connect customers, and because MERC proposes a major rate-design change that should be resolved through normal ratemaking processes.

I. THE REQUESTED RELIEF IS ILLEGAL.

As explained in the OAG's Initial Comments, MERC's request to exempt direct-connect transportation customers from the GUIC and NGEP riders conflicts with clear provisions of law. First, the NGEP statute requires that NGEP rider surcharges be leveled on all of a utility's customers, explicitly including transportation customers.[1] Second, with respect to the GUIC rider, parties aggrieved by the Commission's decision approving the rider had a legal right to seek reconsideration of that decision, but that right expired no later than 20 days following the Commission's April 25 order.[2] And finally, allowing MERC to refund surcharges that direct-connect customers have already paid under a Commission-approved, duly tariffed rate, and to claw that money back from its other customers, would constitute illegal retroactive ratemaking.[3]

II. MERC'S REQUEST IS PROCEDURALLY IRREGULAR AND FORCES THE COMMISSION TO ACT WITHOUT AN ADEQUATE RECORD.

Not only is MERC's requested relief contrary to law, it is being sought outside the normal regulatory process. Decisions about rate design and the appropriate allocation of costs among rate classes are made, primarily, through rate cases and, secondarily, through rider dockets. Both types of proceedings allow parties a minimum of several months to develop a record on cost allocation, informed by numerous cost and noncost factors. Here, MERC is demanding that the Commission make a major rate-design decision in one month based on a single factor—an unsubstantiated threat of bypass by direct-connect customers. As discussed below, the record in this case is woefully lacking in the kind of detail that would be necessary to support a rate-design decision of this magnitude.

---

[1] Minn. Stat. § 216B.1638, subd. 2 (2018).
[2] *See* Minn. Stat. § 216B.27, subd. 1 (2018) (requiring petitions for rehearing by aggrieved parties to be filed within 20 days of service of a Commission order).
[3] *See* Minn. Stat. § 216B.23, subd. 1a(b) (2018) (prohibiting retroactive ratemaking and refunds of Commission-approved rates).

This "emergency" request on behalf of direct-connect customers is particularly galling because it was completely avoidable. MERC proposed, in February and April of last year, the rider surcharges that its direct-connect customers now find so onerous that they are threatening to flee the utility's system. These customers could have participated in the rider dockets and raised the bypass issue, as they did in the Company's recent rate case, but did not do so.[4] To manufacture an emergency now, after the close of these year-long dockets, is disingenuous, and granting the requested relief would shift costs to residential, small business, and other ratepayers without even affording those groups the protections of the normal regulatory processes.

III. THE BYPASS THREAT IS ILLUSORY.

If, despite the legal and procedural deficiencies in MERC's request, the Commission reaches its merits, the Commission should still reject the request because MERC has failed to establish a real threat of bypass. First, the record reflects no commitment on the part of any direct-connect customers that they will bypass if they are not exempted from the GUIC and NGEP riders. Second, the scant cost–benefit analysis in the record does not show a likelihood that a significant portion of direct-connect customers will bypass if rider relief is denied. Finally, even if bypass occurs, its impact on non-direct-connect customers would be similar to the impact of shifting rider costs onto these customers. The Commission should therefore give little weight either to MERC's claim that denying its request would cause bypass or to its claim that bypass would significantly harm its remaining customers.

[4] SLGI participated in the NGEP rider docket to the extent of filing a letter, the day before the Commission was scheduled to meet on MERC's NGEP rider petition, asking that the Commission "remain cognizant of the potential risks of bypass and the detrimental effects bypass would have on MERC's remaining customers." Docket No. G-011/M-18-182, SLGI LETTER at 2 (May 15, 2019).

A. Neither MERC Nor Its Direct-Connect Customers Can Guarantee That Any of These Customers Will Bypass If Emergency Relief Is Not Granted, or That They Will Stay on the System If It Is Granted.

MERC does not know its direct-connect customers' plans regarding bypass and cannot definitively state that they will bypass its system without emergency relief. The Company asserts that "the potential for bypass is both real and imminent if emergency action is not taken to mitigate the rates for the direct connect customers."[5] Yet MERC leaves open the possibility that bypass could be forestalled through a rate case, a process that would not commence for several months and would take more than a year to conclude.[6]

MERC necessarily relies on representations by direct-connect customers about their intent to bypass. But their representations have been equivocal. Comments filed by the Super Large Gas Intervenors ("SLGI"), who represent some direct-connect customers, convey no definite commitment that these customers will bypass if MERC's request is denied.[7] And it is not even clear that granting MERC's request will prevent direct-connect customers from bypassing: Company responses to OAG discovery requests show that direct-connect customers have represented to MERC that they are merely "likely" to remain on its system if the Commission grants rider relief.[8] In other words, even if the Commission were to grant MERC's request *in full*, there is no guarantee that the direct-connect customers would stay on the Company's system.

---

[5] MERC EMERGENCY REQUEST at 3.
[6] *See id.* at 2 (stating that, "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").
[7] The most that SLGI are able to state is that "[i]f MERC is permitted to layer on the NGEP and GUIC riders, it should be axiomatic that the increased costs provide economic support for a bypass because the incremental cost alone of these riders exceeds the cost of bypass." SLGI COMMENTS at 3 (July 11, 2019). But as discussed below, SLGI's supporting cost–benefit analysis is flawed.
[8] MERC Response to OAG IR No. 38 (Attachment A to these Reply Comments).

Finally—and critically—MERC and SLGI both fail to distinguish the bypass threat posed by each individual direct-connect customer. These customers are not a monolithic whole. Although each of them has a direct connection to the interstate gas pipeline, there are major differences in their annual usage, which ranges from **[TRADE SECRET BEGINS]** [redacted] **[TRADE SECRET ENDS]**,[9] as well as their annual bill impact from the GUIC and NGEP riders, which ranges from **[TRADE SECRET BEGINS]** [redacted] **[TRADE SECRET ENDS]**.[10] Thus, each customer's cost–benefit analysis of whether to bypass is different. Without any analysis of each customer's situation, the Commission cannot properly judge the bypass threat posed by direct-connect customers in the aggregate. The Commission should require at least this much analysis before it considers the extraordinary relief MERC requests.

B. SLGI's Cost–Benefit Analysis Omits Critical Information, Conflicts with Information Provided by MERC, and Fails to Distinguish the Bypass Threat Posed by Different Direct-Connect Customers.

Attempting to show a bypass threat, SLGI present a three-page affidavit from Kenneth Graeber, the president of Encore Energy Services, who counts a number of MERC's transportation customers among his clients. Mr. Graeber argues that the cost of the GUIC and NGEP riders to direct-connect customers exceeds their cost to bypass MERC's system. But his self-described "preliminary" analysis overlooks important benefits that direct-connect customers gain by remaining on the system, conflicts with information provided by the Company, and fails to differentiate between the bypass risks posed by individual direct-connect customers.

First, Mr. Graeber overlooks important capital costs that direct-connect customers would have to incur to bypass MERC's system. Mr. Graeber states that the main service MERC

[9] MERC Response to OAG IR No. 40 at 2 (Attachment B).
[10] MERC Response to OAG IR No. 41 (Attachment C).

provides direct-connect customers is odorizing natural gas. He estimates the total installed cost of an odorizer to be approximately $100,000, which includes the odorizer itself, a tank to hold odorant, and a concrete pad.[11] However, according to MERC, an odorizer can cost as much as $200,000.[12] MERC also owns supervisory control and data acquisition ("SCADA") equipment at each odorization site,[13] equipment whose cost Mr. Graeber fails to include in his analysis.

Mr. Graeber's analysis of the operation and maintenance ("O&M") expenses necessary to bypass MERC's system is similarly incomplete. He assumes that there will be no O&M costs associated with bypass other than the cost of purchasing odorant and transferring it into a tank.[14] He asserts that "an odorizer does not require any appreciable amount of O&M" expense beyond these two costs, but he fails to address the fairly obvious expense of either paying an employee to manage the odorizer or contracting for this service.

Mr. Graeber overlooks still other benefits that direct-connect customers gain by having MERC odorize gas for them. These benefits consist primarily in avoiding the uncertainty and cost of managing odorization, including the risk and cost of odorizer equipment failures, replacements, or maintenance.[15] These costs should be readily quantifiable. For example, the risk of odorizer equipment failure could be quantified through the premiums that a customer would need to pay to insure against any losses stemming from such failure.

Finally, Mr. Graeber's analysis suffers from the same deficiency as do MERC's and SLGI's arguments generally: he does not attempt to quantify the probability that any particular direct-connect customer will bypass the Company. According to information obtained from MERC, the annual usage of these customers ranges from approximately **[TRADE SECRET**

[11] SLGI COMMENTS, Exhibit A ("Graeber Affidavit") at 2.
[12] MERC Response to OAG IR No. 40 at 3.
[13] *Id.* at 2.
[14] Graeber Affidavit at 2.
[15] MERC Response to OAG IR No. 40 at 2–3.

BEGINS] [redacted] **[TRADE SECRET ENDS]**.[16] Mr. Graeber appears to assume that each direct-connect customer uses 34,666,500 therms per year.[17] But he does not provide cost–benefit analyses for any individual customers or explain why 35 million therms is an appropriate general assumption.

The issues discussed above undermine SLGI's effort to establish a real threat of bypass and serve to further highlight the dangers of the Commission taking drastic action through such an expedited process. In particular, the absolute failure to quantify the risk of any single customer bypassing MERC's system prevents the Commission from determining how much weight to give to the potential harm—the bill impact on other ratepayers—if direct-connect customers exit the system.

C. The Magnitude of the Potential Ratepayer Harm from Bypass Is Similar to That of the Harm That Would Result If MERC's Request Is Granted.

Neither MERC nor SLGI bother to quantify in their filings the harm that bypass would cause non-direct-connect ratepayers. But the OAG's preliminary analysis suggests that bypass's bill impact on non-direct-connect customers would be similar to the impact of granting MERC's request. Because the impact will be the same whether or not direct-connect customers bypass, the Commission should deny MERC's request.

The Minnesota Department of Commerce ("Department") has estimated that suspending the GUIC rider for direct-connect customers and allocating the shortfall to MERC's other customers would raise the surcharge from $0.00413 to $0.00851 per therm, a greater-than-100% increase.[18] The Department further estimates that suspending the NGEP rider and reallocating

[16] MERC Response to OAG IR No. 40 at 2.
[17] While Mr. Graeber does not state this assumption expressly, it can be derived from his assumption that the annual cost of installing and operating an odorizer is $69,333 and his conclusion that this cost is equivalent to $0.002 per therm for a direct-connect customer. *See* Graeber Affidavit at 2.
[18] DEPARTMENT COMMENTS at 4 & n.7 (July 11, 2019).

that shortfall would raise the NGEP surcharge from $0.00052 to $0.00094 per therm, a greater-than-80% increase.[19] Combined, the per-therm increase would be $0.0048. Assuming average annual usage of 871 therms,[20] a residential customer would have to pay $4.18 per year to spare direct-connect customers the burden of the GUIC and NGEP riders.

To compare the impact of MERC's requested relief to the potential impact of bypass, the OAG asked the Company to calculate the annual impact of several bypass scenarios on an average residential customer's bill.[21] The impact ranged from as low as $0.95, which assumes that 20 percent of direct-connect customers' usage leaves the system, to $4.83, which assumes that all the direct-connect customers' usage leaves the system. In other words, even under a worst-case bypass scenario, the impact on residential customers would barely exceed the impact of granting direct-connect customers rider relief and keeping them on the system.

For the foregoing reasons, the Commission should find that the threat of bypass by direct-connect customers is illusory and should decline to grant these customers rider relief outside of the normal ratemaking process.

IV. SLGI'S READING OF MINN. STAT. § 216B.03 IS WRONG AND, IF ADOPTED, WOULD RESULT IN UNREASONABLE RATES.

SLGI argue that suspending the NGEP and GUIC riders for direct-connect customers without also suspending it for all Class 5 transportation customers would violate Minnesota's statutory prohibition on preferential rates. The statute states, in part, that "[r]ates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of consumers."[22]

---

[19] *Id.* at 9 & n.15.
[20] *See* MERC Response to OAG IR No. 43 at 3 (Attachment D to these Reply Comments, showing MERC's residential bill-impact calculations).
[21] *See id.* at 1–2.
[22] Minn. Stat. § 216B.03 (2018).

SLGI argue that because some Class 5 transportation customers are direct-connect customers, and others are not, suspending the riders for only direct-connect customers would treat a class of consumers inconsistently in violation of the statute. SLGI's argument is based on a narrow reading of "class of consumers" to refer to a customer rate class as defined by a utility. This interpretation misapprehends the meaning of the word "class" and, if adopted, would lead to unreasonable rates in this case.

The statute does not define "class," but under standard legal usage, the term refers to a "group of people, things, qualities, or activities that have common characteristics or attributes."[23] In other words, a "class of consumers" is determined by whether its members share characteristics that are relevant to the rate to be charged them. In this extremely unusual case, the relevant characteristic is the likelihood that a customer will bypass MERC's system. The direct-connect class, whose members have ready access to the interstate pipeline, is a proxy for customers who are likely to bypass (though for the reasons previously discussed, it is unlikely that all of these customers are prepared to leave MERC's system).

SLGI's recommendation, however, would treat differently situated customers similarly by treating all Class 5 transportation customers as if they were equally likely to bypass. Moreover, if all Class 5 transportation customers were exempted from the GUIC and NGEP riders simply because some of them happen to be direct-connect customers, then by logical extension, any other classes represented within the direct-connect class would have to be exempted from the riders as well. This result would obviously increase the bill impact on unexempted customers and further illustrates why SLGI's argument should be rejected.

[23] BLACK'S LAW DICTIONARY 422 (7th ed. 1999).

In summary, the reference to "class" in section 216B.03 denotes similarly situated customers. The statute thus does not require that any relief given to direct-connect customers also be applied to Class 5 customers who are not direct-connect customers and therefore are not similarly likely to bypass. If the Commission grants any of the relief MERC requests, it should be limited to direct-connect customers and should not be extended as a windfall to other large customers at the expense of residential, small business, and other customers.

CONCLUSION

For the reasons discussed above, the Commission should deny MERC's request to suspend the GUIC and NGEP riders for its direct-connect customers. The request is contrary to law and standard regulatory practice and is unsupported by any real threat of harmful bypass. While it is possible that direct-connect customers may be paying more than their cost of service, the issue of whether they should be allocated any of the costs reflected in the GUIC and NGEP riders is a major rate-design issue that should be resolved through a rate case or a normal rider proceeding—not through some slipshod "emergency" process according to direct-connect customers' timetable.

If, despite the lack of record support for a bypass threat, the Commission is inclined to suspend either rider, it should do so for all customers to allow time for a full analysis of the riders' impact, as suggested by the Department.[24] And finally, under no circumstances should the Commission allow MERC to refund direct-connect customers surcharges that they have already paid and to claw that money back from its remaining customers. Not only would this constitute retroactive ratemaking, but these previously paid surcharges represent sunk costs to

[24] DEPARTMENT COMMENTS at 12.

direct-connect customers and have no bearing on forward-looking decisions about whether to bypass MERC's system.

Dated: July 18, 2019

Respectfully submitted,

KEITH ELLISON
Attorney General
State of Minnesota

s/ **Peter G. Scholtz**
PETER G. SCHOLTZ
Assistant Attorney General
Atty. Reg. No. 0389936

445 Minnesota Street, Suite 1400
St. Paul, Minnesota 55101-2131
(651) 757-1473 (Voice)
(651) 296-9663 (Fax)
peter.scholtz@ag.state.mn.us

ATTORNEYS FOR OFFICE OF THE
ATTORNEY GENERAL – RESIDENTIAL
UTILITIES AND ANTITRUST DIVISION

OAG No. 038

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 a Gas Utility Infrastructure Cost Rider	**MPUC Docket No.**	G-011 / 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 the Recovery of 2019 Rochester Project Costs	**MPUC Docket No.**	G-011 / M-18-182

Requested from: MERC

By:	Peter Scholtz	**Date of Request:**	July 3, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 16, 2019

Reference: MERC's June 28 filing at 2

MERC states, "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."

Identify all communications MERC has had with any direct connect customer regarding the GUIC rider, the NGEP rider, or bypass from May 1, 2019 through the date of MERC's response to this request. This request includes any communications relating to responding to these IRs. For each communication, provide:

a. The date of the communication

b. The direct connect customer(s) involved

c. The customer employee(s), officer(s), or agent(s) involved

d. The MERC employee(s), officer(s), or agent(s) involved

e. The content of the communication:

    1. For written communications, such as emails or texts, produce the entire communication.

    2. For oral communications, summarize the communication and produce any written notes relating to the communication.

Response by Pamela Sarvela
Title Sr. Account Manager
Department External Relations
Telephone

Response:

MERC objects to this request as vague, overbroad, unduly burdensome to the extent that it requests "all" communications MERC has had with any direct connect customer regarding the GUIC rider, NGEP rider, or bypass. Without waiving such objection, MERC responds as follows:

The Commission issued its Order Approving Compliance Filing with respect to MERC's 2019 GUIC rider surcharge on April 25, 2019, approving MERC's February 7, 2019 Compliance filing, including proposed bill message and bill insert and authorizing MERC to begin the GUIC surcharge effective for service rendered on and after May 1, 2019. MERC included the approved bill insert and message with June bills, which were the first bills on which the authorized GUIC surcharge appeared.

Following implementation of the GUIC surcharge beginning with June bills, MERC received numerous calls and e-mails from large customers regarding the GUIC rider surcharge. Below is a summary of the communications MERC has had with its direct connect customer and customer representatives regarding the GUIC rider, the NGEP rider, or bypass:

1. On June 17, 2019, MERC followed up with Encore Energy Services, the marketer and agent for **[TRADE SECRET DATA BEGINS…** [redacted] **TRADE SECRET DATA ENDS]**, to set up a meeting to discuss the GUIC rider and bill impacts for Encore's customers. A copy of that e-mail exchange is included as Attachment A to this response. This customer information is trade secret and not generally known to, or readily ascertainable by competitors who could obtain economic value from its disclosure.

2. On June 18, 2019, Pamela Sarvela and David Valine from MERC had a telephone conversation with representatives from Encore, the marketer and agent for a number of MERC's direct connect and large volume customers. That telephone conversation involved MERC responding to questions and concerns regarding the GUIC rider surcharge and what was appearing on customer bills for the first time for May 2019 billing in June 2019. During this conversation, Encore indicated that it had not yet informed its customers of the GUIC surcharges and stated they were confident that the direct connect customers would provide 60-days' notice of intent to bypass within a very short period of time once they are notified of the GUIC rider surcharge and associated bill impacts. MERC and Encore discussed the fact that the rider surcharge amounted to essentially an 100% increase for the customers. Additionally, MERC and Encore discussed that, unrelated to the GUIC rider surcharge and NGEP rider surcharge, Encore had received a request from the taconite customers asking for a review of the cost to bypass MERC. Encore stated that the reason the taconite mines had requested a review was because of their concern about increasing rates and the cost of participating in MERC's rate proceedings. MERC asked why the direct connect customers were not more involved in the MPUC proceeding on the GUIC rider, and Encore responded that the direct connect customers likely assumed that they would not be assessed an

Response by Pamela Sarvela
Title Sr. Account Manager
Department External Relations
Telephone 218-878-2258

infrastructure fee, as they are not part of MERC's infrastructure. Further, Encore noted that SLGI did file a letter stating there would be a likelihood of by-pass with the NGEP and GUIC rider surcharges being considered across all customer classes.

MERC committed to going back to management and sharing the concerns from Encore as their agent. Encore said that they would hold the billing until they learned what MERC's intentions were – but wanted an update by Friday, June 21, 2019.

3. On June 20, 2019, Pamela Sarvela from MERC sent a meeting notice to representatives from Encore Energy Services regarding schedule a follow up conversation related to the GUIC rider surcharge and bypass for Monday, June 24, 2019. A copy of that e-mail exchange is included as Attachment B to this response.

4. On June 24, 2019, Pamela Sarvela from MERC had a telephone conversation with representatives from Encore Energy Services. During that telephone call, MERC informed Encore that in order to avoid bypass by the direct connect customers, MERC intended to file a request with the Commission to suspend collection of the GUIC and NGEP rider surcharges as quickly as possible, and also to request a refund of amounts collected. During this telephone call, MERC and Encore representatives also discussed the NGEP rider surcharge and concerns regarding the impact of that surcharge. Encore indicated that if the Commission approved MERC's proposal to request suspension and refund of the NGEP and GUIC rider surcharge rates for the direct connect customers, the customers represented by Encore would likely remain in MERC's system.

Response by Pamela Sarvela
Title Sr. Account Manager
Department External Relations
Telephone 218-878-2258

OAG No. 040

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 a Gas Utility Infrastructure Cost Rider	**MPUC Docket No.**	G-011 / 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 the Recovery of 2019 Rochester Project Costs	**MPUC Docket No.**	G-011 / M-18-182

Requested from: MERC

By:	Peter Scholtz	**Date of Request:**	July 3, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 16, 2019

Reference: MERC's June 28 filing at 2

Provide the following information for each of MERC's 14 direct connect customers:

a. The customer's name

b. A description of the customer's existing connection to the interstate pipeline

c. A description of the MERC-owned facilities used by the customer, including those facilities' proximity and relationship to the interstate pipeline

d. A description of any benefits, economic or otherwise and quantified to the extent possible, that the customer derives by taking service from MERC, including but not limited to avoided costs and any option value

e. A description, and the estimated cost, of all steps required for the customer to bypass MERC's facilities

f. The customer's 2018 gas usage

g. The customer's 2014–2018 and 2016–2018 average annual gas usage

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

Response:

a. The following is a list of MERC's direct connect customers, customer usage in 2018, and average annual usage for 2014-2018 and 2016-2018:

[TRADE SECRET DATA BEGINS…

	2018	2014-18	2016-18
[redacted]			
TOTAL	338,321,614	301,006,444	306,654,413

… TRADE SECRET DATA ENDS]

This customer information is trade secret and not generally known to, or readily ascertainable by, competitors of MERC who could obtain economic value from its disclosure. MERC maintains this information as secret. Accordingly the attached documents contain data which qualifies as "Trade Secret Data" pursuant to Minnesota Statutes Section 13.37 Subdivision 1(b).

Note that this list includes nine customers, not fourteen. The reference to "customers" in the June 28th filing was incorrect; there was actually a count of fourteen *services*, and some customers had more than one service at their premises.

b. All customers that are directly connected to Northern Natural Gas (NNG) receive gas through a Town Border Station (TBS). NNG provides the measurement and regulation off of their transmission line. The outlet of the TBS begins the custody transfer to the customer's facility. Underground facilities leaving this station are unknown to MERC.

c. At each of these sites, MERC owns the odorizer and associated supervisory control and data acquisition (SCADA) for the site. MERC is listed as point operator with the pipeline provider (NNG) for each of these locations.

d. The benefits to direct connect customers in taking service from MERC include the ability to balance load on a monthly basis with MERC (as opposed to contracting for balancing service directly with the pipeline) and the avoided cost and uncertainty of addressing gas odorization. In particular, because MERC is responsible for operating and maintaining the

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

odorization equipment, these direct connect customers do not need to address the risk or cost of odorizer equipment failures, replacements, or maintenance. Those costs are included in the distribution rates charged to the customers.

e. Each site is already a direct connect to NNG with no regulation or measurement owned by MERC. These customers could request to NNG to become the point operator. Therefore, these customers would need to secure a third party to odorize the gas. Upfront costs for an odorizer can range from $50,000 to $200,000. The customer would also be responsible for any associated operations and maintenance costs for odorization service. Exhibit A to the Super Large Gas Intervenors' July 11, 2019, Comments in Docket Nos. G011/M-18-182 and G011/M-18-281 provide additional details regarding the estimated costs and steps required for these customers to bypass MERC's system.

f. See (a) above.

g. See (a) above.

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

PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED

OAG No. 041

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 a Gas Utility Infrastructure Cost Rider	**MPUC Docket No.**	G-011 / 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 the Recovery of 2019 Rochester Project Costs	**MPUC Docket No.**	G-011 / M-18-182

Requested from: MERC

By:	Peter Scholtz	**Date of Request:**	July 3, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 16, 2019

Reference: For purposes of OAG IRs No. 41 and 42, consider the following scenarios:

(1) The Commission authorizes MERC to suspend both the GUIC and NGEP riders for direct connect customers, to refund all amounts collected from direct connect customers prior to the suspension, and to recover the resulting under-recovered revenues from MERC's other customer classes through the riders' true-up mechanisms (MERC's requested relief);

(2) The Commission authorizes MERC to suspend only the GUIC rider, to refund all GUIC amounts collected from direct connect customers prior to the suspension, and to recover the resulting under-recovered revenues from MERC's other customer classes through the GUIC rider's true-up mechanism;

(3) The Commission authorizes MERC to suspend only the NGEP rider, to refund all NGEP amounts collected from direct connect customers prior to the suspension, and to recover the resulting under-recovered revenues from MERC's other customer classes through the NGEP rider's true-up mechanism;

(4) Same as in (1), except that MERC is not allowed to refund amounts collected prior to rider suspension;

(5) Same as in (2), except that MERC is not allowed to refund amounts collected prior to rider suspension;

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

PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED

(6) Same as in (3), except that MERC is not allowed to refund amounts collected prior to rider suspension;

(7) The Commission denies MERC's request in full.

For each of the above scenarios except (1), estimate the scenario's annual bill impact on each direct connect customer compared to scenario (1), providing all supporting calculations and assumptions.

Response:

Below is an estimate of the 2019 GUIC and NGEP Rider bill impacts under the seven scenarios. These amounts represent the totals that each of the nine direct connect customers would pay in 2019, the totals that the other classes would pay in 2019, and the uncollected 2019 amounts deferred for recovery in the 2021 true-up.

[TRADE SECRET DATA BEGINS…

2019 Rider Recovery Under Different Scenarios	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
[redacted]							
All other customer classes	$ 1,022,067	$ 1,022,067	$ 1,022,067	$ 1,022,067	$ 1,022,067	$ 1,022,067	$ 1,022,067
Recovery in 2021 true-up	$ 974,984	$ 902,302	$ 72,681	$ 649,940	$ 577,259	$ 3,955	$ -
	$ 1,997,051	$ 1,997,051	$ 1,997,051	$ 1,997,051	$ 1,997,051	$ 1,997,051	$ 1,997,051

…TRADE SECRET DATA ENDS]

Assumptions:

- 2019 rider recovery assumes that 2019 therm sales by month are equal to 2018 actual therm sales by month by customer and class.
- GUIC rate is $0.00413/therm and NGEP rate is $0.00052/therm in 2019.
- Does not account for any true-up of actual costs or true-up for under-recoveries related to the timing of implementation. To the extent that actual 2019 GUIC and NGEP expenditures exceed the $1,997,051 in revenues collected, those uncollected amounts would also be added to the 2021 true-up. If actual expenditures are less than $1,997,051 in 2019, the overcollected amounts would reduce the 2021 true-up.
- Calculations reflect 2019 rider activity only.
- Scenarios (4), (5), and (6) assume the suspension is approved effective August 1, 2019, as proposed in MERC's June 28, 2019 filing.

See "PUBLIC 18-281 MERC IR OAG 041 Attachment.xlsx" for supporting calculations.

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

PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED

This customer information contained in this response and 18-281 MERC IR OAG 041 Attachment is trade secret and not generally known to, or readily ascertainable by, competitors of MERC who could obtain economic value from its disclosure. MERC maintains this information as secret. Accordingly the attached documents contain data which qualifies as "Trade Secret Data" pursuant to Minnesota Statutes Section 13.37 Subdivision 1(b).

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

PUBLIC VERSION

OAG No. 043

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 a Gas Utility Infrastructure Cost Rider	**MPUC Docket No.**	G-011 / 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 the Recovery of 2019 Rochester Project Costs	**MPUC Docket No.**	G-011 / M-18-182

Requested from: MERC

By:	Peter Scholtz	**Date of Request:**	July 3, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 16, 2019

Reference: MERC's June 28 filing at 2-3

MERC states, "If [direct connect] 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."

Calculate the average annual bill impact that a residential customer would experience under the following bypass scenarios, providing all supporting calculations and assumptions:

a. 100 percent of the direct connect customers' usage leaves MERC's system

b. 80 percent of the direct connect customers' usage leaves MERC's system

c. 50 percent of the direct connect customers' usage leaves MERC's system

d. 20 percent of the direct connect customers' usage leaves MERC's system

e. The usage of direct connect customers engaged in taconite mining leaves MERC's system

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

PUBLIC VERSION

Response:

MERC objects to the request on the basis that the request seeks hypothetical information and does not seek for MERC to produce any facts or documents in MERC's possession, but requests MERC instead to create analyses which do not already exist.

Without waiving its objection, MERC responds as follows:

The direct connect customers are not forecasted individually for rate case purposes, therefore MERC has never performed an analysis of the contributions of direct connect customers alone toward the company's cost of service as compared to other customers. For the purposes of this analysis, MERC has assumed that all of these customers are paying rates consistent with the newly created Class 5 Interruptible transportation customer class and that their 2018 actual usage of 338 million therms is consistent with their 2018 forecasted test year usage if it were able to be identified separately. Furthermore, MERC has assumed that the revenue loss due to bypass would be allocated among the remaining customers on the same basis as the 2018 approved revenue apportionment.

Please see "18-281 MERC IR OAG 043 Attachment.xlsx" for the supporting calculations underlying these hypothetical results:

a. $4.83
b. $3.85
c. $2.40
d. $0.95
e. $3.17

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

PUBLIC VERSION

Minnesota Energy Resources Corporation
Docket Nos. G011/M-18-281, G011/M-18-182
Information Request OAG No. 043

Assumptions:

Class 5 Interruptible Rates (approved in G011/GR-17-563)				
Fixed Charge	$	510.00		
Rate/Therm	$	0.00448		
Direct Connects				
Estimated Annual Usage		338,000,000	therms	
# of Services		14		
Estimated Annual Revenue	$	1,599,920		
Revenue Apportionment (approved in G011/GR-17-563)				
Residential		62.80%	$	69,346,605
Firm Sales		23.90%	$	26,453,173
Interruptible Sales		3.50%	$	3,854,349
Transport		9.80%	$	10,853,264
Annual Residential Sales (per G011/GR-17-563)		183,783,848	therms	
Annual Residential Revenues (per G011/GR-17-56:	$	69,346,605	(excludes cost of gas)	
Average Residential Use per Customer		871	therms/year	

Average annual bill impact that a residential customer would experience under the following bypass scenarios, providing all supporting calculations and assumptions:

a) 100% of the direct connect customers' usage leaves MERC's system

Annual revenue loss	$	1,599,920		
New revenue apportionment (direct connects are all transporters)				
Residential		63.7%	$	69,346,605
Firm Sales		24.3%	$	26,453,173
Interruptible Sales		3.5%	$	3,854,349
Transport		8.5%	$	9,253,344
Apportioned to residentials	$	1,019,149		
Rate per therm	$	0.00555		
Annual impact per residential customer			$	4.83

b) 80% of the direct connect customers' usage leaves MERC's system

Annual revenue loss	$	1,279,936		
New revenue apportionment (direct connects are all transporters)				
Residential		63.5%	$	69,346,605
Firm Sales		24.2%	$	26,453,173
Interruptible Sales		3.5%	$	3,854,349
Transport		8.8%	$	9,573,328
Apportioned to residentials	$	812,759		
Rate per therm	$	0.00442		
Annual impact per residential customer			$	3.85

PUBLIC VERSION

Minnesota Energy Resources Corporation
Docket Nos. G011/M-18-281, G011/M-18-182
Information Request OAG No. 043

c) 50% of the direct connect customers' usage leaves MERC's system

Annual revenue loss	$ 799,960			
New revenue apportionment (direct connects are all transporters)				
Residential		63.2%	$	69,346,605
Firm Sales		24.1%	$	26,453,173
Interruptible Sales		3.5%	$	3,854,349
Transport		9.2%	$	10,053,304
Apportioned to residentials	$ 505,575			
Rate per therm	$ 0.00275			
Annual impact per residential customer			$	2.40

d) 20% of the direct connect customers' usage leaves MERC's system

Annual revenue loss	$ 319,984			
New revenue apportionment (direct connects are all transporters)				
Residential		62.9%	$	69,346,605
Firm Sales		24.0%	$	26,453,173
Interruptible Sales		3.5%	$	3,854,349
Transport		9.6%	$	10,533,280
Apportioned to residentials	$ 201,270			
Rate per therm	$ 0.00110			
Annual impact per residential customer			$	0.95

e) The usage of direct connect customers engaged in taconite mining leaves MERC's system

Annual revenue loss	$ 1,055,947			
(assumes that 2/3 of direct connect load are taconite mining operations)				
New revenue apportionment (direct connects are all transporters)				
Residential		63.4%	$	69,346,605
Firm Sales		24.2%	$	26,453,173
Interruptible Sales		3.5%	$	3,854,349
Transport		9.0%	$	9,797,317
Apportioned to residentials	$ 669,471			
Rate per therm	$ 0.00364			
Annual impact per residential customer			$	3.17