**COMMERCE DEPARTMENT**

October 29, 2018

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-18-460

Dear Mr. Wolf:

Attached are the **PUBLIC** 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 Tariff Revision and a New Area Surcharge for the Pengilly Project.

The Petition was filed on June 29th, 2018 by:

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, Minnesota 55068

The Department is asking MERC to provide additional information in its Reply Comments. We will forward our recommendation after having reviewed that additional information. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/jl
Attachment

Before the Minnesota Public Utilities Commission

## PUBLIC Comments of the Minnesota Department of Commerce
## Division of Energy Resources

Docket No. G011/M-18-460

## I. BACKGROUND

Minnesota Energy Resources Corporation (MERC or the Company) is requesting approval of a New Area Surcharge in this proceeding.[1] The New Area Surcharge (NAS) Rider in the Company's tariff delineates the process under which the Company can extend natural gas service into an area that meets two criteria -- MERC does not currently provide natural gas distribution service in the area identified, and it would be uneconomic to serve the area at the Company's current tariffed rates. The Company is also requesting to recover a portion of the project's costs through a Natural Gas Extension Project Cost Rider (NGEP) under Minn. Stat. §216B.1638 (NGEP Statute).

## II. SUMMARY OF PETITION

On June 29, 2018, MERC submitted a filing (Petition) to the Commission to establish a New Area Surcharge for the Pengilly Project (Project).[2] MERC proposed that the New Area Surcharge for customers located in the Project area be in effect for a period not to exceed twenty-five (25) years.[3]

### *A. NATURAL GAS EXTENSION PROJECT RIDER*

Specifically, MERC requested Commission approval of a miscellaneous rate change, an NGEP to recover **[TRADE SECRET DATA HAS BEEN EXCISED]** of the project's capital costs from all ratepayers,[4] which the Company indicates amounts to **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Project's revenue deficiency.[5] In addition, MERC requests to recover through the NGEP **[TRADE SECRET DATA HAS BEEN EXCISED]** of the costs to upgrade Northern Natural

[1] The Minnesota Public Utilities Commission approved MERC's New Area Surcharge tariff in an Order dated July 26, 2012 in Docket No. G007,011/M-11-1045.
[2] 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.
[3] MERC filed and then withdrew an NAS request for Pengilly in Docket No. G011/M-17-566 over the past several months.
[4] *Petition* at 8.
[5] *Id*.

Gas's (NNG) pipeline to extend natural gas service to customers in Pengilly, Minnesota, and the remaining **[TRADE SECRET DATA HAS BEEN EXCISED** of NNG's costs as operation and maintenance costs through the NAS, which would be charged to customers in Pengilly.[6]

MERC requests Commission authorization for the Company to use an NGEP Rider as defined in the NGEP Statute, which states that:

> ...a public utility may petition the commission outside of a general rate case for a rider that shall include all of the utility's customers, including transport customers, to recover the revenue deficiency from a natural gas extension project.[7]

The NGEP Statute allows a utility to recover up to 33 percent of the natural gas extension project costs through an NGEP rider.[8]

The Pengilly Project is proposed to connect Pengilly to NNG's pipeline. In addition to MERC's costs, the proposed expansion would also require upgrades to the NNG system to serve the Project. Currently, the City of Pengilly does not have natural gas service. The Company anticipates that there will be customers across multiple rate classes who choose to take service from MERC, based on outreach and projections. Specifically, MERC projects **[TRADE SECRET DATA HAS BEEN EXCISED]** to sign up during the first year of the Project. During the 25-year Project life, MERC initially projected that approximately **[TRADE SECRET DATA HAS BEEN EXCISED]** would participate in the Project by converting to natural gas service.[9] The target timing for completion of the Project is by the start of the 2019-2020 heating season (approximately November 1, 2019).

MERC determined its proposed NGEP Rider recovery amount as follows:

> With respect to the Pengilly Project, MERC calculated the "revenue deficiency" by first determining the difference between the total revenue requirement and the amount of projected revenues to be collected in accordance with MERC's approved New Area

[6] *Id*. at 9.
[7] Minn. Stat. § 216B.1638, subd. 2 (a)
[8] Minn. Stat. § 216B.1638, subd. 3
[9] Company *Petition*, Section II.A., pg. 3

> Surcharge model and tariffs. . . . **[TRADE SECRET DATA HAS BEEN EXCISED].**[10]

Using the above calculation, the Company calculated an NGEP based on the revenue requirement of one year equal to **[TRADE SECRET DATA HAS BEEN EXCISED]**. The Company's Attachment C includes the trade secret calculation of the NGEP rider surcharge proposed to be imposed on all MERC customers of **[TRADE SECRET DATA HAS BEEN EXCISED** for the term of one year.

MERC also proposed a true-up for the NGEP. The Company is proposing that:

within 3 months after the completion of the Project and the 12 month term of the NGEP surcharge, MERC will recalculate the **[TRADE SECRET DATA HAS BEEN EXCISED]** of the project's actual expenditures, and compare that to what was actually collected via the NGEP surcharge. If the Actual Rider Costs exceed that recovered via the NGEP surcharge, an additional surcharge will be proposed. If the Actual Rider Costs are less than what was recovered via the NGEP surcharge, a customer credit will be proposed.

The Company also concluded that the Project would benefit existing customers through the sharing of overall costs of service among a larger number of customers. Also, MERC indicated that Pengilly is a growing community and that the project would create the potential for extensions into the surrounding communities.

### *B. NEW AREA SURCHARGE*

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. MERC proposed that the New Area Surcharge for customers located in Pengilly be in effect for a period not to exceed 25 years and commence in approximately October 2019. Table 1 lists MERC's proposed monthly surcharges by customer class. MERC used the NAS model approved by the Commission, and incorporated into the Company's tariff book, to calculate NAS rates that would bring the net present value of the project to approximately $0 over the expected life of the project (48 years).[11] MERC indicated that it would terminate the surcharge when the Project's revenue deficiency is satisfied or at the end of 25 years, whichever occurs first.

[10] Company *Petition*, Section II.C., pg. 4
[11] *Petition* Exhibit C. Spreadsheet Tab 'PV calc'

**Table 1: Pengilly Proposed New Area Surcharges**

| ($/month) | |
|---|---|
| Residential | $24.70 |
| Small Commercial and Industrial | $46.82 |
| Large Commercial and Industrial | $117.07 |
| Small Volume Interruptible | $429.23 |
| Large Volume Interruptible | $481.27 |

According to the *Petition*, MERC anticipates that the customer base will be **[TRADE SECRET DATA HAS BEEN EXCISED]**.

MERC stated that the proposed NAS surcharge is "reasonably designed to recover the portion of the cost of extension that would be uneconomical to serve at tariffed rates"[12] exclusive of the costs proposed to be recovered through the NGEP Rider discussed above.

The Company also stated that the proposed NAS is in the public interest due to the lower cost of natural gas as compared to alternative fuel sources and the flexibility that the availability of an additional fuel choice brings to potential customers in Pengilly. MERC noted that the new customers in this area would be served with existing demand contracts. Consequently, there would be no need for additional demand entitlements.

MERC included an updated tariff sheet, the work papers the Company used to calculate the surcharge, and a proposed customer notice as part of its *Petition*. In addition, MERC included a map of the Pengilly Project.

## III. DEPARTMENT ANALYSIS

The Department performed a three-phased analysis:

- Procedural analysis – We reviewed MERC's filing to determine if it had complied with the necessary filing requirements.

[12] *Petition* at 14.

- Policy review – We reviewed the Company's proposed NGEP rider. The Department was particularly interested in the potential effects of the proposed rider on the risk allocation between shareholders and ratepayers for NAS projects.
- Tariff review – We reviewed MERC's proposed tariff and cost recovery mechanism for the NGEP costs it proposes to socialize.

### *A. PROCEDURAL ISSUES*

MERC is required to provide certain information in a specific format required by statute, rule and order relating to the NGEP and NAS Riders. The Department concludes that MERC provided the necessary information and that it has complied with the applicable requirements. The Department provides a more detailed review of this issue in Attachment A.

#### a. *NGEP Tariff - Background*

The instant *Petition* represents the Company's most recent request to recover the costs of a service extension through the NGEP. It is also MERC's first attempt to include an NGEP-specific rider in its tariff and to seek recovery of costs related to a new area surcharge through an NGEP rider.

To date, the Commission has not allowed recovery of extending service to new areas through both an NGEP and NAS. However, the Commission indicated in its recent Order regarding service to the areas of Balaton and Esko that "recovery of the Balaton and Esko costs over and above the 25-year NAS tariff amount would have been appropriate under the NGEP rider."[13] In its Order, the Commission noted the Governor's Executive Order 14-02, issued "in response to propane supply issued during [the] winter of 2013-2014."

Further, Minn. Stat. § 216B.1638 supports MERC's request in that it provides a definition for a "Natural Gas Extension Project" and also includes language stating that a utility "may petition the Commission outside of a general rate case for a rider . . . to recover the revenue deficiency from a natural gas extension project".[14] The Minnesota Legislature passed the NGEP statute in 2015.

Unlike the NAS, under which only customers in the new area pay higher rates to pay for costs of the service extension, the NGEP requires all customers, including transportation customers, to pay for the service extension costs recovered through the rider.

[13] *Id*. at 4.
[14] Minn. Stat. § 216B.1638, subdivision 2.

b. *New Area Surcharge Tariff - Background*.

The July 26, 2012 Commission's *Order Approving New Area Surcharge with Modifications and Requiring Revised Tariff Sheet* outlined the intent of the NAS Rider.[15]

> A New Area Surcharge (NAS) is designed to permit a natural gas company to extend service into a new area it would be uneconomic to serve at tariffed rates, by permitting the company to collect a surcharge in addition to the tariffed rate. This makes natural gas available to communities previously not served by a natural gas utility without imposing the costs of expansion on existing ratepayers.

Also, in the Initial filing for Docket G011/M-16-221 (Fayal Township-Long Lake NAS, aka Long Lake Project), MERC stated that the Long Lake Project was in the public interest because:

...lower energy bills free money for investment and purchases in the area, spurring economic development. While gas service is being extended to customers in the Fayal Township Long Lake area, MERC's existing customers will not be subsidizing this project because the New Area Surcharge is calculated to ensure the project is load and cost justified over the project life.[16]

The Department and Commission have supported reasonable efforts by natural gas utilities such as MERC to expand natural gas service to previously unserved areas. While the concept of cost causality is preferable as a general policy in setting rates, as discussed above the statute allows recovery of these types of costs through an NGEP Rider.

### *B. DEPARTMENT'S ANALYSIS OF MERC'S PROPOSAL*

Minn. Stat. § 216B.1638, subd. 3 (b) lists the decision criteria for an NGEP rider.

> (b) The Commission shall approve a public utility's petition for a rider to recover the costs of a natural gas extension project if it determines that:
>
> (1) the project is designed to extend natural gas service to an unserved or inadequately served area; and
> (2) project costs are reasonable and prudently incurred.

[15] Docket No. G007,011/M-11-1045, pg. 1.
[16] Initial Filing Docket G011/M-16-221 pg. 9.

The Pengilly project is a proposal to extend natural gas service to a rural community that does not currently have natural gas service. The Department agrees with the Company that the Pengilly project fulfills the first criterion.

*a. Project Costs*

The Department is not certain that the costs associated with this iteration of the Pengilly project are reasonable however. The basis for our concern is that MERC provided detailed cost estimates for a smaller Pengilly project in the 17-566 docket. That petition was subsequently withdrawn. The Company did not request recovery of any costs under the NGEP in that docket.

The Department compared MERC's two proposals for Pengilly, focusing on the incremental costs and benefits associated with the updated Pengilly project.

Beginning with construction costs, MERC's total project costs for the Pengilly project in the 17-566 docket were **[TRADE SECRET DATA HAS BEEN EXCISED]**. **TRADE SECRET** Table 2 summarizes this information.

**TRADE SECRET Table 2 – Comparison of Forecasted Capital Costs for Pengilly NAS (Docket Nos. G011/M-17-566 and G011/M-18-460)**

| Description | 17-566 | 18-460 | Change ($) | Change (%) |
|---|---|---|---|---|
| | **[TRADE SECRET DATA HAS BEEN EXCISED]** | | | |
| MERC Capital Expansion | | | | |
| NGEP Allocation | | | | |
| Net MERC Capital Expansion | | | | |
| | | | | |
| Pipeline-related expenses | | | | |

| | |
|---|---|
| NGEP Allocation | **[TRADE SECRET DATA HAS BEEN EXCISED]** |
| Net Pipeline Cost | |
| | |
| Project Costs Recovered through NAS | |
| | |
| Project Costs Recovered through NGEP Costs | |
| | |
| Total Project Costs | |
| | |

The information summarized in Table 2 suggests that MERC expects the pipeline related costs it identified in the 17-566 docket to **[TRADE SECRET DATA HAS BEEN EXCISED]**. Thus, the pipeline-related investment would be approximately the same in the two dockets. MERC forecasts that its portion of the Pengilly project's capital costs would **[TRADE SECRET DATA HAS BEEN EXCISED]**. This increased level of investment apparently prompts the need for the use of the NGEP, which as noted above results in MERC's other ratepayers becoming responsible for **TRADE SECRET DATA HAS BEEN EXCISED]**.

MERC noted in the Petition that the proposed Project area in the 18-460 docket was larger. This expansion would allow the Company to serve more customers. **TRADE SECRET** Table 3 compares the Company's forecasted customer numbers by year for the two dockets.

**TRADE SECRET Table 3 – Comparison of Maximum Forecasted Customer Numbers for Pengilly NAS (Docket Nos. G011/M-17-566 and G011/M-18-460)**

| Class | 17-566 | 18-460 | Nominal Change | Percentage Change |
|---|---|---|---|---|
| | **[TRADE SECRET DATA HAS BEEN EXCISED]** | | | |
| Residential | | | | |
| Small Commercial | | | | |
| Large Commercial | | | | |
| Small Volume Interruptible | | | | |
| Large Volume Interruptible | | | | |
| Total Number of Customers | | | | |
| Potential Number of Customers | | | | |
| | | | | |

The comparison of customer numbers in **TRADE SECRET** Table 3 indicates that MERC forecasts an increase of **[TRADE SECRET DATA HAS BEEN EXCISED]** in the 18-460 docket. That percentage increase is significantly less than the percentage increase in capital costs identified in **Trade Secret** Table 2.

A second aspect of the effect of increasing the number of customers is the increase in revenue associated with those customers. The addition of several large commercial customers for example, can result in a significant increase in revenue due to the commercial customers' higher load factors. **TRADE SECRET** Table 4 compares MERC's forecasted annual base rate revenue for of the each of the dockets by class in the 5$^{th}$ year of the project.

**TRADE SECRET Table 4 – Comparison of Forecasted NAS Annual Revenue by Customer Class for Pengilly NAS (Docket Nos. G011/M-17-566 and G011/M-18-460)**

| **Class** | **17-566** | **18-460 with Commission Approved Inputs** | **Variance ($)** | **Variance (%)** |
|---|---|---|---|---|
| | **[TRADE SECRET DATA HAS BEEN EXCISED]** | | | |
| Residential | | | | |
| Small Commercial | | | | |
| Large Commercial | | | | |
| Small Volume Interruptible | | | | |
| Large Volume Interruptible | | | | |
| Total Annual Surcharge Revenue | | | | |
| | | | | |

The information in **Trade Secret** Table 4 **[TRADE SECRET DATA HAS BEEN EXCISED]**.

The Department cannot state that MERC's proposed project costs in this docket are reasonable given the differences identified in the preceding analysis. The Department requests that MERC explain in its Reply Comments how **[TRADE SECRET DATA HAS BEEN EXCISED].**

*b. Allocation of Project Costs*

MERC appears to have concluded that the Project is financially viable only if the NAS for the residential class in Pengilly is between $24 and $25 per month, and the other rate classes set accordingly, over no more than a 25-year period. As discussed above, MERC proposes to allocate a portion of the costs of the Project to all ratepayers via the NGEP. According to MERC's proposed Tariff No. 9.15, Second Revision, "The Company assumes the risk for under recovery of expansion costs, if any, which may remain at the end of the maximum surcharge term.

MERC's proposed rates for the NGEP rider and NAS rider in Pengilly effectively allocate the costs of the Project between customers in Pengilly and all ratepayers, with any unrecovered costs being borne by MERC's shareholders. For example, if MERC's assumptions about the numbers of new customers in Pengilly are too optimistic or if costs are higher than can be recovered during the lives of the riders, the Company's shareholders would be responsible for those costs.

*c. Cost Recovery Mechanism*

*a. Thirty-Three Percent Criterion*

As noted above, one NGEP statutory requirement is that: "The Commission must not approve a rider under this section that allows a utility to recover more than 33 percent of the costs of a natural gas extension project."[17] MERC identified the **[TRADE SECRET DATA HAS BEEN EXCISED]** it is proposing to recover through the NGEP as being equal to **[TRADE SECRET DATA HAS BEEN EXCISED]. TRADE SECRET** Table 5 delineates MERC's calculation.

**TRADE SECRET Table 5 – MERC's 33 Percent Calculation – All Project Costs Approach**

<table>
<tr><th>Description</th><th>Amount</th><th>Comment</th></tr>
<tr><td></td><td colspan="2" rowspan="7">[TRADE SECRET DATA HAS BEEN EXCISED]</td></tr>
<tr><td>MERC's Forecasted Capital Costs – Rate Base</td></tr>
<tr><td>Northern Natural Gas Town Border Station Upgrade Costs</td></tr>
<tr><td>Total MERC Capital-Related Costs</td></tr>
<tr><td>Proposed NGEP Cost Allocation</td></tr>
<tr><td>Percentage of Costs Recovered through NGEP</td></tr>
<tr><td></td></tr>
</table>

As noted above, the statutory language simply references "costs" in setting the 33 percent limit. It doesn't provide any additional information.

The Company also included a second calculation in support of its claim that it complied with the statutory requirement. This calculation divided the amount allocated to the NGEP by "the Revenue Deficiency" - it identified the amount of additional revenue that would be required if

[17] Minn. Stat. § 216B.1638, subdivision 3 (c).

one assumed that none of the costs would be recovered through an NGEP.[18] This calculation resulted in an estimate of **[TRADE SECRET DATA HAS BEEN EXCISED]**. **TRADE SECRET** Table 6 summarizes this calculation.

**TRADE SECRET Table 6 – MERC's 33 Percent Calculation – Revenue Deficiency Approach**

| Description | Amount | Comment |
|---|---|---|
| | **[TRADE SECRET DATA HAS BEEN EXCISED]** | |
| Revenue Deficiency Assuming No NGEP Cost Recovery | | |
| Proposed NGEP Cost Allocation | | |
| Percentage of Costs Recovered through NGEP | | |
| | | |

The information in **TRADE SECRET** Table 6 relates to a Department concern about MERC's approach. As noted in the Comment field, MERC identified the amount in the denominator of the calculation as a revenue requirement. Dividing capital costs by a revenue requirement is not an apples-to-apples comparison and thus should not be used to determine the percentage of costs relative to the statutory requirement.

The Department asks that MERC describe and support its "revenue deficiency" approach in its Reply Comments. The differences between the Department and the Company may be a matter of semantics, or it could be a deeper issue. Thus, the Department would like to provide MERC with more opportunity to explain its process before the Department develops a recommendation.

*NGEP Cost Recovery Mechanism*

As noted previously, the Company provided its preferred cost recovery mechanism. MERC is proposing to recover the net present value of the [**TRADE SECRET DATA HAS BEEN EXCISED]**, which the Company would typically recover over the expected 48-year life of the Project, over a twelve-month period. The Company discounted the costs allocated to the NGEP rider at its currently approved average weighted cost of capital. MERC identified the preferred rate in the

[18] See MERC's **TRADE SECRET** response to Department Information Request No. 7, included as **TRADE SECRET** Attachment B.

NGEP rider, which would be entirely recovered in the first year the rider is in effect, to be $0.00013/therm.

The Company also provided two additional cost recovery mechanisms in its Petition. The first approach would allow MERC to recover the entire amount allocated to the NGEP through the rider in the first year the rider is in effect. The rate identified for this approach is **[TRADE SECRET DATA HAS BEEN EXCISED].** The final approach to calculating the rate to be included in the rider divides the costs allocated to the NGEP over the life of the extension project and then divides that annual amount by the Company's most recently Commission-approved annual recent sales forecast. The proposed rate associated with this approach is **[TRADE SECRET DATA HAS BEEN EXCISED]**.

The Department prefers the cost recovery mechanism in which the costs allocated to the NGEP are recovered during the useful life of the extension project. This cost recovery mechanism matches the time-period over which the benefits of the project accrue to ratepayers with the recovery of the project costs. MERC's two other proposals, which would provide for accelerated cost recovery of the NGEP costs are inequitable in that only current ratepayers would be required to pay costs while future ratepayers receiving the benefits would not pay.

## IV. DEPARTMENT RECOMMENDATION

The Department does not have a recommendation regarding appropriateness of MERC's proposed NAS in this docket. The Department requests that the Company explain the prudency of its costs and revenues in this docket as compared to those same costs and revenues in the 17-566 docket and that MERC explain its Revenue Deficiency approach for calculating the percentage of costs recovered from other ratepayers in its Reply Comments. The Department will provide its final recommendation once it has had an opportunity to review MERC's response.

/jl

**Attachment A – Procedural Analysis of MERC's Filing**

Minn. Stat. § 216B.1638 requires that a NGEP Rider *Petition* include the following:

- a description of the natural gas extension project, including the number and location of new customers to be served and the distance over which natural gas will be distributed to serve the unserved or inadequately served area;
- the project's construction schedule;
- the proposed project budget;
- the amount of any contributions in aid of construction (CIAC)
- a description of efforts made by the public utility to offset the revenue deficiency through contributions in aid to construction;
- the amount of the revenue deficiency, and how recovery of the revenue deficiency will be allocated among industrial, commercial, residential, and transport customers;
- the proposed method to be used to recover the revenue deficiency from each customer class, such as a flat fee, a volumetric charge, or another form of recovery;
- the proposed termination date of the rider to recover the revenue deficiency; and
- a description of benefits to the public utility's existing natural gas customers that will accrue from the natural gas extension project.

The Department reviewed the filing and determined that the Company provided all information required by Minn. Stat. § 216B.1638. The table below provides a quick reference.

**Table A-1: Minn. Stat. § 216B.1638 Requirements**

| Category | Did MERC Address? | Page Number(s)[1] |
|---|---|---|
| Project Description | Yes | 6-7 |
| Construction Schedule | Yes | 7 |
| Budget | Yes | 9 |
| CIAC | Yes | 8-10 |
| Effort to Offset Revenue Deficiency | Yes | 8-10 |
| Allocation of Revenue Deficiency | Yes | 8-10 |
| Method of Revenue Deficiency Recovery | Yes | 11 |
| Termination Date | Yes | 11 |
| Benefits to Existing Customers | Yes | 12 |

[1] Company *Petition.*

The NAS rider is governed by the Commission's July 26, 2012 *Order* in Docket No. G007, 011/M-11-1045, 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 reviewed the requirements under Minnesota Rules Part 7829.1300 and concludes that the Company complied with those requirements.

**PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED**
**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | |
|---|---|---|
| Docket Number: | G011/M-18-460 | ☐Nonpublic ☒Public |
| Requested From: | Amber Lee<br>Minnesota Energy Resources Corporation | Date of Request: 8/22/2018<br>Response Due: 9/4/2018 |
| Type of Inquiry: | General | |

| | |
|---|---|
| Requested by: | John Kundert |
| Email Address(es): | john.kundert@state.mn.us |
| Phone Number(s): | 651.539.1740 |

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2. See MERC's tariff Sheet Nos. 9.14-9.17. The Revenue Requirement for a new area surcharge project is the total cost of the project to the company inclusive of O&M, Taxes, Return on Investment, Debt Expense, and Depreciation Expense.

3. The calculated CIAC at **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS]** is the revenue required from the customers participating in the New Area Surcharge project to make the project feasible based on projected retail revenues to be collected in current base rates (i.e., interim rates effective April 1, 2018) assuming no portion of the project was socialized and recovered through an NGEP rider surcharge.

The NONPUBLIC version of this information requests response contains information that is not generally known to, and not readily ascertainable by, vendors and competitors of MERC, who could obtain economic value from its disclosure. MERC maintains this information as trade secret.

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To be completed by responder

| | |
|---|---|
| Response Date: | September 4, 2018 |
| Response by: | Seth DeMerritt |
| Email Address: | seth.demerritt@wecenergygroup.com |
| Phone Number: | (920) 433-2926 |

**PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED**
**Minnesota Department of Commerce**
**Division of Energy Resources**
**Information Request**

| | | |
|---|---|---|
| Docket Number: | G011/M-18-460 | ☐Nonpublic ☒Public |
| Requested From: | Amber Lee<br>Minnesota Energy Resources Corporation | Date of Request: 8/22/2018<br>Response Due: 9/4/2018 |
| Type of Inquiry: | General | |

Requested by: John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651.539.1740

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**Request Number:** **7**
Topic: NGEP Calculation
Reference Response to DOC IR #3 in this docket

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**Request:**

The Company's response states: **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS].**

1. Please provide a definition of CIAC (Customer Contribution in Aid of Construction).
2. Please provide a definition of revenue requirement.
3. Please explain how **[TRADE SECRET BEGINS** [redacted] **TRADE SECRET ENDS].**

**MERC Response**

1. A customer Contribution in Aid of Construction ("CIAC"), is a form of payment (made through the New Area Surcharge in the case of NAS extension projects) calculated to require new system customers to fund the revenue requirement that is not recovered in the margin of the currently authorized base rates. This protects existing customers from subsidizing new customers, and encourages utilities to only extend service where economically feasible. See MERC's tariff Sheet Nos. 9.14-9.17. In the case of a New Area Surcharge project, the CIAC is the "revenue excess or (deficiency)."

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To be completed by responder

Response Date: September 4, 2018
Response by: Seth DeMerritt
Email Address: seth.demerritt@wecenergygroup.com
Phone Number: (920) 433-2926

# 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/M-18-460

Dated this 29th day of October 2018

/s/Sharon Ferguson

| 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<br><br>Minneapolis,<br>MN<br>554021498 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Generic Notice | Commerce Attorneys | commerce.attorneys@ag.state.mn.us | Office of the Attorney General-DOC | 445 Minnesota Street Suite 1800<br><br>St. Paul,<br>MN<br>55101 | Electronic Service | Yes | OFF_SL_18-460_M-18-460 |
| Seth | DeMerritt | ssdemerritt@integrysgroup.com | MERC (Holding) | 700 North Adams<br>P.O. Box 19001<br>Green Bay,<br>WI<br>543079001 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Ian | Dobson | residential.utilities@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012130 | Electronic Service | Yes | OFF_SL_18-460_M-18-460 |
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 280<br><br>Saint Paul,<br>MN<br>551012198 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Daryll | Fuentes | dfuentes@usg.com | USG Corporation | 550 W Adams St<br><br>Chicago,<br>IL<br>60661 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Brian | Meloy | brian.meloy@stinson.com | Stinson,Leonard, Street LLP | 50 S 6th St Ste 2600<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Andrew | Moratzka | andrew.moratzka@stoel.com | Stoel Rives LLP | 33 South Sixth St Ste 4200<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Catherine | Phillips | catherine.phillips@we-energies.com | We Energies | 231 West Michigan St<br><br>Milwaukee,<br>WI<br>53203 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Colleen | Sipiorski | ctsipiorski@integrysgroup.com | Minnesota Energy Resources Corporation | 700 North Adams Street<br><br>Green Bay,<br>WI<br>54307 | Electronic Service | No | OFF_SL_18-460_M-18-460 |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Kristin | Stastny | kstastny@briggs.com | Briggs and Morgan, P.A. | 2200 IDS Center<br>80 South 8th Street<br>Minneapolis,<br>MN<br>55402 | Electronic Service | Yes | OFF_SL_18-460_M-18-460 |
| Eric | Swanson | eswanson@winthrop.com | Winthrop & Weinstine | 225 S 6th St Ste 3500<br>Capella Tower<br>Minneapolis,<br>MN<br>554024629 | Electronic Service | No | OFF_SL_18-460_M-18-460 |
| Daniel P | Wolf | dan.wolf@state.mn.us | Public Utilities Commission | 121 7th Place East<br>Suite 350<br>St. Paul,<br>MN<br>551012147 | Electronic Service | Yes | OFF_SL_18-460_M-18-460 |
| Mary | Wolter | mary.wolter@wecenergygroup.com | Minnesota Energy Resources Corporation (HOLDING) | 231 West Michigan St<br>Milwaukee,<br>WI<br>53203 | Electronic Service | No | OFF_SL_18-460_M-18-460 |