MINNESOTA DEPARTMENT OF COMMERCE

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November 16, 2016

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-16-655

Dear Mr. Wolf:

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

> Petition of Minnesota Energy Resources Corporation (MERC or the Company) for Approval of Recovery of Natural Gas Extension Project Costs through a Rider and a New Area Surcharge for the Esko Project.

Reply Comments were filed on October 13, 2016 by:

> Amber S. Lee
> Regulatory and Legislative Affairs Manager
> Minnesota Energy Resources Corporation
> 1995 Rahncliff Court, Suite 200
> Eagan, Minnesota 55122

As discussed in greater detail in the attached Comments, the Department continues to recommend that the Minnesota Public Utilities Commission (Commission) deny the Petition, in part, and approve, in part, with modification, as more fully discussed in the attached Response Comments.

The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ MICHAEL RYAN
Rates Analyst

MR/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET NO. G011/M-16-655

On October 3, 2016, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Comments *In the Matter of the Petition of Minnesota Energy Resources Corporation* [MERC or the Company] *for Approval of Recovery of Natural Gas Extension Project Costs through the Natural Gas Extension Project (NGEP) Rider and a 25-Year New Area Surcharge (NAS) for the Esko Project* in the above referenced docket. The Department recommended denial of the Company's request to establish an NGEP Rider, and recommended that a 30-year NAS be approved for the Esko Project. Further, the Department requested that MERC provide a description of the NNG pipeline costs that would be included in the NAS Rider (or combination of the NAS Rider and the NGEP Rider) versus any ongoing costs that would be recovered through the Company's purchased gas adjustment (PGA).

On October 13, 2016, MERC submitted Reply Comments that provided additional information supporting the original Petition.

After review of the Company's Reply Comments, the Department continues to support our original recommendation that the Commission deny MERC's Petition to recover Esko Project costs through an NGEP Rider and an NAS for the Esko Project. The Department continues to recommend that a 30-year NAS be approved for the Esko Project with no recovery through an NGEP Rider. The Department addresses each of the Company's concerns below.

I. USE OF NGEP IN CONJUNCTION WITH NAS

MERC stated that "nothing in the NGEP Statute, Minn. Stat. § 216B.1638, or the Commission's Orders approving MERC's NAS tariffs would prohibit the use of both an NGEP and NAS to finance a single extension project."[1] As outlined in detail in the Department's Comments,[2] the NAS was established with the intent to not impose the costs of expansion on existing ratepayers. Further, while the Department agrees with MERC that the NGEP statute does not explicitly prohibit use of both riders for a single expansion project, nor does

[1] MERC Reply Comments pg. 1-2.
[2] DOC Comments pg. 8.

the statute indicate that the NGEP Rider can be used in coordination with an NAS. Therefore, the Department concludes that the Commission has the discretion to choose the recovery method that it determines is in the public interest.

The Company contended that the NGEP statute was enacted in order to give utilities an additional tool to use, in combination with the NAS mechanism, to make marginally cost-effective expansions more cost effective. MERC cited the Senate Committee hearing on Environment and Energy including the co-author of the NGEP bill explaining the rationale behind the bill:

> [T]he current process analyzes if there is a revenue deficiency or not and then allows the option of having a New Area Surcharge added on to help cover the deficiency. If that is not enough to cover the deficiency, the project does not go forward. So what we're proposing . . . is to, in order to cover that deficiency, to allow the current, existing member base to pay part of the cost of the expansion . . . up to 33 percent of the project cost, to help cover the deficiency in order to move natural gas usage forward in Minnesota.[3]

According to the cited recording of the Senate Committee hearing on Environment and Energy, the NGEP statute was apparently intended to work in coordination with the NAS. But the final statute language appears to be broader than was discussed at the committee hearing (the statute addresses under-served areas as well as expansions) and is silent on whether the NGEP rider can be used in conjunction with the NAS or any other recovery mechanism.

As noted in our Comments, the definition of Contributions in Aid of Construction (CIAC) for the NGEP Rider in Minn. Stat. § 216B.1638 does not include any recovery, or contribution, from another rider, such as an NAS, nor does it include recovery from the customers in the new area, nor does CIAC include contributions from the remaining ratepayers. Instead, the CIAC as defined by Minn. Stat. § 216B.1638 consists of contributions from the developer or local government.

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[3] March 17, 2015 Hearing of the Senate Committee on Environment and Energy (Statement of Sen. Skoe) available at https://www.leg.state.mn.us/senatemedia/saudio/2015/cmte_envenergy_031715a.MP3 (7:40-8:24).

Finally, the Company stated the following:

> Approval of the NGEP Rider recovery and NAS, as proposed in MERC's Initial Petition, is consistent with applicable statute, regulation, and prior Commission decisions.[4]

The Department agrees that the applicable statute is open to interpretation in this proceeding, but notes that no prior Commission decisions have involved the combination of the NGEP Rider and an NAS.

II. PROJECT FEASIBILITY

MERC argued that the Department's recommendation to deny the NGEP Rider and approve a longer NAS term would result in higher NAS charges and lower participation rates. As a result, the Project overall would no longer be feasible. However, the Company offered no facts to support their argument and specifically stated that this is MERC's "view."[5]

In Reply Comments, MERC cited a Legislative Energy Commission (LEC) report that noted that the maximum NAS amount typically accepted by potential new area customers was about $25 per month.[6] The Department confirmed that the report does state that the maximum New Area Surcharge residential customers will accept is in the range of $25 per month, however the report does not provide any analytical support for that threshold amount, indicating that the source of the $25 threshold amount was the utilities.[7]

The Company also dismissed the higher NAS levels recommended by the Department through citing median household incomes in Esko and the fact that an approximately $5.00 per month increase is not insignificant to potential ratepayers.[8] The argument does not include any comparison to what customers are currently paying and potential savings achieved. For example, the higher surcharge of $5.00 per month becomes less significant if the residential customer is saving $50 per month by switching from propane or fuel oil to natural gas.

The Company made no factual comparison to support the argument that the Department's alternative recommendation is not feasible and would deter participation. MERC simply stated that its approach is the most reasonable. While the Department supports extending natural gas service to previously unserved areas when reasonably feasible, without supporting analysis showing that an NAS alone is insufficient to make the Esko Project feasible, the Department cannot conclude that it is necessary for all of MERC's ratepayers to subsidize the Esko Project costs.

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[4] MERC Reply Comments, pg. 7.
[5] *Id*.
[6] MERC Reply Comments, pg. 4.
[7] *See* Legislative Energy Commission, *Propane Conversion Strategies* at 15 (Jan. 15, 2015) *available at* https://www.leg.state.mn.us/docs/2015/mandated/150040.pdf
[8] MERC Reply Comments pg. 8.

III. NNG PIPELINE COSTS

The Department's October 3, 2016 Comments requested that the Company address the accounting of NNG costs for the project in Reply Comments. Specifically, the Department requested that MERC provide a description of the NNG pipeline costs that will be included in the NAS Rider (or combination of NAS Rider and NGEP Rider) versus any ongoing costs that will be recovered through the Company's PGA.

In response MERC stated:

> None of the NNG costs would be subsequently recovered through MERC's PGA. This is because NNG would require recovery of its capital costs upfront through a contribution in aid of construction from MERC rather than providing for recovery of such costs through a capacity contract. As noted in MERC's Initial Petition, at this time, no demand entitlement changes are anticipated to be required because MERC anticipates the demand needs of the Esko Project customers will be served off existing demand contracts.[9]

The Department appreciates the additional information and clarification provided by MERC in regards to the NNG costs associated with the project. The Department has no outstanding questions on this topic.

IV. CONCLUSION AND RECOMMENDATION

The Department continues to recommend that the Commission deny MERC's request to recover Esko Project costs through both an NGEP Rider and an NAS. Instead, the Department recommends that a 30-year NAS be approved for the Esko Project with no recovery from an NGEP Rider. Specifically, the Department recommends that the Commission:

[9] MERC Reply Comments pg. 10.

- Establish a New Area Surcharge for Esko customers as follows:

Rate Class	Monthly NAS
Residential	$29.21
Small Commercial and Industrial	$55.35
Large Commercial and Industrial	$138.38
Small Volume Interruptible	$507.39
Large Volume Interruptible	$568.90

- Allow the surcharge to be in effect until the projected revenue deficiency is satisfied, but for no longer than 30 years;
- Require MERC to submit, as a compliance filing within 10 days of the date of the Order in the present docket, the relevant tariff sheets that comply with the Commission's determination in this matter; and
- Require MERC to report on all New Area Surcharge rider projects in one document on March 1 of each year and file them in each of the following dockets:

    - G011/M-16-655 (Esko)
    - G022/M-16-654 (Balaton)
    - G011/M-16-221 (Fayal Township-Long Lake)
    - G011/M-14-524 as revised in Docket No. G011/M-15-776 (Ely Lake)
    - G011/M-15-441 (Detroit Lake-Long Lake)

/lt

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
Response Comments

Docket No. G011/M-16-655

Dated this 16th day of November 2016

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_16-655_M-16-655
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W Rosemount, MN 55068	Electronic Service	Yes	OFF_SL_16-655_M-16-655
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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_16-655_M-16-655