The Commission met on **Thursday, November 8, 2018,** with Chair Lange and Commissioners Lipschultz, Schuerger, Sieben, and Tuma present.

The following matters were taken up by the Commission:

G-011/GR-17-563
In the Matter of the Application by Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota

Actual Non-Fuel O&M
Chair Lange moved that the Commission approve a test year non-fuel O&M reduction of $1,086,092.

The motion passed 5–0.

Charitable Contributions Administrative Expense
Commissioner Tuma moved that the Commission not allow MERC to recover any of its administrative costs related to charitable contributions within the test year.

The motion passed 5–0.

2017 Federal Tax Act
Commissioner Schuerger moved that the Commission

- Approve the update to reflect the new 21% federal corporate income tax rate and the revised Gross Revenue Conversion Factor of 1.402.
- Determine that $37.9 million, based on one year of amortization and a 13-month average is the reasonable amount to use for purposes of determining the correct excess deferred income tax (EDIT) amount for the test year.
- Approve the use of ARAM, with an estimated 41-year amortization period for protected or plant-related EDIT balances.
- Approve the use of a 25-year amortization period for unprotected EDIT balances.
- Approve the creation of a regulatory asset (or a regulatory liability) to account for the amortization of EDIT reserves that are greater than (or less than) what is authorized in final rates.

The motion passed 5–0.

Uncollectible Expense (Bad Debt Expense)
Chair Lange moved that the Commission apply the 2017 percentage of actual bad debt expense over tariffed revenues of 0.762068% to the approximate Commission approved test-year tariffed revenues including the approximate approved revenue deficiency.

The motion passed 5–0.

Late Payment Revenues – FERC Account 487

Chair Lange moved that the Commission order MERC to use the actual 2017 late payment revenues. This results in an increase of $323,853 in late payment revenues.

The motion passed 5–0.

Property Tax Appeal

Commissioner Lipschultz moved that the Commission require MERC to establish a tracker to account for actual Minnesota property tax expense paid each year, less the amounts approved for recovery in base rates, ensuring that tax refunds are tracked as they are received from local taxing authorities and netted against expenses. Carrying charges should be applied to the tracker balance at MERC's approved weighted cost of debt. In subsequent general rate cases, if relevant, MERC must include testimony regarding the balance in the tracker account, Company actions taken regarding property taxes, and a proposal on how to refund or collect the balance in the tracker.

The motion passed 5–0.

Rate Case Expense

Commissioner Sieben moved that the Commission authorize MERC to:

- Allocate 100 percent of the cost of capital expert, legal expenses and newspaper notices to its regulated business;
- Allocate 87.7 percent of state agency fees and ALJ fees to remove the pro-rata share for MERC's non-utility business ServiceChoice; and
- Amortize rate case expense over a two year period commencing January 1, 2018 and defer revenue collected associated with the rate case expense amortization after the end of the two period until the next rate case is filed and propose a rate offset of the amount collected in that rate case.

The motion passed 5–0.

Recovery of Rochester Expansion Costs Included in Rate Base

Chair Lange moved that the Commission require MERC to include any difference between the 2018 actual Rochester capital expenditures and MERC's capital estimates used in this docket (17-563) in its upcoming NGEP Rider (18-182) as a true-up with MERC's NGEP rider true-up calculation.

The motion passed 5–0.

Old Rosemount Office Building
Commissioner Tuma moved that the Commission

- Order MERC to reduce rate base by $1.7 million with a corresponding $1.7 million adjustment to accumulated depreciation and a downward adjustment to depreciation expense in the amount of $40,941 to remove the annual depreciation expense from the test year.
- Require MERC, in either its next rate case or its next depreciation filing, whichever comes first, to propose a set of depreciation practices and adjustments for the separate depreciation of large assets, like office buildings or to provide explanation why no such modification from the Company's depreciation practices is warranted or appropriate.

The motion passed 5–0.

Travel and Entertainment Expenses
Commissioner Sieben moved that the Commission allow MERC to recover its requested T&E expense of $256,356 for the 2018 test-year.

The motion passed 5–0.

Resolved and Non-Disputed Financial Issues
Commissioner Lipschultz moved that the Commission

- Approve MERC's proposed increases to rate base Net Plant in Service for the $488,516 in Balaton project costs and $733,297 in Esko project costs.
- Require that cash working capital be recalculated to reflect the Commission approved outcomes in this proceeding.
- Approve MERC's proposed CCRC factor of $0.02953 and approve its current practice of combining the CCRC factor and its distribution rate into one billing rate.
- Require MERC to update its CIP tracker carrying charge based on the approved short-term cost of debt in this docket (17-563).

The motion passed 5–0.

Commissioner Tuma moved that the Commission

- Require MERC to submit a compliance filing within 30 days of the Commission's Order detailing the amount of incentive compensation ultimately included in the Commission approved 2018 test-year.
- Approve a 2018 non-labor inflation rate of 2.279 percent.
- Determine that the GAP Surcharge needs to be reinstated to fund the GAP and require MERC to submit a compliance filing using the sales forecast determined in this proceeding to calculate the GAP factor.
- Amend the Order Approving Merger Subject to Conditions in Docket No. G011/PA-14-664 to remove Order Point 10 requiring review of MERC's low income programs in future rate cases.

- Determine that no adjustment is needed to remove the cost of the Eagan lease from the test-year.

The motion passed 5–0.

Commissioner Tuma moved that the Commission determine that MERC shall provide the following information in a compliance filing:

(a) the business case, design plans, and implementation plan for extension of Improved Customer Experience (ICE) to other WEC legacy utilities within 90-days of completion of the exploration project;
(b) include in that filing a detailed discussion of costs and benefits to MERC of the roll-out to other utilities;
(c) include in that filing a discussion of any work avoided by the WEC legacy utilities due to initial development of the ICE customer platform for legacy Integrys utilities;
(d) include in that filing a discussion of the extent to which the allocations of costs (according the WEC affiliated interest agreement – AIA) captures the costs and benefits to the participating utilities;
(e) include a cost recovery proposal to return all appropriate amounts to MERC customers, if, following the roll out to MERC's affiliates, the AIA itself does not ensure that MERC ratepayers do not pay a disproportionate share of ICE;
(f) confirm any decision on roll-out of ICE to WEC legacy utilities within 30 days of that decision, by submission of a compliance filing that reflects both the decision and the rationale.

The motion passed 5–0.

Chair Lange moved that the Commission

- Take no action on the issue of LTIP, Restricted Stock, and Stock Options.
- The interest synchronization calculation shall be updated based upon the Commission approved adjustments make in this docket.
- Order MERC to reduce its 2018 test-year Mapping Project Expense by $56,200.
- Order MERC to file, in its next rate case, detailed information regarding the status of the Mapping Project and associated costs, including:
  (1) a full discussion of both phases of the Mapping Project;
  (2) the status of the Mapping Project;
  (3) the actual costs by year and the reasons for variances from forecasted amounts beginning with 2016;
  (4) the projected costs in the test year and how determined;
  (5) the actual and projected costs and how determined for the year immediately before the test year;
  (6) the portion of that year's costs performed by external contractors by year; and
  (7) any other evidence to support MERC's Mapping Project costs.

- Approve a 2018 test-year medical expense of $1,836,236, reducing test-year expenses by $464,806.
- Require MERC, in future rate cases to: show all revenues by FERC Account, with a breakout of the types of revenues included in each account; provide an explanation for why any revenue amount is excluded from the test year; and provide the last five years of actual revenues by type, plus related test-year amounts for that same period.
- Adopt MERC's proposed clarification to ALJ Finding 189.
- Order MERC to reduce its rate base by $1.03 million. This is based on MERC's Supplemental Direct Testimony rate base in which it updated the 2017 balances, updated for the loss of bonus depreciation, and incorporated a federal tax rate of 21 percent.
- Determine that use of the 2017 O&M actuals for shared services expense in the test-year is reasonable and appropriate.
- Order MERC to provide a schedule showing all allocated services to and from MERC and all other subsidiaries for five years of actuals and related test-year amounts during that five-year period in its initial filing of future rate cases. MERC should also include a brief description of each type of service or cost in the agreed upon format.

The motion passed 5–0.

Commissioner Sieben moved that the Commission:

- Order MERC to reduce its revenue deficiency by $55,101 to reflect a recalculation of depreciation expense and a three year average of plant retirements.
- Order MERC to provide separately the retirements included in the test year rate base. MERC should provide actual retirements for the most recent five years to assist parties in evaluating whether the retirements MERC has included in rate base are reasonable.
- Order MERC to reduce rate base by $5,007,595 and a corresponding reduction of $524,724 to depreciation expense.
- In future rate cases, MERC must provide its rate base information by including beginning-of-year rate base and end-of-year rate base and 13 month rate base information and then calculating average rate base, to allow parties to better understand how MERC's rate base was calculated and to be able to tie out actual rate base amounts.
- Adopt the ALJ Report, Finding 238, and require MERC to include in its rate base calculation an underground storage gas balance of $6,062,327.
- Determine that MERC has substantially complied with the reporting requirements of the Commission's Order in the WEC/Integrys merger docket.

The motion passed 5–0.

Sales Forecast
Chair Lange moved that the Commission Adopt the ALJ's Finding concerning the sales forecast (Column 2, on page 9 of the briefing papers).

The motion passed 5–0.

Chair Lange moved that the Commission adopt the reporting requirement recommendations in ALJ Report ¶ 502, p. 82 and ¶ 233, p.38.

The motion passed 5–0.

CCOSS
Commissioner Lipschultz moved that the Commission adopt the ALJ's recommendation as modified, acknowledging that the Commission would consider MERC's recommended zero-intercept model, the Department's recommended zero-intercept model, and the OAG's blended approach, on a qualitative basis, in making its determination on class revenue apportionment.

The motion passed 5–0.

Commissioner Schuerger moved that the Commission:

- Adopt the ALJ's CCOSS future filing requirement recommendations subject to modifications.
- Require MERC to file:
    a. one CCOSS in future rate cases; and
    b. if MERC elects to file a zero-intercept CCOSS to comply with (a), a minimum-size classification in lieu of a full-blown minimum-size CCOSS.
- Provide that intervening parties may request additional class cost of service studies; if more than two studies are requested, or if a request is not clearly defined, MERC may seek protection from the Administrative Law Judge under Minn. R. 1400.6700, subp. 4 (2017).

The motion passed 5–0.

Cost of Capital
Commissioner Schuerger moved that the Commission:

- Adopt the Company's proposed capital structure comprised of 50.90 percent common equity, 39.16 percent long-term debt, and 9.94 percent short-term debt.[1]

[1] This bullet point corrects a scrivener's error in the deliberation outline's recitation of the percentage of long-term debt agreed upon by the parties.

- Adopt the proposed cost of long-term debt of 3.58 percent.
- Adopt the proposed cost of short-term debt of 3.60 percent.

The motion passed 5–0.

Commissioner Lipschultz moved that the Commission adopt a cost of equity of 9.7%.

The motion passed 5–0.

Commissioner Lipschultz moved that the Commission determine that 2-growth DCF models, including that found in Dr. Amit's surrebuttal testimony, are appropriate for ascertaining a reasonable range for return on equity.

The motion passed 5–0.

Chair Lange moved that the Commission:

- Determine that some other overall cost of capital is appropriate and have the staff calculate the proper value, based on the component parts, for inclusion in the order.
- Adopt MERC's clarification to ALJ Finding 88.
- Adopt MERC's correction to ALJ Finding 134.

The motion passed 5–0.

Class Revenue Apportionment

Firm Class 1 and Firm Class 2 Customer Class Proposal

Commissioner Lipschultz moved that the Commission:

- Reject the ALJ's recommendation in Finding 399, and approve the OAG's proposed class revenue apportionment and proposed exceptions to the ALJ's report and recommendation.
- Adopt ALJ Finding 328, and approve MERC's initially-filed sales forecast as reasonable for the limited purpose of setting rates.

The motion passed 5–0.

Commissioner Tuma moved that the Commission require MERC to submit an annual compliance filing by March 31st of each year that:

- details the number of customers reassigned to different customer classes, their original class and the class to which they were moved;
- identifies the number of customers with usage falling within the 10-percent usage band that did not warrant reassignment;

- contains a description summarizing customer complaints regarding class reassignments; and
- addresses MERC's compliance with Minnesota Rules, part 7820.4000.

The motion passed 5–0.

Revenue Decoupling

Chair Lange moved that the Commission:

- Approve the removal of General Service Small C&I customers from MERC's revenue decoupling program and require MERC to provide for an updated analysis of the impact on customers of extending its revenue decoupling program to all of MERC's customer classes with 50 or more customers, when MERC files its next rate case.
- Adopt the Department's modification to ALJ Finding 469.
- Adopt the Department's proposed findings pertaining to Revenue Decoupling.
- Require MERC to include the General Service Small C&I class in future annual revenue decoupling reports in the analysis of how the revenue decoupling mechanism would have impacted non-decoupled classes.
- Approve the agreement between MERC and the Department for continuation of the 10 percent symmetrical cap on surcharges and refunds within the revenue decoupling program.
- Adopt an implementation date of January 1, 2019 for all modifications adopted herein to MERC's revenue decoupling program.
- Decline to adopt the Department's recommendation to implement an energy savings threshold in this rate case.
- Decline to adopt ALJ findings 465 and 466.

The motion passed 5–0.

Resolved Rate Design Issues

Chair Lange moved that the Commission:

- Adopt the ALJ's recommendation in Finding 238 of his Report with the Department's clarifications/corrections for Findings 237 and 238. Require MERC to update its commodity and demand cost of gas to the June 1, 2018 updated filing levels in its final compliance filing for both its general rate case (Docket No. 17-563) and its base cost of gas petition (Docket No. 17-564).
- Adopt the ALJ's recommendation in Finding 391, and approve MERC's proposed new customer classifications.
- Adopt the ALJ's proposed Finding 405 and approve the parties' agreed upon monthly customer charges by customer class as recommended by the ALJ.
- Adopt the ALJ Report Finding 409 and approve MERC's proposed Firm/Interruptible Sales and Transportation Service.

- Require MERC to provide an explanation of the proposed credit back to firm customers from firm/interruptible transportation service in the final compliance filing in this docket.
- Adopt the ALJ's recommended Finding 413 and determine that MERC complied with the Commission May 5, 2017 Order (Order Point 8) requirements.
- Adopt ALJ's Finding 419 and determine that MERC complied with Minn. Stat. § 216B.163 requirement when offering its Flexible Rate Tariff.

The motion passed 5–0.

Chair Lange moved that the Commission:

- Apply the proposed change in customer classes to all of MERC's customers, including the new area surcharge customers.
- Adopt the ALJ's conclusion that the MERC/Encore agreement is reasonable and approve the MERC/Encore agreement. Correct the ALJ's findings to reflect Encore's requested clarification.
- Adopt the ALJ Report's recommendation and approve MERC's proposed tariff amendments as discussed in volume IV of the briefing papers on pages 69–71.
- Adopt the ALJ Finding 492 that MERC's service and main extension policies, footage allowance, and feasibility model were reasonable and that MERC was in compliance with its tariff.

The motion passed 5–0.

Commissioner Sieben moved that the Commission:

- Adopt the ALJ's Finding 487 that MERC has complied with Docket No. 91-989 Order requirements and approve MERC's latest 5-year farm tap inspection program report.
- Require MERC to continue its farm tap inspection program and submit information about the program in its next rate case and clarify in the Commission's Order that MERC:
    - Shall continue to send farm-tap safety and information brochures to new farm tap customers before they take service and to all existing farm customers annually.
    - Shall continue to file annual reports on its farm tap inspection program on or before April 1 of each year.
    - Within 90 days of the end of each five-year inspection cycle and in each general rate case, shall file with the Commission, the Department, and the Minnesota Office of Pipeline Safety a five-year report including cumulative results of the inspection program and any recommendations for future improvements. (Staff provided alternative)
- Continue to require MERC to address the reporting requirements of Docket No. 07-1188 in future general rate cases for Winter Construction Costs.

- Continue to require MERC to address the reporting requirements of Docket No. 90-563 in future general rate cases for abnormal construction costs and the collection of CIAC.

The motion passed 5–0.

General Housekeeping

Commissioner Tuma moved that the Commission:

- Find that the order in this docket shall contain summary financial schedules including: a calculation of MERC's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Parties shall work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.
- Require MERC to make the following compliance filings within 30 days of the date of the final order in this docket:
    a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
        i. Breakdown of Total Operating Revenues by type;
        ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
            1. Total revenue by customer class;
            2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
            3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
        iii. Revised tariff sheets incorporating authorized rate design decisions;
        iv. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
    b. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
    c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
    d. Direct MERC to file a computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct MERC to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
    e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

- Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on MERC's proposed customer notice.

The motion passed 5–0.

Commissioner Tuma moved that the Commission adopt the ALJ's Findings of Fact, Conclusions of Law and Recommendations (ALJ Report) with modification to one or more of the issues, and to the extent the ALJ's Report is consistent with the decisions made by the Commission at this meeting.

The motion passed 5–0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: May 8, 2019

Daniel P. Wolf

Daniel P. Wolf, Executive Secretary