Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068
www.minnesotaenergyresources.com

September 17, 2019

VIA ELECTRONIC FILING

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

PUBLIC DOCUMENT
TRADE SECRET DATA
HAS BEEN EXCISED

Re: **Reply Comments of Minnesota Energy Resources Corporation**

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Utility Infrastructure Cost (GUIC) Rider Revenue Requirement and Revised Surcharge Factor
Docket No. G011/M-19-282

Dear Mr. Wolf:

On April 24, 2019, Minnesota Energy Resources Corporation ("MERC" or the "Company") filed a Petition with the Minnesota Public Utilities Commission (the "Commission") requesting approval to recover capital costs and operations and maintenance ("O&M") expense forecasted to be incurred in 2020, through the Company's Gas Utility Infrastructure Cost Rider ("GUIC Rider"), pursuant to Minn. Stat. §216B.1635.

On August 23, 2019, the Minnesota Department of Commerce, Division of Energy Resources (the "Department") and the Minnesota Office of the Attorney General, Residential Utilities and Antitrust Division ("OAG") filed comments on the Company's Petition, requesting additional information in Reply Comments, and recommending approval of the Company's 2020 GUIC Rider with modifications. In particular, the OAG recommends that MERC adjust its 2020 revenue requirement to forecast for the removal of depreciation expense associated with assets to be removed and replaced as a result of GUIC-eligible projects. Additionally, the OAG requests that the Company confirm its intended treatment of GUIC rider costs in the event MERC files a 2020 test year rate case. The Department recommends approval of MERC's 2020 GUIC rider with modifications.

MERC thanks the Department and OAG for their review and comments and submits these Reply Comments to respond to their recommendations and requests for additional information. With these Reply Comments, MERC is also providing an updated 2020 GUIC revenue requirement to incorporate corrections to the accumulated deferred income tax ("ADIT") proration calculation as discussed in the Department's Comments and incorporate forecasted 2020 expense related to compliance with the Commission's July 31, 2019, ORDER ACCEPTING COMPLIANCE FILINGS, REQUIRING MERC TO SUBMIT ADDITIONAL INFORMATION, REQUIRING ANNUAL COMPLIANCE REPORTING, AND TAKING OTHER ACTION in Docket No. G999/CI-18-41, which authorized recovery of the costs incurred to comply with

the Commission's requirements related to excess flow valves ("EFV") through GUIC rider filings.[1] As discussed below, MERC is also including a revised 2020 GUIC rider allocation based on consideration of the revenue apportionment approved in Docket No. G011/GR-17-563, the potential risk of bypass posed by the Company's direct connect customers, and other rate design considerations.

1. Forecasted Depreciation Expense Adjustment for Replaced Assets

First, both the OAG and Department recommend that MERC include in its revenue requirements calculation a forecasted offset for depreciation expense associated with the facilities to be removed or replaced as result of right-of-way and distribution integrity management program ("DIMP") work.[2] As explained in the Company's Petition and consistent with the treatment proposed and approved in MERC's 2019 GUIC rider in Docket No. G011/M-18-281, because the specific assets to be replaced are not known with certainty, the Company has proposed to separately track the replaced and removed plant and to include an adjustment related to the associated depreciation expense in the true-up to fully account for that expense.[3]

Forecasting the depreciation expense adjustment as the Department and OAG recommend would be particularly challenging with respect to the right-of-way ("ROW") relocation projects. As explained in MERC's Petition, ROW relocation projects typically are not known in advance.[4] Federal, state, and local government units request MERC to relocate facilities

---

[1] *In the Matter of a Commission Investigation into Natural Gas Utilities' Practices, Tariffs, and Assignment of Cost Responsibility for Installation of Excess Flow Valves and Other Similar Gas Safety Equipment*, Docket No. G999/CI-18-41, ORDER ACCEPTING COMPLIANCE FILINGS, REQUIRING MERC TO SUBMIT ADDITIONAL INFORMATION, REQUIRING ANNUAL COMPLIANCE REPORTING, AND TAKING OTHER ACTION at 6, 7 (July 31, 2019) (finding that "the cost to communicate with affected customers fits squarely within the definition of 'gas utility infrastructure costs' under the GUIC statute, as the costs are related to the modification of existing gas facilities, including surveys, assessments, and other work necessary to determine the need for replacement or modification of existing infrastructure required by a federal or state agency. The Commission, as a state agency, has required the gas utilities to undertake the outreach, assessments, and installation of EFVs and natural gas service line shutoff valves, which give rise to such costs. Accordingly, the Commission will allow recovery of prudently incurred EFV costs through GUIC rider filings.").

[2] OAG Comments at 4-5; Department Comments at 11-12.

[3] MERC Petition at 26 (Apr. 24, 2019); *see also In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Gas Utility Infrastructure Cost Rider*, Docket No. G011/M-18-281, MERC Reply Comments at 15-16 (Aug. 17, 2018). MERC notes that the anticipated adjustment related to replaced or removed assets would be limited to the depreciation expense associated with the replaced assets, as discussed in the Company's August 17, 2018, Reply Comments in Docket No. G011/M-18-281. The assets to be replaced are all pipes and valves and are accounted for using group depreciation accounting. Under group accounting (used for utility poles and gas pipes, etc. because they are too numerous to track individually), distribution retirements are recorded by debiting Account 108, Accumulated Depreciation Reserve, and crediting Account 101, Utility Plant, resulting in $0 impact to rate base.

[4] MERC Petition at 4, 11 (Apr. 24, 2019).

within the right-of-way according to their own project schedules. As a result, the specific projects, quantity replaced, and vintage of replaced assets are not known in advance. MERC cannot forecast the age or the value of the assets to be retired and therefore cannot provide an estimate of depreciation expense savings at the start of the GUIC year.

Further, as explained in the Company's Reply Comments in Docket No. G011/M-18-281, and response to OAG Information Request No. 6,[5] the depreciation expense adjustment related to replaced assets is expected to be relatively small.[6]

Given that the impact of the depreciation expense adjustment will be relatively small and in light of the challenges with attempting to forecast such adjustment in advance of knowing the specific projects that will occur and specific facilities that will be replaced, MERC continues to advocate that its proposal to address this adjustment in the true-up reconciliation is reasonable. While MERC's 2019 and 2020 GUIC riders do not include a prior period true-up reconciliation adjustment due to timing, MERC anticipates that its future annual GUIC revenue requirement calculations would incorporate adjustments for prior period true-ups. Thus, for example, MERC's 2021 GUIC rider would incorporate the impacts of the depreciation expense reduction for 2019 GUIC-related projects.

2. Recovery of Right-of-Way ("ROW") Capital Costs

The Department also recommends that MERC be required to modify the amount attributable to 2020 ROW projects to only include the costs associated with the nine known projects MERC had identified for 2020.[7] In particular, the Department notes that at the time of MERC's initial filing, "the Company had been notified of 9 ROW projects for 2020, however, [MERC] included in its 2020 GUIC revenue requirement a cost recovery level equivalent to the completion of 82 new ROW projects in 2020."[8] The Department also argues that MERC's 2018 project cost information is questionable and should not be relied upon to determine 2020 forecasted ROW relocation project costs.[9]

Contrary to the Department's assertions, MERC has fully supported its proposed 2020 project costs related to ROW projects based on historic relocation work and analysis of project and cost trends over time. The Company's proposal to utilize 2018 actual costs is reasonable and supported in consideration of the detailed information provided regarding historic costs, trends, and experience related to ROW relocation work.

---

[5] Included as Attachment A to these Reply Comments.
[6] For example, in MERC's 2018 rate case, Docket No. G011/GR-17-563, the Department witness Ms. Nancy Campbell calculated a three year average of retirements of $6.7 million, which resulted in a retirement adjustment of $2.6 million which was agreed to by MERC. The result of this $2.6 million retirement adjustment was a depreciation expense reduction of $55,101.
[7] Department Comments at 12.
[8] Department Comments at 12.
[9] Department Comments at 13.

a. The Commission approved the use of forecasted ROW costs in MERC's 2019 GUIC rider.

As fully explained in the Company's Petition,

> The forecast for the right-of-way relocation work is based on our actual spend on right-of-way projects in 2018. Based on historical data, right-of-way relocation costs have been increasing over the past four years, indicating a clear trend in the costs associated with annual right-of-way projects. Actual annual spending for right-of-way relocation projects is out of MERC's control as the Company is required to remove and relocate its natural gas facilities located in the public right-of-way whenever requested to do so to accommodate a public works project such as a road or sewer project.[10]

The Commission addressed the appropriateness of forecasted ROW project costs in the Company's 2019 GUIC rider in Docket No. G011/M-18-281, concluding that MERC's reliance on historic trends was reasonable and sufficient to meet the statutory requirements.

> Both the Department and the OAG expressed concern that MERC did not provide sufficient detail about its right-of-way relocation costs. This concern is misplaced. The GUIC statute anticipates the use of estimated costs. As MERC has explained, it generally is not informed of future right-of-way relocation work with enough lead time to include specific projects in its forecasts. Therefore, MERC's petition relies on historic spending to support its requested amount. This amount will be trued up annually to actual costs, eliminating any possibility that forecasting will result in overrecovery.
> …
>
> [T]he Commission finds MERC's use of a three-year average of relocation costs reasonable both because these costs have been trending higher in recent years and because any overestimation can be corrected for in the true-up.[11]

The Department's position that the Company should only be permitted to recover for the nine known projects on a forecasted basis is contrary to the plain language of the GUIC statute and the Commission's determination with respect to MERC's 2019 GUIC rider.

---

[10] MERC Petition at 6 (Apr. 24, 2019).
[11] *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6-7 (Feb. 5, 2019).

MERC has fully supported the reasonableness of its forecasted costs for 2020 ROW projects.

b. The GUIC Statute expressly provides for the use of forecasted costs.

The GUIC statute, Minn. Stat. §216B.1635, expressly provides that a GUIC project plan report "must be for a *forecast* period of one year."[12] The GUIC statute directs the Commission to evaluate prudency and actual costs as part of an annual review or true-up process.[13] Through that process, a utility with an approved GUIC rider is able to report on details regarding the specific work and cost of the work that is completed. The Commission has recognized the challenges as well as the significant value of forecasted rider recovery under the GUIC statute, noting that "[t]he costs of [GUIC-eligible] investments can vary widely from year to year and are difficult to forecast with accuracy. Approving a rider … [provides] the ability to implement multi-year pipeline-replacement programs, adjusting the rates annually to correct for over- or under-recovery."[14]

c. MERC's ROW relocation costs have been increasing.

Based on historical data, ROW relocation costs have been increasing year-over-year as MERC has been required to relocate more of its natural gas infrastructure each year to accommodate a growing number of public projects. As shown in Table 1 below, the number of these requests has increased significantly year-over-year since 2016. And although MERC has not been informed of all projects for 2019, through August 2019, MERC has been notified of approximately 76 projects that the Company has determined require the relocation of natural gas facilities. MERC's current projected relocation costs based on the identified projects through August 2019 are $6,572,468. The Company anticipates it will be notified of additional ROW relocation work through the remainder of the 2019 construction season, resulting in 2019 costs substantially above the amount included in the 2019 GUIC rider ($5.3 million), consistent with recent experience of increased year-over-year ROW relocation project costs, providing further support for MERC's proposed 2020 ROW forecasted cost recovery or approximately $6.6 million.

---

[12] Minn. Stat. § 216B.1635, subd. 2.

[13] In particular, Minn. Stat. § 216B.1635, subd. 4(2)(iv) requires "a comparison of the utility's estimated costs included in the gas infrastructure project plan and the actual costs incurred, including a description of the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred."

[14] *In the Matter of the Petition of N. States Power Co. d/b/a Xcel Energy, for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G002/M-14-336, ORDER APPROVING RIDER WITH MODIFICATIONS at 7 (Jan. 27, 2015) ("The clear thrust of the GUIC statute is to establish a mechanism by which utilities may recover out-of-test-year infrastructure investments mandated by federal or state agencies. The costs of these investments can vary widely from year to year and are difficult to forecast with accuracy. Approving a rider … [provides] the ability to implement multi-year pipeline-replacement programs, adjusting the rates annually to correct for over- or under-recovery.").

Table 1. MERC's ROW Relocation Projects 2015-2019 (through August 2019)		
Project Year	**Number of Relocation Projects**	**Annual ROW Project Costs**
2015	72	$4,573,401
2016	72	$5,171,722
2017	86	$6,257,343
2018	87	$6,589,132
2019 (known projects through August 2019)	76	$6,572,468

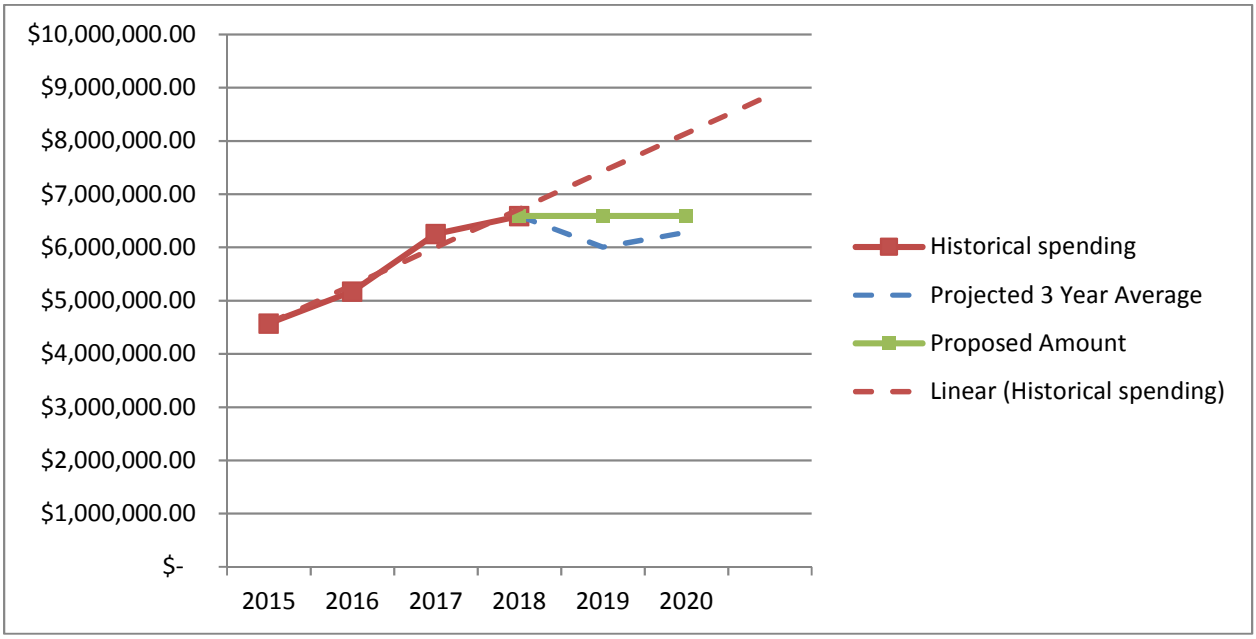
d. Governmental authorities do not provide complete forecasts.

As explained in response to Department Information Request No. 9,[15] while some government authorities utilize longer-range planning, the level of detail needed to determine the specific affected facilities and to design a relocation project still generally is not known until winter or early spring for that construction season, such that MERC is not able to design projects by the end of the calendar year. The majority of municipalities and townships requesting ROW relocations utilize short-term planning due to funding approvals and, as a result, MERC is often not provided notice of the need to relocate facilities until a couple of months to a week before a ROW project begins. These municipal ROW projects are also often modified after initially being presented or cancelled due to funding or other considerations by the local governmental unit. While MERC requests that governmental units provide as much lead time and detail as possible for ROW relocation projects in order to allow the Company to undertake the necessary planning for work to be performed with respect to the relocations, the nature of the planning and funding for these ROW projects means that MERC will never have a complete picture of upcoming relocation projects prior to the beginning of a construction season.

In order to most accurately forecast 2020 ROW project costs for purposes of forecasted GUIC recovery, MERC performed a trend analysis of spending related to these projects. Figure 1 from the Company's Petition illustrates the results of that trend analysis.

[15] Included as Attachment B to these Reply Comments.

Figure 1. ROW Project Cost Trend Analysis



As shown in Figure 1, historic spending year-over-year indicates an increasing trend line. As a result of this increasing trend, the estimate for the ROW work for 2020 is based on MERC's actual spending on ROW projects in 2018. Although MERC utilized a 3-year average of historic costs for its 2019 GUIC rider forecast, based on recent experience, 2018 actual costs reflect the most reasonable estimate of 2020 project costs.[16]

Thus, while MERC cannot currently identify the specific relocation requests that will be made for 2020, based on the historic trend line it is reasonable to expect that the Company will continue to receive these requests at the same pace as in recent years and that the resulting costs will continue to increase relative to previous years. As a result, MERC's proposal to use 2018 actual costs as the basis for the GUIC revenue requirement calculation for this category of work provides a reasonable estimate of projected costs to be incurred for the replacement of natural gas facilities located in the public ROW required by governmental agencies and any difference between the estimated costs and actual expenditures will be subject to future true up.

---

[16] This approach is consistent with Commission precedent in light of MERC's trend analysis. In particular, "[t]he Commission often employs averaging in ratemaking to smooth costs that vary from year to year. However, where the variation follows a clear trend, averaging can obscure the trend, resulting in inaccurate rates." *In the Matter of a Petition by Minn. Energy Res. Corp. for Auth. to Increase Nat. Gas Rates in Minn.*, Docket No. G011/GR-13-617, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18 (Oct. 28, 2014).

e. MERC's actual 2018 project costs were not overstated.

The Department also asserts that MERC's 2018 ROW project expenditures are questionable and overstated because the summed amount "include[s] costs associated with projects that were placed into service in 2017."[17] According to the Department, MERC's 2018 project cost totals are overstated by approximately $137,000.[18]

MERC responds that its 2018 ROW project costs are accurate and not overstated as asserted by the Department. The fact that MERC incurred costs in 2018 for ROW projects that were placed into service in 2017 does not make those costs unreasonable or overstated. In particular, the costs the Department questions were related to restoration and removal work on completed projects that occurred in the year following project completion (i.e., removal and restoration work that took place in 2018 for some projects placed into service in 2017). While the specific projects were in service and providing natural gas in 2017, work on restoration and/or removal was not completed in 2017. Occasionally, MERC will be obligated by a governmental entity to remove old pipe (due to space constraints in the ROW) or to undertake specific restoration work following completion of an ROW project. Additionally, MERC sometimes will complete the relocation of main during one calendar year and subsequently be notified of a service line conflict with the road or sewer project in a subsequent year. In such cases, all work may not occur in the same calendar year that a project (or portion of a project) is completed and placed into service. The timing of completion of such work does not render those costs erroneous or overstated. The Department's suggestion that all costs associated with a capital project must close during the year the project is placed into service is not realistic.

With respect to the Company's 2019 and 2020 GUIC-eligible ROW projects, MERC intends to track the full project costs (inclusive of restoration) for purposes of calculating any true-up. However, there may be cases where restoration or removal work is not completed before the true-up is prepared for filing. In such cases, MERC proposes to defer those subsequent restoration costs for recovery either in the next year's GUIC rider true up or in a subsequent rate case filing.

For the reasons outlined above and discussed in MERC's 2020 GUIC rider petition, MERC continues to believe its actual 2018 ROW project costs provide the most reasonable basis to forecast 2020 GUIC costs.

3. Obsolete Materials Replacement Capital Costs

Third, with respect to MERC's 2020 Obsolete Materials Replacement project, the Department concludes that MERC's estimate for Aldyl-A replacement costs is overstated and recommends that the amount used to set the 2020 rider rate be reduced by $2 million to

[17] Department Comments at 13.
[18] Department Comments at 13.

a new total of $5 million.[19] In particular, the Department relies on information regarding MERC's costs for *ROW relocation projects* to support its conclusion that the Company's forecasted Aldyl-A replacement costs are too high, recommending that a four-year average for ROW main and service replacement costs instead be used to set 2020 Aldyl-A replacement recovery.

a. MERC's cost estimate for obsolete material replacements is consistent with the level of spending approved by the Commission for the 2019 GUIC rider.

MERC's proposal to spend approximately $7 million on the replacement of obsolete materials in 2020 is reasonable and appropriate to continue this important effort to replace known risks on the Company's distribution system in accordance with MERC's DIMP. This level of capital spending for obsolete materials replacements in 2020 is also consistent with the level of spending approved by the Commission for 2019 in Docket No. G011/M-18-281.[20] MERC's forecasted 2020 costs reflect a reasonable projection of costs to be incurred in 2020 for the replacement of Aldyl-A based on the Company's historic costs, experience with obsolete materials replacements, and unique factors affecting Aldyl-A replacements. Furthermore, the GUIC rider is subject to annual true-up, with the cost of each replacement having the potential to vary based on specific project circumstances (i.e., abnormal conditions such as rock, non-locatable pipe, and the length of affected services).

b. The Obsolete Materials Replacement project is a multi-year effort.

MERC has significant work to do to remove obsolete materials from its system. That effort will necessarily be a multi-year effort and the pace of the work completed can be controlled. Reducing the allowed 2020 costs for the Obsolete Materials Replacement program does not provide a long-term cost savings for customers, however, it simply slows the pace of MERC's replacement of known obsolete materials on the Company's distribution system and could potentially result in additional costs due to inflation.

As discussed in MERC's Petition, MERC estimates that it will have approximately 370 miles of Aldyl-A pipe remaining across the distribution system following completion of the planned 2019 replacement projects. In 2020, MERC is targeting removal of approximately 15 miles of Aldyl-A.[21] The Company's planned spending for 2020 replacements is based in large part on the need to balance removal of risks against avoiding significant rate impacts. In

---

[19] Department Comments at 14. In particular, the Department recommends the 2020 GUIC rider be based on MERC's forecasted footage of main to be replaced but utilize a cost of $37.48 per foot rather than the $50 per foot provided by the Company. Similarly, the Department recommends using a cost of $1,800 per service for service line replacements rather than the $2,654 average based on the Company's proposed 2020 costs.

[20] *In the Matter of Minnesota Energy Resources Corporation's Request for Approval of a Gas Utility Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 10 (Feb. 5, 2019).

[21] MERC Petition at 20-21 (Apr. 24, 2019).

determining the proposed level of annual spending, MERC evaluated historic DIMP project spending to understand the level of annual investment under DIMP programs that could be supported in rates.

GUIC rider recovery allows the Company to implement multi-year programs that are comprehensive and cost effective, thus providing benefits to our customers beyond increased safety and reliability. A proactive approach benefits customers because work undertaken systematically and strategically reduces costs compared to work undertaken in a reactionary or immediate threat mode, and allows MERC to engage in regional planning to minimize inconvenience to impacted communities. With the initial implementation of DIMP, MERC continued to prioritize the elimination of bare steel and polyvinyl chloride ("PVC"); however, because the Company did not have cost recovery outside of rate case proceedings, MERC had to constantly reprioritize projects and, as a result, the risk reduction took place in fits and starts from 2004 to 2017. As proposed, MERC's 2020 GUIC rider will allow MERC to move forward with its DIMP initiatives in a more methodical manner and the Company will track the progress and reevaluate project scope for each program annually. As the Commission has recognized,

> The clear thrust of the GUIC statute is to establish a mechanism by which utilities may recover out-of-test-year infrastructure investments mandated by federal or state agencies. The costs of these investments can vary widely from year to year and are difficult to forecast with accuracy. Approving a rider… [provides] the ability to implement multi-year pipeline-replacement programs, adjusting the rates annually to correct for over- or under-recovery.[22]

c. ROW replacement costs are not a reasonable proxy for forecasting the replacement of Aldyl-A main and services.

Because the identified average cost associated with historic ROW replacement projects are not indicative of the Company's planned costs for Aldyl-A replacement in 2020, the Department's recommended adjustments are not reasonable or appropriate. As explained in MERC's response to Department Information Request No. 20, "the cost per foot ($50) used to estimate the Aldyl-A main replacement was based on historical spend for Aldyl-A replacement projects. The estimate includes materials, labor, and equipment costs associated with the main installation as well as a contingency for the potential to encounter unlocatable existing main, rock, or other unanticipated conditions."[23] While the actual costs

---

[22] *In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider*, Docket No. G002/M-14-336, ORDER APPROVING RIDER WITH MODIFICATIONS at 7 (Jan. 27, 2015).
[23] Attachment 7 to Department Comments.

incurred will be subject to true-up, MERC's forecasted 2020 cost estimate reflects a reasonable estimate of costs for work planned in 2020.

An average cost per foot for ROW projects does not reflect the circumstances or anticipated costs for Aldyl-A replacement projects. For example, some factors that could impact a cost differential between ROW projects and MERC's obsolete replacement projects include the following:

- Older vintage Aldyl-A has sometimes been found to be non-locatable. In such circumstances, additional costs will be experienced in order to vacuum excavate to locate mains.

- Obsolete materials replacements require MERC to complete all associated restoration activities following construction. In contrast, ROW relocation projects often have more limited restoration costs because restoration is undertaken by the governmental unit completing the road project.

- The older vintage Aldyl-A to be replaced generally is in more established neighborhoods with larger and more established trees, requiring additional boring to install replacement pipe.

- Surveys are often required for obsolete materials replacement projects to identify any existing ROWs and determine the need for any additional easements. If easements are needed, there are also costs to acquire such easements. In contrast, ROW relocation projects are located within a public ROW with the relevant governmental authority determining the relocation.

- Obsolete materials replacement projects generally will require city or county permitting while ROW replacement projects generally do not since they are driven by the governmental entity.

- For ROW road projects, the ROW and roadway are generally stripped, so that MERC's installation method is more often trenching rather than (more expensive) directional boring.

- Some communities require dual main to be installed for new and replacement installations in order to minimize service crossings, resulting in more installed footage for the replacement of pipe. While some communities have required dual main for ROW replacement projects, these requirements are more common for utility-initiated replacement projects.

- Larger replacement projects require MERC to prepare stormwater pollution prevention plans whereas the road contractor is often responsible for such plans for ROW road relocation projects.

These factors and the Company's experience support MERC's 2020 obsolete materials replacement costs as proposed.

d. MERC's cost estimates are based on actual experience.

Further, with respect to service line replacements, MERC's cost estimates included in the Company's Petition are based on actual experience with obsolete material replacement projects. This is obviously superior to the Department's recommendation that a four-year average of unrelated ROW project costs be used to set the level of cost recovery. MERC's average cost per service line replaced for recent DIMP projects is as follows:

Table 2. Average Cost per Service Line Replaced – Obsolete Materials Projects

Material Replaced	Cost Per Service Line
X-Trube	$2,810
Aldyl-A	$2,610
Other DIMP Projects	$2,920

While the actual cost per service line replaced will depend on the length of the service line, the scope of each project, any abnormal construction conditions that are encountered, and other project-specific factors, MERC's forecast is reasonable and supported.

The Department's proposal to reduce MERC's 2020 GUIC costs related to obsolete materials replacements by $2 million based on an average of the Company's historic ROW project costs would not reasonably reflect MERC's forecasted 2020 GUIC-eligible DIMP replacement costs and would undermine the goal of the GUIC statute in allowing gas utilities to implement systematic plans for the removal and replacement of known risks under multi-year programs, and should therefore be rejected.

4. DIMP Operations and Maintenance ("O&M") Expense

As discussed in MERC's Petition, the Company has proposed to continue its meter set and sewer cross-bore survey programs for 2020 at the same level proposed and approved for 2019. MERC has budgeted $2 million in incremental O&M in 2020 to continue the meter set survey and $1 million in incremental O&M in 2020 to continue the sewer cross-bore survey.[24] Continuation of these projects at the level approved in 2019 is reasonable, appropriate, and supported as part of MERC's DIMP program. Additionally, while MERC did not forecast any incremental O&M costs for its 2020 ROW relocation projects or obsolete materials replacement projects, the Company noted that if O&M costs are incurred, the Company would address them in its true-up reconciliation filing. As discussed below, the Company agrees that any such incremental O&M costs would be fully supported with any proposal to recover such costs through the true-up.

[24] MERC Petition at 22-25 (Apr. 24, 2019).

PUBLIC DOCUMENT—TRADE SECRET DATA HAS BEEN EXCISED

a. 2020 meter set survey costs are reasonable.

With respect to the meter set survey, the Department takes the position that MERC's $2 million estimated expense amount for 2020 to continue the stop valve survey project has not been supported. In particular, the Department asserts that MERC appears to have overstated its 2019 project cost estimate "and may likewise [have] overstated its 2020 cost estimate for this project, leading to a rate being set too high."[25]

MERC's forecasted 2020 costs related to continued meter set surveys is reasonable and reflects the costs the Company anticipates to occur in 2020 to continue these surveys. As explained in MERC's Petition,

> MERC proposes to continue and complete this multi-year effort in 2020, one year ahead of schedule. . . . While MERC had initially proposed to complete these assessments over the course of three years, we have determined that we are able to achieve additional cost savings related to travel and coordination efforts by completing the surveys in two years.[26]

MERC's 2020 cost estimates are based on completion of approximately 104,000 meter sets remaining to be surveyed as well as the additional travel time that will be required to survey the Company's more dispersed service areas. As explained in the Company's Petition, in 2019, MERC is undertaking surveys of its meter sets in Rochester and Rosemount, the most densely populated areas that MERC serves.[27] But MERC serves 179 communities across the State of Minnesota with a service area that stretches from the northernmost border of the state to the Iowa border, across the entirety of the state. While the costs for 2019 surveys were lower than the $20 per meter forecasted for the 2020 scope of work, this is to be expected given the areas where the initial surveys are being performed. For the scope of work remaining in 2020, selected contractors will need to spend significantly more time traveling and may require a per diem due to the geographic location of the surveys to be performed. As a result, MERC believes that its forecasted cost of $20 per meter may actually be *understated* for the work to be performed in 2020.

Prior to issuing the request for proposals for 2019 surveys to be completed in Rochester and Rosemount, MERC requested cost estimates from its construction contractor to complete the work in 2019. That contractor, who has significant familiarity with MERC's system, provided a cost estimate of **[TRADE SECRET DATA BEGINS…. [redacted] …TRADE SECRET DATA ENDS]** to complete the surveys in the Rosemount and Rochester areas. Given the locations of the work to be undertaken in 2020, it is possible bids on the work for

---

[25] Department Comments at 17.
[26] MERC Petition at 23 (Apr. 24, 2019).
[27] MERC Petition at 23 (Apr. 24, 2019) ("This cost estimate is based on the bids MERC received for the work to be performed in 2019 and consider[ing] the travel time that will be required to survey the more disperse portions of MERC's service area that will remain after 2019.").

2020 will be higher than MERC's forecast. Further, delays in approval of MERC's 2020 GUIC could result in increased overall costs, as the selected contractor(s) would have shorter period in which to complete the scope of work.[28]

Based on the scope of work to be performed in 2020, MERC continues to support its estimated $20 per meter to complete the full meter set survey in 2020. The Department's recommendation to reduce the 2020 meter set survey costs by $1.25 million would delay completion of these assessments and likely result in an unnecessary increase in overall costs to complete the surveys.

b. Sewer Cross-Bore Survey

With respect to the sewer cross bore survey, the Department concludes MERC's estimated costs for 2020 inspection activity appears reasonable.[29] The Department notes that although the number of inspections the Company has proposed appears aggressive, given that MERC successfully contracted for work to be performed at that level in 2019, the Department concludes the Company reasonably supported this project's estimated costs for the 2020 GUIC.

c. Other Incremental O&M

Finally, with respect to MERC's proposal to incorporate any other incremental O&M costs related to GUIC projects in its true-up reconciliation, the Department recommends that the Commission require MERC to "identify and discuss each expense, the account number, the reasoning for why MERC believes any such costs are GUIC-eligible, the amount included, how the requested recovery amount was determined and demonstration that no amount of this type of expense was included in base rates."[30]

MERC responds that as stated in the Company's Petition, "MERC has not forecasted incremental O&M or property tax expense related to the 2020 ROW relocations or obsolete materials projects. To the extent that actual expenses are identified as those projects progress in 2020, MERC will seek recovery via the GUIC reconciliation in 2021."[31] Historically, there has been little O&M expense associated with MERC's DIMP and ROW relocation projects. In some instances, however, it has been necessary to charge relocation project expense to O&M; for example, projects that require only a lowering, rather than replacement, of the main within the right of way, would need to be charged to O&M.

MERC agrees that if the Company incurs O&M expense associated with actual ROW relocation or DIMP projects in 2020, it will provide details regarding the amount of the

---

[28] MERC will not commence hiring a contractor to undertake the 2020 scope of work absent Commission approval.
[29] Department Comments at 18.
[30] Department Comments at 18.
[31] MERC Petition at 27-28 (Apr. 24, 2019).

expense, the account number to which it is charged, and an explanation of how the expense fits within the GUIC-rider. MERC also agrees that it will only request recovery of such O&M expense to the extent it is incremental (i.e., not being recovered in existing base rates).

5. Excess Flow Valve ("EFV") Costs and Updated 2020 GUIC Revenue Requirement

In its Comments, the Department notes its agreement with MERC's proposed rate of return and confirms that the Company applied the current income tax rates in determining the revenue requirement.[32] Additionally, the Department notes that in response to discovery, MERC provided a correction for formula errors related to prorated accumulated deferred income taxes ("ADIT"). The impact of MERC's corrected schedules is a reduction to the 2020 test-year rate base of approximately $141,230, resulting in a reduction to the revenue requirement of approximately $13,260.[33] The Department requests that MERC reflect those adjustments in any future GUIC schedules and compliance filings. MERC agrees and has incorporated the correction into the updated revenue requirement schedule included as Attachment C to these Reply Comments.

Additionally, on July 31, 2019, approximately three months after MERC filed its 2020 GUIC rider Petition in this proceeding, the Commission issued an Order Accepting Compliance Filings, Requiring MERC to Submit Additional Information, Requiring Annual Compliance Reporting, and Taking Other Action in Docket No. G999/CI-18-41. In that Order, the Commission authorized recovery of EFV compliance costs through GUIC rider filings, concluding:

> [T]he cost to communicate with affected customers fit squarely within the definition of "gas utility infrastructure costs" under the GUIC statute, as the costs are related to the modification of existing gas facilities, including surveys, assessments, and other work necessary to determine the need for replacement or modification of existing infrastructure required by a federal or state agency. The Commission, as a state agency, has required the gas utilities to undertake the outreach, assessments, and installation of EFVs and natural gas service line shutoff valves, which give rise to such costs. Accordingly, the Commission will allow recovery of prudently incurred EFV costs through GUIC rider filings.[34]

---

[32] Department Comments at 19.
[33] Department Comments at 19-20; Attachment 12 (MERC's response to Department Information Request No. 3).
[34] *In the Matter of a Commission Investigation into Natural Gas Utilities' Practices, Tariffs, and Assignment of Cost Responsibility for Installation of Excess Flow Valves and Other Similar Gas Safety Equipment*, Docket No. G999/CI-18-41, ORDER ACCEPTING COMPLIANCE FILINGS, REQUIRING

As a result of the Commission's recent decision authorizing the recovery of costs related to compliance with the requirements in Docket No. G999/CI-18-41, MERC proposes to update its 2020 GUIC rider revenue requirement calculation to incorporate forecasted costs related to customer communications to be incurred in 2020. Additionally, for costs to be incurred in 2019, MERC proposes to incorporate its actual costs related to customer communications in its 2019 GUIC rider true-up reconciliation to be filed in 2020.

As explained in MERC's August 1, 2019 Compliance Filing in Docket No. G999/CI-18-41, MERC has proposed to visit approximately 20 percent of the decision-makers each year for identified customers who are eligible under the federal standards for EFVs and do not currently have an EFV or curb valve installed. Additionally, MERC proposed to utilize third-party contractors to undertake the outreach and customer meetings as the Company does not have internal resources available to complete these meetings. Based on 3,696 customer visits, MERC provided the following estimate of costs to conduct face-to-face meetings:

Table 3. Cost Estimate for EFV Customer Outreach

Face-to-Face meetings, including drive time (3,696 customers)	$443,520
Engineering analysis to confirm eligibility for EFV (3,696 customers)	$63,450
Total	**$506,970**

Based on these cost estimates, MERC proposes to include 20%, or $101,384, in O&M expense related to EFV visits in the 2020 GUIC rider revenue requirement. Attachment C incorporates this additional forecasted expense for 2020. MERC will true-up its actual 2020 costs related to EFV customer outreach in the 2020 true-up reconciliation to be filed in 2021.

Additionally, the Commission has determined that customers requesting installation of an EFV on an eligible existing service line should only be responsible for the cost of excavation and surface restoration related to the installation, and that the remainder of costs related to installation on existing service lines, as well as the costs related to maintenance of such requested installations, should be socialized to all ratepayers.[35] At this time, MERC does not have a sense of whether customer visits will result in customer requests to install EFVs or curb valves. Thus, to the extent MERC's customer outreach does result in customer requests for installation of EFVs or curb valves, MERC proposes that the costs of those

---

MERC TO SUBMIT ADDITIONAL INFORMATION, REQUIRING ANNUAL COMPLIANCE REPORTING, AND TAKING OTHER ACTION at 6 (July 31, 2019).

[35] *In the Matter or a Commission Investigation into Natural Gas Utilities' Practices, Tariffs, and Assignment of Cost Responsibility for Installation of Excess Flow Valves and Other Similar Gas Safety Equipment*, Docket No. G999/CI-18-41, ORDER FINDING THAT EXCESS FLOW VALVES COMPLY WITH FEDERAL REGULATIONS AND TAKING OTHER ACTIONS at 7 (Aug. 20, 2018).

installations and any associated maintenance be deferred for recovery through MERC's 2020 true-up reconciliation to be filed in 2021.[36]

6. Rate Design and Sales Used to Calculate Rider Surcharge Recovery

a. Exclusion of direct connect customers from 2020 GUIC rider surcharge.[37]

On June 28, 2019, MERC requested authorization from the Commission to suspend collection of its 2019 GUIC rider surcharge from its direct connect customers in response to threats by those customers of potential bypass as a result of the GUIC and Natural Gas Extension Project ("NGEP") rider surcharges. Under MERC's Commission-approved tariffs, Direct Connect customers are defined as "(1) customers who are directly connected to the interstate pipeline with no Company-owned underground distribution facilities where (2) no non-Direct Connect customers are served off of the same point of interconnection."[38] MERC's proposal to exclude the direct connect customers from the GUIC rider surcharge was intended to addresses the substantial risk of bypass posed by those customers with no distribution infrastructure required to serve them.

On August 26, 2019, the Commission issued an Order Suspending GUIC Rider Surcharge for Direct Connect Customers, and Declining to Reopen NGEP Cost Rider Docket in Docket Nos. G011/M-18-182, G011/M-18-281, G011/M-19-282, and G011/M-17-563, concluding that "the Direct Connect Customers can credibly threaten to bypass MERC's system, and that the combined effects of the GUIC and NGEP rider surcharges are sufficient to potentially motivate a Direct Connect customer to bypass MERC's system."[39]

The Commission concluded that the class of Direct Connect customers was uniquely situated, supporting suspension of the GUIC rider surcharge with respect to that class: "Here, the Commission is suspending a surcharge due to risk of bypass, which is especially credible when a customer has its own facilities connected to the interstate pipeline. With respect to the risk of bypass, customers who do not have such facilities are not similarly situated to those who do—and different rate treatment may therefore be warranted."[40] In light thereof, MERC proposes to similarly exclude the class of direct connect customers from the 2020 GUIC rider surcharge.

---

[36] Similarly, to the extent any of MERC's outreach efforts in 2019 result in installations in 2019, MERC proposes to account for those capital costs in its 2019 true-up reconciliation to be filed in 2020.
[37] Consistent with the Department's request, MERC is separately addressing updates related to recent Commission decision concerning exclusion of GUIC surcharges to direct connect customers. *See* Department Comments at 25.
[38] MERC's 3rd Revised Tariff Sheet No. 6.50.
[39] ORDER SUSPENDING GUIC RIDER SURCHARGE FOR DIRECT CONNECT CUSTOMERS, AND DECLINING TO REOPEN NGEP COST RIDER DOCKET at 6 (Aug. 26, 2019).
[40] ORDER SUSPENDING GUIC RIDER SURCHARGE FOR DIRECT CONNECT CUSTOMERS, AND DECLINING TO REOPEN NGEP COST RIDER DOCKET at 7(Aug. 26, 2019).

Exclusion of Direct Connect customers from the 2020 GUIC rider surcharge is necessary to prevent bypass by this uniquely situated group of customers, who do not require any distribution infrastructure to serve them and do not receive any benefits from the GUIC-related investments. The risk of potential bypass by this class of direct connect customers is particularly heightened in light of the Commission's decision not to suspend the 2019 NGEP rider surcharge for that class. In particular, the approximately cost for the direct connect customers to bypass MERC's system is $0.004 per therm[41] while the current distribution rate charged to these customers is $0.0048 or greater.[42] Thus, MERC's current distribution rate along with the 2019 NGEP rider surcharge creates a substantial risk of potential bypass by those customers. Exclusion of this class of customers from the 2020 GUIC rider surcharge is reasonable and necessary to prevent potential bypass.

b. Michigan jurisdictional sales should be excluded.

In MERC's initial filing, the Company included the Michigan jurisdictional sales volumes in determining the per-therm charge to recover the 2020 GUIC revenue requirement. In its Comments, the Department notes that it views the inclusion of these sales as a de-facto jurisdiction allocator of costs to Michigan and asks MERC to confirm this understanding.[43]

MERC responds that, based on the Company's proposal to exclude the Direct Connect customers from the 2020 GUIC rider surcharge[44] and consistent with the Commission's decision in Docket No. G011/M-18-182 to exclude MERC's Michigan customer from the NGEP rider surcharge,[45] the Michigan sales should properly be excluded from the 2020 GUIC rider.

The resulting total Minnesota jurisdictional sales for purposes of determining the 2020 GUIC rider surcharge rates is 756,182,666 therms.[46] Adjusting for the continued suspension of the GUIC Rider Surcharge for all of MERC's Direct Connect customers as discussed in (a) above results in total GUIC-eligible sales for 2020 of 501,454,641 therms.

---

[41] Docket Nos. G011/M-18-182, G011/M-18-281, G011/GR-17-563 and G011/M-19-282, Super Large Gas Intervenor Comments at 3, Exhibit A at ¶15 (July 11, 2019); Attachment A to MERC Reply Comments (July 18, 2019).
[42] Depending on whether the customer is a Class 5 customer and whether they are CIP-applicable or CIP-exempt.
[43] Department Comments at 25. In particular, the Department notes that MERC included a throughput forecast of 122,055,654 attributed to Michigan sales.
[44] The Michigan sales are attributable to a direct connect customer.
[45] *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*, Docket No. G011/M-18-182, ORDER APPROVING NGEP RIDER SURCHARGE WITH MODIFICATIONS at 7 (June 18, 2019).
[46] This 2020 sales forecast is based upon the approved 2018 test year Minnesota jurisdictional sales forecast of 753,081,025 therms adjusted for growth consistent with the methodology used in the 2019 GUIC Rider.

c. Apportionment of 2020 GUIC rider revenue requirement

In MERC's initial petition, the Company proposed a flat per-therm charge applicable to all customer classes for the 2020 GUIC rider. Updating that surcharge calculation to exclude MERC's direct connect customers as discussed above, and updating the revenue requirement as discussed earlier in these Reply Comments would result in a per therm charge of $0.00988 per therm for all non-direct customers.

However, in light of MERC's experience with applying a per-therm GUIC rider surcharge in 2019 and consistent with the Department's recommendation that MERC apportion the 2020 GUIC rider revenue requirement using the non-gas revenue apportionment that was approved in the Company's most recent rate case, Docket No. G011/GR-17-563, MERC proposes modified surcharges by customer class for the 2020 GUIC rider. In particular, MERC proposes the following surcharges for the recovery of its 2020 GUIC revenue requirements as calculated in Attachment C, over 12 months of sales in 2020.

Table 4. Proposed 2020 GUIC Rider Surcharge Rates

Customer Class	Proposed GUIC Rider Surcharge	Average Annual Cost	Total $	% of 2020 GUIC revenue requirement
Residential[47]	$ 0.01679	$ 15	$ 3,097,941	62.5%
Class 1 & 2 Firm (Sales and Transport)	$ 0.00999	$ 44	$ 978,169	19.7%
Class 1 & 2 Interruptible (Sales and Transport), Class 1 & 2 Grain Dryer, Class 1 Electric Generation	$ 0.00999	$ 418	$ 186,657	3.8%
Class 3 & 4 Firm (Sales and Transport)	$ 0.00534	$ 885	$ 21,244	0.4%
Class 3 & 4 Interruptible (Sales and Transport); Class 3 Grain Dryer	$ 0.00534	$ 2,891	$ 529,057	10.7%
Class 5, FLEX, Class 2 Electric Generation, Transport-for-Resale	$ 0.00148	$ 6,244	$ 143,638	2.9%
Direct Connect[48]	N/A	N/A	$0	0%
Total			$4,956,706	100%

[47] The Residential and firm class rates include both Farm Tap and non-Farm Tap customers.
[48] Note that all other customer class surcharge rates exclude any direct connect customers within those rate classes.

In calculating these recommended surcharges by customer class, MERC began with volumetric GUIC rider surcharge rates based on the non-gas revenue apportionment approved in MERC's most recent rate case, consistent with the Department's recommendations.[49] In particular, the Commission approved the following revenue apportionment in its Findings of Fact, Conclusions, and Order in Docket No. G011/GR-17-563:

Table 5. Customer Revenue Apportionment Approved in Docket No. G011/GR-17-563

Customer Class	% of Revenue Requirement (excluding gas costs)
Residential	62.5%
Firm Sales	23.5%
Interruptible Sales	3.5%
Transport	10.5%

Based on the updated 2020 revenue requirement as discussed in these Reply Comments and Attachment C, applying the allocation proportions as approved in Docket No. G011/GR-17-563 would result in the following charges and average annual customer rate impacts:

Table 6. Rider Surcharge Calculations under Revenue Apportionment

Customer Class	GUIC Rider Surcharge	Average Annual Cost
Residential	$ 0.01679/therm	$ 14.73
Firm Sales	$ 0.01143/therm	$ 52.66
Interruptible Sales	$ 0.00467/therm	$ 366.00
Transport	$ 0.00120/therm	$2,783.18

However, MERC identified concerns with these results. First, as discussed above, MERC concludes that continued exclusion of the direct connect customers is necessary and appropriate to prevent bypass by that class of customers. Applying the apportionment approved in MERC's most recent rate case and a per therm charge of $0.00120 to the direct connect class would result in that class being allocated approximately $306,442 of the 2020 revenue requirement. Exclusion of the direct connect customer class results in those costs being reallocated among remaining customer classes.

Second, establishing differential rider rates for firm, interruptible, and transportation service customers within the same class (i.e., class 1, 2, 3, 4, and 5) has the potential to create

[49] Department Comments at 23-24.

inappropriate price signals and encourage customers to move from firm to interruptible or from system-sales to transportation service based on the rider rates.

Finally, the transportation customers are disproportionately favored under this revenue apportionment allocation as approved in Docket No. G011/GR-17-563. The GUIC-related projects (which include ROW relocation projects and obsolete materials replacements) if reviewed in a fully-allocated class cost of service analysis, would likely not be allocated along the percentages above. The rate case apportionment percentages above include some allocations of customer-related costs, for instance, while the GUIC-related projects are likely to be more a function of throughput or demand.

Therefore, MERC incorporated the following changes to reach its proposed rate design:

- Redistributed the costs that would otherwise have been collected from the Direct Customers to all but the Residential Class. The Residential GUIC rate, therefore, remains at a proposed $0.01679/therm, consistent with the 62.5 percent apportionment approved in Docket No. G011/GR-17-563. The Class 5 rate becomes $0.00148/therm. No further allocations were made to these two classes in light of their price-sensitivity.

- Because establishing differential rider rates for firm, interruptible, and transportation service customers within the same class (i.e., class 1, 2, 3, 4, and 5) has the potential to create unreasonable price signals and encourage customers to move from firm to interruptible or from system-sales to transportation service, the remaining GUIC costs were allocated to the Class 1 and 2 firm, interruptible, and transportation customers at one rate per therm and to the Class 3 and 4 firm, interruptible, and transportation customers at another rate per therm. This appropriately recognizes that the proposed GUIC-related work does not benefit a system-sales customer more than a transportation customer. In order to determine the amount to be allocated to smallest non-Residential Classes 1 and 2, MERC used the 23.5% firm revenue apportionment factor from its last rate case. All remaining costs were allocated to the larger Classes 3 and 4.

MERC requests that its proposed rate design be adopted for the 2020 GUIC Rider surcharges rather than a flat per-therm rate or one based solely on the 2018 rate case revenue apportionment.

7. Customer Communications

Regarding communication to customers with respect to the revised 2020 GUIC rider surcharge rates, MERC proposed to include a customer bill message regarding the new rates when they become effective. MERC continues to advocate that a bill message is appropriate since (1) customers have already been assessed a GUIC rider surcharge since May 2019, (2) MERC included a full bill insert that was developed in consultation with the Commission's consumer affairs office with the initial implementation of the GUIC rider in

2019, and (3) the only change customers will experience for 2020 is the per therm rate they will see on their bill. Given the cost of bill inserts relative to a bill message, MERC believes its proposal is reasonable. Should the Commission order the use of bill inserts, MERC proposes to recover the actual incremental costs thereof in the 2020 GUIC true-up reconciliation.

In addition to notifying customers of the new rider rates upon implementation, MERC is in the process of undertaking customer outreach to its larger customers regarding the pendency of this proceeding before the Commission and the anticipated impacts of the proposed revised rider rates on annual bills.

8. Proposed True-Up Calculations and Reporting

In its Comments, the Department also makes a number of recommendations regarding MERC's proposed GUIC rider true-up. MERC responds to each of the Department's recommendations below.

a. Evaluation of Project Costs in True-Up

In its Comments, the Department states "MERC's 2019 GUIC is based on an estimate of costs (for the years 2015-2017) rather than specific projects and no information is known at this time as to what MERC's 2019 projects are," and therefore, a more extensive analysis of MERC's true-up will be needed.[50]

MERC has previously acknowledged that the GUIC statute directs the Commission to evaluate the prudency and actual costs as part of the annual review or true-up process.[51] MERC thus intends to provide project-specific detail, consistent with the requirements set forth in the GUIC statute, demonstrating its actual costs and recoveries for GUIC-eligible projects and providing all required project reporting information.

With respect to MERC's Obsolete Materials Replacement Project, the Department requests that MERC report on its Aldyl-A project accomplishment details in its annual true-up filing, including, by project site: (1) locational description of work completed, (2) associated work order number(s), (3) size of AA pipe mains replaced, (4) size of replacement pipe installed, (5) footage of main replaced, (6) total costs net of embedded labor, vehicles, fuel, overhead, etc. and (7) total replacement costs.

---

[50] Department Comments at 20.

[51] The GUIC statute anticipates review of actual project spending as part of a true-up filing follow a forecasted GUIC rider. In particular, Minn. Stat. § 216B.1635, subd. 4 (2)(iv) requires "a comparison of the utility's estimated costs included in the gas infrastructure project plan and the actual costs incurred, including a description of the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred." Additionally, subdivision 2 provides that "The report must be for a forecast period of one year."

MERC appreciates the Department's efforts to ensure clarity and agreement regarding the expectations of information to be included in future true-up filings and agrees to report on the seven categories identified and recommended by the Department.

The Company does wish to clarify one issue regarding the incremental nature of 2020 capital projects. In its Comments, the Department states that "MERC must be able to isolate and demonstrate the type and expense amount of integrity management program costs that was included in its base rates test-year and show that these costs or a reasonably representative amount of these costs have not already been charged to ratepayers."[52]

MERC has only requested recovery of GUIC-eligible project costs which are incremental in that they relate to work that is different from DIMP work and ROW relocation work that was completed in the past and recovered in past or current rates. The capital costs MERC has proposed for recovery in the 2020 GUIC are related to projects that will be undertaken and placed into service in 2020. Thus, as the Commission found in its February 5, 2019, Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing in Docket No. G011/M-18-281, "Both the capital costs and the O&M costs derive from new projects that are not currently reflected in the Company's base rates or the rates that will flow from the pending rate case; the costs are therefore incremental as required by the GUIC statute."[53] The Department's suggestion that 2020 project costs are not incremental simply because a representative amount of capital costs were included in MERC's 2018 test year is incorrect. MERC's current rates as approved in Docket No. G011/GR-17-563 reflect forecasted capital additions based on a 13-month average of *2018 test-year* additions and, as a result, it is evident that no recovery for any projects in 2019 or 2020 are included in the Company's base rates.

b. Accumulated Deferred Income Tax True-Up

The Department requests that MERC include, as an attachment to its Reply Comments, schedules demonstrating its ADIT true-up proposal under various scenarios which result in adjustments that increase, decrease, or do not affect the prorated ADIT used in setting the rider rate. The Department further requests that MERC identify any Internal Revenue Service ("IRS") private letter rulings ("PLRs") the Company relied on to support its proposed true-up of ADIT proration.[54]

As explained in MERC's Petition, the Company includes a proration of the projected federal monthly ADIT, per the formula provided in the Treasury Reg. 1.167(1)-(h)(6)(ii).

---

[52] Department Comments at 20.
[53] *In the Matter of Minnesota Energy Resources Corporation's Request for Approval of a Gas Utility Infrastructure Cost Rider*, Docket No. G011/M-18-281, ORDER APPROVING GAS UTILITY INFRASTRUCTURE COST RIDER WITH MODIFICATIONS AND REQUIRING COMPLIANCE FILING at 6 (Feb. 5, 2019).
[54] Department Comments at 22.

> For purposes of the true-up, the proration requirement does not apply to the differences between the projected and actual ADIT. Furthermore, pursuant to some recent IRS private letter rulings ("PLRs"), the true-up cannot reverse the effects of the proration. As a result, for the true-up, the Company would propose to adjust the prorated ADIT with the 13-month average of the differences between projected and actual ADIT balances. This methodology preserves the original proration requirement embedded in the projected rates, avoids applying the proration to the projected versus actual differences, and assures the Company complies with the Consistency rule, Code 168(i)(9)(B) (applying a 13-month average to all components of rate base). The proration and the true-up adjustment will have a minimal impact on the GUIC Rider rate as proposed, ensures compliance with IRS normalization rules...[55]

The nature of the federal ADIT proration formula is to "preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital."[56] As such, the proration formula is intended to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through of deferred tax benefits by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.[57]

The rate base computations compute rate base on a 13-month average of all components, including ADIT. In the forecast period, the 13-month average federal ADIT is replaced with the prorated federal ADIT. This forecasted 13-month average/prorated difference cannot be reversed in the true-up, because such reversal would be "economically equivalent to not applying the proration formula in the first place."[58] For the true-up, the forecasted ADIT in rate base will be adjusted by the 13-month average of the difference between the actual and forecasted, un-prorated ADIT balances. The same result can be achieved by reducing the actual 13-month average balance by the difference between the forecasted prorated federal ADIT and the forecasted 13-month federal ADIT. Either computation will preserve the original federal ADIT proration, as prescribed in the federal regulations.

---

[55] MERC Petition at 28-29 (Apr. 24, 2019).
[56] Attachment D, PLR-123443-17 at 8 (Jan. 25, 2018).
[57] Attachment D, PLR-123443-17 at 10 (Jan. 25, 2018).
[58] Attachment D, PLR-123443-17; *see also* PLR-100199-17 at 10 ("To permit the effects of the proration formula on interim rates charged during the Year 1 test year to be reversed in a subsequent phase of the ratemaking would be economically equivalent to not applying to proration formula in the first place. Accordingly, the computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula . . . on interim rates charged in Year 1 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would violate the normalization requirements…").

The only variable that can impact the federal ADIT proration adjustment is a change in the forecasted activity. Different forecasted activity would result in different monthly balances and 13-month averages for book cost, book depreciation, deferred taxes, federal ADIT prorated balances, and, as a result, a different federal ADIT proration adjustment.

Attachment D to these Reply Comments includes some of the IRS PLRs that support the use of the federal ADIT proration methodology for forecasted test periods, and the disallowance of the reversal of the federal ADIT proration impact in true-ups (whether in the context of a general rate case or rider[59]). MERC has highlighted relevant portions of these PLRs for reference.

Attachment E to these Reply Comments provides an illustration of the impacts of using the forecasted capital additions for 2019 and 2020 with different monthly addition patterns—front-loaded, back-loaded, and mid-year loaded. As illustrated in Attachment E, the earlier in the year the additions are forecasted, the smaller the ADIT proration adjustment, but the higher the revenue requirement. As shown in Attachment E, the impact of the ADIT proration adjustment to the overall revenue requirement under these three scenarios is minimal—the example showing changes to the 2019 forecasted in service results in revenue requirement impacts between $204 and $414, and the 2020 revenue requirement impacts of prorated ADIT ranges between $744 and $1,009.

9. Expiration of GUIC Rider Statute

The Department also notes in its Comments that the GUIC Statute is currently set to expire June 30, 2023; thus, as this termination period nears, MERC may need to adjust its tariff language and the 2023 revenue requirements test-period term accordingly. MERC agrees that it will include a proposal in a future GUIC rider filing to address the termination of the GUIC Statute, whether that occurs June 30, 2023 or is extended.

10. Rate Case Treatment of Rider

Both the Department and OAG provide comments regarding the anticipated treatment of MERC's GUIC rider in the event the Company files a rate case. In its Comments, the OAG requests that MERC "confirm in reply comments that it does not intend to include unrecovered 2019 GUIC-rider costs in any 2020 rate case, and that it will reflect in its rate-case test year the value of GUIC assets as they appear on its books."[60]

In its Comments, the Department notes that MERC indicated that, should the Company file a general rate case with a 2020 test-year, not only would doing so supersede this 2020 GUIC Rider recovery request, but the Company would include any unrecovered 2019 GUIC

---

[59] The IRS has interpreted the application of the normalization rules in a general rate case with a forecasted test period to be applicable in the same manner for a rider with forecasted test period. *See* Attachment D.
[60] OAG Comments at 6.

revenue requirement within its rate case filing, thus eliminating need for a 2019 GUIC true-up filing. Though the Department does not oppose this proposal, the estimated rate case amount for unrecovered 2019 GUIC costs initially included may require an update because the timing of the rate case filing may not match when the rider's billing is halted. In addition, the amounts for 2020 would likely need to be adjusted, as noted above; therefore supplemental rate case filing material may be required.[61]

MERC confirms that it does not intend to file a 2020 rate case in 2019. This decision is predicated, however, on the continued collection of the 2019 GUIC Rider and timely approval of the proposed 2020 GUIC Rider effective January 1, 2020. MERC is grateful for the opportunity to recover these material infrastructure costs outside of the framework of a time-intensive and costly rate case process. When the Company files its next general rate case, MERC agrees with the Department's recommendation to address any true-up recovery through supplemental testimony as necessary.

CONCLUSION

Based on the foregoing, MERC respectfully requests that the Commission approve MERC's updated 2020 GUIC revenue requirement of $4,956,706, incorporating forecasted costs for 2020 related to compliance with the Commission's requirements in Docket No. G999/CI-18-41. MERC also requests that the Commission approve the proposed GUIC rider surcharge rates proposed in these Reply Comments and Attachment C effective January 1, 2020, including the exclusion of direct connect customers from the 2020 GUIC rider surcharge.

Please contact me at (414) 221-2374 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely,

Mary L. Wolter
Director – Gas Regulatory Planning & Policy

Enclosures
cc: Service List

[61] Department Comments at 22.

OAG No. 006

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 2020 Gas Utility Infrastructure Cost Rider Revenue Requirement and Revised Surcharge Factor.	**MPUC Docket No.**	G011/M-19-282

Requested from:

Minnesota Energy Resources Corporation

By:	Peter Scholtz	**Date of Request:**	July 1, 2019
Telephone:	(651) 757-1473	**Due Date:**	July 12, 2019

Reference: Petition at 26

MERC states, "Consistent with MERC's 2019 GUIC [Docket No. 18-281], the Company will separately track the facilities that are replaced and removed in 2020 and will include an adjustment related to the associated depreciation expense in the true-up to be submitted in 2021 to fully account for that expense."

a. Identify where, in Docket No. 18-281, MERC proposed to separately track facilities that are replaced and removed in 2019 and to include an adjustment in the true-up filed April 1, 2020, to account for the associated depreciation expense.

b. Provide the current tracker balance of the facilities that have been replaced by GUIC projects so far in 2019, including all supporting calculations.

c. How does MERC intend to calculate an adjustment for the depreciation expense associated with facilities replaced by GUIC projects in 2019 and 2020?

d. Does MERC intend to make similar adjustments for the rate of return, annual deferred tax, and property tax associated with facilities replaced by GUIC projects? If so, how will MERC calculate these adjustments? If not, why not?

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

Response:

a. The following was proposed in MERC's reply comments of August 17, 2018, at 15-16:

> MERC disagrees with the OAG regarding the need for a rate base adjustment to account for the replacement assets as part of the Company's proposed Replacement of Obsolete Materials Project. The assets to be replaced are all pipes and valves and are accounted for using group depreciation accounting. Under group accounting (used for utility poles and gas pipes, etc. because they are too numerous to track individually), distribution retirements are recorded by debiting Account 108, Accumulated Depreciation Reserve, and crediting Account 101, Utility Plant, resulting in $0 impact to rate base. This is consistent with the FERC Code of Federal Regulations, Title 18, Chapter I, Subchapter F, Part 201, Gas Plant Instructions 10B(2), which provides:
>
> > When a retirement unit is retired from gas plant, *with or without replacement*, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, *the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property.* The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.
>
> On the other hand, MERC agrees with OAG that the Company should remove depreciation expense associated with replaced assets and would propose to track such depreciation expense for each specific project replacement and include the corresponding reduction in the annual true-up. At this time, MERC anticipates the adjustment proposed to be made on true-up related to the depreciation expense would be relatively small.

In MERC's 2018 rate case, Docket No. G011/GR-17-563, the Department witness Ms. Nancy Campbell calculated a three year average of retirements of $6.7 million, which resulted in a retirement adjustment of $2.6 million which was agreed to by MERC. The result of this $2.6 million retirement adjustment was a depreciation expense reduction of $55,101. If we were to assume that the *entire* 3-year average of retirements were related to GUIC applicable projects, the resulting depreciation expense adjustment applicable to GUIC projects would be $141,991 ($55,101*(6.7/2.6)). MERC cannot forecast the age nor the value of the assets to be retired and therefore cannot provide an estimate of depreciation expense savings at the start of the GUIC year. MERC therefore proposed to include an estimated depreciation expense reduction in the calculation of the overall true-up.

b. Through June 30, 2019, there have been no retirements processed.

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

c. See (a) above.

d. No. There would be no impact in the return as the result of retiring or replacing GUIC assets because there is no rate base impact at their retirement/replacement. See (a) above. Deferred tax impacts related to replaced assets, if any, would be picked up in the next rate case. Property tax impacts are especially difficult to estimate. It may not be possible to directly attribute a GUIC project to a change in property taxes, and there may be years of delay between the replacement and any related change in the utility's property tax assessment.

In the normal course of business, MERC is adding, replacing, and retiring assets without a tracker for adjusting for any of these impacts. Accounting for the depreciation expense associated with replaced assets will capture the largest impact related to those replaced assets, although that impact is also anticipated to be small (see the response to (a) above). Further true-up of ancillary impacts in the context of the GUIC rider would add significant additional complexity for little or no material impact on the rate.

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

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/M-19-282	☐Nonpublic ☒Public
Requested From:	Minnesota Energy Resource Corp.	Date of Request: 5/17/2019
Type of Inquiry:	Financial	Response Due: 5/28/2019

Requested by:	Dorothy Morrissey
Email Address(es):	dorothy.morrissey@state.mn.us
Phone Number(s):	651-539-1797

Request Number:	**9**
Topic:	Right-of-Way work
Reference(s):	Petition, p. 11 and Exhibit E

Request:

The Petition stated "MERC is not informed of all specific future right of way relocation work with enough lead time to identify all projects that will occur in a subsequent year."

A. Please explain the timing measure and/or the necessary known-by-date that would constitute "enough lead time."

B. Please explain the timing measure and/or the post-date that constitutes "not enough lead time."

C. Using the data reported in Table 2 of the Petition, for each year 2015 – 2018, please quantify the right-of-way (ROW) relocation projects that were not known with enough lead time by (1) the number of the total ROW project count, and also by (2) the dollar amount of the total costs incurred for ROW project expenditures.

MERC Response:

A. In order to file a revenue requirement for forecasted right-of-way relocation projects for the following calendar year, MERC would need to have all detailed project and design information with sufficient time to allow the Company to identify the affected utility facilities, complete a design of the relocation, and obtain governmental permits required for the relocation work. The specific amount of lead time needed to identify affected facilities, complete design work, and obtain permit approvals varies significantly depending on the size and complexity of the project. While some

---

To be completed by responder

Response Date: May 28, 2019
Response by: Lindsay Lyle
Email Address: lindsay.lyle@minnesotaenergyresources.com
Phone Number: (651)322-8909

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G011/M-19-282	☐Nonpublic ☒Public
Requested From:	Minnesota Energy Resource Corp.	Date of Request: 5/17/2019
Type of Inquiry:	Financial	Response Due: 5/28/2019

Requested by:	Dorothy Morrissey
Email Address(es):	dorothy.morrissey@state.mn.us
Phone Number(s):	651-539-1797

government authorities utilize longer-range planning, the level of detail needed to determine the specific affected facilities and to design a relocation project still generally is not known until winter or early spring for that construction season, such that MERC is not able to design projects by the end of the calendar year. The majority of municipalities and townships requesting right-of-way relocations utilize short-term planning due to funding approvals and, as a result, MERC is often not requested to relocate facilities until a couple of months to a week a right-of-way project begins. These municipal right-of-way projects are also often modified after initially being presented or cancelled due to funding or other considerations by the local governmental unit. While MERC requests that governmental units provide as much lead time and detail as possible for right-of-way relocation projects in order to allow the Company to undertake the necessary planning for work to be performed with respect to the relocations, the nature of the planning and funding for these right-of-way projects means that MERC will never have a complete picture of upcoming relocation projects prior to the beginning of a construction season.

B. See response to Part A above.

C. MERC has not tracked information regarding the dates each right-of-way project is presented with sufficient detail to allow the Company to identify facilities and complete design for relocation. MERC also has not specifically tracked right-of-way relocation projects that have been modified or cancelled after initial notice is provided. Please see Exhibit D-1.1 to MERC's Petition and Exhibit D-1.1 to MERC's 2019 GUIC Rider Petition filed in Docket No. G011/M-18-281, for the right-of-way projects that were known at the time of the GUIC Rider filing. As reflected in these Exhibits, some project locations and governmental units are known in advance of the forecasted year; however, details regarding the affected facilities, design work, and permitting is generally not complete.

To be completed by responder

Response Date: May 28, 2019
Response by: Lindsay Lyle
Email Address: lindsay.lyle@minnesotaenergyresources.com
Phone Number: (651)322-8909

Rate Case Revenue Requirement on GUIC projects

Line	Description	Reference	Approved (M-18-281) 2019	As-Filed 2020	MN Jurisdiction Only: Revised 2020	Rate Case Apportionment 2020	Proposed 2020
1	Expense	O&M Expense	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
2	Expense	Depreciation Expense *(see Note 2)*	133,090	351,489	351,489	351,489	351,489
3	Expense	EFV O&M Expense *(see Note 3)*	-	-	101,394	101,394	101,394
4	Rate Base *(see Note 1)*	13-Month Average Net Plant Value	5,250,459	16,005,916	16,005,916	16,005,916	16,005,916
5	Accumulated Deferred Income Tax Proration Adj		2,581	151,600	10,370	10,370	10,370
6	Adjusted Rate Base	13-Month Average Net Plant Value	5,253,040	16,157,516	16,016,286	16,016,286	16,016,286
7	Rate of Return	Commission Authorized 2018 Rate Case	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%
8	Earnings on Rate Base	Line 6 x Line 7	351,801	1,082,085	1,072,627	1,072,627	1,072,627
9	Gross Revenue Conversion Factor	2018 Rate Case Adjusted for Tax Reform	1.402	1.402	1.402	1.402	1.402
10	Return on Rate Base	Line 8 x Line 9	493,225	1,517,083	1,503,823	1,503,823	1,503,823
11							
12	**Total Revenue Requirement**	**Line 1 + Line 2 + Line 3 + Line 10**	**3,626,315**	**4,868,572**	**4,956,706**	**4,956,706**	**4,956,706**
13							
14	Offsetting Project Revenue						
15							
16	**Project Revenue Deficiency**	**Line 12 less line 14**	**3,626,315**	**4,868,572**	**4,956,706**	**4,956,706**	**4,956,706**
17							
18	**Total Therms - All Jurisdictions**	*(see Note 4)*	**877,001,389**	**878,741,019**			
19	**Total Therms - MN Jurisdiction Only**	*(see Note 4)*			**756,182,666**	**756,182,666**	**756,182,666**
20							
21	**Average Rate Per therm**		**$ 0.00413**	**$ 0.00554**	**$ 0.00655**		

		Revised 2020		Rate Case Apportionment 2020		Proposed 2020	
		Rate/Therm	$/Customer	Rate/Therm	$/Customer	Rate/Therm	$/Customer
22	**Residential**	$ 0.00655	$ 6	$ 0.01679	$ 15	$ 0.01679	$ 15
23	**Class 1 - 2 Firm (Sales and Transport)**	$ 0.00655	$ 29	$ 0.01143	$ 51	$ 0.00999	$ 44
24	**Class 1 - 2 Interruptible (Sales and Transport), Ag Grain Dryer, and Class 1 Power Gen**	$ 0.00655	$ 274	$ 0.00148	$ 62	$ 0.00999	$ 418
25	**Class 3 - 4 Firm (Sales and Transport)**	$ 0.00655	$ 1,087	$ 0.01143	$ 1,895	$ 0.00534	$ 885
26	**Class 3 - 4 Interruptible (Sales and Transport) and Ag Grain Dryer**	$ 0.00655	$ 3,550	$ 0.00148	$ 800	$ 0.00534	$ 2,891
27	**Class 5, FLEX, and Class 2 Power Gen**	$ 0.00655	$ 27,711	$ 0.00148	$ 6,245	$ 0.00148	$ 6,245
28	**Direct Connect**	$ 0.00655	$ 208,715	$ 0.00148	$ 47,037	$ -	$ -

Notes

1 GUIC related road and replacement service construction expenditures go into service as spent.

2 Assumes an average life of 60 years based on current Distribution Assets at MERC.

3 Projected cost for communications and engineering related to Excess Flow Valves as authorized in Docket No. G999/CI-18-41, Final Order dated July 31, 2019, pg 6.

4 Sales are based off of MERC's 2018 filed rate case data in Docket No. G011/GR-17-563 as adjusted for estimated sales growth.

GUIC Rider
Total Mains, Services, Stations
Revenue Requirement

	Month	Construction Expenditures	CWIP	Plant	Accumulated Depreciation	Accumulated Deferred Tax	Rate Base	ADIT Proration Adjust	Adjusted Rate Base	Revenue Return On	Total Depreciation Return of	O&M	Total Revenue Requirement
2018	Dec-18	-	-	-	-	-	-	-	-	-	-	-	-
2019	Jan-19	9,983	-	9,983	(22)	(3)	9,958	(2)	9,957	-	22	4,200	4,222
2019	Feb-19	12,122	-	22,105	(71)	(19)	22,015	(11)	22,004	78	49	5,100	5,226
2019	Mar-19	34,940	-	57,045	(196)	(97)	56,752	(48)	56,704	172	125	14,700	14,998
2019	Apr-19	1,093,471	-	1,150,516	(2,301)	(3,463)	1,144,753	(1,515)	1,143,238	444	2,105	168,300	170,849
2019	May-19	1,791,010	-	2,941,527	(7,789)	(10,942)	2,922,796	(4,126)	2,918,670	8,945	5,488	372,000	386,433
2019	Jun-19	2,207,739	-	5,149,266	(17,477)	(22,666)	5,109,123	(7,202)	5,101,920	22,837	9,689	480,000	512,526
2019	Jul-19	1,478,943	-	6,628,209	(30,091)	(32,936)	6,565,183	(8,520)	6,556,662	39,920	12,613	397,800	450,333
2019	Aug-19	1,628,133	-	8,256,342	(45,826)	(46,031)	8,164,486	(9,159)	8,155,326	51,302	15,735	370,800	437,838
2019	Sep-19	1,378,816	-	9,635,158	(64,364)	(59,229)	9,511,566	(8,285)	9,503,281	63,811	18,538	423,000	505,348
2019	Oct-19	1,326,624	-	10,961,782	(85,556)	(73,668)	10,802,558	(5,930)	10,796,628	74,358	21,193	378,600	474,150
2019	Nov-19	1,136,096	-	12,097,878	(108,952)	(87,975)	11,900,951	(1,892)	11,899,059	84,478	23,396	276,000	383,874
2019	**Dec-19**	**366,953**	**-**	**12,464,831**	**(133,090)**	**(95,837)**	**12,235,904**	**3,494**	**12,239,397**	**93,104**	**24,138**	**109,500**	**226,741**
2020	Jan-20	165	-	12,464,996	(157,227)	(110,413)	12,197,355	(8,982)	12,188,374	95,766	24,138	261	120,165
2020	Feb-20	330	-	12,465,325	(181,365)	(124,989)	12,158,971	(16,296)	12,142,675	95,367	24,138	261	119,766
2020	Mar-20	1,319	-	12,466,644	(205,503)	(139,569)	12,121,572	(21,886)	12,099,686	95,010	24,138	1,565	120,713
2020	Apr-20	230,740	-	12,697,384	(229,644)	(154,972)	12,312,768	(26,138)	12,286,630	94,673	24,140	320,115	438,929
2020	May-20	505,157	-	13,202,541	(254,150)	(171,912)	12,776,479	(29,142)	12,747,337	96,136	24,506	397,861	518,503
2020	Jun-20	1,065,362	-	14,267,903	(279,456)	(192,540)	13,795,907	(31,331)	13,764,577	99,741	25,306	725,020	850,067
2020	Jul-20	1,545,632	-	15,813,535	(306,450)	(217,604)	15,289,481	(32,195)	15,257,286	107,700	26,994	581,529	716,223
2020	Aug-20	1,800,930	-	17,614,464	(335,893)	(246,564)	17,032,007	(30,831)	17,001,176	119,380	29,443	362,640	511,463
2020	Sep-20	1,996,400	-	19,610,864	(368,190)	(279,508)	18,963,166	(26,613)	18,936,553	133,025	32,296	255,935	421,256
2020	Oct-20	2,076,170	-	21,687,034	(403,649)	(315,838)	20,967,547	(18,723)	20,948,824	148,168	35,459	139,577	323,205
2020	Nov-20	2,166,653	-	23,853,687	(442,398)	(355,835)	23,055,455	(6,633)	23,048,822	163,913	38,749	158,622	361,284
2020	**Dec-20**	**2,200,275**	**-**	**26,053,963**	**(484,579)**	**(399,091)**	**25,170,293**	**10,370**	**25,180,663**	**180,344**	**42,181**	**56,614**	**279,139**

Gas Mains Summary

Month	Net Plant In Service: Additions	Net Plant In Service: Retirements	Net Plant In Service: Net Accumulated Investment	Depr. Calculation: Beginning of the Month Addition	Depr. Calculation: Annual Depr. Rate	Depr. Calculation: Deprec Exp (NetDep)	Accumulated Depreciation: Depreciation	Accumulated Depreciation: Retirement	Accumulated Depreciation: Cost Of Removal	Accumulated Depreciation: Salvage	Accumulated Depreciation: End Bal
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
12/1/2018	$ -	$ -	$ -								
1/1/2019	$ 4,904	$ -	$ 4,904	$ -	$ -	$ 7	$ (7)	$ -	$ -	$ -	$ (7)
2/1/2019	$ 5,955	$ -	$ 10,859	$ 4,904	$ -	$ 15	$ (15)	$ -	$ -	$ -	$ (22)
3/1/2019	$ 17,165	$ -	$ 28,024	$ 10,859	$ -	$ 40	$ (40)	$ -	$ -	$ -	$ (62)
4/1/2019	$ 757,256	$ -	$ 785,280	$ 28,024	$ -	$ 1,119	$ (1,119)	$ -	$ -	$ -	$ (1,181)
5/1/2019	$ 1,167,646	$ -	$ 1,952,926	$ 785,280	$ -	$ 2,783	$ (2,783)	$ -	$ -	$ -	$ (3,964)
6/1/2019	$ 1,423,156	$ -	$ 3,376,081	$ 1,952,926	$ -	$ 4,811	$ (4,811)	$ -	$ -	$ -	$ (8,775)
7/1/2019	$ 895,838	$ -	$ 4,271,919	$ 3,376,081	$ -	$ 6,087	$ (6,087)	$ -	$ -	$ -	$ (14,863)
8/1/2019	$ 1,036,844	$ -	$ 5,308,763	$ 4,271,919	$ -	$ 7,565	$ (7,565)	$ -	$ -	$ -	$ (22,428)
9/1/2019	$ 795,863	$ -	$ 6,104,626	$ 5,308,763	$ -	$ 8,699	$ (8,699)	$ -	$ -	$ -	$ (31,127)
10/1/2019	$ 787,151	$ -	$ 6,891,777	$ 6,104,626	$ -	$ 9,821	$ (9,821)	$ -	$ -	$ -	$ (40,948)
11/1/2019	$ 710,481	$ -	$ 7,602,258	$ 6,891,777	$ -	$ 10,833	$ (10,833)	$ -	$ -	$ -	$ (51,781)
12/1/2019	$ 214,128	$ -	$ 7,816,386	$ 7,602,258	$ -	$ 11,138	$ (11,138)	$ -	$ -	$ -	$ (62,919)
	$ 7,816,386	$ -				$ 62,919	$ (62,919)	$ -	$ -	$ -	
											$ (62,919)
1/1/2020	$ 114	$ -	$ 7,816,500	$ 7,816,386	$ -	$ 11,138	$ (11,138)	$ -	$ -	$ -	$ (74,058)
2/1/2020	$ 229	$ -	$ 7,816,729	$ 7,816,500	$ -	$ 11,139	$ (11,139)	$ -	$ -	$ -	$ (85,196)
3/1/2020	$ 914	$ -	$ 7,817,643	$ 7,816,729	$ -	$ 11,139	$ (11,139)	$ -	$ -	$ -	$ (96,335)
4/1/2020	$ 159,987	$ -	$ 7,977,630	$ 7,817,643	$ -	$ 11,140	$ (11,140)	$ -	$ -	$ -	$ (107,475)
5/1/2020	$ 350,258	$ -	$ 8,327,889	$ 7,977,630	$ -	$ 11,368	$ (11,368)	$ -	$ -	$ -	$ (118,843)
6/1/2020	$ 738,685	$ -	$ 9,066,573	$ 8,327,889	$ -	$ 11,867	$ (11,867)	$ -	$ -	$ -	$ (130,710)
7/1/2020	$ 1,071,687	$ -	$ 10,138,261	$ 9,066,573	$ -	$ 12,920	$ (12,920)	$ -	$ -	$ -	$ (143,630)
8/1/2020	$ 1,248,702	$ -	$ 11,386,962	$ 10,138,261	$ -	$ 14,447	$ (14,447)	$ -	$ -	$ -	$ (158,077)
9/1/2020	$ 1,384,234	$ -	$ 12,771,197	$ 11,386,962	$ -	$ 16,226	$ (16,226)	$ -	$ -	$ -	$ (174,304)
10/1/2020	$ 1,439,544	$ -	$ 14,210,741	$ 12,771,197	$ -	$ 18,199	$ (18,199)	$ -	$ -	$ -	$ (192,503)
11/1/2020	$ 1,502,282	$ -	$ 15,713,022	$ 14,210,741	$ -	$ 20,250	$ (20,250)	$ -	$ -	$ -	$ (212,753)
12/1/2020	$ 1,525,594	$ -	$ 17,238,617	$ 15,713,022	$ -	$ 22,391	$ (22,391)	$ -	$ -	$ -	$ (235,144)
	$ 9,422,231	$ -				$ 172,225	$ (172,225)	$ -	$ -	$ -	

Gas Mains Summary

Month	Tax Addition	Tax Depr.	Tax Gain/(Loss) on Retirements	Book/Tax Difference	Bonus Effect	NOL	Deferred Tax	End Bal	Rate Base
					Deferred Income Taxes				
					0.0000%	0.0000%	-		
	[L]	[M]	[N]	[O]	[P]	[Q]	[R]	[S]	[T] = [C] + [K] + [S]
12/1/2018									
1/1/2019	$ 4,904	$ (15)	$ -	$ (8)	$ -	$ -	$ (2)	$ (2)	$ 4,895
2/1/2019	$ 5,955	$ (53)	$ -	$ (38)	$ -	$ -	$ (11)	$ (13)	$ 10,824
3/1/2019	$ 17,165	$ (195)	$ -	$ (155)	$ -	$ -	$ (44)	$ (58)	$ 27,904
4/1/2019	$ 757,256	$ (9,553)	$ -	$ (8,434)	$ -	$ -	$ (2,418)	$ (2,475)	$ 781,623
5/1/2019	$ 1,167,646	$ (20,698)	$ -	$ (17,915)	$ -	$ -	$ (5,135)	$ (7,610)	$ 1,941,351
6/1/2019	$ 1,423,156	$ (32,788)	$ -	$ (27,977)	$ -	$ -	$ (8,020)	$ (15,630)	$ 3,351,676
7/1/2019	$ 895,838	$ (30,146)	$ -	$ (24,059)	$ -	$ -	$ (6,896)	$ (22,526)	$ 4,234,530
8/1/2019	$ 1,036,844	$ (39,271)	$ -	$ (31,706)	$ -	$ -	$ (9,088)	$ (31,615)	$ 5,254,721
9/1/2019	$ 795,863	$ (38,974)	$ -	$ (30,275)	$ -	$ -	$ (8,678)	$ (40,293)	$ 6,033,206
10/1/2019	$ 787,151	$ (43,675)	$ -	$ (33,854)	$ -	$ -	$ (9,704)	$ (49,997)	$ 6,800,833
11/1/2019	$ 710,481	$ (45,960)	$ -	$ (35,127)	$ -	$ -	$ (10,069)	$ (60,066)	$ 7,490,411
12/1/2019	$ 214,128	$ (31,786)	$ -	$ (20,648)	$ -	$ -	$ (5,919)	$ (65,984)	$ 7,687,482
	$ 7,816,386	$ (293,114)	$ -	$ (230,195)	$ -	$ -	$ (65,984)		
							21.0000%		
							7.6646%		
					0.0000%	0.0000%			
					[P]	[Q]			
								$ (65,984)	
1/1/2020	$ 114	$ (47,022)	$ -	$ (35,884)	$ -	$ -	$ (10,286)	$ (76,270)	$ 7,666,172
2/1/2020	$ 229	$ (47,024)	$ -	$ (35,885)	$ -	$ -	$ (10,286)	$ (86,557)	$ 7,644,976
3/1/2020	$ 914	$ (47,032)	$ -	$ (35,893)	$ -	$ -	$ (10,289)	$ (96,845)	$ 7,624,463
4/1/2020	$ 159,987	$ (49,026)	$ -	$ (37,886)	$ -	$ -	$ (10,860)	$ (107,705)	$ 7,762,450
5/1/2020	$ 350,258	$ (52,998)	$ -	$ (41,630)	$ -	$ -	$ (11,933)	$ (119,638)	$ 8,089,407
6/1/2020	$ 738,685	$ (62,471)	$ -	$ (50,604)	$ -	$ -	$ (14,505)	$ (134,144)	$ 8,801,719
7/1/2020	$ 1,071,687	$ (74,373)	$ -	$ (61,453)	$ -	$ -	$ (17,615)	$ (151,759)	$ 9,842,871
8/1/2020	$ 1,248,702	$ (85,495)	$ -	$ (71,048)	$ -	$ -	$ (20,366)	$ (172,125)	$ 11,056,761
9/1/2020	$ 1,384,234	$ (97,112)	$ -	$ (80,886)	$ -	$ -	$ (23,186)	$ (195,310)	$ 12,401,583
10/1/2020	$ 1,439,544	$ (107,492)	$ -	$ (89,293)	$ -	$ -	$ (25,596)	$ (220,906)	$ 13,797,332
11/1/2020	$ 1,502,282	$ (118,645)	$ -	$ (98,395)	$ -	$ -	$ (28,204)	$ (249,110)	$ 15,251,160
12/1/2020	$ 1,525,594	$ (128,909)	$ -	$ (106,518)	$ -	$ -	$ (30,533)	$ (279,643)	$ 16,723,830
	$ 9,422,231	$ (917,599)	$ -	$ (745,374)	$ -	$ -	$ (213,659)		

	2018 & Fwd
Federal Tax Rate	0.21
MN Tax Rate	0.098
MN Apportionmen	0.989671
MI Tax Rate	0.06
MI Apportionment	0.000542

Gas Mains Summary

Month	Book/Tax Differ Balance	Bonus Effect Balance	NOL Balance	Deferred Tax Federal 21.0000%	Deferred Tax Federal NOL 21.0000%	Deferred Tax State 7.6646%			Federal Def Tax Activity	Proration Adjusted Activity Factor * Activity	Federal 13-Mo Ave DFIT Activity	Federal Prorated - 13mo Ave DFIT Activity Differ	Monthly Prorated Balance Adjustment
12/1/2018	$ -	$ -	$ -	$ -	$ -	$ -				0			
1/1/2019	$ (8)	$ -	$ -	$ (2)	$ -	$ (1)	$ (1)	2019	$ (1.68)	$ (1.54)	$ (0.13)	$ (1.41)	$ (1)
2/1/2019	$ (46)	$ -	$ -	$ (10)	$ -	$ (3)	$ (3)	2019	$ (7.88)	$ (6.63)	$ (0.74)	$ (5.89)	$ (7)
3/1/2019	$ (201)	$ -	$ -	$ (42)	$ -	$ (15)	$ (15)	2019	$ (32.57)	$ (24.63)	$ (3.24)	$ (21.39)	$ (29)
4/1/2019	$ (8,635)	$ -	$ -	$ (1,813)	$ -	$ (662)	$ (662)	2019	$ (1,771.13)	$ (1,193.69)	$ (139.48)	$ (1,054.21)	$ (1,083)
5/1/2019	$ (26,550)	$ -	$ -	$ (5,575)	$ -	$ (2,035)	$ (2,035)	2019	$ (3,762.17)	$ (2,216.07)	$ (428.88)	$ (1,787.19)	$ (2,870)
6/1/2019	$ (54,527)	$ -	$ -	$ (11,451)	$ -	$ (4,179)	$ (4,179)	2019	$ (5,875.19)	$ (2,977.83)	$ (880.82)	$ (2,097.02)	$ (4,967)
7/1/2019	$ (78,585)	$ -	$ -	$ (16,503)	$ -	$ (6,023)	$ (6,023)	2019	$ (5,052.29)	$ (2,131.65)	$ (1,269.45)	$ (862.20)	$ (5,829)
8/1/2019	$ (110,291)	$ -	$ -	$ (23,161)	$ -	$ (8,453)	$ (8,453)	2019	$ (6,658.26)	$ (2,243.74)	$ (1,781.63)	$ (462.11)	$ (6,291)
9/1/2019	$ (140,566)	$ -	$ -	$ (29,519)	$ -	$ (10,774)	$ (10,774)	2019	$ (6,357.73)	$ (1,619.92)	$ (2,270.68)	$ 650.77	$ (5,641)
10/1/2019	$ (174,420)	$ -	$ -	$ (36,628)	$ -	$ (13,369)	$ (13,369)	2019	$ (7,109.38)	$ (1,207.62)	$ (2,817.56)	$ 1,609.94	$ (4,031)
11/1/2019	$ (209,547)	$ -	$ -	$ (44,005)	$ -	$ (16,061)	$ (16,061)	2019	$ (7,376.63)	$ (646.72)	$ (3,384.99)	$ 2,738.28	$ (1,292)
12/1/2019	$ (230,195)	$ -	$ -	$ (48,341)	$ -	$ (17,644)	$ (17,644)	2019	$ (4,336.00)	$ (11.88)	$ (3,718.53)	$ 3,706.65	$ 2,414
				$ (16,696.14)						$ (14,281.93)	$ (16,696.14)	$ 2,414.21	
				^13-mo Ave Balance^					BOY FED ADIT	$ -	$ -		
									Prorated ADIT>	$ (14,281.93)	$ (16,696.14)	<13-Mo Ave ADIT	$ 2,414.21
				21.0000%	21.0000%	7.6646%							
	$ (230,195)	$ -	$ -	$ (48,341)	$ -	$ (17,644)							
1/1/2020	$ (266,078)	$ -	$ -	$ (55,876)	$ -	$ (20,394)		2020	$ (7,535.57)	$ (6,917.90)	$ (579.66)	$ (6,338.24)	$ (6,338)
2/1/2020	$ (301,964)	$ -	$ -	$ (63,412)	$ -	$ (23,144)		2020	$ (7,535.95)	$ (6,321.14)	$ (1,159.35)	$ (5,161.79)	$ (11,500)
3/1/2020	$ (337,857)	$ -	$ -	$ (70,950)	$ -	$ (25,895)		2020	$ (7,537.56)	$ (5,684.06)	$ (1,739.16)	$ (3,944.90)	$ (15,445)
4/1/2020	$ (375,743)	$ -	$ -	$ (78,906)	$ -	$ (28,799)		2020	$ (7,956.03)	$ (5,347.49)	$ (2,351.16)	$ (2,996.33)	$ (18,441)
5/1/2020	$ (417,373)	$ -	$ -	$ (87,648)	$ -	$ (31,990)		2020	$ (8,742.28)	$ (5,135.50)	$ (3,023.65)	$ (2,111.85)	$ (20,553)
6/1/2020	$ (467,977)	$ -	$ -	$ (98,275)	$ -	$ (35,869)		2020	$ (10,626.79)	$ (5,371.46)	$ (3,841.09)	$ (1,530.37)	$ (22,083)
7/1/2020	$ (529,430)	$ -	$ -	$ (111,180)	$ -	$ (40,579)		2020	$ (12,905.15)	$ (5,430.04)	$ (4,833.79)	$ (596.24)	$ (22,680)
8/1/2020	$ (600,478)	$ -	$ -	$ (126,100)	$ -	$ (46,024)		2020	$ (14,920.08)	$ (5,014.13)	$ (5,981.49)	$ 967.36	$ (21,712)
9/1/2020	$ (681,363)	$ -	$ -	$ (143,086)	$ -	$ (52,224)		2020	$ (16,985.97)	$ (4,316.10)	$ (7,288.11)	$ 2,972.01	$ (18,740)
10/1/2020	$ (770,656)	$ -	$ -	$ (161,838)	$ -	$ (59,068)		2020	$ (18,751.54)	$ (3,176.49)	$ (8,730.53)	$ 5,554.04	$ (13,186)
11/1/2020	$ (869,051)	$ -	$ -	$ (182,501)	$ -	$ (66,609)		2020	$ (20,662.89)	$ (1,806.60)	$ (10,319.99)	$ 8,513.39	$ (4,673)
12/1/2020	$ (975,569)	$ -	$ -	$ (204,869)	$ -	$ (74,773)		2020	$ (22,368.76)	$ (61.11)	$ (12,040.66)	$ 11,979.55	$ 7,307

Gas Mains Summary

Month	Net Plant In Service			Depr. Calculation			Accumulated Depreciation				
	Additions	Retirements	Net Accumulated Investment	Beginning of the Month Addition	Annual Depr. Rate	Deprec Exp (NetDep)	Depreciation	Retirement	Cost Of Removal	Salvage	End Bal
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
12/1/2018	$ -	$ -	$ -								
1/1/2019	$ 2,202	$ -	$ 2,202	$ -	$ -	$ 4	$ (4)	$ -	$ -	$ -	$ (4)
2/1/2019	$ 2,674	$ -	$ 4,876	$ 2,202	$ -	$ 9	$ (9)	$ -	$ -	$ -	$ (14)
3/1/2019	$ 7,707	$ -	$ 12,582	$ 4,876	$ -	$ 24	$ (24)	$ -	$ -	$ -	$ (38)
4/1/2019	$ 195,591	$ -	$ 208,174	$ 12,582	$ -	$ 402	$ (402)	$ -	$ -	$ -	$ (440)
5/1/2019	$ 335,417	$ -	$ 543,591	$ 208,174	$ -	$ 1,051	$ (1,051)	$ -	$ -	$ -	$ (1,491)
6/1/2019	$ 416,812	$ -	$ 960,403	$ 543,591	$ -	$ 1,857	$ (1,857)	$ -	$ -	$ -	$ (3,348)
7/1/2019	$ 291,135	$ -	$ 1,251,538	$ 960,403	$ -	$ 2,420	$ (2,420)	$ -	$ -	$ -	$ (5,768)
8/1/2019	$ 310,013	$ -	$ 1,561,551	$ 1,251,538	$ -	$ 3,019	$ (3,019)	$ -	$ -	$ -	$ (8,787)
9/1/2019	$ 279,571	$ -	$ 1,841,122	$ 1,561,551	$ -	$ 3,560	$ (3,560)	$ -	$ -	$ -	$ (12,346)
10/1/2019	$ 264,552	$ -	$ 2,105,675	$ 1,841,122	$ -	$ 4,071	$ (4,071)	$ -	$ -	$ -	$ (16,417)
11/1/2019	$ 219,021	$ -	$ 2,324,696	$ 2,105,675	$ -	$ 4,494	$ (4,494)	$ -	$ -	$ -	$ (20,912)
12/1/2019	$ 73,923	$ -	$ 2,398,620	$ 2,324,696	$ -	$ 4,637	$ (4,637)	$ -	$ -	$ -	$ (25,549)
	$ 2,398,620	$ -				$ 25,549	$ (25,549)	$ -	$ -	$ -	
											$ (25,549)
1/1/2020	$ 50	$ -	$ 2,398,670	$ 2,398,620	$ -	$ 4,637	$ (4,637)	$ -	$ -	$ -	$ (30,186)
2/1/2020	$ 100	$ -	$ 2,398,770	$ 2,398,670	$ -	$ 4,637	$ (4,637)	$ -	$ -	$ -	$ (34,824)
3/1/2020	$ 402	$ -	$ 2,399,172	$ 2,398,770	$ -	$ 4,638	$ (4,638)	$ -	$ -	$ -	$ (39,461)
4/1/2020	$ 70,304	$ -	$ 2,469,476	$ 2,399,172	$ -	$ 4,638	$ (4,638)	$ -	$ -	$ -	$ (44,100)
5/1/2020	$ 153,916	$ -	$ 2,623,392	$ 2,469,476	$ -	$ 4,774	$ (4,774)	$ -	$ -	$ -	$ (48,874)
6/1/2020	$ 324,604	$ -	$ 2,947,996	$ 2,623,392	$ -	$ 5,072	$ (5,072)	$ -	$ -	$ -	$ (53,946)
7/1/2020	$ 470,937	$ -	$ 3,418,934	$ 2,947,996	$ -	$ 5,699	$ (5,699)	$ -	$ -	$ -	$ (59,646)
8/1/2020	$ 548,724	$ -	$ 3,967,657	$ 3,418,934	$ -	$ 6,610	$ (6,610)	$ -	$ -	$ -	$ (66,255)
9/1/2020	$ 608,281	$ -	$ 4,575,939	$ 3,967,657	$ -	$ 7,671	$ (7,671)	$ -	$ -	$ -	$ (73,926)
10/1/2020	$ 632,587	$ -	$ 5,208,526	$ 4,575,939	$ -	$ 8,847	$ (8,847)	$ -	$ -	$ -	$ (82,773)
11/1/2020	$ 660,156	$ -	$ 5,868,681	$ 5,208,526	$ -	$ 10,070	$ (10,070)	$ -	$ -	$ -	$ (92,843)
12/1/2020	$ 670,400	$ -	$ 6,539,082	$ 5,868,681	$ -	$ 11,346	$ (11,346)	$ -	$ -	$ -	$ (104,189)
	$ 4,140,462	$ -				$ 78,640	$ (78,640)	$ -	$ -	$ -	

Gas Services Summary

Month	Deferred Income Taxes: Tax Addition	Tax Depr.	Tax Gain/(Loss) on Retirements	Book/Tax Difference	Bonus Effect	NOL	Deferred Tax	End Bal	Rate Base
					0.0000%	0.0000%	-		
	[L]	[M]	[N]	[O]	[P]	[Q]	[R]	[S]	[T] = [C] + [K] + [S]
12/1/2018									
1/1/2019	$ 2,202	$ (7)	$ -	$ (3)	$ -	$ -	$ (1)	$ (1)	$ 2,197
2/1/2019	$ 2,674	$ (23)	$ -	$ (14)	$ -	$ -	$ (4)	$ (5)	$ 4,857
3/1/2019	$ 7,707	$ (88)	$ -	$ (64)	$ -	$ -	$ (18)	$ (23)	$ 12,521
4/1/2019	$ 195,591	$ (2,484)	$ -	$ (2,082)	$ -	$ -	$ (597)	$ (620)	$ 207,114
5/1/2019	$ 335,417	$ (5,892)	$ -	$ (4,841)	$ -	$ -	$ (1,388)	$ (2,007)	$ 540,092
6/1/2019	$ 416,812	$ (9,514)	$ -	$ (7,657)	$ -	$ -	$ (2,195)	$ (4,202)	$ 952,853
7/1/2019	$ 291,135	$ (9,369)	$ -	$ (6,949)	$ -	$ -	$ (1,992)	$ (6,194)	$ 1,239,576
8/1/2019	$ 310,013	$ (11,662)	$ -	$ (8,643)	$ -	$ -	$ (2,477)	$ (8,672)	$ 1,544,092
9/1/2019	$ 279,571	$ (12,743)	$ -	$ (9,183)	$ -	$ -	$ (2,632)	$ (11,304)	$ 1,817,472
10/1/2019	$ 264,552	$ (14,020)	$ -	$ (9,949)	$ -	$ -	$ (2,852)	$ (14,156)	$ 2,075,102
11/1/2019	$ 219,021	$ (14,109)	$ -	$ (9,615)	$ -	$ -	$ (2,756)	$ (16,912)	$ 2,286,873
12/1/2019	$ 73,923	$ (10,037)	$ -	$ (5,400)	$ -	$ -	$ (1,548)	$ (18,460)	$ 2,354,611
	$ 2,398,620	$ (89,948)	$ -	$ (64,399)	$ -	$ -	$ (18,460)		
							21.0000%		
							7.6646%		
					0.0000%	0.0000%			
					[P]	[Q]			
								$ (18,460)	
1/1/2020	$ 50	$ (14,430)	$ -	$ (9,793)	$ -	$ -	$ (2,807)	$ (21,267)	$ 2,347,217
2/1/2020	$ 100	$ (14,430)	$ -	$ (9,793)	$ -	$ -	$ (2,807)	$ (24,074)	$ 2,339,873
3/1/2020	$ 402	$ (14,434)	$ -	$ (9,796)	$ -	$ -	$ (2,808)	$ (26,882)	$ 2,332,829
4/1/2020	$ 70,304	$ (15,311)	$ -	$ (10,673)	$ -	$ -	$ (3,059)	$ (29,941)	$ 2,395,435
5/1/2020	$ 153,916	$ (17,055)	$ -	$ (12,281)	$ -	$ -	$ (3,520)	$ (33,461)	$ 2,541,057
6/1/2020	$ 324,604	$ (21,219)	$ -	$ (16,147)	$ -	$ -	$ (4,629)	$ (38,090)	$ 2,855,960
7/1/2020	$ 470,937	$ (26,448)	$ -	$ (20,749)	$ -	$ -	$ (5,947)	$ (44,037)	$ 3,315,251
8/1/2020	$ 548,724	$ (31,337)	$ -	$ (24,727)	$ -	$ -	$ (7,088)	$ (51,125)	$ 3,850,277
9/1/2020	$ 608,281	$ (36,440)	$ -	$ (28,769)	$ -	$ -	$ (8,247)	$ (59,372)	$ 4,442,641
10/1/2020	$ 632,587	$ (41,003)	$ -	$ (32,156)	$ -	$ -	$ (9,217)	$ (68,589)	$ 5,057,163
11/1/2020	$ 660,156	$ (45,903)	$ -	$ (35,833)	$ -	$ -	$ (10,271)	$ (78,861)	$ 5,696,978
12/1/2020	$ 670,400	$ (50,413)	$ -	$ (39,067)	$ -	$ -	$ (11,198)	$ (90,059)	$ 6,344,834
	$ 4,140,462	$ (328,423)	$ -	$ (249,783)	$ -	$ -	$ (71,599)		

	2018 & Fwd
Federal Tax Rate	0.21
MN Tax Rate	0.098
MN Apportionmen	0.989671
MI Tax Rate	0.06
MI Apportionment	0.000542

Gas Services Summary

Month	Book/Tax Differ Balance	Bonus Effect Balance	NOL Balance	Deferred Tax Federal 21.0000%	Deferred Tax Federal NOL 21.0000%	Deferred Tax State 7.6646%		Federal Def Tax Activity	Proration Adjusted Activity Factor * Activity	Federal 13-Mo Ave DFIT Activity	Federal Prorated - 13mo Ave DFIT Activity Differ	Monthly Prorated Balance Adjustment
12/1/2018	$ -	$ -	$ -	$ -	$ -	$ -			0			
1/1/2019	$ (3)	$ -	$ -	$ (1)	$ -	$ (0)	2019	$ (0.58)	$ (0.53)	$ (0.04)	$ (0.49)	$ (0)
2/1/2019	$ (16)	$ -	$ -	$ (3)	$ -	$ (1)	2019	$ (2.85)	$ (2.40)	$ (0.26)	$ (2.13)	$ (3)
3/1/2019	$ (80)	$ -	$ -	$ (17)	$ -	$ (6)	2019	$ (13.37)	$ (10.11)	$ (1.29)	$ (8.82)	$ (11)
4/1/2019	$ (2,162)	$ -	$ -	$ (454)	$ -	$ (166)	2019	$ (437.12)	$ (294.61)	$ (34.92)	$ (259.69)	$ (271)
5/1/2019	$ (7,003)	$ -	$ -	$ (1,471)	$ -	$ (537)	2019	$ (1,016.62)	$ (598.83)	$ (113.12)	$ (485.71)	$ (757)
6/1/2019	$ (14,660)	$ -	$ -	$ (3,079)	$ -	$ (1,124)	2019	$ (1,608.02)	$ (815.02)	$ (236.81)	$ (578.21)	$ (1,335)
7/1/2019	$ (21,609)	$ -	$ -	$ (4,538)	$ -	$ (1,656)	2019	$ (1,459.36)	$ (615.73)	$ (349.07)	$ (266.66)	$ (1,602)
8/1/2019	$ (30,252)	$ -	$ -	$ (6,353)	$ -	$ (2,319)	2019	$ (1,815.03)	$ (611.64)	$ (488.69)	$ (122.95)	$ (1,725)
9/1/2019	$ (39,436)	$ -	$ -	$ (8,281)	$ -	$ (3,023)	2019	$ (1,928.54)	$ (491.38)	$ (637.04)	$ 145.66	$ (1,579)
10/1/2019	$ (49,385)	$ -	$ -	$ (10,371)	$ -	$ (3,785)	2019	$ (2,089.29)	$ (354.89)	$ (797.75)	$ 442.86	$ (1,136)
11/1/2019	$ (58,999)	$ -	$ -	$ (12,390)	$ -	$ (4,522)	2019	$ (2,019.06)	$ (177.01)	$ (953.06)	$ 776.05	$ (360)
12/1/2019	$ (64,399)	$ -	$ -	$ (13,524)	$ -	$ (4,936)	2019	$ (1,133.93)	$ (3.11)	$ (1,040.29)	$ 1,037.18	$ 677
				$ (4,652.35)					$ (3,975.27)	$ (4,652.35)	$ 677.09	
				^13-mo Ave Balance^				BOY FED ADIT	$ -	$ -		
								Prorated ADIT>	$ (3,975.27)	$ (4,652.35)	<13-Mo Ave ADIT	$ 677.09
				21.0000%	21.0000%	7.6646%						
	$ (64,399)	$ -	$ -	$ (13,524)	$ -	$ (4,936)						
1/1/2020	$ (74,192)	$ -	$ -	$ (15,580)	$ -	$ (5,686)	2020	$ (2,056.46)	$ (1,887.90)	$ (158.19)	$ (1,729.71)	$ (1,730)
2/1/2020	$ (83,984)	$ -	$ -	$ (17,637)	$ -	$ (6,437)	2020	$ (2,056.44)	$ (1,724.94)	$ (316.38)	$ (1,408.56)	$ (3,138)
3/1/2020	$ (93,781)	$ -	$ -	$ (19,694)	$ -	$ (7,188)	2020	$ (2,057.24)	$ (1,551.36)	$ (474.63)	$ (1,076.73)	$ (4,215)
4/1/2020	$ (104,453)	$ -	$ -	$ (21,935)	$ -	$ (8,006)	2020	$ (2,241.25)	$ (1,506.41)	$ (647.03)	$ (859.38)	$ (5,074)
5/1/2020	$ (116,734)	$ -	$ -	$ (24,514)	$ -	$ (8,947)	2020	$ (2,578.94)	$ (1,514.95)	$ (845.41)	$ (669.54)	$ (5,744)
6/1/2020	$ (132,881)	$ -	$ -	$ (27,905)	$ -	$ (10,185)	2020	$ (3,390.89)	$ (1,713.97)	$ (1,106.25)	$ (607.73)	$ (6,352)
7/1/2020	$ (153,629)	$ -	$ -	$ (32,262)	$ -	$ (11,775)	2020	$ (4,357.19)	$ (1,833.35)	$ (1,441.42)	$ (391.94)	$ (6,744)
8/1/2020	$ (178,357)	$ -	$ -	$ (37,455)	$ -	$ (13,670)	2020	$ (5,192.69)	$ (1,745.09)	$ (1,840.85)	$ 95.77	$ (6,648)
9/1/2020	$ (207,126)	$ -	$ -	$ (43,496)	$ -	$ (15,875)	2020	$ (6,041.53)	$ (1,535.14)	$ (2,305.59)	$ 770.45	$ (5,877)
10/1/2020	$ (239,282)	$ -	$ -	$ (50,249)	$ -	$ (18,340)	2020	$ (6,752.80)	$ (1,143.92)	$ (2,825.03)	$ 1,681.12	$ (4,196)
11/1/2020	$ (275,115)	$ -	$ -	$ (57,774)	$ -	$ (21,086)	2020	$ (7,524.97)	$ (657.92)	$ (3,403.88)	$ 2,745.95	$ (1,450)
12/1/2020	$ (314,182)	$ -	$ -	$ (65,978)	$ -	$ (24,081)	2020	$ (8,204.04)	$ (22.41)	$ (4,034.96)	$ 4,012.54	$ 2,562

Gas Stations Summary

Month	Net Plant In Service			Depr. Calculation			Accumulated Depreciation				
	Additions	Retirements	Net Accumulated Investment	Beginning of the Month Addition	Annual Depr. Rate	Deprec Exp (NetDep)	Depreciation	Retirement	Cost Of Removal	Salvage	End Bal
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
12/1/2018	$ -	$ -	$ -								
1/1/2019	$ 2,877	$ -	$ 2,877	$ -	$ -	$ 11	$ (11)	$ -	$ -	$ -	$ (11)
2/1/2019	$ 3,493	$ -	$ 6,370	$ 2,877	$ -	$ 24	$ (24)	$ -	$ -	$ -	$ (34)
3/1/2019	$ 10,069	$ -	$ 16,439	$ 6,370	$ -	$ 61	$ (61)	$ -	$ -	$ -	$ (95)
4/1/2019	$ 140,624	$ -	$ 157,063	$ 16,439	$ -	$ 584	$ (584)	$ -	$ -	$ -	$ (679)
5/1/2019	$ 287,947	$ -	$ 445,010	$ 157,063	$ -	$ 1,654	$ (1,654)	$ -	$ -	$ -	$ (2,333)
6/1/2019	$ 367,771	$ -	$ 812,781	$ 445,010	$ -	$ 3,021	$ (3,021)	$ -	$ -	$ -	$ (5,354)
7/1/2019	$ 291,971	$ -	$ 1,104,752	$ 812,781	$ -	$ 4,106	$ (4,106)	$ -	$ -	$ -	$ (9,460)
8/1/2019	$ 281,276	$ -	$ 1,386,028	$ 1,104,752	$ -	$ 5,151	$ (5,151)	$ -	$ -	$ -	$ (14,611)
9/1/2019	$ 303,382	$ -	$ 1,689,410	$ 1,386,028	$ -	$ 6,279	$ (6,279)	$ -	$ -	$ -	$ (20,890)
10/1/2019	$ 274,920	$ -	$ 1,964,330	$ 1,689,410	$ -	$ 7,301	$ (7,301)	$ -	$ -	$ -	$ (28,191)
11/1/2019	$ 206,594	$ -	$ 2,170,924	$ 1,964,330	$ -	$ 8,069	$ (8,069)	$ -	$ -	$ -	$ (36,260)
12/1/2019	$ 78,901	$ -	$ 2,249,825	$ 2,170,924	$ -	$ 8,362	$ (8,362)	$ -	$ -	$ -	$ (44,622)
	$ 2,249,825	$ -				$ 44,622	$ (44,622)	$ -	$ -	$ -	
											$ (44,622)
1/1/2020	$ 0	$ -	$ 2,249,826	$ 2,249,825	$ -	$ 8,362	$ (8,362)	$ -	$ -	$ -	$ (52,983)
2/1/2020	$ 1	$ -	$ 2,249,826	$ 2,249,826	$ -	$ 8,362	$ (8,362)	$ -	$ -	$ -	$ (61,345)
3/1/2020	$ 3	$ -	$ 2,249,829	$ 2,249,826	$ -	$ 8,362	$ (8,362)	$ -	$ -	$ -	$ (69,707)
4/1/2020	$ 449	$ -	$ 2,250,278	$ 2,249,829	$ -	$ 8,362	$ (8,362)	$ -	$ -	$ -	$ (78,069)
5/1/2020	$ 983	$ -	$ 2,251,261	$ 2,250,278	$ -	$ 8,364	$ (8,364)	$ -	$ -	$ -	$ (86,433)
6/1/2020	$ 2,073	$ -	$ 2,253,333	$ 2,251,261	$ -	$ 8,367	$ (8,367)	$ -	$ -	$ -	$ (94,800)
7/1/2020	$ 3,007	$ -	$ 2,256,341	$ 2,253,333	$ -	$ 8,375	$ (8,375)	$ -	$ -	$ -	$ (103,175)
8/1/2020	$ 3,504	$ -	$ 2,259,844	$ 2,256,341	$ -	$ 8,386	$ (8,386)	$ -	$ -	$ -	$ (111,561)
9/1/2020	$ 3,884	$ -	$ 2,263,729	$ 2,259,844	$ -	$ 8,399	$ (8,399)	$ -	$ -	$ -	$ (119,960)
10/1/2020	$ 4,039	$ -	$ 2,267,768	$ 2,263,729	$ -	$ 8,414	$ (8,414)	$ -	$ -	$ -	$ (128,373)
11/1/2020	$ 4,215	$ -	$ 2,271,983	$ 2,267,768	$ -	$ 8,429	$ (8,429)	$ -	$ -	$ -	$ (136,802)
12/1/2020	$ 4,281	$ -	$ 2,276,264	$ 2,271,983	$ -	$ 8,444	$ (8,444)	$ -	$ -	$ -	$ (145,246)
	$ 26,439	$ -				$ 100,624	$ (100,624)	$ -	$ -	$ -	

Gas Stations Summary

Month	Tax Addition	Tax Depr.	Tax Gain/(Loss) on Retirements	Book/Tax Difference	Bonus Effect	NOL	Deferred Tax	End Bal	Rate Base
					Deferred Income Taxes				
					0.0000%	0.0000%	-		
	[L]	[M]	[N]	[O]	[P]	[Q]	[R]	[S]	[T] = [C] + [K] + [S]
12/1/2018									
1/1/2019	$ 2,877	$ (9)	$ -	$ 2	$ -	$ -	$ 0	$ 0	$ 2,867
2/1/2019	$ 3,493	$ (31)	$ -	$ (7)	$ -	$ -	$ (2)	$ (2)	$ 6,334
3/1/2019	$ 10,069	$ (114)	$ -	$ (53)	$ -	$ -	$ (15)	$ (17)	$ 16,327
4/1/2019	$ 140,624	$ (1,809)	$ -	$ (1,225)	$ -	$ -	$ (351)	$ (368)	$ 156,016
5/1/2019	$ 287,947	$ (4,990)	$ -	$ (3,336)	$ -	$ -	$ (956)	$ (1,324)	$ 441,353
6/1/2019	$ 367,771	$ (8,287)	$ -	$ (5,266)	$ -	$ -	$ (1,510)	$ (2,834)	$ 804,594
7/1/2019	$ 291,971	$ (8,926)	$ -	$ (4,820)	$ -	$ -	$ (1,382)	$ (4,215)	$ 1,091,076
8/1/2019	$ 281,276	$ (10,485)	$ -	$ (5,334)	$ -	$ -	$ (1,529)	$ (5,744)	$ 1,365,672
9/1/2019	$ 303,382	$ (12,864)	$ -	$ (6,585)	$ -	$ -	$ (1,888)	$ (7,632)	$ 1,660,888
10/1/2019	$ 274,920	$ (13,870)	$ -	$ (6,569)	$ -	$ -	$ (1,883)	$ (9,515)	$ 1,926,624
11/1/2019	$ 206,594	$ (13,241)	$ -	$ (5,172)	$ -	$ -	$ (1,483)	$ (10,998)	$ 2,123,667
12/1/2019	$ 78,901	$ (9,742)	$ -	$ (1,380)	$ -	$ -	$ (396)	$ (11,393)	$ 2,193,811
	$ 2,249,825	$ (84,368)	$ -	$ (39,746)	$ -	$ -	$ (11,393)		
							21.0000%		
							7.6646%		
					0.0000%	0.0000%			
					[P]	[Q]			
								$ (11,393)	
1/1/2020	$ 0	$ (13,535)	$ -	$ (5,173)	$ -	$ -	$ (1,483)	$ (12,876)	$ 2,183,966
2/1/2020	$ 1	$ (13,534)	$ -	$ (5,172)	$ -	$ -	$ (1,483)	$ (14,359)	$ 2,174,122
3/1/2020	$ 3	$ (13,535)	$ -	$ (5,173)	$ -	$ -	$ (1,483)	$ (15,841)	$ 2,164,280
4/1/2020	$ 449	$ (13,540)	$ -	$ (5,178)	$ -	$ -	$ (1,484)	$ (17,326)	$ 2,154,883
5/1/2020	$ 983	$ (13,551)	$ -	$ (5,187)	$ -	$ -	$ (1,487)	$ (18,813)	$ 2,146,015
6/1/2020	$ 2,073	$ (13,578)	$ -	$ (5,211)	$ -	$ -	$ (1,494)	$ (20,306)	$ 2,138,227
7/1/2020	$ 3,007	$ (13,612)	$ -	$ (5,237)	$ -	$ -	$ (1,501)	$ (21,808)	$ 2,131,358
8/1/2020	$ 3,504	$ (13,642)	$ -	$ (5,256)	$ -	$ -	$ (1,507)	$ (23,314)	$ 2,124,970
9/1/2020	$ 3,884	$ (13,675)	$ -	$ (5,276)	$ -	$ -	$ (1,512)	$ (24,826)	$ 2,118,942
10/1/2020	$ 4,039	$ (13,705)	$ -	$ (5,291)	$ -	$ -	$ (1,517)	$ (26,343)	$ 2,113,051
11/1/2020	$ 4,215	$ (13,735)	$ -	$ (5,306)	$ -	$ -	$ (1,521)	$ (27,864)	$ 2,107,317
12/1/2020	$ 4,281	$ (13,764)	$ -	$ (5,320)	$ -	$ -	$ (1,525)	$ (29,389)	$ 2,101,629
	$ 26,439	$ (163,406)	$ -	$ (62,782)	$ -	$ -	$ (17,996)		

	2018 & Fwd
Federal Tax Rate	0.21
MN Tax Rate	0.098
MN Apportionmen	0.989671
MI Tax Rate	0.06
MI Apportionment	0.000542

Gas Stations Summary

Month	Book/Tax Differ Balance	Bonus Effect Balance	NOL Balance	Deferred Tax Federal 21.0000%	Deferred Tax Federal NOL 21.0000%	Deferred Tax State 7.6646%		Federal Def Tax Activity	Proration Adjusted Activity Factor * Activity	Federal 13-Mo Ave DFIT Activity	Federal Prorated - 13mo Ave DFIT Activity Differ	Monthly Prorated Balance Adjustment
12/1/2018	$ -	$ -	$ -	$ -	$ -	$ -			0			
1/1/2019	$ 2	$ -	$ -	$ 0	$ -	$ 0	2019	$ 0.36	$ 0.33	$ 0.03	$ 0.30	$ 0
2/1/2019	$ (6)	$ -	$ -	$ (1)	$ -	$ (0)	2019	$ (1.54)	$ (1.30)	$ (0.09)	$ (1.20)	$ (1)
3/1/2019	$ (59)	$ -	$ -	$ (12)	$ -	$ (4)	2019	$ (11.11)	$ (8.40)	$ (0.95)	$ (7.46)	$ (8)
4/1/2019	$ (1,284)	$ -	$ -	$ (270)	$ -	$ (98)	2019	$ (257.30)	$ (173.41)	$ (20.74)	$ (152.68)	$ (161)
5/1/2019	$ (4,620)	$ -	$ -	$ (970)	$ -	$ (354)	2019	$ (700.57)	$ (412.66)	$ (74.63)	$ (338.04)	$ (499)
6/1/2019	$ (9,886)	$ -	$ -	$ (2,076)	$ -	$ (758)	2019	$ (1,105.90)	$ (560.52)	$ (159.70)	$ (400.83)	$ (900)
7/1/2019	$ (14,706)	$ -	$ -	$ (3,088)	$ -	$ (1,127)	2019	$ (1,012.20)	$ (427.07)	$ (237.56)	$ (189.51)	$ (1,089)
8/1/2019	$ (20,040)	$ -	$ -	$ (4,208)	$ -	$ (1,536)	2019	$ (1,120.06)	$ (377.44)	$ (323.72)	$ (53.73)	$ (1,143)
9/1/2019	$ (26,625)	$ -	$ -	$ (5,591)	$ -	$ (2,041)	2019	$ (1,382.85)	$ (352.34)	$ (430.09)	$ 77.75	$ (1,065)
10/1/2019	$ (33,194)	$ -	$ -	$ (6,971)	$ -	$ (2,544)	2019	$ (1,379.54)	$ (234.33)	$ (536.21)	$ 301.88	$ (764)
11/1/2019	$ (38,366)	$ -	$ -	$ (8,057)	$ -	$ (2,941)	2019	$ (1,086.21)	$ (95.23)	$ (619.76)	$ 524.53	$ (239)
12/1/2019	$ (39,746)	$ -	$ -	$ (8,347)	$ -	$ (3,046)	2019	$ (289.83)	$ (0.79)	$ (642.06)	$ 641.26	$ 402
				$ (3,045.47)					$ (2,643.18)	$ (3,045.47)	$ 402.29	
				^13-mo Ave Balance^				BOY FED ADIT	$ -	$ -		
								Prorated ADIT>	$ (2,643.18)	$ (3,045.47)	<13-Mo Ave ADIT	$ 402.29
				21.0000%	21.0000%	7.6646%						
	$ (39,746)	$ -	$ -	$ (8,347)	$ -	$ (3,046)						
1/1/2020	$ (44,920)	$ -	$ -	$ (9,433)	$ -	$ (3,443)	2020	$ (1,086.36)	$ (997.31)	$ (83.57)	$ (913.75)	$ (914)
2/1/2020	$ (50,092)	$ -	$ -	$ (10,519)	$ -	$ (3,839)	2020	$ (1,086.15)	$ (911.06)	$ (167.12)	$ (743.94)	$ (1,658)
3/1/2020	$ (55,265)	$ -	$ -	$ (11,606)	$ -	$ (4,236)	2020	$ (1,086.36)	$ (819.22)	$ (250.68)	$ (568.54)	$ (2,226)
4/1/2020	$ (60,443)	$ -	$ -	$ (12,693)	$ -	$ (4,633)	2020	$ (1,087.41)	$ (730.88)	$ (334.33)	$ (396.55)	$ (2,623)
5/1/2020	$ (65,630)	$ -	$ -	$ (13,782)	$ -	$ (5,030)	2020	$ (1,089.37)	$ (639.93)	$ (418.13)	$ (221.80)	$ (2,845)
6/1/2020	$ (70,841)	$ -	$ -	$ (14,877)	$ -	$ (5,430)	2020	$ (1,094.27)	$ (553.11)	$ (502.30)	$ (50.81)	$ (2,895)
7/1/2020	$ (76,078)	$ -	$ -	$ (15,976)	$ -	$ (5,831)	2020	$ (1,099.79)	$ (462.75)	$ (586.90)	$ 124.15	$ (2,771)
8/1/2020	$ (81,334)	$ -	$ -	$ (17,080)	$ -	$ (6,234)	2020	$ (1,103.75)	$ (370.93)	$ (671.80)	$ 300.87	$ (2,470)
9/1/2020	$ (86,610)	$ -	$ -	$ (18,188)	$ -	$ (6,638)	2020	$ (1,107.94)	$ (281.53)	$ (757.03)	$ 475.51	$ (1,995)
10/1/2020	$ (91,902)	$ -	$ -	$ (19,299)	$ -	$ (7,044)	2020	$ (1,111.21)	$ (188.24)	$ (842.51)	$ 654.27	$ (1,341)
11/1/2020	$ (97,208)	$ -	$ -	$ (20,414)	$ -	$ (7,451)	2020	$ (1,114.36)	$ (97.43)	$ (928.23)	$ 830.80	$ (510)
12/1/2020	$ (102,528)	$ -	$ -	$ (21,531)	$ -	$ (7,858)	2020	$ (1,117.16)	$ (3.05)	$ (1,014.16)	$ 1,011.11	$ 501

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201817006**
Release Date: 4/27/2018

Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:B06
PLR-123443-17

Date:
January 25, 2018

LEGEND:
Parent =
Holdco =
Taxpayer =
State A =
State B =
State C =
State D =
State E =
State F =
State G =
Commission =
Date 1 =
Date 2 =
Date 3 =
Date 4 =
Date 5 =
Date 6 =
Date 7 =
Director =

Dear :

This letter responds to Parent's request dated July 28, 2017, filed on behalf of Taxpayer, for a ruling on the application of the Normalization Rules of the Internal Revenue Code to certain accounting and regulatory procedures, as described below.

The representations set out in your letter follow.

Taxpayer is wholly owned by Holdco, a State A limited liability company that is disregarded for federal income tax purposes. Holdco, is wholly owned by Parent, a

corporation organized under the laws of State B. Parent is the common parent of an affiliated group of corporations that includes Holdco and Taxpayer. Parent files a consolidated federal income tax return on a calendar year basis employing the accrual method of accounting. Parent is currently under the audit jurisdiction of the Large Business and International Division of the Internal Revenue Service.

Taxpayer is a regulated public utility engaged in the provision of natural gas distribution services in State B, State C, State D, State E, State F, and State G. The businesses in these states are conducted through unincorporated divisions (local distribution companies). Taxpayer's State E local distribution company (LDC) is subject to regulation as to rates and conditions of service by the Commission.

Taxpayer has claimed (and continues to claim) accelerated depreciation on all of its public utility property to the full extent those deductions are available under the Code. Taxpayer normalizes the federal income taxes deferred as a result of its claiming these deductions in accordance with the Normalization Rules. As a consequence, Taxpayer has a substantial balance of accumulated deferred federal income tax (ADFIT) that is attributable to accelerated depreciation reflected on its regulated books of account.

While State E law allows utilities to use either historical or forecasted test periods, the LDC has chosen to file its past several general rate cases using a fully forecasted test period. Generally, the LDC has filed in Date 1, with a test period running from Date 2 of that year through Date 3 of the following year. State E law provides that the Commission must issue its final determination within ten months of the initial filing date unless it has extended that time by up to ninety days due to its need to act on other pending rate cases. After the issuance of a final order, additional procedures ensue. These procedures may include a request for reconsideration and will always include the submission by the subject utility of a compliance filing which is typically made within thirty days of the date of an order. Parties to the proceeding then have thirty days to submit comments on that filing. The rates established in that final order are typically not put into effect prior to the end of the projected test period. In LDC's most recent general rate case final rates were not implemented until after the forecasted test period had ended.

As part of the general rate case process and consistent with State E law, the LDC has also been allowed recovery of "interim rates." Interim rate recovery begins no later than sixty days from the initial filing, meaning it generally coincides with the start of the forecasted test period (Date 2). The Commission sets interim rates through an interim rate order. Consequently, interim rates are established before a full review of the utility's proposed costs is completed and are based primarily on the data used to support the utility's proposed final rate request with the following differences: (1) the rate of return on common equity used is equal to that authorized by the Commission in the utility's most recent general rate case, (2) the utility may include in interim rates only rate base or expense items that are the same in nature and kind as those allowed in

that most recent general rate case, and (3) interim rates may not reflect any change in existing rate design. Each of these factors may differ from the ones incorporated into the rates established in the final order that results from the conduct of the current proceeding.

Interim rates are subject to refund (plus interest) if, at the end of the contested case, amounts collected under the interim rate schedule exceed the Commission-approved final rates (Interim Rate Refund). Any Interim Rate Refund occurs only with the effective date of the final rates, which, as indicated above, typically occurs after the end of the projected test period, even when there are no time extensions in a general rate proceeding.

When an Interim Rate Refund is required, the percentage difference between the final and the interim rates is calculated after the end of the test year. A bill credit is then computed for each customer by applying that percentage to the amounts paid by that customer while interim rates were in effect. The credit is posted in full to each customer's next bill. As a result, customers who receive gas service during the projected test period collectively pay the allowed revenue level established in the final order for that service regardless of when the final order is issued or when the rates established by that order go into effect.

In determining its revenue requirement for the projected test period (including in determining the appropriate level of interim rate recovery), the LDC calculates the net plant component of rate base using a simple average of the beginning of test period and end of the test period balances. All other elements of rate base, including ADFIT balances, are calculated using a 13-month average. Rate base is reduced by the ADFIT balance so computed.

There is no conventional true-up procedure applicable to rates established in the LDC's general rate cases. Hence there is no procedure by which rates established in its general rate case (whether interim or final) and based on a projected test period are trued-up to a revenue requirement for that period which is calculated by reference to the actual results of LDC's activities during the test period. Rather, the final order establishes final rates based on representative levels of costs and revenues for the test year. The interim rate refund reconciles the differential between the interim rates and the final rates and is implemented only after the rate case is completed. Final rates remain in effect until the utility chooses to file its next general rate case proceeding and any interim rates that may be put into effect pursuant to that proceeding. As a result, the general rate case may be seen as comprised of three elements: (1) setting interim rates established by the interim rate order, (2) setting final rates established by the final order subsequent to the rate case proceeding, and (3) calculating an Interim Rate Refund subsequent to the rate case proceeding based on the difference between the interim rates paid and the amount that would have been paid had final rates been in effect for the same period.

Previously, when the LDC has projected the changes in its ADFIT balances for purposes of estimating its revenue requirement for the projected test period (whether for the establishment of interim or final rates), it has not used the proration formula provided in Treas. Reg. § 1.167(l)-1(h)(6) (Proration Methodology). Prior to and including its most recent general rate case, this lack of the use of the Proration Methodology has not been challenged or even commented upon by the Commission or any party in any of the LDC's proceedings.

The LDC filed its most recent general rate case with the Commission on Date 4. The test period in the case ran from Date 5 through Date 7 with interim rates going into effect on Date 6. In its general rate case filing, the LDC did not utilize the Proration Methodology in its ADFIT calculation. After filing, Taxpayer considered whether it would be possible to revise its pending rate request to incorporate the impact of the Proration Methodology and determined that State E law provides that "in no event shall the rates [approved by the Commission] exceed the level of rates requested by the public utility." Since a revision to reflect the Proration Methodology after the LDC had filed its request would have increased the requested revenue requirement, the LDC could not take corrective action at that time.

Additionally, Taxpayer considered whether a normalization issue may arise in the LDC's general rate case filing because ADFIT was averaged using a 13-month average while other components of rate base were averaged using a simple beginning and ending balance average. Both averages were over the same period of time.

Both Taxpayer and the Commission have at all times endeavored to use a proper normalization method of accounting for the LDC's public utility property. Notwithstanding this intent, Taxpayer is now concerned that its prior LDC general rate case filings may have been inconsistent with the Normalization Rules insofar as they did not employ the Proration Methodology. Further, Taxpayer believes that there may be an issue regarding the LDC's practice of applying two different averaging conventions to different components of its rate base calculation. Taxpayer represents that if required, the LDC will take all necessary corrective actions in its next general rate case.

Taxpayer requests that we rule as follows:

1) In order to comply with the Normalization Rules, whether, in determining the maximum amount of ADFIT by which the LDC can reduce rate base in establishing the interim rates, it must employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i);

2) Whether, for purposes of the Normalization Rules, the effective date of the differential between the interim rates and the final rates established for the Interim Rate Refund process calculated at the end of the rate proceeding is the effective

date for the interim rates established in the interim rate order or the effective date for final rates established by the final order;

3) If, with respect to Requested Ruling 2, the Service rules that the effective date of the differential between the interim rates and the final rates established by the Interim Rate Refund process calculated at the end of the rate proceeding is the effective date for final rates established by the final order, whether the Interim Rate Refund process uses an historical test period and therefore, is not required to employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i);

4) If, with respect to Requested Ruling 2, the Service rules that the effective date of the differential between the interim rates and the final rates established by the Interim Rate Refund process is the effective date for the interim rates that were established in the interim rate order, whether the Interim Rate Refund process uses a future test period and must, therefore, employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i);

5) Whether, for purposes of the Normalization Rules, the effective date of the final rates established by the final order and implemented subsequent to the rate case proceeding is the effective date for the interim rates that were established by an interim rate order or the effective date for the final rates established by the final order;

6) If, with respect to Requested Ruling 5, the Service rules that the effective date of the final rates established by the final order and implemented subsequent to the rate case proceeding is the effective date of the final rates established by the final order, whether the computation of these rates uses an historical test period and, therefore, is not required to employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i);

7) If, with respect to Requested Ruling 5, the Service rules that the effective date of the final rates established by the final order is the effective date for the interim rates established by the interim rate order, whether the computation of the final rates implemented subsequent to the rate case proceeding uses a future test period and must, therefore, employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i);

8) If the Service rules in the affirmative with respect to Requested Ruling 3, in computing the Interim Rate Refund, whether the Proration Requirement does not apply only to the difference between (1) the ADFIT balance used to set interim rates, and (2) the ADFIT balance used in the final rates to establish the Interim Rate Refund (that is, the Proration Requirement would continue to apply to the changes in ADFIT balances reflected in setting the interim rates);

9) If the Service rules that the Proration Methodology applies to any of the three elements of Taxpayer's base rate process (interim rates, Interim Rate Refund, and final rates) the Consistency Rule does not require that the LDC apply to its prorated ADFIT balance the regulatory averaging procedure it applies to its other components of rate base in the relevant computation;

10) The Taxpayer's use of a simple average for certain components of rate base in conjunction with its use of a 13-month average for ADFIT is not violative of the Consistency Rule of § 168(i)(9)(B); and

11) In the event that the Service concludes with respect to Requested Rulings 1, 4, or 7 that the LDC must use the Proration Methodology to comply with the Normalization Rules and/or concludes with respect to Requested Ruling 10 that the LDC's use of differing averaging conventions is violative of the Consistency Rule, Taxpayer requests a ruling that, in any year prior to its taking the necessary corrective action, Taxpayer's relevant regulatory practice were not a violation of the Normalization Rules.

Law and Analysis

Requested Rulings 1 - 7

Section 1.167(l)-1(h)(6) of the Regulations sets forth normalization requirements with respect to public utility property. Under § 1.167(l)-1(h)(6)(i), a taxpayer does not use a normalization method of accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes excluded from the rate base, or treated as cost-free capital, exceeds the amount of the reserve for the period used in determining the taxpayer's ratemaking tax expense. Section 1.167(l)-1(h)(6)(ii) also provides the procedure for determining the amount of the reserve for deferred taxes to be excluded from rate base or to be included as no-cost capital.

Section 1.167(l)-1(h)(6)(ii) provides that for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under § 1.167(l)-1(h)(6)(i), if solely an historical period is used to determine depreciation for federal income tax expense for ratemaking purposes, then the amount of the reserve account for the period is the amount of the reserve (determined under § 1.167(l)-1(h)(2)) at the end of the historical period. Section 1.167(l)-1(h)(6)(ii) provides that if solely a future period is used for such determination, the amount of the reserve account for the period is the amount of the reserve at the beginning of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during such period.

Section 1.167(l)-1(h)(6)(ii) provides if, in determining depreciation for ratemaking tax expense, a period (the "test period") is used which is part historical and part future, then

the amount of the reserve account for this period is the amount of the reserve at the end of the historical portion of the period and a pro rata amount of any projected increase to be credited to the account during the future portion of the period. The pro rata amount of any increase during the future portion of the period is determined by multiplying the increase by a fraction, the numerator of which is the number of days remaining in the period at the time the increase is to accrue, and the denominator of which is the total number of days in the future portion of the period. This is generally referred to as "the proration formula" or the "proration methodology."

Section 1.167(l)-1(h)(6)(i) makes it clear that the reserve excluded from rate base must be determined by reference to the same period as is used in determining ratemaking tax expense. A taxpayer may use either historical data or projected data in calculating these two amounts, but it must be consistent. As explained in § 1.167(l)-1(a)(1), the rules provided in § 1.167(l)-1(h)(6)(i) are to insure that the same time period is used to determine the deferred tax reserve amount resulting from the use of an accelerated method of depreciation for cost of service purposes and the reserve amount that may be excluded from the rate base or included in no-cost capital in determining such cost of services.

If a taxpayer chooses to compute its ratemaking tax expense and rate base exclusion amount using projected data then it must use the formula provided in § 1.167(l)-1(h)(6)(ii) to calculate the amount of deferred taxes subject to exclusion from the rate base. This formula prorates the projected accruals to the reserve so as to account for the actual time these amounts are expected to be in the reserve. As explained in § 1.167(l)-1(a)(1), the formula in § 1.167(l)-1(h)(6)(ii) provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer.

The purpose of the proration formula is the same as that of the requirement for consistent periods discussed above: to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.

The effectiveness of § 1.167(l)-1(h)(6)(ii) in resolving the timing issue has been limited by its failure to define some key terms. Nowhere does this provision state what is meant by the terms "historical" and "future" in relation to the test period for determining depreciation for ratemaking tax expense. How are these time periods to be measured? One interpretation focuses on the type or quality of the data used in the ratemaking process. According to this interpretation, the historical period is that portion of the test period for which actual data is used, while the portion of the period for which data is

estimated is the future period. The second interpretation focuses on when the utility rates become effective. Under this interpretation, the historical period is that portion of the test period before rates go into effect, while the portion of the test period after the effective date of the rate order is the future period.

The first interpretation, which focuses on the quality of the ratemaking data, is an attractive one. It proposes a simple rule, easy to follow and to enforce: any portion of the reserve for deferred taxes based on estimated data must be prorated in determining the amount to be deducted from rate base. The actual passage of time between the date ratemaking data is submitted and the date rates become effective is of no importance. But this interpretation of the regulations achieves simplicity at the expense of precision; in other words, it is overbroad. The proration of all estimated deferred tax data does serve to magnify the benefits of accelerated depreciation to the utility, but this is not the purpose of normalization. Congress was explicit: normalization "in no way diminishes whatever power the [utility regulatory] agency may have to require that the deferred taxes reserve be excluded from the base upon which the utility's permitted rate of return is calculated." H.R. Rep. No. 413, 91st Cong., 1st Sess. 133 (1969).

In contrast, the second interpretation of § 1.167(l)-1(h)(6)(ii) is consistent with the purpose of normalization, which is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. The availability of this capital is ensured by prohibiting flow-through. But whether or not flow-through can even be accomplished by means of rate base exclusions depends primarily on whether, at the time rates become effective, the amounts originally projected to accrue to the deferred tax reserve have actually accrued.

If rates go into effect before the end of the test period, and the rate base reduction is not prorated, the utility commission may be denying a current return for accelerated depreciation benefits the utility is only projected to have. This procedure is a form of flow-through, for current rates are reduced to reflect the capital cost savings of accelerated depreciation deductions not yet claimed or accrued by the utility. Yet projected data is often necessary in determining rates, since historical data by itself is rarely an accurate indication of future utility operating results. Thus, the regulations provide that as long as the portion of the deferred tax reserve based on truly projected (future estimated) data is prorated according to the formula in § 1.167(l)-1(h)(6)(ii), a regulator may deduct this reserve from rate base in determining a utility's allowable return. In other words, a utility regulator using projected data in computing ratemaking tax expense and rate base exclusion must account for the passage of time if it is to avoid flow-through.

But if rates go into effect after the end of the test period, the opportunity to flow-through the benefits of future accelerated depreciation to current ratepayers is gone, and so too is the need to apply the proration formula. In this situation, the only question that is important for the purpose of rate base exclusion is the amount in the deferred tax

reserve, whether actual or estimated. Once the period over which accruals to the reserve were projected is completed and the final rates are in effect, the question of when the amounts in the reserve accrued is no longer being estimated or projected (at the time the new rate order takes effect, the projected increases have accrued, and the amounts to be excluded from rate base are no longer projected but historical, even though based initially on estimates).

In the LDC's general rate case, the interim rates, subject to refund, became effective Date 6. The interim rates were based on test year from Date 5 through Date 7. The net plant component of rate base is calculated by using a simple average of the beginning of test period and end of the test period balances. All other elements of rate base, including ADFIT balances, are calculated using a 13-month average. Rate base is reduced by the ADFIT balance so computed. The averages were each over the same period of time. The future portion of a part-historical and part-future period for purposes of interim rates charged began on Date 6, for purposes of determining the total number of days in the future portion of the period under § 1.167(l)-1(h)(6).

In response to Requested Ruling 1, we conclude that the test period for LDC's interim rates is a future test period, subject to the proration formula rules under § 1.167-1(h)(6). Therefore, Taxpayer is required to apply the proration formula rules as they apply to part-historical and part-future periods to calculate the amount of ADFIT by which LDC may reduce rate base in establishing interim rates.

In response to Requested Ruling 2, we conclude that the effective date of the differential between the interim rates and the final rates established for the Interim Rate Refund process calculated at the end of the rate proceeding is the effective date for the final rates established by the final order. Accordingly, Requested Ruling 4, above, is moot.

In response to Requested Ruling 3, we also conclude that because the Interim Rate Refund process uses an historical test period it is not required to employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i).

In response to Requested Ruling 5, we conclude that the effective date of the final rates established by the final order and implemented subsequent to the rate case proceeding is the effective date for the final rates established by the final order. Accordingly, Requested Ruling 7, above**,** is moot.

The LDC's computation of ADFIT for purposes of the final rates occurs after the end of the test period on which those amounts are based. Thus, the calculation is determined by reference to a purely historical period. Accordingly, in response to Requested Ruling 6, we conclude that the computation of ADFIT for purposes of final rates is not subject to the proration formula rules under § 1.167-1(h)(6); there is no need to follow the proration formula rules designed for future test periods or part-historical and part-future

periods to calculate the differences between Taxpayer's projected ADFIT balance and the actual ADFIT balance during the period.

Requested Ruling 8

We have concluded above that the interim rates charged during the pendency of the rate case until final rates are implemented, because they are in effect before the end of the test period, are considered calculated using a future test period. Once final rates are determined, the Interim Rate Refund is calculated, based on the difference between the interim rates and the final rates. As discussed above, the Interim Rate Refund is in effect after the conclusion of the test year and thus, the Interim Rate Refund is not considered calculated using a future test period. Requested Ruling 8 requires that we apply the proration formula rules of § 1.167(l)-1(h)(6) to these situations.

The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account. Specifically, while interim rates are charged during the test year, the projected test year ADFIT increases have accrued only as allowed using the proration formula. Once the test year has ended and the Interim Rate Refund is calculated and is in effect, the amounts to be excluded from rate base are no longer projected but historical, even though based on estimates. At this point, the purpose of the proration formula has been accomplished and associated prevention of flow-through accounting has been avoided by its application during the future test period. To permit the effects of the proration formula on interim rates charged during the test year to be reversed in a subsequent phase of the ratemaking would be economically equivalent to not applying the proration formula in the first place.

In response to Requested Ruling 8, we conclude that the Proration Requirement does not apply only to the difference between (1) the ADFIT balance used to set the interim rates, and (2) the ADFIT balance used in the final rates to establish the Interim Rate Refund. The Proration Requirement continues to apply to the changes in ADFIT balances reflected in setting the interim rates.

Requested Rulings 9 & 10

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former § 167(l)(3)(G) in a manner consistent with that found in § 168(i)(9)(A). Section 1.167(1)-1(a)(1) provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under § 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for

purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 168(f)(2) provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, § 168(i)(9)(A) requires that a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under § 168(i)(9)(A)(ii), if the amount allowable as a deduction under § 168 differs from the amount that-would be allowable as a deduction under § 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) provides that one way the requirements of § 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under § 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under § 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

In order to satisfy the requirements of § 168(i)(9)(B), there must be consistency in the treatment of costs for rate base, regulated depreciation expense, tax expense, and deferred tax revenue purposes. In this case, ADFIT was averaged using a 13-month average while other components of rate base were averaged using a simple beginning and ending balance average. But are all calculated in consistent fashion - all are averaged over the same period. While there are minor differences in the convention used to average all elements of rate base including depreciation expense on the one hand, and ADFIT on the other, for purposes of § 168(i)(9)(B), it is sufficient that both are determined by averaging and both are determined over the same period of time. Thus, the calculation of average rate base and ADFIT as described above complies with the consistency requirement of § 168(i)(9)(B).

Accordingly, in response to Requested Ruling 9, we conclude that the Consistency Rule does not require that the LDC apply to its prorated ADFIT balance the precise

regulatory averaging procedure it applies to its other components of rate base in the relevant computation.

Similarly, in response to Requested Ruling 10, we conclude that the Taxpayer's use of a simple average for certain components of rate base in conjunction with its use of a 13-month average for ADFIT is not violative of the Consistency Rule of § 168(i)(9)(B).

Requested Ruling 11

Section 168(f)(2) provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting. However, in the legislative history to the enactment of the normalization requirements of the Investment Tax Credit (ITC), Congress has stated that it hopes that sanctions will not have to be imposed and that disallowance of the tax benefit (there, the ITC) should be imposed only after a regulatory body has required or insisted upon such treatment by a utility. See Senate Report No. 92-437, 92nd Cong., 1st Sess. 40-41 (1971), 1972-2 C.B. 559, 581.

Because the Service has ruled affirmatively with respect to Requested Ruling 1, prospectively adhering to the Service's interpretation of § 1.167(l)- 1(h)(6)(ii) may require adjustments to conform to this ruling. Any rates that have been calculated using procedures inconsistent with this ruling ("nonconforming rates") which are or which have been in effect and which, under applicable state or federal regulatory law, can be adjusted or corrected to conform to the requirements of this ruling, must be so adjusted or corrected. Where nonconforming rates cannot be adjusted or corrected to conform to the requirements of this ruling due to the operation of state or federal regulatory law, then such correction must be made in the next regulatory filing or proceeding in which Taxpayer's rates are considered.

Taxpayer's failure to comply with the Normalization Rules in its general rate case was inadvertent. It was not an inconsistency with the Normalization Rules that Taxpayer, any participant in any of the proceedings, or the regulator in any of the proceedings recognized. No potential proration-related normalization issue was ever identified. Thus, there was clearly no required treatment that was inconsistent with the Normalization Rules. Therefore, there was no determination made with respect to Taxpayer's calculation of its ADFIT balance by the Commission. Because the Commission, as well as Taxpayer, at all times sought to comply, and because the LDC will take corrective actions at the earliest available opportunity, it is not appropriate to conclude that the failure to use the Proration Formula constituted a normalization violation and apply the sanction of denial of accelerated depreciation to Taxpayer.

Accordingly, in response to Requested Ruling 11, we conclude that in any year prior to the LDC taking the necessary corrective action Taxpayer's relevant regulatory practices were not a violation of the Normalization Rules.

Conclusions

1) In order to comply with the Normalization Rules, the LDC must employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i) to determine the maximum amount of ADFIT by which the LDC can reduce rate base in establishing the interim rates.

2) For purposes of the Normalization Rules, the effective date of the differential between the interim rates and the final rates established for the Interim Rate Refund process calculated at the end of the rate proceeding is the effective date for the final rates established by the final order.

3) The Interim Rate Refund process uses an historical test period and therefore, is not required to employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i).

4) As a result of our conclusion for Requested Ruling 2 the issue is moot.

5) For purposes of the Normalization Rules, the effective date of the final rates established by the final order and implemented subsequent to the rate case proceeding is the effective date for the final rates established by the final order.

6) The computation of the final rates uses an historical test period and, therefore, is not required to employ the Proration Methodology described in Treas. Reg. § 1.167(l)-1(h)(6)(i).

7) As a result of our conclusion for Requested Ruling 5 the issue is moot.

8) The Proration Requirement does not apply only to the difference between (1) the ADFIT balance used to set the interim rates, and (2) the ADFIT balance used in the final rates to establish the Interim Rate Refund. The Proration Requirement continues to be reflected in the changes in ADFIT balances reflected in setting the interim rates.

9) The Consistency Rule does not require that the LDC apply to its prorated ADFIT balance the regulatory averaging procedure it applies to its other components of rate base in the relevant computation.

10) The Taxpayer's use of a simple average for certain components of rate base in conjunction with its use of a 13-month average for ADFIT is not violative of the Consistency Rule of § 168(i)(9)(B).

11) In any year prior to Taxpayer taking the necessary corrective action Taxpayer's

relevant regulatory practices were not a violation of the Normalization Rules.

These rulings are based on the representations submitted by Taxpayer and are only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Patrick S. Kirwan
Chief, Branch 6
Office of Chief Counsel
(Passthroughs & Special Industries)

cc:

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201739001**
Release Date: 9/29/2017

Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:B06
PLR-100199-17

Date:
June 20, 2017

In Re:

Legend:

Parent =

Taxpayer =

State A =
State B =
State C =
Commission A =
Commission B =
Department =

OAG =

Office =
Year 1 =
Year 2 =
Director =

Date 1 =
Date 2 =
Date 3 =
Date 4 =
Date 5 =
Date 6 =
Date 7 =
Date 8 =
Date 9 =

Date 10 =
Date 11 =
Month 1 =
Month 2 =
Month 3 =
Month 4 =

Dear :

This letter responds to the request, filed December 28, 2016, submitted on behalf of Taxpayer for a ruling on the application of the depreciation normalization rules of § 168(i)(9) of the Internal Revenue Code ("Code") and § 1.167(l)-1 of the Federal Income Tax Regulations ("Regulations") (together, the "Normalization Rules") with respect to the computation of accumulated deferred federal income taxes ("ADFIT") in its calculation of rate base in a rate proceeding.

The representations set out in your letter follow.

Parent is the common parent of a group of affiliated corporations that includes Taxpayer and files a consolidated federal income tax return on a calendar year basis employing the accrual method of accounting. Parent and Taxpayer are incorporated in State A. Parent is currently under the audit jurisdiction of the Large Business and International Division of the Internal Revenue Service.

Taxpayer is a rate-regulated electric utility involved in the production, transmission, distribution and sale of electric energy in State A, State B, and State C. Taxpayer is subject to regulation of rates and other matters in each of the three states in which it operates and by the Commission A for certain operations. Taxpayer is subject to the jurisdiction of Commission B with respect to certain matters. Taxpayer's most recently-completed Commission B general rate case resulted in an order issued on Date 1, and effective Date 2, granting an increase in rates.

On Date 3, Taxpayer filed a request with Commission B for an increase in revenue recoverable under general base rates in State A. At Taxpayer's option, this general rate case was based on a forecasted Year 1 test year. Rates will not be final until Year 2, after the close of the forecasted Year 1 test year. Until final rates are implemented, Taxpayer is allowed to charge interim rates. In its filing, Taxpayer also requested an interim rate increase in general base rates. An order of Commission B on Date 4 approved interim rates, which became effective on Date 5. These interim rates are subject to refund at the end of the rate case in Year 2, if final rates determined by Commission B are less than interim rates.

Through this pending rate case proceeding, Taxpayer is also proposing to recover, in base rates, revenue currently subject to recovery under riders. Decisions on recovery of costs in these riders will not be made until Year 2, when the costs proposed to be recovered will be historical.

Taxpayer's request for an interim rate increase was based on the anticipated suspension by Commission B of the effective date of Taxpayer's request for an increase in revenue recoverable under general base rates in State A. Under State A law, interim rates are issued before a full review of costs is completed and are based primarily on the utility's proposed final rates. Under State A law, interim rates are subject to refund or credit to customers, plus interest (the "Interim Rate Refund"). An Interim Rate Refund results if, at the end of the contested case, amounts collected under the interim rate schedule exceed final rates and, if applicable, is typically a one-time refund/credit based on the amount of excess of interim rates over final rates and the time period from the implementation of interim rates until final rates become effective. Taxpayer's final rates are suspended until Date 6, with Commission B's final rate order (subject to reconsideration and other post order procedures) expected on or before Date 6.

On Date 4, Commission B issued an order suspending the effective date of Taxpayer's requested rate increase until Date 7, and referred the matter to the Office to receive testimony, conduct a contested case process, including potential evidentiary hearing, and issue a recommendation to Commission B. Commission B determines final rates, and they can accept, reject, or modify the recommendation from Office.

On Date 4, Commission B also issued an order approving an interim rate increase to the base rates, as modified and subject to the Interim Rate Refund. The interim increase, subject to the Interim Rate Refund, became effective Date 5, and is expected to remain in effect until Commission B makes a final determination on Taxpayer's overall request and final rates become effective. Taxpayer filed a letter on Date 8, agreeing to extend the effective date of Taxpayer's requested rate increase until Date 6.

Taxpayer computed interim rates by applying the proration methodology that is required for future test periods to its ADFIT and proposed that final rates reflect ADFIT proration. Taxpayer also asserted that, whether or not application of the proration formula to final rates is required under the normalization rules, the incremental effect of the revenue requirement on interim rates charged during the test period should not cause or increase the Interim Rate Refund.

In its Order dated Date 4, Commission B set interim rates with ADFIT proration. No party filed an objection to the interim rates set by Commission B. Interim rates are charged from Date 5 through the date in Year 2 when final rates will be implemented.

The Department proposed that ADFIT proration not be reflected in final rates. The Department stated that, because final rates in this proceeding will not go into effect until Year 2, after the forecasted test year, final rates would be based on a then-historical Year 1 test year. Specifically, the Department did not oppose the use of ADFIT proration in setting the interim rates, but proposed that: (1) the level of the Interim Rate Refund for Date 5 through Date 9, be determined without reflecting any ADFIT proration for that period; (2) the level of the Interim Rate Refund for Date 10 until implementation of final rates by Taxpayer by determined without reflecting any ADFIT proration for that period; and (3) federal income tax expense used to set final rates reflect the level of federal income taxes reflected in ADFIT with no proration. Alternatively, the Department recommended that future rate cases rely solely on historical test years.

An evidentiary hearing was conducted by the Office. The report and recommendation of the Office to Commission B is expected on Date 11. Oral arguments before Commission B are expected to occur in Month 1 Year 2, and Commission B's "final" rate order (subject to reconsideration and other post order procedures) is expected on or before Date 6. Final rates are expected to become effective in Month 2 Year 2 and the potential Interim Rate Refund is expected to be paid or credited in Month 3 Year 2.

Taxpayer's revenue requirement for the Year 1 general rate case utilized calendar year, Year 1, as the test year. Amounts estimated for the Year 1 test year include, but are not limited to operating costs (including depreciation expense on Year 1 additions and income tax expense) and rate base items (including plant additions during Year 1, accumulated depreciation reflecting Year 1 depreciation and ADFIT). The Year 1 test year is the basis for both the interim rates (effective beginning on Date 5 and expected to remain in effect until Month 2 Year 2) as well as the final rates (expected to become effective in Month 2 Year 2).

The amounts estimated for the Year 1 test year (including but not limited to operating revenues, costs, plant additions, ADFIT, and other factors affecting the computation of the revenue requirement) are not generally "trued-up" to actual amounts after the end of Year 1 for the determination of final rates. Final rates reflect the resolution of contested items such as the allowed return, recovery of specific categories of operating expenses or the amount of certain operating expenses and inclusion of specific investments and certain costs in rate base. In the case of the Year 1 general rate case, the final rates will also consolidate into base rates the costs and investments historically recovered as part of the riders.

The following rulings are requested on behalf of Taxpayer:

1) The computation of ADFIT for purposes of final rates (apart from consideration of an Interim Rate Refund) charged beginning in Month 2 Year 2 without applying the

proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6) would not violate the normalization requirements of § 168(i)(9).

2) The computation of ADFIT for purposes of interim rates charged beginning on Date 5, without applying the proration formula rules for part-historical and part-future periods under § 1.167(l)-1(h)(6) would violate the normalization requirements of § 168(i)(9).

3) The future portion of a part-historical and part-future period for purposes of interim rates charged beginning on Date 5, began on Date 5 for purposes of determining the total number of days in the future portion of the period under § 1.167(l)-1(h)(6).

4) The computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) on interim rates charged in Year 2 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would not violate the normalization requirements of § 168(i)(9).

5) The computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) on interim rates charged in Year 1 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would violate the normalization requirements of § 168(i)(9).

6) Any reduction in tax expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting some or all of the level of revenues resulting from prorated ADFIT that may be required (under the proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6)), would violate the normalization requirements of § 168(i)(9).

7) Any reduction in the depreciation expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting some or all of the level of revenues resulting from prorated ADFIT that may be required (under the proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6)), would violate the normalization requirements of § 168(i)(9).

Law and Analysis

Issues 1, 2, and 3

Section 1.167(l)-1(h)(6) of the Regulations sets forth normalization requirements with respect to public utility property. Under § 1.167(l)-1(h)(6)(i), a taxpayer does not use a normalization method of accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes excluded from the rate base, or treated as cost-free capital, exceeds the amount of the reserve for the period used in determining the taxpayer's ratemaking tax expense. Section 1.167(l)-1(h)(6)(ii) also provides the procedure for

determining the amount of the reserve for deferred taxes to be excluded from rate base or to be included as no-cost capital.

Section 1.167(l)-1(h)(6)(ii) of the Regulations provides that for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under § 1.167(l)-1(h)(6)(i), if solely an historical period is used to determine depreciation for federal income tax expense for ratemaking purposes, then the amount of the reserve account for the period is the amount of the reserve (determined under § 1.167(l)-1(h)(2)) at the end of the historical period. Section 1.167(l)-1(h)(6)(ii) provides that if solely a future period is used for such determination, the amount of the reserve account for the period is the amount of the reserve at the beginning of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during such period.

Section 1.167(l)-1(h)(6)(ii) of the Regulations provides if, in determining depreciation for ratemaking tax expense, a period (the "test period") is used which is part historical and part future, then the amount of the reserve account for this period is the amount of the reserve at the end of the historical portion of the period and a pro rata amount of any projected increase to be credited to the account during the future portion of the period. The pro rata amount of any increase during the future portion of the period is determined by multiplying the increase by a fraction, the numerator of which is the number of days remaining in the period at the time the increase is to accrue, and the denominator of which is the total number of days in the future portion of the period.

Section 1.167(l)-1(h)(6)(i) of the Regulations makes it clear that the reserve excluded from rate base must be determined by reference to the same period as is used in determining ratemaking tax expense. A taxpayer may use either historical data or projected data in calculating these two amounts, but it must be consistent. As explained in § 1.167(l)-1(a)(1), the rules provided in § 1.167(l)-1(h)(6)(i) are to insure that the same time period is used to determine the deferred tax reserve amount resulting from the use of an accelerated method of depreciation for cost of service purposes and the reserve amount that may be excluded from the rate base or included in no-cost capital in determining such cost of services.

If a taxpayer chooses to compute its ratemaking tax expense and rate base exclusion amount using projected data then it must use the formula provided in § 1.167(l)-1(h)(6)(ii) of the Regulations to calculate the amount of deferred taxes subject to exclusion from the rate base. This formula prorates the projected accruals to the reserve so as to account for the actual time these amounts are expected to be in the reserve. As explained in § 1.167(l)-1(a)(1), the formula in § 1.167(l)-1(h)(6)(ii) provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or

treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer.

The purpose of the proration formula is the same as that of the requirement for consistent periods discussed above: to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.

The effectiveness of § 1.167(l)-1(h)(6)(ii) of the Regulations in resolving the timing issue has been limited by its failure to define some key terms. Nowhere does this provision state what is meant by the terms “historical” and “future” in relation to the test period for determining depreciation for ratemaking tax expense. How are these time periods to be measured? One interpretation focuses on the type or quality of the data used in the ratemaking process. According to this interpretation, the historical period is that portion of the test period for which actual data is used, while the portion of the period for which data is estimated is the future period. The second interpretation focuses on when the utility rates become effective. Under this interpretation, the historical period is that portion of the test period before rates go into effect, while the portion of the test period after the effective date of the rate order is the future period.

The first interpretation, which focuses on the quality of the ratemaking data, is an attractive one. It proposes a simple rule, easy to follow and to enforce: any portion of the reserve for deferred taxes based on estimated data must be prorated in determining the amount to be deducted from rate base. The actual passage of time between the date ratemaking data is submitted and the date rates become effective is of no importance. But this interpretation of the regulations achieves simplicity at the expense of precision; in other words, it is overbroad. The proration of all estimated deferred tax data does serve to magnify the benefits of accelerated depreciation to the utility, but this is not the purpose of normalization. Congress was explicit: normalization “in no way diminishes whatever power the [utility regulatory] agency may have to require that the deferred taxes reserve be excluded from the base upon which the utility’s permitted rate of return is calculated.” H.R. Rep. No. 413, 91st Cong., 1st Sess. 133 (1969).

In contrast, the second interpretation of § 1.167(l)-1(h)(6)(ii) of the Regulations is consistent with the purpose of normalization, which is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. The availability of this capital is ensured by prohibiting flow-through. But whether or not flow-through can even be accomplished by means of rate base exclusions depends primarily on whether, at the time rates become effective, the amounts originally projected to accrue to the deferred tax reserve have actually accrued.

If rates go into effect before the end of the test period, and the rate base reduction is not prorated, the utility commission is denying a current return for accelerated depreciation benefits the utility is only projected to have. This procedure is a form of flow-through, for current rates are reduced to reflect the capital cost savings of accelerated depreciation deductions not yet claimed or accrued by the utility. Yet projected data is often necessary in determining rates, since historical data by itself is rarely an accurate indication of future utility operating results. Thus, the regulations provide that as long as the portion of the deferred tax reserve based on truly projected (future estimated) data is prorated according to the formula in § 1.167(l)-1(h)(6)(ii) of the Regulations, a regulator may deduct this reserve from rate base in determining a utility's allowable return. In other words, a utility regulator using projected data in computing ratemaking tax expense and rate base exclusion must account for the passage of time if it is to avoid flow-through.

But if rates go into effect after the end of the test period, the opportunity to flow through the benefits of future accelerated depreciation to current ratepayers is gone, and so too is the need to apply the proration formula. In this situation, the only question that is important for the purpose of rate base exclusion is the amount in the deferred tax reserve, whether actual or estimated. Once the future period, the period over which accruals to the reserve were projected, is no longer future, the question of when the amounts in the reserve accrued is no longer relevant (at the time the new rate order takes effect, the projected increases have accrued, and the amounts to be excluded from rate base are no longer projected but historical, even though based on estimates).

Taxpayer's computation of ADFIT for purposes of final rates occurs after the end of the test period on which those amounts are based. The calculation is determined by reference to a purely historical period. Thus, the test period is one that occurs prior to the effective date of the rates which result from the computation. Accordingly, the computation of ADFIT for purposes of final rates employs an historical test period and is not subject to the proration formula rules under § 1.167-1(h)(6) of the Regulations; there is no need to follow the proration formula rules designed for future test periods or part-historical and part-future periods to calculate the differences between Taxpayer's projected ADFIT balance and the actual ADFIT balance during the period.

In contrast, Taxpayer calculates its ADFIT for purposes of interim rates charged beginning on Date 5. The rate is based on costs Taxpayer projects it will incur during the test year, Year 1. Rates go into effect as of Date 5. Therefore, rates go into effect before the end of the test period. Accordingly, the test period for Taxpayer's interim rates is a future test period, subject to the proration formula rules under § 1.167-1(h)(6) of the Regulations, and Taxpayer is required to apply the proration formula rules for part-historical and part-future periods to calculate the differences between Taxpayer's projected ADFIT balance and the actual ADFIT balance during that period.

The revenue requirement for the interim rates, subject to refund, became effective Date 5, pursuant to a Commission B order issued on Date 4. The interim rates were based on a calendar year, Year 1, test year, but excluded costs and return associated with public utility property recovered through riders. Rate base for the Year 1 test year was computed as an average rate base. The average ADFIT amount was based on a simple average based on the estimate of ADFIT as of the beginning of the Year 1 test year and the estimate of ADFIT as of the end of the Year 1 test year, as prorated. The future portion of a part-historical and part-future period for purposes of interim rates charged began on Date 5, for purposes of determining the total number of days in the future portion of the period under § 1.167(l)-1(h)(6) of the Regulations.

Issues 4 and 5

The interim rates set by the order of Commission B dated Date 5, are charged during the pendency of the rate case until final rates are implemented (expected to be in Month 2 Year 2). A separate set of interim rates are not determined for Year 2. Once final rates are determined, the Interim Rate Refund is calculated, based on the difference between final rates and interim rates for the period during which interim rates have been collected.

The determination of the Interim Rate Refund includes the question of how to calculate the Interim Rate Refund for interim rates collected in Year 2 (that is, after the test year is completed.) Issue # 4 focuses on the calculation of the Interim Rate Refund based on the difference between final rates and the interim rates that are charged starting in Month 4 Year 2 and collected until final rates are implemented.

Similarly, the determination of the Interim Rate Refund includes the question of how to calculate the Interim Rate Refund for interim rates collected in Year 1. Issue # 5 focuses on the calculation of the Interim Rate Refund based on the difference between final rates and the interim rates that were charged during the Year 1 test year.

Once the future portion of the part-historical and part-future test year is no longer future (for example, for rates charged after the end of the test year), the question of when the amounts in the reserve for deferred taxes accrued is no longer relevant. Specifically, while interim rates are charged in Year 2, the projected Year 1 ADFIT increases have accrued, and the amounts to be excluded from rate base are no longer projected but historical, even though based on estimates. Thus, the purpose of the proration formula has been accomplished and associated prevention of flowthrough accounting has been avoided as of the beginning of Year 2 (that is, after the end of the Year 1 test year).

Commission B will use the Interim Rate Refund to adjust Taxpayer's interim rates charged after the end of the test year. Commission B is not adjusting interim rates but is instead using the approach to reflect the Year 2 incremental effects of the proration

formula on the revenue requirement on which interim rates are based in the Interim Rate Refund. Accordingly, the computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) of the Regulations on interim rates charged in Year 2 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would not violate the normalization requirements of § 168(i)(9) of the Code.

The issue of whether it is appropriate to permit the Interim Rate Refund to reverse the effects of the proration formula on interim rates charged *during* the Year 1 test year differs from the issue of the proration formula to interim rates charged *after* the Year 1 test year. The purpose of the proration formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account. To permit the effects of the proration formula on interim rates charged during the Year 1 test year to be reversed in a subsequent phase of the ratemaking would be economically equivalent to not applying the proration formula in the first place.

Accordingly, the computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) of the Regulations on interim rates charged in Year 1 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would violate the normalization requirements of § 168(i)(9) of the Code.

Issues 6 and 7

Regarding issues six and seven, reduction of Taxpayer's tax expense or depreciation expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting some or all of the level of revenues resulting from prorated ADFIT that may be required would, in effect, flow through the tax benefits of accelerated depreciation deductions to rate payers. This is so even if the intent of such reduction is not specifically to mitigate the effects of the normalization rules. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules. See generally, § 1.46-6(b)(2)(ii) (In determining whether, or to what extent, the investment tax credit has been used to reduce cost of service, reference shall be made to any accounting treatment that affects cost of service); Rev. Proc. 88-12, 1988-1 C.B. 637, 638 (It is a violation of the normalization rules for taxpayers to adopt any accounting treatment that, directly or indirectly flows excess tax reserves to ratepayers prior to the time that the amounts in the vintage accounts reverse).

Accordingly, any reduction in tax expense or depreciation expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting

some or all of the level of revenues resulting from prorated ADFIT in setting interim rates that may be required (under the proration formula rules for future test periods or part-historical and part-future test periods under § 1.167(l)-1(h)(6) of the Regulations), would violate the normalization requirements of § 168(i)(9) of the Code.

Therefore, we rule as follows:

1) The computation of ADFIT for purposes of final rates (apart from consideration of an Interim Rate Refund) charged beginning in Month 2 Year 2 without applying the proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6) would not violate the normalization requirements of § 168(i)(9).

2) The computation of ADFIT for purposes of interim rates charged beginning on Date 5, without applying the proration formula rules for part-historical and part-future periods under § 1.167(l)-1(h)(6) would violate the normalization requirements of § 168(i)(9).

3) The future portion of a part-historical and part-future period for purposes of interim rates charged beginning on Date 5, began on Date 5 for purposes of determining the total number of days in the future portion of the period under § 1.167(l)-1(h)(6).

4) The computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) on interim rates charged in Year 2 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would not violate the normalization requirements of § 168(i)(9).

5) The computation of an Interim Rate Refund in Year 2 such that the effects of the proration formula rules under § 1.167(l)-1(h)(6) on interim rates charged in Year 1 are returned in Year 2 (by causing or increasing an Interim Rate Refund) would violate the normalization requirements of § 168(i)(9).

6) Any reduction in tax expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting some or all of the level of revenues resulting from prorated ADFIT that may be required (under the proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6)), would violate the normalization requirements of § 168(i)(9).

7) Any reduction in the depreciation expense recoverable in final rates or the computation of any Interim Rate Refund that has the effect of offsetting some or all of the level of revenues resulting from prorated ADFIT that may be required (under the proration formula rules for future test periods or part-historical and part-future periods under § 1.167(l)-1(h)(6)), would violate the normalization requirements of § 168(i)(9).

These rulings are based on the representations submitted by Taxpayer and are only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above. This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. W e are also sending a copy of this letter ruling to the Director.

Sincerely,

Patrick S. Kirwan
Chief, Branch 6
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

cc:

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201741004**
Release Date: 10/13/2017

Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
----------, ID No. ----------

Telephone Number:

Refer Reply To:
CC:PSI:B06
PLR-104760-17

Date:
July 17, 2017

LEGEND:

Taxpayer	=	----------
Parent	=	----------
State	=	----------
Commission A	=	----------
Commission B	=	----------
Operator	=	----------
Date 1	=	----------
Date 2	=	----------
Form	=	----------
Rider A	=	----------
Rider B	=	----------
Rider C	=	----------
Year 1	=	-------
Year 2	=	-------
Director	=	----------

Dear ----------:

This letter responds to Parent's request, made on behalf of Taxpayer, dated February 1, 2017, for a ruling on the application of the normalization rules of the Internal Revenue Code (Code) to certain accounting and regulatory procedures, as described below.

The representations set out in your letter follow.

Taxpayer, a wholly-owned subsidiary of Parent, is an investor-owned regulated utility incorporated in State. Taxpayer is a member of Parent's consolidated group that files a consolidated federal income tax return on a calendar year basis using an accrual

method of accounting.

Taxpayer is engaged in the purchase, transmission, distribution, and sale of electric energy in State. It is subject to regulation by Commission A and Commission B, with respect to terms and conditions of services, including the rates it may charge for its services. Both Commissions establish Taxpayer's rates based on its costs, including a provision for a return on the capital employed by Taxpayer in its regulated business.

Taxpayer's electric transmission lines located in State are integrated into Operator, a regional transmission operator. As a transmission-owning member of Operator, Taxpayer is able to include in Operator's tariff a rate that allows it to recover the costs it incurs with respect to the transmission facilities it makes available to Operator. The rate-setting mechanism used by Taxpayer is a formula rate approved by Commission B. The formula rate is established in two parts: a basic rate and a true-up.

By Date 1 of each year, Taxpayer files with Commission B to update its formula rate. The new rate takes effect the following Date 2 and remains in effect for one year. The data used in calculating the basic rate portion of the updated rate is, for the most part, taken from the historical test year which ended on the last day of the immediately preceding calendar year (as reflected in Taxpayer's Form for that period). All elements of rate base, including plant in service, accumulated depreciation and accumulated deferred federal income taxes (ADFIT) use, at least initially, "end of historical calendar test year" balances. Depreciation expense (and all other operation and maintenance expenses) reflected in the calculation are also historical calendar test year expense amounts.

One element of the calculation is then modified. A projection is made of plant additions that will be placed in service during the calendar year in which the rates are being set. The cost of these additions is weighted to reflect the number of months each addition will be in service during the calendar year. This weighted amount is added to rate base. Thus, this component of the rate provides a return on the equity reflected in the projected plant additions being included in rate base. No modification is made to the balances of the depreciation expense or deferred taxes due to these projected plant additions. The basic rate is a revenue requirement calculated based on the historical calendar year test period data so modified.

The true-up component of Taxpayer's formula rate is calculated by comparing a revenue requirement computed based on Taxpayer's most recent Form to the revenue requirement originally calculated for the prior test period. Any difference, both over- or under-recoveries (plus interest), is incorporated into the formula rate as the true-up component of that rate. Among other things, this component corrects any over- or under-recovery of equity return arising from the prior year's projection of plant additions, based on actual plant additions during the year.

Taxpayer has claimed (and continues to claim) accelerated depreciation on all of its public utility property to the full extent those deductions are available under the Code. Taxpayer normalizes the federal income taxes deferred as a result of its claiming these deductions in accordance with the Normalization Rules. As a consequence, Taxpayer has a substantial balance of ADFIT that is attributable to the accelerated depreciation reflected on its regulated books of account. In its formula rate template, Taxpayer reflects its ADFIT balance (as appropriately allocated to the jurisdiction) as a reduction in its computation of rate base.

In calculating both its basic rate and its true-up, the ADFIT balance by which Taxpayer reduces rate base is the end of period balance (i.e. the ending balance as reflected in Taxpayer's Form for the calendar year immediately preceding the year in which rates are being updated). Because ADFIT is not projected in either component, Taxpayer neither averages nor applies the proration methodology to the ADFIT balance in either calculation.

Taxpayer also has three State riders: Rider A, Rider B, and Rider C. For each of the riders, Taxpayer files to update the rider for the subsequent calendar year ("Annual Filing") for each of the years for which the rider is authorized. Each rider consists of two components: the projected rate and the true-up.

The projected rate employs a revenue requirement calculation based on Taxpayer's projection of the qualified rider plan costs to be incurred during the year for which rates are being set. Earnings are calculated upon a simple average of the beginning of the period and end of the period net plant.

The true-up is calculated by computing a revenue requirement for the last three months of the prior calendar year and the first nine months of the current calendar year based on actual results for those periods and comparing that amount to the actual revenues collected through the rider during that same twelve-month period. Any imbalance is charged or credited to the subsequent year's rider charge along with interest on the amount.

Changes in ADFIT balances are not prorated in the calculation of either component. Rather, they are calculated using a simple average of the beginning and the end of the period ADFIT.

Taxpayer requests that we rule as follows:

1. Taxpayer's projection of plant additions for inclusion in rate base in conjunction with the use of historical ADFIT and depreciation expense in computing its basic rate is not a violation of the Consistency Rule;

2. If the Service rules adversely with respect to Requested Ruling 1, provided that

Taxpayer takes the necessary corrective action at the next Form filing following the effective date of any related tariff changes approved by Commission B, any failure by Taxpayer to comply with the Consistency Rule in connection with its formula rate at any time prior to the Taxpayer taking the necessary corrective action was not a violation of the Normalization Rules;

3. If the Service rules adversely with respect to Requested Ruling 1, incorporating projected ADFIT (on a prorated basis), depreciation expense, and tax expense relating to the projected additions included in the formula rate calculation going forward will satisfy the Consistency Rule;

4. Taxpayer's Rider A, Rider B, and Rider C projected rates employ a future test period and, therefore, are subject to the Proration Requirement;

5. If the Service rules affirmatively with respect to Requested Ruling 4, provided that Taxpayer takes the necessary corrective action at the next Annual Filing, any failure by Taxpayer to comply with the Proration Requirement in connection with its Rider A, Rider B, and Rider C projected rates at any time prior to the Taxpayer taking the necessary corrective action was not a violation of the Normalization Rules; and

6. Taxpayer's Rider A, Rider B, and Rider C true-ups employ an historical test period and, therefore, are not subject to the Proration Requirement.

Law and Analysis

Requested Rulings 1, 2 and 3

Former § 167(l) generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a "normalization method of accounting." A normalization method of accounting was defined in former § 167(l)(3)(G) in a manner consistent with that found in § 168(i)(9)(A). Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under § 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 168(f)(2) provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, § 168(i)(9)(A) requires that a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under § 168(i)(9)(A)(ii), if the amount allowable as a deduction under § 168 differs from the amount that would be allowable as a deduction under § 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) provides that one way the requirements of § 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under § 168(i)(9)(B)(ii), such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under § 168(i)(9)(A)(ii), unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

In order to satisfy the requirements of § 168(i)(9)(B), there must be consistency in the treatment of costs for rate base, regulated depreciation expense, tax expense, and deferred tax revenue purposes. In this case, all elements of rate base, including plant in service, accumulated depreciation, and ADFIT use, at least initially, "end of historical calendar test year" balances. Depreciation expense (and all other operation and maintenance expenses) reflected in the calculation are also historical calendar year test year expense amounts.

Taxpayer uses a projection of plant additions that will be placed in service during the calendar year in which rates are being set to compute a weighted amount that is added to rate base. The addition of the projected plant additions to rate base provides a return on the equity reflected in these projected plant additions. No modification is made to depreciation expense or deferred taxes as a result of these expected additions to Taxpayer's equity. Taxpayer's tax expense, depreciation expense, and ADFIT are all calculated in a consistent fashion. Therefore, Taxpayer is not in violation of the Consistency Rule.

Because of the conclusion reached above, Taxpayer is also not in violation of the Normalization Rules. Accordingly, Taxpayer's Requested Issues 2 and 3 are moot and will not be considered further.

Requested Ruling 4

Section 1.167(l)-1(h)(6) sets forth additional normalization requirements with respect to

public utility property. Under § 1.167(l)-1(h)(6)(i), a taxpayer does not use a normalization method of accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes excluded from the rate base, or treated as cost-free capital, exceeds the amount of the reserve for the period used in determining the taxpayer's ratemaking tax expense. Section 1.167(l)-1(h)(6)(ii) also provides the procedure for determining the amount of the reserve for deferred taxes to be excluded from rate base or to be included as no-cost capital. If, in determining depreciation for ratemaking tax expense, a period (the "test period") is used which is part historical and part future, then the amount of the reserve account for this period is the amount of the reserve at the end of the historical portion of the period and a pro rata amount of any projected increase to be credited to the account during the future portion of the period. The pro rata amount of any increase during the future portion of the period is determined by multiplying the increase by a fraction, the numerator of which is the number of days remaining in the period at the time the increase is to accrue, and the denominator of which is the total number of days in the future portion of the period.

Section 1.167(l)-1(h)(6)(i) makes it clear that the reserve excluded from rate base must be determined by reference to the same period as is used in determining ratemaking tax expense. A taxpayer may use either historical data or projected data in calculating these two amounts, but it must be consistent. As explained in § 1.167(l)-1(a)(1), the rules provided in § 1.167(l)-1(h)(6)(i) are to insure that the same time period is used to determine the deferred tax reserve amount resulting from the use of an accelerated method of depreciation for cost of service purposes and the reserve amount that may be excluded from the rate base or included in no-cost capital in determining such cost of services.

If a taxpayer chooses to compute its ratemaking tax expense and rate base exclusion amount using projected data then it must use the formula provided in § 1.167(l)-1(h)(6)(ii) to calculate the amount of deferred taxes subject to exclusion from the rate base. This formula prorates the projected accruals to the reserve so as to account for the actual time these amounts are expected to be in the reserve. As explained in § 1.167(l)-1(a)(1), the formula in § 1.167(l)-1(h)(6)(ii) provides a method to determine the period of time during which the taxpayer will be treated as having received amounts credited or charged to the reserve account so that the disallowance of earnings with respect to such amounts through rate base exclusion or treatment as no-cost capital will take into account the factor of time for which such amounts are held by the taxpayer.

The purpose of the proration formula is to prevent the immediate flow-through of the benefits of accelerated depreciation to ratepayers. The proration formula stops flow-through by limiting the deferred tax reserve accruals that may be excluded from rate base, and thus the earnings on rate base that may be disallowed, according to the length of time these accruals are actually in the reserve account.

The effectiveness of § 1.167(l)-1(h)(6)(ii) in resolving the timing issue has been

questioned by its failure to define some key terms. Nowhere does this provision state what is meant by the terms “historical” and “future” in relation to the period for determining depreciation for ratemaking tax expense (the “test period”). One interpretation focuses on the type or quality of the data used in the ratemaking process. According to this interpretation, the historical period is that portion of the test period for which actual data is used, while the portion of the period for which data is estimated is the future period. The second interpretation focuses on when the utility rates become effective. Under this interpretation, the historical period is that portion of the test period before rates go into effect, while the portion of the test period after the effective date of the rate order is the future period.

The first interpretation, which focuses on the quality of the ratemaking data, is an attractive one. It proposes a simple rule, easy to follow and to enforce: any portion of the reserve for deferred taxes based on estimated data must be prorated in determining the amount to be deducted from rate base. The actual passage of time between the date ratemaking data is submitted and the date rates become effective is of no importance. But this interpretation of the regulations achieves simplicity at the expense of precision; in other words, it is overbroad. The proration of all estimated deferred tax data does serve to magnify the benefits of accelerated depreciation to the utility, but this is not the purpose of normalization. Congress was explicit: normalization “in no way diminishes whatever power the [utility regulatory] agency may have to require that the deferred taxes reserve be excluded from the base upon which the utility’s permitted rate of return is calculated.” H.R. Rep. No. 413, 91st Cong., 1st Sess. 133 (1969).

In contrast, the second interpretation of § 1.167(l)-1(h)(6)(ii) of the regulations is consistent with the purpose of normalization, which is to preserve for regulated utilities the benefits of accelerated depreciation as a source of cost-free capital. The availability of this capital is ensured by prohibiting flow-through. But whether or not flow-through can even be accomplished by means of rate base exclusions depends primarily on whether, at the time rates become effective, the amounts originally projected to accrue to the deferred tax reserve have actually accrued.

If rates go into effect before the end of the test period, and the rate base reduction is not prorated, the utility commission is denying a current return for accelerated depreciation benefits the utility is only projected to have. This procedure is a form of flow-through, for current rates are reduced to reflect the capital cost savings of accelerated depreciation deductions not yet claimed or accrued by the utility. Yet projected data is often necessary in determining rates, since historical data by itself is rarely an accurate indication of future utility operating results. Thus, the regulations provide that as long as the portion of the deferred tax reserve based on projected (future estimated) data is prorated according to the formula in § 1.167(l)-1(h)(6)(ii), a regulator may deduct this reserve from rate base in determining a utility’s allowable return. In other words, a utility regulator using projected data in computing ratemaking tax expense and rate base exclusion must account for the passage of time if it is to avoid flow-through.

However, if rates go into effect after the end of the test period, the opportunity to flow through the benefits of future accelerated depreciation to current ratepayers is gone, and so too is the need to apply the proration formula. In this situation, the only question that is important for the purpose of rate base exclusion is the amount in the deferred tax reserve, whether actual or estimated. Once the future period, the period over which accruals to the reserve were projected, is no longer future, the question of when the amounts in the reserve accrued is no longer relevant (at the time the new rate order takes effect, the projected increases have accrued, and the amounts to be excluded from rate base are no longer projected but historical, even though based on estimates).

In this case, for Rider A, Rider B, and Rider C, Taxpayer uses a projected rate to calculate Taxpayer's revenue requirement based on a projection of the qualified rider plan costs to be incurred during the year for which rates are being set. Therefore, because Taxpayer's Rider A, Rider B, and Rider C projected rates employ a future test period, they are subject to the Proration Requirement under § 1.167(l)-1(h)(6)(ii).

Requested Ruling 5

Section 168(f)(2) provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting. However, in the legislative history to the enactment of the normalization requirements of the Investment Tax Credit (ITC), Congress has stated that it hopes that sanctions will not have to be imposed and that disallowance of the tax benefit (there, the ITC) should be imposed only after a regulatory body has required or insisted upon such treatment by a utility. See Senate Report No. 92-437, 92nd Cong., 1st Sess. 40-41 (1971), 1972-2 C.B. 559, 581.

Because the Service has ruled affirmatively with respect to Requested Ruling 4 that Taxpayer was required to use the proration formula applicable to future test periods for the projected rate for Rider A, Rider B and Rider C, prospectively adhering to the Service's interpretation of § 1.167(l)- 1(h)(6)(ii) may require adjustments to conform to this ruling. Any rates that have been calculated using procedures inconsistent with this ruling ("nonconforming rates") which are or which have been in effect and which, under applicable state or federal regulatory law, can be adjusted or corrected to conform to the requirements of this ruling, must be so adjusted or corrected. Where nonconforming rates cannot be adjusted or corrected to conform to the requirements of this ruling due to the operation of state or federal regulatory law, then such correction must be made in the next regulatory filing or proceeding in which Taxpayer's rates are considered.

Specifically, Taxpayer has represented that it will submit rate filings to Commission A within six months of receipt of this ruling letter and that Taxpayer's Year 1 rate filings have or will conform the Rider A, Rider B, and Rider C projected rates to the Normalization Rules with rates becoming effective for calendar Year 2.

Requested Ruling 6

As discussed above, where a taxpayer computes its ratemaking tax expense and rate base exclusion amount using projected data then it must use the proration formula provided in § 1.167(l)-1(h)(6)(ii) to calculate the amount of deferred taxes subject to exclusion from the rate base.

In contrast to the projected rate component of Rider A, Rider B, and Rider C as discussed above, Taxpayer's Rider A, Rider B, and Rider C true-ups are determined by reference to a purely historical period. Accordingly, there is no need to use the proration formula to calculate the differences between Taxpayer's projected ADFIT balance and the actual ADFIT balance during the period. As a result, Taxpayer's Rider A, Rider B, and Rider C true-ups are not subject to the Proration Requirement.

Conclusions

1. Taxpayer's projection of plant additions for inclusion in rate base in conjunction with the use of historical ADFIT and depreciation expense in computing its basic rate is not a violation of the Consistency Rule.

2. This issue is moot as discussed above.

3. This issue is moot as discussed above.

4. Taxpayer's Rider A, Rider B, and Rider C projected rates employ a future test period and, therefore, are subject to the Proration Requirement;

5. Any failure by Taxpayer to comply with the Proration Requirement in connection with its Rider A, Rider B, and Rider C projected rates at any time prior to the Taxpayer taking the necessary corrective action does not constitute a violation of the Normalization Rules, provided that Taxpayer takes the necessary corrective action at the next Form filing; and

6. Taxpayer's Rider A, Rider B, and Rider C true-ups employ an historical test period and, therefore, are not subject to the Proration Requirement.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Patrick S. Kirwan
Chief, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

CC:

Comparison of Impacts of Various Book Addition Patterns

Line	Description	Reference	Book Additions-Per Adjusted Filing 2019	Book Additions-Per Adjusted Filing 2020	Book Additions-1st Six Months 2019	Book Additions-1st Six Months 2020	Book Additions-Middle Months 2019	Book Additions-Middle Months 2020	Book Additions-Last Six Months 2019	Book Additions-Last Six Months 2020
1	Expense	O&M Expense	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
2	Expense	Depreciation Expense	133,090	351,489	188,324	430,444	155,489	388,181	96,045	339,410
3	Rate Base	13-Month Average Net Plant Value	5,265,080	16,005,916	7,385,856	19,754,564	6,136,325	17,750,803	3,771,449	15,452,833
4	Accumulated Deferred Income Tax Proration Adjustment		3,494	10,370	2,174	7,920	2,867	9,066	4,408	10,745
5	Adjusted Rate Base	13-Month Average Net Plant Value	5,268,574	16,016,286	7,388,030	19,762,484	6,139,191	17,759,869	3,775,857	15,463,578
6	Rate of Return	Commission Authorized 2018 Rate Case	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%
7	Earnings on Rate Base	Line 5 x Line 6	352,842	1,072,627	494,784	1,323,513	411,148	1,189,396	252,873	1,035,611
8	Gross Revenue Conversion Factor	2018 Rate Case Adjusted for Tax Reform	1.402	1.402	1.402	1.402	1.402	1.402	1.402	1.402
9	Return on Rate Base	Line 7 x Line 8	494,684	1,503,823	693,687	1,855,566	576,429	1,667,533	354,528	1,451,927
10										
11	**Total Revenue Requirement**	**Line 1 + Line 2 + Line 9**	**3,627,774**	**4,855,312**	**3,882,011**	**5,286,010**	**3,731,918**	**5,055,714**	**3,450,573**	**4,791,337**
	Accumulated Deferred Income Tax Proration Adjustment		3,494	10,370	2,174	7,920	2,867	9,066	4,408	10,745
	Rate of Return		6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%	6.6971%
	Earnings on Rate Base		234	694	146	530	192	607	295	720
	Gross Revenue Conversion Factor		1.402	1.402	1.402	1.402	1.402	1.402	1.402	1.402
	Revenue Requirement of the ADIT Proration		**328.02**	**973.69**	**204.08**	**743.60**	**269.18**	**851.19**	**413.87**	**1,008.89**

For the scenarios, the O&M Expense was left constant (as-originally filed), but all other rate base components were computed to match the pattern of the book additions.

In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Utility Infrastructure Cost (GUIC) Rider Revenue Requirement and Revised Surcharge Factor

Docket No. G011/M-19-282

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 17th day of September, 2019, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Reply Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 17th day of September, 2019.

/s/ Kristin M. Stastny
Kristin M. Stastny

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 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_19-282_M-19-282
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-282_M-19-282
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-282_M-19-282
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_19-282_M-19-282
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Catherine	Phillips	catherine.phillips@we-energies.com	We Energies	231 West Michigan St Milwaukee, WI 53203	Electronic Service	No	OFF_SL_19-282_M-19-282
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-282_M-19-282
Elizabeth	Schmiesing	eschmiesing@winthrop.com	Winthrop & Weinstine, P.A.	225 South Sixth Street Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-282_M-19-282
Colleen	Sipiorski	Colleen.Sipiorski@wecenergygroup.com	Minnesota Energy Resources Corporation	700 North Adams St Green Bay, WI 54307	Electronic Service	No	OFF_SL_19-282_M-19-282

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 80 South 8th Street Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_19-282_M-19-282
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_19-282_M-19-282
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_19-282_M-19-282
Mary	Wolter	mary.wolter@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)	231 West Michigan St Milwaukee, WI 53203	Electronic Service	Yes	OFF_SL_19-282_M-19-282