

The Commission met on **Thursday, September 29, 2016**, with Chair Heydinger, and Commissioners Lange, Lipschultz, Schuenger, and Tuma present.

The following matters came before the Commission:

TELECOMMUNICATIONS AGENDA

P-999/PR-16-8

In the Matter of Annual Certifications Related to Eligible Telecommunications Carriers' Use of the Federal Universal Service Support Required Pursuant to C.F.R. § 54.313

Commissioner Schuenger moved to adopt the revised list of Eligible Telecommunications Carriers (ETCs) filed by the Minnesota Department of Commerce (the Department), and to permit staff to make technical corrections.

The motion passed 5-0.

ENERGY AGENDA

G-011/GR-15-736

In the Matter of the Application by Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota

Improved Customer Experience

Commissioner Tuma moved as follows:

1. Allow MERC cost recovery of the Improved Customer Experience (ICE) Project based on MERC's share (approximately \$9.84 million) of the updated total ICE Project budget.
2. The Commission concurs with the Administrative Law Judge's (ALJ's) August 19, 2016 Findings of Fact, Conclusions, and Recommendation (ALJ Report) that Minnesota Energy Resources Corporation (MERC) has not demonstrated that the full increased costs of the ICE Project are reasonable. The Commission further concurs with the ALJ's recommendation to allow recovery of the ICE Project in the test year and rate base as proposed by MERC, but disagrees with the methodology suggested to "true up" to some hypothetical "MERC-only option."

Given that the project is designed to improve customer service, the Commission will order that \$500,000 be refunded to ratepayers for 2016 due to MERC's failure to prove the additional expense above historic levels was reasonable and prudent. On an annual basis, starting in 2017, MERC shall place \$500,000 proportionately from ratepayers into an account and adhere to the following:

- A. By February 2017 MERC develops a tool or survey to measure the effectiveness over time of the ICE project as it relates to the customer services that were intended to be improved by the project. Any survey, consultant, program or tool to measure this project effectiveness must be adopted in consultation with the Department and the Office of the Attorney General—Residential Utilities and Antitrust Division (OAG).
- B. MERC, after consultation with the Department and the OAG, shall set annual ICE project customer service benchmarks to be reached by the end of 2017. MERC may modify these benchmarks and shall report annually unless the Commission determines ongoing monitoring is no longer necessary and that the \$500,000 no longer needs to be set aside as a performance incentive.
- C. MERC shall report performance towards these benchmarks annually at the same time they do their service quality reporting. At that time the Commission shall determine whether the benchmarks for retention of the \$500,000 have been met.

The motion passed 4-1; Chair Heydinger voted no.

Former Manufactured Gas Plant (FMGP) Costs

Commissioner Tuma moved as follows:

- 3. Accept the ALJ's conclusion and recommendations and allow MERC to continue deferred accounting treatment of the former manufactured gas plant (FMGP) costs for the Austin site. Clarify that (1) the 2016 FMGP costs will be deferred and amortized rather than expensed in the test year; and (2) MERC's post-2014 FMGP cleanup costs will be subject to review for prudence and reasonableness in the next rate case.
- 4. Confirm that MERC's addition of \$5 million to the deferred FMGP accounts is unsupported and would be unreasonable to include in rate base at this time.

The motion passed 5-0.

Regulatory Assets and Liabilities

Commissioner Lipschultz moved as follows:

- 5. Accept the ALJ Report and require MERC to remove the following six nonemployee benefits regulatory asset and liability accounts from rate base:
 - A. Account 182015 Regulatory Asset—Short Term;
 - B. Account 182016 Regulatory Asset—Derivatives—Current;
 - C. Account 182517 Regulatory Asset—Short Term Offset;
 - D. Account 186390 Labor Loader;
 - E. Account 254015 Regulatory Liabilities Derivatives Long Term; and
 - F. Account 254317 Regulatory Liabilities-Short Term Offset.

6. Accept the ALJ's Findings on Pension and Other Benefits Regulatory Assets and Liabilities and require that the nine regulatory asset and liability accounts identified in ALJ Finding 221 be excluded from rate base and that a corresponding adjustment be made to deferred taxes.

The motion passed 5-0.

Uncollectible Expense (Bad Debt Expense)

Commissioner Lange moved as follows:

7. Apply the 2015 percentage of actual bad debt expense over tariffed revenues of 0.459362% to the approximate Commission approved test-year tariffed revenues, reduced by the updated cost of gas, and (including) the approximate approved revenue deficiency.

The motion passed 5-0.

Implementation of Improved Customer Experience (ICE) for WEC-Legacy Utilities

Commissioner Schuerger moved as follows:

8. Require MERC to provide the following information with the initial filing of its next rate case proceeding:
 - A. Provide an update in the initial filing in its next rate case on the decision process for WEC-legacy utilities to implement the ICE system, fully justifying any decision for the WEC-legacy utilities not to use ICE.
 - B. If a process has been implemented to either explore the idea, or an actual timeline has been established for WEC-legacy utilities to adopt ICE, MERC shall provide a detailed discussion of the status, along with a proposal to reimburse Minnesota ratepayers for their share of the ICE system (deferred and ongoing costs).
 - C. If MERC does not provide this information in its initial filing in its next rate case, the initial rate case filing shall be considered incomplete.
9. In the event that WEC decides to implement the ICE system for its WEC-legacy utilities prior to MERC filing its next rate case, require MERC to make a filing within 30 days of such a decision, which shall also be no less than 12 months before initial implementation for WEC-legacy utilities. Approval by the WEC Board of Directors shall be considered the point of decision and will trigger the start of the 30 days. The filing should provide details of WEC's implementation plans and a proposal for adjusting the costs paid by MERC's customers for the ICE system to ensure the costs paid by MERC's customers are reasonable. If such a filing is made prior to the next rate case, the Commission can determine, at that time, whether to revise the contents of the filing to be made by MERC in its next case, as discussed above.

The motion passed 5-0.

Improved Customer Experience (ICE) – Cost Recovery Rate Case Expense

Commissioner Tuma moved as follows:

10. Require MERC to provide within five business days from the date of the Commission's deliberation, in an informational filing to this order, a detailed explanation, including schedules by FERC (USOA) account number, of the annual revenue requirement impact of the Commission's ICE Project decision and how the test year adjustments necessary to account for the ICE Project is in compliance with the Commission's decision.

The motion passed 5-0.

Conservation Improvement Program (CIP) Expenses and Conservation Cost Recovery Charge

Chair Heydinger moved as follows:

11. Adopt the ALJ's Finding 440 and find that the ALJ's and Department's recommendations are reasonable and require MERC to increase its test-year CIP expense by \$1,652
12. Require MERC to update its CIP tracker carrying charge based on the approved short-term cost of debt.
13. Require MERC to make a true-up adjustment to the CIP tracker at the time of final rates and report the calculation in the final rates compliance filing.
14. Require MERC to report in its final rates compliance filing the calculation of the CCRC rate based on the Commission's Order regarding the level of CIP expenses divided by the approved level of sales and provide the calculation of any true-up adjustment to the CIP tracker.
15. Accept WEC's internal audit report and the implementation of its recommendations for MERC's billing procedures.

The motion passed 5-0.

Account 495—Other Gas Revenues

Commissioner Lipschultz moved as follows:

16. Accept MERC's December 30, 2015 Supplemental Direct Testimony on Account 495 – Other Gas Revenues.

The motion passed 5-0.

Pension and Other Employee Benefit

Commissioner Lipschultz moved as follows:

17. Accept ALJ Report, Findings 493-496.

The motion passed 5-0.

Property Tax Expense

Commissioner Lange moved as follows:

18. Require MERC to make a compliance filing upon resolution of the Minnesota property tax appeal.
19. Refund the amount of Minnesota property taxes collected from customers for the years under appeal, less the amount ultimately paid to Minnesota for all years under appeal.
20. Remit any refunds due to ratepayers with interest.

The motion passed 5-0.

Rochester Project Costs Included in the Current Rate Case

Commissioner Schuerger moved as follows:

21. Adopt the ALJ Report, Finding 373 and find that the agreement between MERC and the Department is reasonable.
22. Require MERC to remove all Phase II construction costs incurred after January 1, 2016 from the current rate case.
23. Allow MERC to establish a regulatory asset for the deferral of construction cost incurred after January 1, 2016 and permit MERC to earn a return on these deferred costs equal to the rate of return approved in the current rate case.

The motion passed 5-0.

Test Year

Commissioner Tuma moved as follows:

24. Accept the ALJ's Findings 730 through 736.

The motion passed 5-0.

Commissioner Lange moved as follows:

Travel & Entertainment Expenses

25. Accept ALJ Finding 475 but with a modification to include the amount of the reduction to test year T&E expenses of \$133,434.

Underground Gas Storage Balance Included in Rate Base Calculation

26. Adopt the ALJ Report, Finding 407, and require MERC to include in its rate base calculation an underground gas storage balance of \$6,486,821.

Vacancy Adjustment

27. MERC shall reduce test year distribution expenses by \$90,816 to remove labor costs related to filling vacancies.

The motion passed 5-0.

Capital Structure

Commissioner Tuma moved as follows:

28. Adopt MERC's proposed capital structure comprised of 50.32 percent common equity, 45.59 percent long-term debt, and 4.08 percent short-term debt.

The motion passed 5-0.

Cost of Long-Term Debt

Commissioner Lipschultz moved as follows:

29. Adopt the proposed cost of long-term of 4.8627 percent.
30. The weighted cost of long-term debt of 2.2169 percent.

The motion passed 5-0.

Cost of Short-Term Debt

Commissioner Lange moved as follows:

31. Adopt the proposed cost of short-term debt of 2.0370 percent.
32. The weighted cost of long short-term debt of 0.0831 percent.

The motion passed 5-0.

Flotation Cost

Commissioner Tuma moved as follows:

33. Determine that the parties have not demonstrated the need for a flotation cost and make no flotation cost adjustment to the cost of equity in this proceeding.

Commissioner Tuma withdrew his motion.

Cost of Equity

Commissioner Tuma moved as follows:

34. Adopt the Department's recommended cost of equity of 9.11 percent.

The motion passed 5-0.

Overall Cost of Capital

Commissioner Schuerger moved as follows:

35. Adopt an overall cost of capital of 6.8842% as recommended by the Department.

The motion passed 5-0.

Sales Forecast

Commissioner Tuma moved as follows:

36. Adopt the ALJ's recommendation to use MERC's sales forecast for the purposes of setting rates in this proceeding.

The motion passed 5-0.

Class Cost of Service Study (CCOSS) Method

Commissioner Lange moved as follows:

37. Find that MERC's zero-intercept approach to determine a customer component of distribution mains is a useful tool for the purpose of setting rates in this proceeding.
38. Find that MERC's Class Cost of Service Study (CCOSS) in this proceeding complies with Minn R. 7825.4300.C. and previous Commission orders.

The motion passed 5-0.

Project-Level Information

Commissioner Lange moved as follows:

39. Require MERC to:
 - A. Collect project-specific data on installation footage, pipe diameter, and cost;
 - B. Research, and as soon as possible, begin collection of distribution asset retirement at the same project-level detail; and

- C. Explore the use of this project-specific data in its zero-intercept CCOSS in future rate case filings.

The motion passed 5-0.

Future Rate Cases

Commissioner Lipschultz moved as follows:

40. Require MERC to provide a substantive explanation and justification of its classification and allocation methods when it files its CCOSS in the next rate case.
41. Require MERC to file a CCOSS using the “average and excess” method and a Basic System CCOSS in its next rate case.
42. Require MERC to file a zero-intercept CCOSS and a minimum-size CCOSS in its next rate case.
43. Require MERC to file any other CCOSS(s) ordered by the Commission at the completion of any generic proceeding undertaken by the Commission.

Commissioner Lipschultz amended his motion to withdraw Motion Paragraph 43.

The amended motion passed 4-1; Chair Heydinger voted no.

Generic Proceeding on CCOSSs

Commissioner Lipschultz moved as follows:

44. Take no action on a generic proceeding into CCOSSs.

The motion passed 5-0.

Fixed Customer Charge

Commission Lange moved as follows:

45. Adopt MERC’s proposed customer charges as recommended in its rebuttal testimony.
46. Order that the former customers of Interstate Power and Light be fully transitioned to MERC customer charges in MERC’s next rate case.
47. Accept MERC’s clarification to Findings 658 found on page 36 of the MERC’s Exceptions to the ALJ Report:

658. The Administrative Law Judge does not recommend adopting the OAG’s proposal to transition the former IPL customers to the MERC customer charge over the course of three rate cases. The OAG’s proposal would result in MERC’s non-IPL customers

continuing to subsidize MERC's IPL customers over a number of years. Such a long transition would result in unreasonably preferential rates for the former IPL customers who receive the same service and are in the same class of service as MERC's other customers. The Administrative Law Judge recommends instead that the Commission order that the former IPL customers be fully transitioned to MERC customer charges in the Company's next rate case. To allow for a transition period, MERC has agreed to hold Residential, SC&I, LC&I, SVI/SVJ Sales, and LVI/LVJ Sales customer charges unchanged in its next rate case proceeding.

The motion passed 5-0.

Class Revenue Apportionment

Commissioner Tuma moved as follows:

48. Adopt the ALJ's recommendation to adopt MERC's recommended revenue class revenue apportionment.

The motion passed 5-0.

Decoupling

Commissioner Tuma moved as follows:

49. Authorize MERC to continue its current decoupling pilot program for another three years in its current form.
50. Require MERC in its next rate case to demonstrate why extending decoupling to all customer classes is not reasonable.
51. Require MERC to demonstrate in its decoupling evaluation report and the initial filing of its next rate case why it is reasonable to continue MERC's pilot decoupling program, in light of evidence in this docket suggesting that, after MERC implemented its pilot decoupling program, the energy savings of the residential class decreased rather than increased.
52. Require MERC to include revised tariff language in its 30-day compliance filing that implements the Commission's decision on MERC's Revenue Decoupling Mechanism (RDM) program.
53. Accept MERC's clarification to Finding 674 found on page 37 of MERC's Exceptions to the ALJ Report:

674. However, the Administrative Law Judge agrees with the Department and the OAG that MERC should be required in its next rate case to demonstrate why extending decoupling to all customer

classes is not reasonable. The Administrative Law Judge also agrees with the Department that MERC should be required in its next rate case ~~to address evidence showing Residential energy savings has decreased since inception of the decoupling pilot program.~~ or at the end of its decoupling pilot to demonstrate why continuing its RDM is reasonable given that its Residential energy savings have fallen, not increased.

54. Require MERC at its next and subsequent RDM annual filings to show the hypothetical rate impacts of decoupling if extended to all customer classes with more than 50 customers. MERC may also provide hypothetical rate impacts on any other combination of customer classes.
55. Require MERC at its next and subsequent RDM annual filings to show the average of its previous five years of CIP savings compared to its savings of its most recent complete year. At that time, MERC shall explain the differences and the reasons for them, including the likely impact of decoupling.

Chair Heydinger proposed to amend Motion Paragraph 50 as follows:

- 50 Require MERC in its next rate case to demonstrate why extending decoupling to all customer classes with more than 50 customers is not reasonable.

Commissioner Tuma accepted to proposal.

The amended motion passed 5-0.

Transportation Imbalance Process

Commissioner Lipschultz moved as follows:

56. Adopt the ALJ's Finding 710 and do not take action on the proposals of Constellation New Energy - Gas Division, LLC (Constellation), and leave MERC's current tariff provisions in effect.

The motion passed 5-0.

Non-Telemetered Small Volume Transportation Service

Commissioner Lange moved as follows:

57. Adopt the ALJ's Finding 698, accept the ALJ's recommendation in Finding 699, and take no action on Constellation's small volume non-telemetered transportation proposal at this time.

The motion passed 5-0.

Notice Requirements for Switching Service Classes

Commissioner Schuerger moved as follows:

58. Adopt the ALJ's Findings 686 and 687, and require MERC to either revise the WPS waiver language or propose new waiver language that will permit MERC to grant a waiver from its notice requirements for granting a service class change for a customer; where the waiver does not cause any detriment to existing system sales customers. The waiver should be limited to customers facing unforeseen circumstances so that it is not used by customers who could have requested a waiver prior to the normal August 1 deadline. The waiver language should be consistent with the ALJ's recommendation as part of its final compliance filing.

The motion passed 5-0.

Joint Rate Service

Commissioner Tuma moved as follows:

59. Determine that further analysis of MERC's joint rate proposal is needed in MERC's next general rate case to fully evaluate the allocation of demand costs in its joint rate service. This analysis should include a proposal for an appropriate CCOSS allocation and daily firm capacity charge (DFC) calculations.
60. Adopt the ALJ's Finding 763 without modification and approve MERC's joint rate service proposal.

Commissioner Tuma amended his motion to add the following:

61. Approve MERC's exceptions requesting clarification to the ALJ's Finding 760:

760. In MERC's last rate case, Docket No. G-011/GR-13-617, issues were raised related to the concern that MERC's Joint Service customers may be subsidized by MERC's general sales customers. To address these concerns, MERC proposed to charge Joint Service customers the Firm Demand cost per therm rate currently charged to General Service customers for the non-margin (gas cost) firm portion of their Joint Service.

The amended motion as amended passed 5-0.

Commissioner Schuerger moved as follows:

Base Cost of Gas

62. Adopt the ALJ's Finding 729 and require MERC to update its commodity cost of gas to the April 12, 2016 compliance filing levels in its final compliance filing for the general rate case.

Purchased Gas Consolidation of MERC-NNG and MERC-AL PGA Areas

63. Adopt the ALJ's Finding 758 approving MERC's proposed consolidation of its MERC-Northern Natural Gas (NNG) and MERC-Albert Lea (AL) purchased gas adjustment (PGA) areas into a single PGA area. Allow MERC to implement the proposed PGA area consolidation on July 1, 2017.

Increase to Curtailment Penalties

64. Adopt the ALJ's Finding 767 that MERC's proposed increase to its curtailment penalty from \$20 per dekatherm (Dth) to \$50 per Dth is reasonable.

Service Main and Line Service Extension

65. Adopt the ALJ's Finding 743 that MERC's service and main extension policies, footage allowance, and feasibility model were reasonable and that MERC was in compliance with its tariff.

Joint Service Affidavit for Firm Transportation Service

66. Adopt the ALJ's Finding 721 and require MERC to modify its Joint Service Affidavit to remove the notary requirement and the requirement for simultaneous signatures by the parties.

Farm Tap Inspection Program

67. Adopt the ALJ's Finding 751 and require MERC to continue its farm tap safety inspection program.
68. Require MERC to continue its farm tap inspection program and submit information about the program in its next rate case and clarify in the Commission's order that MERC –
- A. shall continue to send farm-tap safety and information brochures to new farm tap customers before they take service and to all existing farm customers annually.
 - B. shall continue to file annual reports on its farm tap inspection program on or before April 1 of each year.
 - C. Within 90 days of the end of each five-year inspection cycle and in each general rate case, shall file with the Commission, the Department, and the Minnesota Office of Pipeline Safety a five-year report including cumulative results of the inspection program and any recommendations for future improvements.

Winter Construction Period Costs

69. Adopt the ALJ's Finding 747, make no adjustment to MERC's Winter Construction Charges, and find that MERC is in compliance with its tariff.

The motion passed 5-0.

Other Proposed Amendments to MERC's Tariff

Commissioner Schuerger moved as follows:

70. Approve MERC's proposed tariff amendments not separately addressed by staff.

The motion passed 5-0.

General Housekeeping and Compliance Issues

Commissioner Lipschultz moved as follows:

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

- E. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.
73. Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on MERC's proposed customer notice.

The motion passed 5-0.

Decision Options for the ALJ Report


Commissioner Lange moved as follows:

74. Adopt the ALJ Report with modification to one or more of the following issues, and to the extent the ALJ Report is consistent with the decisions made by the Commission at this meeting.
75. Find that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.
76. Direct the staff to draft an order consistent with the Commission's decisions with such changes necessary for organization, consistency, and clarity.

The motion passed 5-0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: November 9, 2016



Daniel P. Wolf, Executive Secretary