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July 18, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-14-524

Dear Dr. Haar:

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

Petition of Minnesota Energy Resources Corporation (MERC) for Approval of a Tariff Revision and a New Area Surcharge for the Ely Lake Project.

The *Petition* was filed on June 20, 2014 by:

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation
2665 145th Street West
Rosemount, Minnesota 55068

As discussed in greater detail in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC's *Petition***. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/lt
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/M-14-524

I. BACKGROUND

On July 26, 2012, the Minnesota Public Utilities Commission (Commission) approved Minnesota Energy Resources Corporation's (MERC or the Company) request to add a New Area Surcharge Rider to its tariff.¹ MERC's New Area Surcharge Rider enables the Company to extend service into a new area it would be uneconomic to serve at tariffed rates. MERC's New Area Surcharge Rider allows the term of service to vary from area to area, depending on the project; however, the maximum surcharge term is 15 years.

On January 30, 2014, Governor Mark Dayton issued Emergency Executive Order 14-02 and released a statement in response to the propane supply issues due to the polar vortex conditions that gripped the state. This statement listed steps that had been taken to alleviate the propane issues within the state and steps being taken to prevent future propane shortages.²

On March 24, 2014, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Testimony in Docket No. G011/GR-13-617 recommending that MERC pursue in a separate filing a tariff revision to extend the maximum term of service for a New Area Surcharge to some period such as the length of the expected lives of the new facilities or a period agreed to by customers in the new area.³

¹ Docket G007,011/M-11-1045

² See Attachment 1

³ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G011/GR-13-617, Direct Testimony and Attachments of Michael N. Zajicek at 11-13 (March 24, 2014).

On June 20, 2014, MERC submitted a filing (*Petition*) to the Commission to:

- Modify the Company's New Area Surcharge tariff sheet to allow a New Area Surcharge to remain in effect for a term not to exceed thirty (30) years; and
- Establish a New Area Surcharge for customers located near Ely Lake in the Cities of Eveleth and Gilbert in northern Minnesota.

MERC proposed that the New Area Surcharge for customers located near Ely Lake in the Cities of Eveleth and Gilbert be in effect for a period not to exceed twenty (20) years and commence on approximately November 1, 2014. MERC indicated that it would terminate the surcharge when project revenue deficiency is satisfied or at the end of 20 years, whichever occurs first.

On July 11, 2014, MERC submitted a letter amending Exhibit C of the Company's *Petition* to reflect the requirement that the submitted analysis include all years until the plant is fully depreciated for book purposes. Thus the Company submitted a revised Exhibit C containing all relevant information for a 48-year time period.

II. THE DEPARTMENT'S ANALYSIS

The Department's analysis of MERC's *Petition* is presented below in the following sections:

- in Section II.A, MERC's Proposed New Area Surcharge Tariff Change; and
- in Section II.B, MERC's Proposed New Area Surcharge for the Ely Lake Project

A. MERC'S PROPOSED NEW AREA SURCHARGE TARIFF CHANGE

The Department supports MERC's proposal to modify the New Area Surcharge Rider to allow costs to be recovered over a maximum of 30 years, as opposed to the current maximum of 15 years. As stated above the Department originally suggested the tariff change to MERC as a reasonable method of reducing Minnesota's reliance on propane for winter heating, since propane supply may be unreliable. The service life of the installed equipment is likely to exceed 30 years. Therefore, the Department concludes that a maximum of 30 years is a reasonable term for a new area surcharge. The longer allowable term may result in more affordable surcharges which may allow MERC to make more service extensions. Thus the Department recommends that the Commission approve MERC's proposed extension of the maximum term for its New Area Surcharge Rider.

B. *MERC'S PROPOSED NEW AREA SURCHARGE FOR THE ELY LAKE PROJECT*

The Commission's July 26, 2012 Order in Docket No. G007,011/M-11-1045 requires the Company to make a miscellaneous rate change filing for any specific New Area Surcharge project. The Company calculated a New Area Surcharge that would allow extension of service to the citizens around the Ely Lake Area. According to the filing a surcharge level of \$34.10 on all customer types is required in order to bring the Net Present Value of the project to approximately \$0 over the project life. MERC proposed that the surcharges be in effect until the projected revenue deficiency is satisfied, but for no longer than 20 years.

MERC stated that the proposed surcharge is reasonably designed so as to recover the portion of the cost of service attributed to uneconomic service extensions, and to ensure that existing customers will not subsidize new area customers. MERC stated that the proposed New Area Surcharge is in the public interest due to the lower cost of natural gas as compared to alternative fuel sources and that new customers in these areas would be served off existing supply contracts the Company holds.

MERC included the exhibits required by the July 26, 2012 Commission Order in Docket G007,011/M-11-1045, including a updated tariff sheet, customer notice, and the work papers the Company used to calculate the surcharge. In addition, MERC included a map of the Ely Lake Project. Further the Company complied with the Commission's requirement that a surcharge be set for each customer class, regardless of whether any customers of the class are anticipated. The Commission also required the filing of all pertinent contract demand entitlement change requests, however in this case MERC stated that no demand entitlement changes were projected. Finally on July 11, 2014 the Company updated the relevant portions of Exhibit C to include all years until the plant is fully depreciated.

The Department reviewed MERC's filing and concludes that MERC has met all of the Commission's filing requirements established in Docket No. G007,011/M-11-1045. Further the proposed surcharge was calculated using the methodology approved by the Commission in Docket No. G007,011/M-11-1045. Finally, the 20-year term is reasonable based on the Department's conclusions above in section A. Thus the Department recommends that the Commission approve MERC's proposed New Area Surcharge for the Ely Lake Project.

III. DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

1. approve MERC's request to allow a New Area Surcharge Rider term of up to 30 years; and
2. approve MERC's proposed New Area Surcharge for the Ely Lake Project.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. G011/M-14-524

Dated this 18th day of July 2014

/s/Sharon Ferguson

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