

MICHAEL J. AHERN
Partner
(612) 340-2881
FAX (612) 340-2643
ahern.michael@dorsey.com

July 30, 2014

The Honorable Eric L. Lipman
Administrative Law Judge
Office of Administrative Hearings
P.O. Box 64620
St. Paul, MN 55164-0620

Re: In the Matter of a Petition by Minnesota Energy Resources Corporation for
Authority to Increase Natural Gas Rates in Minnesota
MPUC Docket No. G011/GR-13-617
OAH Docket No. 8-2500-31126

Dear Judge Lipman:

Enclosed for filing in the above-referenced docket, please find an errata to Minnesota Energy Resources Corporation's ("MERC") Initial Brief filed on behalf of MERC. MERC is submitting a redlined version of Page 47, Page 49 - Footnote 218, and Page 60 to show the corrections that have been made. The errata clarifies that MERC has agreed to the removal of \$163,731 from Account 228300 (Deferred Cr. – Sup. Ret. Select, SERP), not Account 228305, pertaining to non-qualified employee benefit costs from rate base; provides corrected citation in support of MERC's proposal to include cumulative excess funding in the amount of \$11,769,457 in rate base; and corrects a reference to the Xcel rate case.

We apologize for these errors. Please contact me if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

cc: Service List

\$17,066 (Account 186591) was erroneously included in rate base.²⁰⁶ Second, MERC agreed that because derivative assets were excluded from rate base, Regulatory Liabilities-Derivatives, in the amount of \$244,040 (Account 254450) should be excluded as well.²⁰⁷ In addition, MERC agreed with the Department's proposed adjustment to remove from rate base the recovery of unamortized rate case expense in the amount of \$1,312,704²⁰⁸ because these costs are not prepaid costs appropriate for inclusion in rate base.²⁰⁹ MERC proposed an additional adjustment to remove deferred taxes associated with the removed unamortized rate case expenses, in the amount of \$541,188, which the Department agreed was appropriate, but determined should be adjusted to \$540,106 to reflect the amount allocated to Minnesota.²¹⁰ Finally, MERC agreed to remove certain amounts pertaining to non-qualified employee benefit costs from rate base. These amounts include accounts pertaining to the Supplemental Employee Retirement Plan ("SERP") and pension restoration. MERC has agreed to the removal of the following amounts pertaining to nonqualified employee benefit costs from rate base: \$163,731 (~~Injuries and Damages Reserve~~Deferred Cr. – Sup. Ret. Select, SERP, Account ~~228305~~228300), \$19,719 (Supplemental Remp. Ret. Plan, SERP, Account 228305), \$53,763 (Pension Restoration, Account 228310), and \$2,556 (Current Pension Restoration, Account 242072). Collectively this results in an increase to rate base of 239,769.²¹¹ These proposed adjustments are reasonable and should be approved by the ALJ and the Commission.

²⁰⁶ Ex. 24 at 4 (S. DeMerritt Rebuttal).

²⁰⁷ Ex. 24 at 4-5 (S. DeMerritt Rebuttal).

²⁰⁸ Ex. 216 at 4-5 (L. La Plante Surrebuttal). In Surrebuttal Testimony, Ms. La Plante recommended a revision to her recommended adjustment of unamortized rate case expense to reflect the amount allocated to Minnesota.

²⁰⁹ Ex. 215 at 18 (L. La Plante Direct).

²¹⁰ Ex. 216 at 3-5 (L. La Plante Surrebuttal); Ex. 24 at 17 (S. DeMerritt Rebuttal).

²¹¹ Evidentiary Hearing Transcript (May 13, 2014) at 56 (C. Hans); Ex. 27 at Exhibit CMH-4 (C. Hans Rebuttal).

funding and cumulative expense is consistent with the approach taken in the prior case.²¹⁷

MERC proposes to include cumulative excess funding in the amount of \$11,769,457 in rate base for pre-payment on pension expense and other post-retirement benefits.²¹⁸

Department witness Ms. St. Pierre argued that this cumulative excess funding should not be included in rate base because, according to Ms. St. Pierre, the retirement benefits trust plan assets may go up or down depending on funding and market conditions.²¹⁹ The Department characterizes this as a “temporary timing difference” which, according to the Department, does not justify rate base recovery.²²⁰ The Department’s recommendation is both inconsistent with prior treatment and potentially detrimental to MERC’s customers.

First, MERC’s treatment in this rate case is consistent with the treatment in MERC’s prior rate case, Docket No. G007,011/GR-10-977.²²¹ While MERC did not include cumulative funding and cumulative expense in its initial filing, MERC ultimately agreed to include it in its rate base based on recommendation of the OAG, which the Department did not oppose.²²²

Second, as demonstrated in Ms. Hans’s Rebuttal Testimony, the facts and circumstances in this rate case do not support the reduction proposed by the Department; MERC has pre-paid its pension expense during the 2012 – 2014 period by almost \$12 million.²²³ Third, contributions made to the pension and other post-retirement benefit trusts benefit MERC’s ratepayers. These contributions are used in the calculation of net periodic benefit cost, which resulted in reduced pension costs for the 2014 test year of approximately \$1.1 million and reduced test-year costs for

²¹⁷ Ex. 27 at 15 (C. Hans Rebuttal).

²¹⁸ Ex. 27 at [15-17 and Schedule \(CMH-4\)](#) (C. Hans Rebuttal).

²¹⁹ Ex. 217 at 9 (M. St. Pierre Direct).

²²⁰ Ex. 217 at 9 (M. St. Pierre Direct).

²²¹ Ex. 27 at 15 (C. Hans Rebuttal).

²²² Ex. 27 at 15 (C. Hans Rebuttal).

²²³ Ex. 27 at 15-16 (C. Hans Rebuttal).

test-year pension expense. Under these conditions, a discount rate based on the five-year average is more reasonable than a discount rate determined at a single point in time, the timing governed by Company's choice to initiate a rate case.²⁷¹

The facts presented in the record here fully support MERC's proposed discount rates for calculation of pension and other employee benefit expenses. First, based on the above description, MERC has demonstrated that its pension is not similar to the pension plans at issue in Xcel's ~~2010-2012~~ rate case.²⁷² Second, MERC's proposed discount rate calculations are most appropriate because they were calculated based on real market conditions. MERC calculated the relevant discount rate by selecting an actual bond portfolio to settle each plan's expected future benefit payments.²⁷³ The model used theoretically purchases individual high-quality corporate bonds to settle each plan's expected future benefit payments.²⁷⁴ From the theoretically purchased bonds, a single rate is determined that equates the market value of the bonds purchased to the discounted value of each plan's expected future benefit payments.²⁷⁵ The calculated discount rate is then rounded to the nearest 5 basis points.²⁷⁶ MERC's assumptions are carefully selected in consultation with its actuary and are reviewed and approved by external auditors. It is unreasonable for the Department to suggest arbitrarily setting a discount rate that is equal to the return on plan assets with little more support than the fact that such a method has been reasonable in one other factually dissimilar rate case. In fact, to set the discount rate at the level proposed by the Department could ultimately result in increased costs to MERC.²⁷⁷ The

²⁷¹ CPE Findings of Fact, Conclusions, and Order at 12.

²⁷² See *supra* notes 258-270 and accompanying text.

²⁷³ Ex. 27 at 9 (C. Hans Rebuttal).

²⁷⁴ Ex. 27 at 9 (C. Hans Rebuttal).

²⁷⁵ Ex. 27 at 9 (C. Hans Rebuttal).

²⁷⁶ Ex. 27 at 9 (C. Hans Rebuttal).

²⁷⁷ Ex. 27 at 11 (C. Hans Rebuttal).

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin K. Berkland, being first duly sworn on oath, deposes and states that on the 30th day of July, 2014, she filed the attached errata to the Minnesota Energy Resources Corporation (MERC) Initial Brief on behalf of MERC with the E-Docket system and served as specified on the attached service list.

/s/ Kristin K. Berkland
Kristin K. Berkland

Subscribed and sworn to before me
this 30 Day of July, 2014.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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_13-617_Official cc service list
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Seth	DeMerritt	ssdemerritt@integrysgroup.com	Integrays Business Support	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_13-617_Official cc service list
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	No	OFF_SL_13-617_Official cc service list
Harry W	John	HWJohn@integrysgroup.com	MERC, Integrays	700 North Adams PO Box 19001 Green Bay, WI 54307-9001	Electronic Service	No	OFF_SL_13-617_Official cc service list
David G.	Kult	dgkult@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St. NW Rosemount, MN 55068	Electronic Service	No	OFF_SL_13-617_Official cc service list
David	Kyto	djkyto@integrysgroup.com	Integrays Business Support	700 North Adams PO Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_13-617_Official cc service list

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Peter	Madsen	peter.madsen@ag.state.mn.us	Office of the Attorney General-DOC	Bremer Tower, Suite 1800 445 Minnesota Street St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_13-617_Official cc service list
Chad T	Marriott	ctmarriott@stoel.com	Stoel Rives LLP	900 SW 5th Ave Ste 2600 Portland, OR 97204	Electronic Service	No	OFF_SL_13-617_Official cc service list
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-617_Official cc service list
Barbara	Nick	banick@integrysgroup.com	Minnesota Energy Resources Corporation	2665 145th Street PO Box 455 Rosemount, MN 55068-0455	Electronic Service	No	OFF_SL_13-617_Official cc service list
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	No	OFF_SL_13-617_Official cc service list
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-617_Official cc service list
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW Rochester, MN 55901	Electronic Service	No	OFF_SL_13-617_Official cc service list

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James P.	Zakoura	Jim@smizak-law.com	Smithyman & Zakoura Chartered	750 Commerce Plaza II 7400 West 110th Street Overland Park, KS 662102362	Electronic Service	No	OFF_SL_13-617_Official cc service list