

February 19, 2015

Daniel P. Wolf  
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 Nos. G011/GR-13-617, G011/MR-13-732

Dear Mr. Wolf:

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

A Compliance Filing submitted by Minnesota Energy Resources Corporation (MERC or the Company), pursuant to the Minnesota Public Utilities Commission's (Commission) October 28, 2014 *Findings of Fact, Conclusions, and Order*.

The Compliance Filing was submitted on January 21, 2015 by:

Seth DeMerritt  
Rate Case Consultant  
Minnesota Energy Resources Corporation  
2665 145<sup>th</sup> Street West  
Rosemount, Minnesota 55068-0455

The Department recommends **approval** of the Company's Compliance Filing, with additional filing requirements. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE  
Financial Analyst

/s/ SUSAN PEIRCE  
Rates Analyst

MS/SP/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/GR-13-617

**I. INTRODUCTION**

On October 28, 2014, the Minnesota Public Utilities Commission (Commission) issued its *Findings of Fact, Conclusions, and Order* (Order) in the above-referenced docket concerning the request by Minnesota Energy Resources Corporation (MERC or the Company) to increase natural gas rates in Minnesota. Ordering Paragraph No. 46 of the Commission's Order required MERC to submit certain information as discussed below.

On November 17, 2014, the Minnesota Office of the Attorney General and MERC filed petitions for reconsideration of the Commission's Order. On December 22, 2014, the Commission issued its *Order Denying Reconsideration*, denying both petitions for reconsideration.

On January 21, 2015, MERC submitted its Compliance Filing in accordance with Ordering Paragraph No. 46 of the Commission's October 28, 2014 Order.

Pursuant to Ordering Paragraph No. 46 of the Order, the Minnesota Department of Commerce (Department or DOC) submits these comments that address each compliance item.

**II. THE DOC'S ANALYSIS OF THE COMPLIANCE FILING BY ORDERING PARAGRAPH**

Ordering Paragraph No. 1 of the Commission's Order states that MERC is entitled to increase Minnesota jurisdictional revenues by \$7,580,774 to produce jurisdictional total gross revenue of \$267,874,613 for the test year ending December 31, 2014. Based on its review, the Department concludes that the Company's financial schedules in the Compliance Filing incorporated the authorized amounts identified above.

Ordering Paragraph No. 46 of the Commission's Order requires that the Company include the following items in its Compliance Filing:

- 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:
    - a) Total revenue by customer class;
    - b) Total number of customers, the customer charge and total customer-charge revenue by customer class; and
    - c) 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.
- B. Revised tariff sheets incorporating authorized rate design decisions.
- C. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
- D. A revised base cost of gas, supporting schedules, and revised fuel-adjustment tariffs to be in effect on the date final rates are implemented.
- E. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
- F. A schedule, together with all supporting calculations, detailing the CIP<sup>1</sup> tracker balance, month by month, from the beginning of interim rates; the revenues (CCRC<sup>2</sup> 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.
- G. Because final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest, to affected customers.

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<sup>1</sup> Conservation Improvement Program.

<sup>2</sup> Conservation Cost Recovery Charge.

Each of these items in Ordering Paragraph No. 46 and related Ordering Paragraph Nos. 1, 5, 6, 7, 9, 10, 11, 12, and 34 are discussed below.

**A. REVISED SCHEDULES OF RATES AND CHARGES**

Ordering Paragraph No. 46(A), Subparts (1) and (2) requires the Company to provide revised schedules of rates and charges reflecting the Commission's revenue requirement and rate design decisions, including the information noted above. The Company provided this information in Schedule A of its Compliance Filing.

The Department reviewed Schedule A of MERC's Compliance Filing. Based on that review, the DOC concludes that MERC's Schedule A reflects the Commission's revenue requirement and rate design decisions.

Additionally, Ordering Paragraph No. 34 requires MERC to work with the Department to address and resolve concerns regarding Joint Rate Service identified in Section III of the Commission's Order and make a compliance filing reporting on those efforts within 90 days of the date of the Commission's Order. MERC stated that it is in the process of reviewing its Joint Rates and will submit a separate compliance filing in accordance with the Commission's Order.<sup>3</sup>

**B. REVISED TARIFF SHEETS**

Schedule B of the Compliance Filing is MERC's response to Ordering Paragraph No. 46(B) which requires MERC to provide revised tariff sheets incorporating the Commission's authorized rate design decisions. MERC noted that it revised the franchise fee listings<sup>4</sup> for New Richland, Ortonville, and Silver Bay since the fees were unintentionally omitted from the proposed tariffs in MERC's initial filing but were all previously submitted in informational filings in Docket No. E,G999/CI-09-970. Additionally, the Company stated that it inadvertently omitted the updated Gas Affordability Surcharge (GAP) from its initial tariff filings and that the corrected GAP surcharge is included in tariff sheet 7.12.<sup>5</sup>

Ordering Paragraph No. 5 requires MERC to file a tariff incorporating the reconciliation service conditions and requirements reflected in the Administrative Law Judge's report. MERC stated that it incorporated the reconciliation service conditions and requirements on tariff sheets 5.10, 5.14, 5.20, 5.24, 5.50 and 6.02.<sup>6</sup>

On February 13, 2015, MERC filed *Corrections to 30-Day Compliance Filing and Additional Information* (February 13 Filing). MERC stated that it became aware of four errors in its filed tariffs.<sup>7</sup>

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<sup>3</sup> Filing, page 4. The Department notes that there are no page numbers in the filing.

<sup>4</sup> Tariff sheets 8.21b-8.21c.

<sup>5</sup> Filing, page 2.

<sup>6</sup> Filing, page 2.

<sup>7</sup> MERC's February 13 Filing, page 1.

First, the base cost of gas on tariff sheet number 5.10 should be listed at \$0.43407. Second, tariff sheet 7.19 did not incorporate the change in the deadline for MERC's annual decoupling evaluation report from March 1 to May 1, as approved in Docket No. G-007,011/GR-10-977 by order dated September 26, 2014. Third, the winter construction charges, tariff sheet 9.06, did not accurately reflect the most current, approved winter construction charges (as approved in Docket No. G011/M-14-361). Finally, the New Area Surcharge tariff, sheet number 9.17, listed the incorrect surcharge for the Lake Ely Project (as approved in Docket No. G-011/M-14-524). The corrected tariff sheets 5.10, 7.19, 9.06, and 9.17 are included as Schedule 1 to this filing.

On February 17, 2015, MERC filed *Correction to Schedule E, 30-Day Compliance Filing* (February 17 Filing). MERC stated that "[t]he New Area Surcharge for the Ely Lake Project as approved in Docket No. G011/M-14-524, should have been listed as \$33.50, not \$34.10."<sup>8</sup>

The Department reviewed Schedule B of MERC's Compliance Filing and the corrections in MERC's February 13 and February 17 Filings. The Department concludes that Schedule B with the proposed corrections complies with the Commission's Order.

#### C. CUSTOMER NOTICES

Ordering Paragraph No. 46(C) requires the Company to provide its proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing. The Company provided this information in Schedule C of its Compliance Filing and stated that it is in the process of incorporating feedback from Commission Staff.<sup>9</sup> MERC indicated that it will submit revised notices once those additional changes are incorporated and make it clear that rates will be implemented April 1, 2015. The Department notes that MERC's implementation date assumes that its Compliance Filing is accepted in time to implement rates on April 1.

The Department concludes that Schedule C complies with the Commission's Order.

#### D. BASE COST OF GAS

Ordering Paragraph No. 46(D) requires MERC to provide its revised base cost of gas, supporting schedules, and revised fuel-adjustment tariffs to be in effect on the date final rates are implemented. The Company filed this information on October 1, 2014 in Docket Nos. G011/MR-13-732 and G011/GR-13-617 in response to the Commission's motion during deliberations to "require MERC to provide a filing in 7 days in this docket that updates the base cost of gas reflecting the NYMEX pricing estimate for January- December 2015." MERC included this filing again in its Compliance Filing as Schedule D.

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<sup>8</sup> MERC's February 17 Filing, page 1.

<sup>9</sup> Filing, pages 2-3.

Generally, decisions on the base cost of gas would be deferred to the related docket (G011/MR-13-732). In this case, no further decisions need to be made regarding the base cost of gas. The Department concludes that Schedule D complies with the Commission's Order.

*E. RATE RIDERS AND CHARGES IN EFFECT*

Ordering Paragraph No. 46(E) requires MERC to provide a summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented. The Company provided this information in Schedule E of its Compliance Filing.

The Department reviewed Schedule E of MERC's Compliance Filing and concludes that Schedule E complies with the Commission's Order.

*F. CIP TRACKER*

*1. Tracker*

Ordering Paragraph No. 46(F) requires the Company to provide:

- a schedule detailing the CIP tracker balance month by month, from 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.

MERC provided this information for the year 2014 in Schedule F of its Compliance Filing.<sup>10</sup>

The Department notes that during the test year, MERC was in the final stages of consolidating its two operating divisions, MERC-PNG and MERC-NMU, and moving from two CIP trackers to a single CIP tracker account by January 1, 2015.<sup>11</sup> Thus, Schedule F shows the accounting for three trackers: MERC-PNG, pages 1-2, MERC-NMU, pages 3-4, and MERC, pages 5 and 6.

The Department discusses details of the CIP tracker (uncollected CIP revenue from Northshore, the CCRC Factor, CIP costs during interim rates, and MERC's review of the Company's CIP Billing process) further below.

*2. Northshore*

Regarding the uncollected CIP revenue from Northshore Mining Company (Northshore), Ordering Paragraph No. 7 requires MERC to:

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<sup>10</sup> The Department notes that page numbers are not shown on MERC's Schedule F.

<sup>11</sup> In Docket No. G011/M-14-369, MERC proposed to consolidate its two CIP tracker accounts.

credit the CIP tracker for the CCRC and CCRA<sup>12</sup> amounts that were not collected from MERC customer Northshore Mining Company from July 2006 through December 2013, before Northshore's CIP exemption became effective on January 1, 2014. The Company shall add a one-time carrying charge at its approved overall rate of return and shall report on the funding of the uncollected CIP amounts in its final compliance filing in this case.

Additionally, Ordering Paragraph No. 6 requires that the credit related to Northshore would be allocated between MERC's Consolidated CIP tracker and MERC-PNG's CIP tracker based on the period Northshore should have been charged. MERC booked the Northshore amounts for MERC-PNG<sup>13</sup> and MERC<sup>14</sup> in June 2014. However, MERC failed to provide:

- the reconciliation of the recovery amounts in the current filing to the rate case figures provided in MERC Ex. 21 at (SSD-2) (DeMerritt Supplemental Direct); and
- its calculations for carrying costs and allocations between MERC's Consolidated CIP Tracker and MERC-PNG's CIP tracker.

In response to the Department's request for this information, MERC stated that the Company found two errors with its original calculation of the Northshore figures in Schedule F of its Compliance Filing. In its February 13 filing, MERC explained the errors. First, data for July through December 2006 was unintentionally omitted from the calculation of the CCRC that should have been collected. Second, MERC stated that it incorrectly applied a CCRA rate from January through October, 2010 when there was no CCRA in place that year until November 2010.<sup>15</sup> The Department agrees with MERC's corrections.

Further, in the general rate case, the Company agreed to pay interest on the Northshore under collection at "MERC's overall rate of return in effect during the period of under collection (July 2006 through December 2013)."<sup>16</sup> During its investigation, the Department worked with MERC on the return rates. MERC and the Department agree on the following overall rates of return in effect for the following years:

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<sup>12</sup> Conservation Cost Recovery Adjustment.

<sup>13</sup> Schedule F, page 1, Line 2e "Past recoveries" and Line 7a "Carry cost on Northshore Mining Adjustment".

<sup>14</sup> Schedule F, page 5, Line 3a "Past recoveries" and Line 6a "Carry cost on Northshore Mining Adjustment".

<sup>15</sup> See Docket Nos. G011/M-10-407 and G007/M-10-409 for support of the November 2010 implementation date.

<sup>16</sup> DOC Ex. 217 at 20, lines 13-14 (St. Pierre Direct).

2006	9.934 %	Docket No. G007,011/GR-00-951 in effect when MERC purchased Aquila
2007	9.934%	
2008	7.980%	Docket No. G007,011/GR-08-835 interim rates began 1/1/08
2009	7.980%	
2010	7.980%	
2011	7.8275%	Docket No. G007,011/GR-10-977 interim rates began 1/1/11
2012	7.8275%	
2013	7.827%	

In its February 13, 2015 filing, MERC stated that the carrying costs did not accurately reflect the agreement between MERC and the Department which resulted in further adjustment to the carrying charge calculation. MERC provided a summary of its calculations in Schedule 2.<sup>17</sup> However, the summary did not provide the detailed calculation. On February 17, 2015, MERC filed the detailed calculation of the Northshore adjustment amount in response to the Department's request.

The Department concludes that MERC's revised Northshore unrecovered CIP amount and carrying cost are correct. The Department recommends that the Commission require MERC to make the additional adjustment to the 2015 trackers (an increase of \$293,841 for MERC-NNG and a decrease of \$15,221 for MERC-CON).

In its February 13 Filing, MERC stated that "MERC will make an additional adjustment to the 2015 tracker and will file the tracker showing that adjustment with its May 1, 2015 CIP filing." Below, the Department recommends that the Commission require MERC to resubmit the CIP tracker account within 10 days after the actual date final rates become effective.

### 3. CCRC Factor

Ordering Paragraph No. 10 requires MERC to update its CCRC factor to reflect the Department's recommended 2014 CIP expense level of \$9,396,422 and correct its CIP applicable volumes to the Department's recommended level. MERC provided this information in Schedule H. MERC's final CCRC reflects Ordering Paragraph No. 9 which sets the CCRC at \$0.02448/therm.

### 4. CIP Costs During Interim Rates

Ordering Paragraph No. 11 requires MERC to debit or credit its CIP tracker account to reflect any under-recovery or over-recovery of CIP costs during the interim-rates period. For the year 2014, MERC's Schedule F, page 6, shows the calculated amount of \$75,479. In its Filing, MERC stated that it has credited the tracker account monthly to reflect the under-recovery of CIP costs during interim rates and that the Company will submit a revised tracker once final rates are implemented if any additional adjustments are required.<sup>18</sup> Below, the Department recommends that the Commission require MERC to resubmit the CIP tracker account within 10 days after the actual date final rates become effective.

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<sup>17</sup> February 13, 2015 filing.

<sup>18</sup> Filing, pages 3-4.



## 5. *Review of CIP Billing Process*

Ordering Paragraph No. 12 requires MERC to review its CIP billing process and report its findings. In its Compliance Filing, MERC stated that the Company was in the process of undertaking a complete review of its CIP billing process, and would submit a separate compliance filing on or before February 15, 2015.<sup>19</sup>

MERC filed its review results on February 13, 2015. During its review, MERC identified one customer, an Iowa local distribution company (LDC) which resells gas, sold by MERC, to end-use customers located in Iowa.<sup>20</sup> MERC has charged the CCRC but not the CCRA to the LDC since 2006. After reviewing the circumstances with Department Staff, MERC stated that it was determined that MERC should not be charging the LDC for CIP. MERC further stated that it intends to stop charging the CCRC factor and refund the amount of over-collection, plus interest, for the past three years as provided under Minn. R. 7820.4000, subp. 2 (Billing Error Rule).<sup>21</sup>

The Department reviewed the compliance and concludes that it complies with the Commission's Order. However, the Department clarifies that the refund should be paid by MERC, rather than ratepayers. Therefore, the refund will not affect MERC's CIP tracker.

## 6. *Conclusion*

As stated above, MERC proposed final rates to become effective April 2015. Since the Order requires MERC to debit or credit the CIP tracker to reflect any under- or over-recovery of CIP costs during the interim rates period, the Department recommends that the Commission require MERC to resubmit the CIP tracker account for the entire period that interim rates were in effect within 10 days after the actual date final rates become effective. The tracker should separately show the adjustments to the tracker for the:

- errors made in the Northshore amounts discussed in item 2 above; and
- CIP cost over- or under-recovery during interim rates as discussed in item 4 above.

## G. *INTERIM RATE REFUND PLAN*

Since final authorized rates are lower than interim rates, Ordering Paragraph No. 46(G) requires the Company to provide a proposal to make refunds of interim rates, including interest,<sup>22</sup> to affected customers. MERC proposed that final rates go into effect on April 1, 2015 and interim rates be refunded beginning in May of 2015. In Schedule G of its

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<sup>19</sup> Filing, page 4.

<sup>20</sup> February 13, 2015 *Compliance Filing of MERC CIP Billing Process*, pages 6-7.

<sup>21</sup> The Department notes that the Billing Error Rule may, or may not apply but the Rule could be used as a guide for the refund to the LDC.

<sup>22</sup> Interest is calculated at the average prime rate under Minn. R. 7825.3300. MERC used the Federal Reserve's Bank Prime Loan of 3.25 percent which stayed the same percentage throughout 2014.

Compliance Filing, MERC estimated a total refund obligation of \$3,051,114 (including interest of \$53,701) and a refund factor of approximately 28.43 percent. These schedules are updated when actual interim revenues billed are known.

Based on its review, the Department concludes that the refund plan complies with Ordering Paragraph No. 46(G). Therefore, the DOC recommends that the Commission approve MERC's refund plan. For the record, the Department recommends that the Commission require MERC to submit, within 10 days of the completion of the refund for all of its customers, a compliance filing that separately shows the actual refunds and interest paid by rate class including supporting calculations.

### **III. SUMMARY OF THE DOC'S RECOMMENDATIONS**

In conclusion, the Department recommends that the Commission:

- 1) require MERC to resubmit the CIP tracker account for the entire period that interim rates were in effect within 10 days after the actual date final rates become effective including the adjustments to the tracker discussed above;
- 2) approve MERC's refund plan; and
- 3) require MERC to submit, within 10 days of the completion of the refund for all of its customers, a compliance filing that separately shows the actual refunds and interest paid by rate class including supporting calculations.

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