

# Minnesota Public Utilities Commission

## Staff Briefing Papers

---

**Meeting Date:** March 12, 2015 ..... **Agenda Item # 7 \*\***

---

**Company:** Minnesota Energy Resources Corporation (MERC or the Company)

**Docket Nos.** G-011/GR-13-617  
In the Matter of a Petition by Minnesota Energy Resources Corporation  
(MERC) for Authority to Increase Natural Gas Rates in Minnesota

G-011/MR-13-732  
In the Matter of the Petition of Minnesota Energy Resources Corporation for  
Approval of a New Base Cost of Gas for Interim Rates

---

**Issues:** Should the Commission approve Minnesota Energy Resources Corporation's  
(MERC) January 21, 2015 compliance filing?

**Staff:** Andy Bahn ..... 651-201-2249  
Sundra Bender ..... 201-2247  
Bob Brill..... 201-2242

---

### ***Relevant Documents***

MERC – Findings of Fact, Conclusions of Law, and Order ..... Oct. 28, 2014  
MERC – Order Denying Reconsideration and Clarifying Language ..... Dec. 22, 2014  
MERC – Compliance Filing ..... Jan. 21, 2015  
MERC – Compliance Filing Attachment 1 CIP Billing ..... Feb. 13, 2015  
MERC – Compliance Filing Revisions..... Feb. 13, 2015  
MERC – Compliance Filing Correction to Schedule E..... Feb. 17, 2015  
MERC – Compliance Filing CIP Adjustment Detail..... Feb. 17, 2015  
Department of Commerce (Department) Comments ..... Feb. 19, 2015  
MERC – Reply Comments ..... Mar. 2, 2015

---

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

**This document can be made available in alternative formats (i.e., large print or audio) by calling 651-296-0406 (voice). Persons with hearing or speech disabilities may call us through their preferred Telecommunications Relay Service.**

March 4, 2015

## Table of Contents

Statement of the Issue .....	1
Introduction .....	1
Background .....	1
Commission Order .....	2
MERC's Compliance Filing .....	3
Department Comments .....	4
Department Recommendations .....	7
MERC Reply Comments .....	7
PUC Staff Comment .....	8
Schedule A – Schedules of Rates and Charges .....	8
Schedule C - Customer Notices .....	9
Schedule F - CIP Tracker .....	9
Decision Alternatives .....	12
Department Recommendations .....	12
Additional PUC Staff Recommendations .....	12

## Statement of the Issue

Should the Commission approve Minnesota Energy Resources Corporation's (MERC) January 21, 2015 compliance filing?

## Introduction

In its Compliance Filing,<sup>1</sup> MERC asked for approval to implement final rates from the rate case on April 1, 2015 and for approval of its proposed interim rate refund plan. MERC's Compliance Filing includes many detailed reports and schedules designed to demonstrate MERC's compliance with Commission's Orders. The Department recommended the Commission approve MERC's compliance filing with certain additional filing requirements. As discussed in the briefing papers, the Commission will need to decide whether to authorize MERC to implement final rates on April 1.

## Background

On September 30, 2013, MERC filed a general rate case. MERC requested an annual rate increase of \$14,187,597, or approximately 5.52% percent, over existing rates.

On November 27, 2013, the Commission issued its *Order Setting Interim Rates* authorizing MERC to implement an interim rate increase of \$10,755,973, effective on November 29, 2013.

On October 28, 2014, the Commission issued its *Findings of Fact, Conclusions, and Order* which authorized an increase in Minnesota jurisdictional revenues of approximately \$7,580,774 per year to produce jurisdictional total gross revenue of approximately \$267,874,613,<sup>2</sup> based on a rate of return on common equity capital of 9.35% for the test-year ending December 31, 2014.

On November 17, 2014, petitions for reconsideration or clarification were filed by MERC and the Minnesota Office of Attorney General-Antitrust and Utilities Division (OAG).

On December 1, 2014, MERC and the OAG submitted answers to the petitions for reconsideration.

On December 22, 2014, the Commission concluded that the October 28, 2014 Order decisions were consistent with the facts, the law, and the public interest, and therefore denied the petitions for reconsideration.

On January 21, 2015, MERC made its Compliance Filing pursuant to Points 10, 11, and 46 of the Commission's October 28, 2014 Order.

On February 13 and 17, 2015 MERC addressed Compliance Order Point 12 and amended its Compliance Filing.

---

<sup>1</sup> Dated January 21, 2015.

<sup>2</sup> Includes the Base Cost of Gas, Late Payment, and Other Revenues.

On February 19, 2015, the Department submitted comments on MERC's Compliance Filing.

On March 2, 2015, MERC submitted reply comments.

## Commission Order

The Commission's October 28, 2014 Order required MERC to provide the following information in its *Compliance Filing*:

Order Point 10 required 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.

Order Point 11 required 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.

Order Point 12 required MERC to review its CIP billing process and make a compliance filing in this docket reporting its findings.

Order Point 46 required MERC to make its rate case compliance filing within 30 days after the Commission's order was issued. On December 22, 2014, the Commission issued its Order denying MERC's and the OAG's request for reconsideration and clarification. Order Point 46 required:

- 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 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 tracker balance, month by month, from the beginning of interim rates; the revenues (the 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.
- g. Because final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest, to affected customers.

Persons wishing to comment on the compliance filing(s) were directed to do so within 30 days of the date it was filed. Comments were not requested on the proposed customer notice.

## MERC's Compliance Filing

On January 21, 2015, MERC made its Compliance Filing pursuant to Order Points 10, 11,<sup>3</sup> and 46. MERC's Schedule A provided the revenues by revenue component, by rate schedule based on final rates as determined in the Commission's October 28, 2014 Order. MERC calculated its final rate increase at \$7,580,704.<sup>4</sup> Schedule B reflected MERC's revised tariff sheets. Schedule C reflected MERC's proposed customer notices explaining the final rates.

Schedule D reflected the final base cost of gas rates, originally calculated by MERC in its Commission directed October 1, 2014 base cost of gas filing which used January through December 2015 NYMEX pricing. Schedule E reflected the required summary of all other riders and charges in effect.

Schedule F provided the required CIP information for the 2014 test year. Further, Schedule F provided MERC's interim period calculation of any over/under collection of CIP expenses through the test year. Schedule G reflected MERC's interim rates refund proposal. Schedule H reflected MERC's final rate CCRC CIP calculation of \$0.02448 based on the Department's recommended test year expense level and the agreed upon sales forecast.

On February 13, 2015, MERC made its compliance filing for Order Point 12 which required MERC to review its CIP billing process. MERC provided a review of its CIP program history by summarizing its CIP exemptions and CIP billing calculation errors that were resolved in Docket Nos. 10-977 and 13-617.

MERC's review identified another CIP billing issue related to a natural gas sale made to an Iowa local distribution company (LDC) under Rate Schedule GS-1. MERC is currently billing the customer the CIP program CCRC factor, but not the CCRA factor. MERC and the Department have discussed this new CIP billing issue.

On March 2, 2015, MERC submitted *Reply Comments* to the Department's February 19, 2015 *Comments*, see the below discussion.

---

<sup>3</sup> Order Point 12 was addressed in MERC's February 15, 2015 Filing.

<sup>4</sup> This revenue increase does not include the base cost of gas.

## Department Comments

On February 19, 2015, the Department filed its *Comments* on MERC's January 21, 2015, February 13, 2015, and February 17, 2015 Compliance Filings.

### Schedule A. Revised Schedules of Rates and Charges

The Department concluded that MERC's Schedule A reflected the Commission Order's revenue requirement and rate design decisions.

### Schedule B. Revised Tariff Sheets

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

### Schedule C. Customer Notices

The Department noted that MERC's final rate implementation date is assumed to be April 1, 2015. The Department concluded that Schedule C complies with the Commission's Order.

### Schedule D. Base Cost of Gas

The Department stated that 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 concluded that Schedule D complies with the Commission's Order.

### Schedule E. Rate Riders and Charges in Effect

The Department review concluded that MERC's Schedule E complies with the Commission's Order.

### Schedule F. CIP Tracker

#### 1. Tracker Account

The Commission's Order Point 46(F)<sup>5</sup> required MERC to provide:

- a. a schedule detailing the CIP tracker balance month by month, from the beginning of interim rates;
- b. the revenues (CCRC and CCRA) and costs recorded during the period of interim rates; and
- c. the CIP tracker balance at the time final rates become effective.

The Department stated that MERC provided the Order requirements for its 2014 test year in its *Compliance Filing*, Schedule F. The Department believes that MERC should be required to

---

<sup>5</sup> The Department noted that during the 2014 test year, MERC was in the final stages of consolidating its two CIP tracker accounts, MERC-PNG and MERC-NMU, and moving to a single CIP tracker account by January 1, 2015, MERC-Consolidated. MERC's Schedule F reflects the accounting for the three test year CIP tracker accounts: MERC-PNG, MERC-NMU, and MERC-Consolidated. See MERC's Compliance Filing, Schedule F, pp. 1-6.

provide the CIP tracker account Order requirements for the entire interim rate period,<sup>6</sup> within 10 days of the date final rates become effective.

## 2. Northshore

The Commission's Order Point 7 required MERC to credit the CIP tracker for the CCRC and CCRA amounts that were not collected from MERC's Northshore Mining Company customer, from July 2006 through December 2013, before Northshore's CIP exemption became effective on January 1, 2014. MERC further agreed to calculate a one-time carrying charge<sup>7</sup> at its approved overall rate of return and recorded the un-collected CIP amounts in its January 21, 2015, Schedule F *Compliance Filing*.<sup>8</sup>

In June 2014, MERC recorded its initial Northshore CIP tracker adjustments for MERC-PNG and MERC-Consolidated CIP tracker accounts. The Department concluded that MERC's January 21, 2015 *Compliance Filing* failed to provide:

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

In response to the Department's request, MERC stated that it found two errors with its initial Schedule F that adjusted the CIP tracker accounts for the Northshore adjustments.<sup>9</sup> In MERC's February 13, 2015 *Filing*, MERC provided an explanation for 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.

Further, MERC stated that the carrying costs did not accurately reflect the agreement between MERC and the Department which resulted in further adjustment to the Northshore carrying charge calculation. MERC provided a summary of its calculations in Schedule 2.<sup>10</sup> The Department noted that 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.

MERC proposed to reduce its initial **PNG** CIP revenue recoveries from \$2,824,997 to \$2,502,787 and adjust the initial interest calculation from \$555,695 to \$584,064 for a net CIP

---

<sup>6</sup> Currently scheduled to end on March 31, 2015.

<sup>7</sup> MERC 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). During the compliance filing preparation, MERC and the Department worked together to determine the appropriate rate of return data for its interest calculation.

<sup>8</sup> Additionally, the Commission's Order Point 6 required that the un-collected CIP credit related to Northshore be allocated between MERC-Consolidated's CIP tracker and MERC-PNG's CIP tracker based on the period Northshore should have been charged.

<sup>9</sup> MERC's *Compliance Filing* dated January 21, 2015.

<sup>10</sup> MERC's February 13, 2015 filing "Corrections to 30-day Compliance Filing."

tracker account increase of \$293,841. MERC did not propose to change its initial **Consolidated** CIP revenue recoveries, but adjusted the initial interest calculation from \$13,366 to \$28,587 for a net CIP tracker account decrease of \$15,221.<sup>11</sup>

The Department reviewed MERC's January 21, 2015 *Compliance Filing*, its February 13, 2015 *Filing*, and its February 17, 2015 *Filing*, as discussed above.

The Department concluded that MERC's revised Northshore un-recovered CIP amount and carrying cost were correct and recommended that the Commission require MERC to make the additional adjustments in its CIP tracker accounts (in MERC-PNG CIP tracker account an increase of \$293,841 and in MERC-Consolidated CIP tracker account a decrease of \$15,221).

### 3. CCRC Factor

The Department concluded that MERC properly calculated its final rate CCRC factor of \$0.02448.

PUC staff reviewed MERC's calculation and the Department's *Comments* on the calculation and believes that the calculation is consistent with the Commission's October 28, 2014 Order requirements.

### 4. CIP Costs During Interim Rates

The Commission's Order Point 11 required 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. MERC's final CCRC factor calculation did change from its as filed CCRC factor calculation which was recovered during the interim period. MERC's Schedule F, page 6 reflects MERC's calculation of an under-recovered CIP amount of \$75,479 during the test year.

MERC stated in its compliance filing that it plans to credit the CIP tracker account monthly to reflect the under-recovery of CIP costs during the interim rate period and that MERC will submit a revised CIP tracker once final rates are implemented.<sup>12</sup>

The Department's review concluded that MERC's CIP Schedule F complies with Order Point No. 46(F).

#### Schedule G. Interim Rate Refund Plan

The Department stated since final authorized rates are lower than interim rates, Order Point 46(G) requires MERC to provide a proposal to make refunds of interim rates, including interest, to its customers. MERC proposed that final rates will go into effect on April 1, 2015 and interim rates be refunded beginning in May 2015. In MERC's Schedule G, MERC estimated a total refund obligation of \$3,051,114 (including interest of \$53,701) and a refund factor of approximately 28.43%.

---

<sup>11</sup> MERC's February 13, 2015 filing "Corrections to 30-day Compliance Filing," Schedule 2.

<sup>12</sup> Ibid.



The Department's review concluded that MERC's refund plan complies with Order Point No. 46(G).

### **Department Recommendations**

The Department recommends that the Commission:

- 1) require MERC to resubmit the CIP tracker account Order requirements (Schedule F) for the entire interim rate period within 10 days after the actual date final rates become effective and separately reflect the following adjustments:
  - a) include the entire interim period, currently projected to end March 31, 2015; and
  - b) for the revised Northshore Mining CIP calculations; and
  - c) for the CIP under-recovery caused by the initial interim period CCRC factor being lower than the revised CIP CCRC factor of \$0.02248 for the entire interim period, currently projected to end March 31, 2015.
- 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.

## **MERC Reply Comments**

On March 2, 2015, MERC filed its *Reply Comments* to the Department's February 19, 2015 *Comments*. MERC responded to the Department's recommendation as follows:

The Department recommended that the Commission require MERC to resubmit its CIP tracker account for the entire interim rate period that interim rates were in effect within 10 days after the actual date final rates become effective. Specifically, the Department recommended that the Commission require MERC to adjust the MERC-PNG CIP tracker with an increase of \$293,841 and adjust the MERC-Consolidated CIP tracker with a decrease of \$15,221.<sup>13</sup>

MERC agreed to submit a filing with an adjusted CIP tracker within 10 days after final rates are implemented, but with one point of clarification. On January 1, 2015, MERC consolidated its NMU and PNG CIP tracker accounts into its consolidated CIP tracker; on a going forward basis the CIP account will be termed "MERC CIP Tracker." MERC agreed to list the adjustments for PNG and the consolidated tracker separately, but because MERC now has just a single CIP tracker account, both adjustments will occur in the MERC CIP tracker.

MERC supported the Department's recommendations on the refund plan and the requirement to submit a compliance filing within 10 days after the customer refunds are completed. The compliance filing will separately reflect the actual refunds and interest paid by rate class including supporting calculations.

---

<sup>13</sup> Department February 19, 2015 *Comments* in Docket No. 13-617, p. 7.

## PUC Staff Comment

PUC staff reviewed the Commission's October 28, 2014 Order in Docket No. 13-617 and the subsequent MERC *Compliance Filing* and its *Reply Comments*, and appreciates the Department's *Comments*. PUC staff believes that the majority of the issues in this docket have been resolved. PUC staff believes that the Department's analysis covers most of the relevant factors and generally agrees with the Department's February 19, 2015 recommendations with minor modifications. PUC staff also provides additional recommendations.

### Schedule A<sup>14</sup> – Schedules of Rates and Charges

The Department concluded that MERC's Compliance Filing complied with the Commission's October 28, 2014 Order Point 46. PUC staff notes that MERC's Compliance Filing total Minnesota jurisdictional revenue requirement for this rate case equaled \$267,874,613 and its revenue increase equaled \$7,580,774. MERC's Schedule A reflected its revenue increase at \$7,580,704<sup>15</sup> for a difference of \$70, which is attributed to rounding in MERC's calculation. The calculated revenue was reflected by revenue class/type.

PUC staff believes that MERC's Schedule A is deficient because the schedule does not include the required per-unit commodity and demand base cost of gas factors or the related sales revenues for each customer class, and does not list the Late Payment and Other Revenues that are necessary to calculate the \$267,874,613 operating revenues, by type. MERC's January 21, 2015 Compliance Filing does not comply with the Commission's Order requirement to include a breakdown of total operating revenue by type. However, the base cost of gas information is reflected in Schedule D of MERC's January 21, 2015 *Compliance Filing*.

The Commission may wish to require MERC in future rate case filings to file its rate and revenue schedules reflecting both with and without the base cost of gas revenues as it has done in the past.

Further, in MERC's Schedule A, PUC staff noticed that for Rate Schedule LVJ-NNG Flex Transport (Customers A and F), MERC reflected a negative distribution rate for these customers once the rate case approved \$0.02448 CCRC factor was subtracted from the total negotiated distribution factor. MERC reacted to these negative rates by re-negotiating its distribution rate factors charged to these customers, which were effective on February 1, 2015.

PUC staff is concerned about MERC setting negotiated distribution rate factors for CIP revenue applicable customers at a level that is not high enough to cover the CCRC factor when separating its distribution and CIP rate factors, thus creating a negative distribution rate.

The Commission may wish to require MERC in future rate case filings, to file its proposed CIP applicable Distribution Rates at a level high enough to cover the proposed CCRC factor.

---

<sup>14</sup> From MERC's January 21, 2015 Compliance Filing.

<sup>15</sup> Does not include the base cost of gas

**Schedule C<sup>16</sup> - Customer Notices**

The Department concluded that Schedule C complies with the Commission's Order. PUC staff has also reviewed the proposed customer bill notices for MERC-NNG and MERC-Consolidated and worked with MERC on several revisions to make the notices clearer and to correct numerous errors within the rate tables and schedules. PUC staff continues to work with MERC on these customer bill notices.

Staff believes the notices attached to the briefing papers can be approved if the Commission grants MERC's request for an April 1 effective date for implementing final rates using the billing determinants proposed in MERC's Compliance Filing. However, if the Commission requires a modification to any of the billing determinants, the interim rate refund or authorizes a later effective date, MERC will need to revise its proposed notices. To address timing issues such as this one, the Commission in its Notice and Order for Hearing, in this docket, delegated to the Executive Secretary the authority to approve notices and bill inserts for the duration of these proceeding. As soon after the Commission's March 12 meeting as is practical, and after MERC has final versions of its proposed notices, a Commission notice approving MERC's customer notices could be issued.

(Please see Attachment A for a copy of MERC's proposed notices.)

**Schedule F<sup>17</sup> - CIP Tracker****Northshore**

The Department concluded that MERC's revised Northshore un-recovered CIP amount and carrying cost were correct and recommended that the Commission *require MERC to make the additional adjustments in its CIP tracker accounts (in MERC-PNG CIP tracker account an increase of \$293,841 and in MERC-Consolidated CIP tracker account a decrease of \$15,221)* within 10 days after final rates go in effective.

Originally, MERC stated<sup>18</sup> that it will make the additional CIP Northshore adjustments in its 2015 CIP tracker filing scheduled to be filed on or before May 1, 2015. But in its March 2, 2015 *Reply Comments*, MERC agreed to submit the compliance filing as recommended by the Department, but stated that on January 1, 2015, the MERC-PNG and NMU CIP tracker account were consolidated into MERC's Consolidated CIP tracker account which has been re-named "MERC CIP account." MERC stated that it would separately state each of the Northshore revised adjustments, but it would do so in its "MERC CIP Tracker." MERC has requested clarification on this recommendation since the MERC-PNG and NMU CIP accounts have been consolidated.

PUC staff believes that since MERC already has consolidated the CIP tracker accounts and it would be difficult to re-create separate accounts and believes the Commission may wish to approve MERC's suggestion and allow MERC to make the revised Northshore calculation adjustments in its "MERC CIP Tracker."

---

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> MERC's February 13, 2015 filing.

### Review of CIP Billing Process

Pursuant to Order Point 12 requirements,<sup>19</sup> MERC filed its CIP billing practices compliance report on February 13, 2015 summarizing its review of current billings to CIP applicable and CIP non-applicable (exempt) customers to ensure that its billing system was correctly billing its customers for CIP.

Previously in Docket No. 10-977, MERC reported that its billing system had 3 customers incorrectly coded as CIP exempt, these customers had not received a Department exemption. In MERC's current rate case,<sup>20</sup> it further identified another customer that was incorrectly coded CIP exempt, Northshore Mining. Both times MERC assured PUC staff that no other CIP issues existed in its billing system.

In its compliance review, MERC identified a new CIP billing issue. MERC discovered that an Iowa local distribution company (LDC) customer, which buys gas from MERC and then resells the gas to its 11 Iowa customers,<sup>21</sup> was charged the CCRC factor but not the CCRA factor.<sup>22</sup>

In order to prevent future findings of CIP billing errors, the Commission may wish to require MERC to engage an independent third party auditor to review its customer billing system to ensure that all CIP charges are applied in accordance with its tariff. At a minimum, the Commission may wish to require MERC to file additional *Comments* in this proceeding that provides a detailed explanation of the steps MERC took when it reviewed the billing system.

Prior to MERC, Aquila owned all the facilities located in Minnesota and Iowa and provided service to the 11 Iowa customers. MERC purchased the Aquila Minnesota facilities and 600 feet of pipeline located in Iowa<sup>23</sup> that was necessary to reach the Northern Natural Gas Iowa interconnection that is used to service certain Minnesota customers.<sup>24</sup> Because of its Iowa pipeline ownership, MERC filed for and was granted a blanket certificate of limited jurisdiction under section 7(c) of the Natural Gas Act from Federal Energy Regulatory Commission (FERC).<sup>25</sup>

MERC provides natural gas service to three meter installations located near the Minnesota/Iowa border, but the meters are located in Minnesota. The Iowa LDC owns the facilities that connect to MERC's Minnesota meters, and the title to the gas is transferred to the Iowa LDC at this point. The Iowa LDC transports the gas into Iowa and resells the natural gas to its 11 customers, thus, providing each customer with its bill for natural gas service.

In its November 30, 2006 Order, paragraph C, FERC required MERC to submit unbundled transportation rates approved by the Minnesota Public Utilities Commission (MN Commission) for services most comparable to the services provided to the LDC. MERC proposed its Rate

---

<sup>19</sup> The Commission's October 28, 2014 Order.

<sup>20</sup> Docket No. 13-617.

<sup>21</sup> MERC's February 13, 2015 Compliance Filing of MERC's CIP Billing Process, pp. 6-7.

<sup>22</sup> The billing error started July 1, 2006 (inception of MERC).

<sup>23</sup> On July 14, 2006, FERC issued an Order Determining Service Area. *Minnesota Energy Resources Corporation*, 116 FERC 62,036 (2006).

<sup>24</sup> Emmons, MN.

<sup>25</sup> *Minnesota Energy Resources Corporation*, 117 FERC 61,254 (November 30, 2006).

Schedule SJ-1 rate factors and FERC approved MERC's proposal.<sup>26</sup> In its 2008 rate case, MERC developed unbundled Rate Schedule GS-1 rate factors that were approved by the MN Commission. Subsequently, MERC proposed to replace its use of Rate Schedule SJ-1 with its newly developed unbundled Rate Schedule GS-1 rate factors and was granted authority to use those rate factors by the FERC.<sup>27</sup>

MERC currently bills the Iowa LDC a separate monthly customer charge for each meter and further bills the Iowa LDC its distribution charge, includes the CCRC factor, and related cost of gas factors for gas delivered to each meter under Rate Schedule GS-1, but not its CCRA factor or the Gas Affordability Service Program (GAP) surcharge.

After discovering this billing error, MERC sought advice from the Department on how to resolve this CIP billing issue; whether to charge or not charge the CIP factors to the Iowa LDC. MERC had discussions with Department representatives from its Conservation Improvement Program (CIP) and Energy Regulation & Planning divisions. In its email communication dated February 6, 2015, the Department stated that in its opinion MERC should not be charging the Iowa LDC for its CIP program (the CCRC and CCRA rate factors) and that the Commission should require MERC to issue a refund to the Iowa LDC for prior CCRC amounts collected since August 22, 2008.<sup>28</sup> The Department further stated that MERC should remove the Iowa LDC's sales and revenue amounts from future CIP triennial reports.

MERC stated in its February 13, 2015 filed report; it intends to stop charging the CCRC factor and refund the amount of CCRC over-collection, plus interest, for the past three years as provided under Minn. R. 7820.4000, subp. 2.<sup>29</sup> The Department further clarified that any refund should be paid by MERC, and not its customers through increased rate factors. The refund will not affect MERC's CIP tracker and was estimated to be approximately \$587.

PUC staff does not necessarily disagree with the Department's opinions given to MERC, but this docket's record is void of any information about any Minn. Statute or Minn. Rule that the Department would have relied on in determining that service to these meters and this customer are non-applicable (exempt) from CIP and GAP factors. As mentioned previously, MERC provides natural gas service to the Iowa LDC using meters located in Minnesota through its Rate Schedule GS-1 (General [Sales] Service-1) tariff.

PUC staff is un-aware of any tariff provision, Minn. Statute, or Minn. Rule that would exclude MERC from charging the Iowa LDC its currently effective CIP and GAP factors since the service is provided under Rate Schedule GS-1, where all customers are typically CIP and GAP applicable. PUC staff is aware that the Rate Schedule GS-1 tariff may not be the best fit for its natural gas service provided to the Iowa LDC, but MERC does not have a current tariff service available for Sales for Resale service in its current rate book that could be used to make the Iowa LDC CIP exempt.

---

<sup>26</sup> See the FERC Order dated February 2, 2007.

<sup>27</sup> Ibid

<sup>28</sup> Represents the date the Iowa LDC acquired the facilities from Aquila

<sup>29</sup> The Commission Billing Error Rule. The Department noted 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.

In order to allow the various parties an opportunity to vet the issue and provide a record on whether the Iowa LDC should be exempted from CIP and GAP charges, the Commission may wish to require MERC to provide detailed *Comments* describing any Minn. Statutes, Minn. Rules, or any tariff provisions that would support a conclusion that the Iowa LDC is CIP exempt within 30 days after the Order is issued and require the Department to issue *Comments* on MERC's *Comments* within 30 days after the compliance filing is made.

MERC should provide any relevant information that is not in the current record and any tariff service provisions that could be used for exempting the Iowa LDC from its current CIP and GAP charges, which would include any different rate schedule that could be used. The Department should provide a discussion on any Minn. Statutes, Minn. Rules, or any other basis that could be used in determining whether the Iowa LDC is CIP exempt.

If the Commission were to decide that the Iowa LDC should be exempt from CIP and GAP surcharge factors, the Commission may wish to require MERC to submit a compliance filing with its proposed tariff language and rate schedules.

## Decision Alternatives

1. Authorize MERC to implement its final rates from the Commission October 28, 2014 Order on April 1, 2015; or
2. Authorize MERC to implement its final rates from the Commission October 28, 2014 Order on some other date, for example, May 1, 2015.

### **Department Recommendations**

3. Require MERC to resubmit the CIP tracker account Order requirements (Schedule F) for the entire interim rate period within 10 days after the actual date final rates become effective and separately reflect the following adjustments:
  - a) include the entire interim period, currently projected to end March 31, 2015; and
  - b) for the revised Northshore Mining CIP calculations; and
  - c) for the CIP under-recovery caused by the initial interim period CCRC factor being lower than the revised CIP CCRC factor of \$0.02248 for the entire interim period, currently projected to end March 31, 2015; and
4. Approve MERC's refund plan; and
5. 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.

### **Additional PUC Staff Recommendations**

6. Require MERC in future rate cases to file its rate and revenue schedules both with and without the base cost of gas revenues. or

7. Do not require MERC in future rate cases to file its rate and revenue schedules both with and without the base cost of gas revenues.
8. Require MERC in future rate case filings, to file its proposed CIP applicable Distribution Rates at a level high enough to cover the proposed CCRC factor. or
9. Do not require MERC in future rate case filings, to file its proposed CIP applicable Distribution Rates at a level high enough to cover the proposed CCRC factor.
10. Require MERC to engage an independent third party auditor to review its customer billing system to ensure that all CIP charges are applied in accordance with its tariff. or
11. Require MERC to file additional *Comments* in this proceeding that provide a detailed explanation of the steps MERC took when it reviewed the billing system. or
12. Do not require MERC to engage an independent third party auditor to review its customer billing system to ensure that all CIP charges are applied in accordance with its tariff. Do not require MERC to file additional *Comments* in this proceeding that provides a detailed explanation of the steps MERC took when it reviewed the billing system.
13. Approve MERC's suggestion and allow MERC to make the revised Northshore calculation adjustments in its "MERC CIP Tracker instead of the Department's recommendation to require MERC to make the additional adjustments in its MERC-PNG CIP tracker account and its MERC-Consolidated CIP tracker account.
14. Require MERC to provide detailed *Comments* describing any Minn. Statutes, Minn. Rules, or any tariff provisions that would support a conclusion that the Iowa LDC is CIP and GAP exempt (including under Rate Schedule GS-1) within 30 days after the Order is issued. This would include a detailed discussion on:
  - a. any proposed tariff revisions; and
  - b. how to treat any under-collection of CCRA and GAP charges from the Iowa LDC' since the inception of service to this customer, and
15. Request the Department to provide comments in response to MERC's filing within 30 days of the filing date.

## IMPORTANT INFORMATION about your natural gas rates

# NEW NATURAL GAS RATES BEGIN WITH THIS BILL

For Customers Served by  
Northern Natural Gas Pipeline

### Refund On Interim Rates

State law allowed Minnesota Energy Resources to collect an interim (temporary) rate increase while the MPUC considered our rate request. The interim increase of \$10.5 million or 4.09%, began on January 1, 2014. Since the final increase is less than the interim rate increase, Minnesota Energy Resources will refund any difference between these amounts with interest.

### Reasons For The Increase

Minnesota Energy Resources requested this increase due to increased costs for operating expenses and/or conservation programs.

### How The Rate Change Will Affect Monthly Bills

The MPUC's October 28, 2014 Order will affect individual monthly bills differently depending on natural gas use and customer type. The customer charges and the distribution charges recover only the cost of providing distribution service to our customers. These rates do not include the wholesale cost of gas, which is passed on to you directly at our cost without adding any additional fees to the price. Your monthly bills will continue to vary due to changes in the wholesale cost of natural gas.

**Please see inside for an explanation  
of how the changes will impact your  
natural gas bill.**

### For More Information

If you would like more information, please visit us online at [minnesotaenergyresources.com](http://minnesotaenergyresources.com), visit your local Minnesota Energy Resources customer service office, or call **800-889-9508**.



### An Explanation Of Changes To Your Natural Gas Rates

On September 30, 2013, Minnesota Energy Resources requested permission to increase its natural gas rates by approximately \$14.2 million, or about 5.52%.

On October 28, 2014, the Minnesota Public Utilities Commission (MPUC) approved new natural gas rates for Minnesota Energy Resources customers. Overall, rates will increase approximately \$7.6 million, or 2.8%, beginning April 1, 2015.

Under the MPUC's October 28, 2014 Order, the fixed customer charge for residential customers will increase from \$8.50 to \$9.50 per month, and the distribution charge will increase from \$0.19754 to \$0.21806 per therm. These rates are effective on April 2015 bills. Although the net effect on customers will vary by rate classification, the average residential customer using 74 therms of natural gas per month will see a \$2.50 increase on their monthly bill.



XXXX-30950-I-XXXX





## CHANGE IN AVERAGE MONTHLY BILLS

Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Proposed Monthly Bill
General Service - Residential Sales	74	\$68	\$71
General Service - Small Commercial & Industrial Sales	80	\$78	\$81
General Service - Large Commercial & Industrial Sales	693	\$575	\$583
Small Volume Interruptible Sales	4,747	\$2,717	\$2,629
Large Volume Interruptible Sales	11,344	\$5,481	\$5,602
Small Volume Joint Sales	4,149	\$2,466	\$2,397
Small Volume Interruptible Transportation	26,304	\$2,877	\$2,389
Transport for Resale	14,501	\$1,289	\$1,339
Small Volume Joint Transportation	7,037	\$1,140	\$1,060
Large Volume Interruptible Transportation	130,825	\$2,873	\$3,389
Large Volume Joint Transportation	107,099	\$3,525	\$4,096
Super Large Volume Interruptible Transportation	1,025,965	\$5,123	\$5,431
Super Large Volume Joint Transportation	1,670,331	\$17,963	\$18,053

\*The present rate levels identified represent the rates authorized in Docket Nos. G007,011/GR-10-977

## APPROVED NEW CHANGES FOR MONTHLY CUSTOMER CHARGE AND THE PER THERM GAS DISTRIBUTION CHARGE

This chart shows the current and approved customer charge and distribution charge for each customer class.

Customer Class	Current Customer Charge*	Approved Customer Charge*	Current Distribution Charge**	Approved Distribution Charge**
General Service - Residential Sales	\$8.50	\$9.50	0.19754	0.21806
General Service - Small Commercial & Industrial Sales	\$14.50	\$18.00	0.18525	0.18116
General Service - Large Commercial & Industrial Sales	\$35.00	\$45.00	0.16868	0.16579
Small Volume Interruptible Sales	\$150.00	\$165.00	0.10647	0.08490
Large Volume Interruptible Sales	\$175.00	\$185.00	0.03568	0.04553
Small Volume Joint Sales	\$150.00	\$165.00	0.10647	0.08490
Small Volume Interruptible Transportation	\$220.00	\$275.00	0.10647	0.08490
Large Volume Interruptible Transportation - CIP Applicable	\$245.00	\$295.00	0.03568	0.04553
Large Volume Interruptible Transportation - CIP Exempt	\$245.00	\$295.00	0.02055	0.02105
Small Volume Joint Transportation	\$220.00	\$275.00	0.10647	0.08490
Large Volume Joint Transportation	\$245.00	\$295.00	0.03568	0.04553
Super Large Volume Interruptible Transportation - CIP Exempt	\$370.00	\$460.00	0.00420	0.00420
Super Large Volume Interruptible Transportation - CIP Applicable	\$370.00	\$460.00	0.01933	0.02868
Super Large Volume Joint Transportation - CIP Exempt	\$370.00	\$460.00	0.00420	0.00420
Transport for Resale	\$245.00	\$295.00	0.07200	0.07200

\*per month

\*\*per therm

## IMPORTANT INFORMATION about your natural gas rates

# NEW NATURAL GAS RATES BEGIN WITH THIS BILL

For Customers Served by the Centra,  
Great Lakes and Viking Pipelines

### Refund On Interim Rates

State law allowed Minnesota Energy Resources to collect an interim (temporary) rate increase while the MPUC considered our rate request. The interim increase of \$10.5 million or 4.09%, began on January 1, 2014. Since the final increase is less than the interim rate increase, Minnesota Energy Resources will refund any difference between these amounts with interest.

### Reasons For The Increase

Minnesota Energy Resources requested this increase due to increased costs for operating expenses and/or conservation programs.

### How The Rate Change Will Affect Monthly Bills

The MPUC's October 28, 2014 Order will affect individual monthly bills differently depending on natural gas use and customer type. The customer charges and the distribution charges recover only the cost of providing distribution service to our customers. These rates do not include the wholesale cost of gas, which is passed on to you directly at our cost without adding any additional fees to the price. Your monthly bills will continue to vary due to changes in the wholesale cost of natural gas.

**Please see inside for an explanation  
of how the changes will impact your  
natural gas bill.**

### For More Information

If you would like more information, please visit us online at [minnesotaenergyresources.com](http://minnesotaenergyresources.com), visit your local Minnesota Energy Resources customer service office, or call **800-889-9508**.



### An Explanation Of Changes To Your Natural Gas Rates

On September 30, 2013, Minnesota Energy Resources requested permission to increase its natural gas rates by approximately \$14.2 million, or about 5.52%.

On October 28, 2014, the Minnesota Public Utilities Commission (MPUC) approved new natural gas rates for Minnesota Energy Resources customers. Overall, rates will increase approximately \$7.6 million, or 3.0%, beginning April 1, 2015.

Under the MPUC's October 28, 2014 Order, the fixed customer charge for residential customers will increase from \$8.50 to \$9.50 per month, and the distribution charge will increase from \$0.19754 to \$0.21806 per therm. These rates are effective on April 2015 bills. Although the net effect on customers will vary by rate classification, the average residential customer using 71 therms of natural gas per month will see a \$2.50 increase on their monthly bill.



XXXX-30950-I-XXXX



Customer Class	Average Monthly Usage (Therms)	Present Monthly Bill*	Proposed Monthly Bill
General Service - Residential Sales	71	\$68	\$71
General Service - Small Commercial & Industrial Sales	83	\$74	\$77
General Service - Large Commercial & Industrial Sales	634	\$474	\$482
Small Volume Interruptible Sales	4,735	\$2,743	\$2,656
Large Volume Interruptible Sales	51,846	\$25,025	\$25,546
Small Volume Joint Sales	4,049	\$2,479	\$2,415
Small Volume Interruptible Transportation	12,482	\$1,520	\$1,310
Small Volume Joint Transportation	7,259	\$1,089	\$1,003
Large Volume Interruptible Transportation	92,089	\$3,556	\$4,521
Large Volume Joint Transportation	55,501	\$2,640	\$3,272
Super Large Volume Interruptible Transportation	404,167	\$3,805	\$3,895

\*The present rate levels identified represent the rates authorized in Docket Nos. G007,011/GR-10-977

APPROVED NEW CHANGES FOR MONTHLY CUSTOMER CHARGE  
AND THE PER THERM GAS DISTRIBUTION CHARGE

This chart shows the current and approved customer charge and distribution charge for each customer class.

Customer Class	Current Customer Charge*	Approved Customer Charge*	Current Distribution Charge**	Approved Distribution Charge**
General Service - Residential Sales	\$8.50	\$9.50	0.19754	0.21806
General Service - Small Commercial & Industrial Sales	\$14.50	\$18.00	0.18525	0.18116
General Service - Large Commercial & Industrial Sales	\$35.00	\$45.00	0.16868	0.16579
Small Volume Interruptible Sales	\$150.00	\$165.00	0.10647	0.08490
Large Volume Interruptible Sales	\$175.00	\$185.00	0.03568	0.04553
Small Volume Joint Sales	\$150.00	\$165.00	0.10647	0.08490
Small Volume Interruptible Transportation	\$220.00	\$275.00	0.10647	0.08490
Large Volume Interruptible Transportation - CIP Applicable	\$245.00	\$295.00	0.03568	0.04553
Small Volume Joint Transportation	\$220.00	\$275.00	0.10647	0.08490
Large Volume Joint Transportation	\$245.00	\$295.00	0.03568	0.04553
Super Large Volume Interruptible Transportation - CIP Exempt	\$370.00	\$460.00	0.00850	0.00850
Super Large Volume Interruptible Transportation - CIP Applicable	\$370.00	\$460.00	0.02363	0.03298

\*per month

\*\*per therm