



STATE OF MINNESOTA

August 25, 2016

The Honorable Jeanne M. Cochran
Minnesota Office of Administrative Hearings
600 North Robert Street
PO Box 64620
Saint Paul, MN 55164-0620

RE: In the Matter of a Petition by Minnesota Energy Resources Corporation for Evaluation and Approval of Rider Recovery for its Rochester Natural Gas Extension Project
MPUC Docket No. G011/M-15-895
OAH Docket No. 68-2500-33191

Dear Judge Cochran:

Enclosed please find the Surrebuttal Testimony of Susan Peirce and Michael Ryan, and the Surrebuttal Testimony and Attachment of Adam Heinen, filed on behalf of the Minnesota Department of Commerce, Division of Energy Resources, in the above-referenced matter.

The following sets forth the Public versions by witness:

<u>Witness</u>	<u>Public Volumes</u>	<u>Trade Secret Volumes</u>
Adam Heinen	1 public volume (testimony & attachment)	No trade secret volumes
Susan Peirce	1 public volume (testimony only)	No trade secret volumes
Michael Ryan	1 public volume (testimony only)	No trade secret volumes

The foregoing was e-filed and e-served today on those on the attached service list.

Sincerely,

/s/ LINDA S. JENSEN
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CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 –
SURREBUTTAL TESTIMONY OF SUSAN PEIRCE AND MICHAEL RYAN, AND THE
SURREBUTTAL TESTIMONY AND ATTACHMENT OF ADAM HEINEN**

Docket Nos. **G011/M-15-895**

Dated this **25th** day of **August, 2016**.

/s/Linda Chavez

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BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
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IN THE MATTER OF THE APPLICATION OF
MINNESOTA ENERGY RESOURCES CORPORATION
FOR AUTHORITY OF RIDER RECOVERY FOR THE
ROCHESTER NATURAL GAS EXTENSION FOR
NATURAL GAS SERVICE IN MINNESOTA

MPUC Docket No. G011/M-15-895
OAH Docket No. 68-2500-33191

SURREBUTTAL TESTIMONY AND ATTACHMENTS OF ADAM J. HEINEN

ON BEHALF OF

**MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

AUGUST 25, 2016

SURREBUTTAL TESTIMONY AND ATTACHMENTS OF ADAM J. HEINEN
IN THE MATTER OF THE APPLICATION OF MINNESOTA ENERGY RESOURCES CORPORATION
FOR AUTHORITY OF RIDER RECOVERY FOR THE ROCHESTER NATURAL GAS EXTENSION FOR
NATURAL GAS SERVICE IN MINNESOTA

MPUC Docket No. G011/M-15-895
OAH Docket No. 68-2500-33191

TABLE OF CONTENTS

Section	Page
I. INTRODUCTION.....	1
II. PURPOSE AND SCOPE	1
III. RESPONSE TO THE REBUTTAL TESTIMONY OF OAG WITNESS DR. URBAN	2
IV. RESPONSE TO THE REBUTTAL TESTIMONY OF MERC WITNESS MS. LYLE	7
V. RESPONSE TO THE REBUTTAL TESTIMONY OF MERC WITNESS MS. LEE... ..	9
VI. UPDATED EXCESS CAPACITY ANALYSIS	16
VII. RECOMMENDATIONS.....	20

1 I. INTRODUCTON

2 Q. Please state your name, occupation, and business address.

3 A. My name is Adam J. Heinen. I am a Public Utilities Rates Analyst with the Minnesota
4 Department of Commerce, Division of Energy Resources (Department or DOC). My
5 business address is 85 7th Place East, Suite 500, Saint Paul, Minnesota, 55101.
6

7 Q. Are you the same Adam J. Heinen who filed Direct Testimony and Rebuttal Testimony
8 regarding Minnesota Energy Resources Corporation's (MERC or Company) need
9 analysis and cost recovery proposal for its proposed expansion of natural gas service
10 to the Rochester Area (Project)?

11 A. Yes, I am.
12

13 II. PURPOSE AND SCOPE

14 Q. What is the purpose of your Surrebuttal Testimony?

15 A. The purpose of this testimony is to respond to the Rebuttal Testimonies of MERC
16 witnesses Ms. Lindsay Lyle and Ms. Amber Lee. I also respond to the Rebuttal
17 Testimony of Minnesota Office of the Attorney General (OAG) Witness Dr. Julie Urban.
18 Specifically, I respond to:

- 19 • OAG Witness Dr. Urban's discussion of my review of the Company's need
20 analysis,
- 21 • MERC Witness Ms. Lyle's discussion of my recommended cost recovery
22 cap and my request for additional information regarding contingency
23 factors for the proposed Project, and

- MERC Witness Ms. Amber Lee's discussion of my recommendations and analysis regarding prudence of costs and my recommendations regarding the recovery of capacity costs associated with the Project.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF OAG WITNESS DR. URBAN

Q. What does Dr. Urban present in her Rebuttal Testimony?

A. Dr. Urban provided extensive discussion regarding my analysis of MERC's need analysis for its proposed Project. Dr. Urban also noted areas of agreement with my analysis but ultimately concluded that my recommendation to approve the Project was incorrect and that the issues I observed in the Company's analysis were such that the Project, as proposed, is not reasonable. Dr. Urban also provided analysis regarding the conclusions I reached regarding the costs of the Project, as proposed, and a smaller, more incremental approach to capacity expansion.

Q. What basis did Dr. Urban provide for concluding that the project was not reasonable, the opposite of your conclusion?

A. Dr. Urban believes that MERC's forecasted growth of 1.5 percent per year due to the expansion of the Mayo Clinic is too high "and there is not historical basis for the forecast result" given her calculation that actual sales growth in Rochester for the period 2007-2015, not adjusted for weather, has averaged out to be 0.00204 percent. OAG Ex. ____ at 3 (Urban Rebuttal).

Q. Do you agree with Dr. Urban's calculation of the average percentage change in non-weather-normalized sales for the period 2007 to 2015?

1 A. No; there appears to be an error in her calculation. Using the percentage changes in
2 Dr. Urban's Table 1 on page 3 of her Rebuttal Testimony, reproduced in my Table 1
3 below, the average annual percentage change in actual sales for this period was 1.2
4 percent. Thus, this metric actually supports the conclusion that there is an historical
5 basis for the forecast result.

7 **Table S-1: Average Percentage Changes in Actual Sales, 2007 - 2015**

Years	Percentage Change
2007 - 2008	10.10%
2008 - 2009	-5.30%
2009 - 2010	-4.40%
2010 - 2011	4.8%
2011 - 2012	-16.40%
2012 - 2013	33.50%
2013 - 2014	11.70%
2014 - 2015	-24.40%
Average	1.20%

8
9 I do agree with Dr. Urban's observation that there is "considerable fluctuation
10 in the annual percentage change in firm demand since 2007." OAG Ex. ____ at 3. To
11 this point, I note that it is critical for MERC to be able to provide natural gas service
12 during cold winter periods such as those recently experienced during the "polar
13 vortexes" of 2014.

14
15 **Q. How do you respond to Dr. Urban's concerns regarding the Company's need**
16 **analysis?**

1 A. I agree with Dr. Urban that concerns and deficiencies, as discussed at length in my
2 Direct Testimony, exist in MERC's need analysis. DOC Ex. ____ 1-11 (Heinen Direct).
3 However, I disagree that these concerns warrant a conclusion that the Company's
4 proposed project should not be approved. The results of the Company's analysis
5 were not significantly different than the results of my alternative analysis.

6 As shown in my Direct Testimony, I provided an alternative need analysis
7 based on certain modified assumptions (e.g., design-day growth, customer growth) in
8 the Company's original analysis. Based on my alternative analysis, I concluded that
9 MERC's need analysis likely represents an optimistic view of expected growth in the
10 Rochester Area, while my need analysis likely represents a status quo view to growth
11 in the Rochester Area. Further, based on the potential risks, and cost considerations,
12 of a building a smaller project, I concluded that the Project, as proposed, is
13 reasonable.

14
15 **Q. Did Dr. Urban provide a comparison of cost between the OAG's preferred smaller**
16 **project and the Project as proposed by MERC?**

17 A. Yes. In support of a smaller, incremental project, Dr. Urban noted that when the
18 excess capacity costs associated with the proposed Project are considered, the
19 higher project costs associated with a smaller project, relative to the proposed
20 Project, are significantly less. OAG Ex. ____ 10-11 (Urban Rebuttal). In other words,
21 the total cost (i.e., project plus capacity cost) of the smaller, incremental project are
22 lower than the proposed Project.

1 **Q. How do you respond to Dr. Urban's conclusions regarding costs of a smaller project?**

2 A. As I stated in my Direct Testimony, I agree that, if there is low sales growth in
3 Rochester, a smaller project may appear to be better for ratepayers. However, I also
4 pointed out that the risks of much higher costs exists if growth related to the
5 Destination Medical Center and Rochester Public Utilities materializes. For example,
6 I stated the following:

7 The incremental capacity additions resulted in
8 smaller amounts of excess capacity, and
9 associated revenues that must be recovered from
10 ratepayers, both for the Rochester area and the
11 whole MERC-NNG system. DOC Ex. ____at AJH-17
12 and AJH-8 18 (Heinen Direct). However, it is
13 important to note that these incremental
14 alternatives were only viable under lower growth
15 scenarios. If growth in the Rochester Area is closer
16 to the Company's forecast, if overall system peak
17 demand grows at MERC's forecasted rate, if
18 increased natural gas is needed by RPU or any
19 other electric utility, or if the base peak demand in
20 the Company's demand entitlement filing was more
21 representative of peak demand, then the Company
22 will be required to purchase additional capacity
23 and, likely, invest in additional upgrades to serve
24 customers in the Rochester Area.

25 ...

26 **Q. Based on your reserve margin analysis and**
27 **analysis of incremental capacity alternatives, what**
28 **were your final conclusions regarding need?**

29 A. I concluded that the size of MERC's proposed
30 Project was reasonable. Although smaller
31 alternatives may be able to meet need in the
32 Rochester Area, this outcome would only be
33 possible if growth in the Rochester Area, and on
34 the MERC system as a whole, remain relatively
35 constant despite known upward pressure on
36 throughput such as the DMC. In the event that
37 growth increases, there is tangible risk that
38 ratepayers would be required to invest in
39 significant future upgrades that may have similar,
40 or greater, costs to the proposed project. Any
41 excess costs associated with the project as

1 proposed by MERC were relatively small on an
2 annual basis and were comparable to insurance
3 against the potential costs of future system
4 upgrades.

5 DOC Ex. ____ at 34-37 (Heinen Direct).
6

7 Thus, although it is not fully quantifiable, it is important to consider these
8 factors involved with building a smaller project, which is omitted from Dr. Urban's
9 analysis. Not considering these risks would likely represent a significant increase in
10 costs for MERC's ratepayers.
11

12 **Q. Do you have any additional response to Dr. Urban's testimony?**

13 A. Yes. Dr. Urban implied that I found MERC's need forecast unreasonable. OAG Ex.
14 ____ 17 (Urban Rebuttal). This statement is inaccurate. Although I identified issues
15 and concerns with MERC's need analysis, I did not conclude that the results of the
16 need analysis were unreasonable. In fact, I stated that the results of the Company's
17 need analysis likely represent an optimistic, or high growth, scenario. DOC Ex. ____
18 28 (Heinen Direct). In integrated resource plans (IRP) and certificate of need (CON)
19 filings, the forecast or need analyses typically include low-growth, base growth, and
20 high-growth scenarios. Generally, any of these forecasts, or results in between, are
21 considered acceptable with the base case being the most likely scenario. Using this
22 comparison as a guide, I concluded that the Company's need projections are not
23 unreasonable and likely represent an acceptable estimate of expected need for the
24 Rochester Area.

1 IV. RESPONSE TO THE REBUTTAL TESTIMONY OF MERC WITNESS MS. LYLE
2

3 Q. Please summarize Ms. Lyle's response to your Direct Testimony.

4 A. Ms. Lyle responded to my proposal to limit cost recovery to the total cost figure of
5 approximately \$44 million as presented in its Direct Testimony and my request for
6 additional information regarding the contingency factor it built in for this Project.
7 DOC Ex. ____ 43 (Heinen Direct). Specifically, Ms. Lyle expressed concern that a
8 cost cap would add risk to the Project and would not recognize the fact that a route
9 has not been set for the Project. MERC Ex. ____ 4-6 (Lyle Rebuttal). Regarding
10 MERC's proposed 20 percent contingency factor, Ms. Lyle stated that this level is a
11 standard practice that its affiliates have used in other states. MERC Ex. ____ 6 (Lyle
12 Rebuttal).
13

14 Q. How do you respond to the Company's concerns regarding your proposed cost cap?

15 A. MERC's concerns regarding the proposed cost cap are not accurate and overstated.
16 First, as noted in my Direct Testimony, my cost cap proposal is not a hard cap on
17 costs; it can be best described as a soft cap. DOC Ex. ____ 45-46 (Heinen Direct). As
18 such, in the event that costs are greater than the revenue figure proposed by the
19 Company, MERC would still have the ability to recover costs above the cap if it can
20 justify these cost overruns. DOC Ex. ____ 43 (Heinen Direct).

21 Second, the Company's argument regarding route uncertainty is unfounded.
22 Although I agree that route uncertainty may impact costs; however, since the Project
23 does not require a certificate of need, there was nothing preventing the Company
24 from finalizing a route prior to approval of the Project in which case MERC would

1 have a more definitive estimate of cost. Given that the Company chose not to do so,
2 MERC will need to document reasons carefully for any cost increases.

3 Third, soft costs caps in riders are important tool that the Minnesota Public
4 Utilities Commission (Commission) has been using to hold utilities financially
5 accountable, with the balance noted above that utilities have an opportunity to justify
6 higher costs, should they occur. For example, the Commission agreed with the
7 finding of the Administrative Law Judge in a proceeding proposing to build the electric
8 equivalent of this pipeline,

9 The ALJ recommended that the Commission continue its
10 practice of limiting cost recovery in riders to the costs
11 put forward by an applicant in certificate of need
12 proceedings. However, the ALJ also noted that the
13 Commission has recognized that cost overruns can be
14 prudently incurred, and should be fairly compensated,
15 when a utility is faced with unanticipated complications
16 during the routing proceeding.

17 ...

18 The Commission concurs with the Administrative Law
19 Judge and accepts her findings, conclusions, and
20 recommendations regarding rejection of the hard cap
21 cost recovery recommended by LPI. Instead, the
22 Commission will impose the soft cap on cost recovery
23 recommended by the ALJ, the Department, and the
24 Company in these proceedings.

25
26 The Commission also concurs with the ALJ and the
27 parties that issues regarding the details of cost recovery
28 are not directly relevant to the issue of need, and will be
29 more appropriately addressed in a future rider or rate
30 case proceeding. The Commission agrees, however, that
31 it is reasonable to put Minnesota Power on notice about
32 its future cost recovery options for the project.

33 *In the Matter of the Request of Minnesota Power for a*
34 *Certificate of Need for the Great Northern Transmission*
35 *Line, Docket No. E015/CN-12-1163, June 30, 2015*
36 *Order Granting Certificate of Need with Conditions, page*
37 *19.*

1 Q. Based on the discussion in the Company's Rebuttal Testimony, what do you conclude
2 regarding the proposed 20 percent contingency factor?

3 A. I do not object to the 20 percent contingency factor. However, I continue to
4 recommend that the Commission apply the soft cap to any costs above the amount
5 requested for recovery in the rider, without the contingency factor. The contingency
6 factors can be considered as appropriate when MERC proposes to recover the costs
7 in base rates.

8
9 Q. Do you have any additional comments on Ms. Lyle's testimony?

10 A. Not at this time.
11

12 V. RESPONSE TO THE REBUTTAL TESTIMONY OF MERC WITNESS MS. LEE

13 Q. Please summarize Ms. Lee's response to your Direct Testimony.

14 A. Ms. Lee responded to several areas of my Direct Testimony including my
15 recommendations regarding the recovery of capacity costs associated the proposed
16 Project, my recommendations regarding cost recovery through the Natural Gas
17 Expansion Project (NGEP) rider, and concerns I raised regarding unfair subsidies to
18 interruptible and transport customers which may result from the excess capacity
19 associated with the proposed Project.

20 Specifically, Ms. Lee raised concerns about my recommendation that
21 transportation customers be assessed capacity costs associated with the proposed
22 Project, raised concerns regarding my recommendation of a soft cap on recovery of
23 project costs and how to treat the prudence of costs, and provided a discussion and

1 recommendations regarding cost subsidies as they relate to interruptible and
2 transportation customers.

3
4 **Q. After reviewing Ms. Lee's Rebuttal Testimony, do you wish to clarify any**
5 **recommendations you made in Direct Testimony?**

6 A. Yes. In my Direct Testimony, and quoted by the Company in its Rebuttal Testimony, I
7 concluded that the capacity costs associated with the Project should be charged to
8 all customers, including transport customers, because all customers will benefit from
9 the Project. DOC Ex. ____ 49-50 (Heinen Direct) and OAG Ex. ____ 18 (Lee Rebuttal).
10 MERC concluded that this meant I envisioned these costs being assessed to all
11 customers through the monthly Northern Natural Gas (NNG) Purchased Gas
12 Adjustment (PGA). OAG Ex. ____ 19 (Lee Rebuttal). The Company's conclusion is
13 correct regarding firm and interruptible customers; however, I did not envision that
14 transportation customers be charged specific costs through the monthly PGA
15 because MERC does not purchase gas for these customers as they arrange for
16 delivery of their natural gas. Instead, my recommendation pertains only to the
17 capacity costs of the pipeline itself, not to natural gas supplies, which would be
18 recovered through the rider for this project costs. My recommendation reflects the
19 NGEPA statute, 216B.1638, subd. 2, which states: "A public utility may petition the
20 commission outside of a general rate case for a rider that shall include all of the
21 utility's customers, including transport customers, to recover the revenue deficiency
22 from a natural gas extension project."

23 My recommendation also illustrates that transport customers in the Rochester
24 Area will benefit from the Project through increased pipeline capacity in the area

1 through which natural gas supplied for these customers may be moved. Without this
2 provision in the NGEP statute, the Company's sales customers would unfairly
3 subsidize transportation customers, who would not pay for the pipeline capacity costs
4 associated with the Project.

5
6 **Q. Did the Company provide important clarifying information in its Rebuttal Testimony?**

7 A. Yes. MERC noted on two occasions that the Company will acquire 100 percent of the
8 incremental capacity added through the Rochester Project. OAG Ex. ____ 18 and 24
9 (Lee Rebuttal). This is an important fact because potential transportation customers
10 in the Rochester area will be required to pay, either directly or indirectly, for the costs
11 of the Project. Specifically, even if the provision that transportation customers must
12 pay for the pipeline expansion project were not in the NGEP statute, these customers
13 would pay for the costs of the Project because third party marketers would have no
14 access to capacity accept via MERC.

15
16 **Q. Did MERC raise any additional concerns regarding assessing capacity costs to**
17 **transportation customers?**

18 A, Yes. MERC raised two concerns associated with assessing these capacity costs: 1)
19 there would be the risk of bypass from certain transportation customers, which would
20 result in higher costs for other customers if they leave the system, and 2)
21 transportation customers may be concerned that they will be assessed the same
22 costs twice if capacity costs are charged by MERC.

1 Q. Do you wish to respond to MERC's concern about charging transportation customers
2 for the capacity costs of the Project?

3 A. As discussed above, my recommendation is consistent with the NGEP statute and I
4 am not aware of any ability to vary the statute.
5

6 Q. How do you respond to the Company's bypass concerns?

7 A. I note that MERC has an important tool to address any bypass concerns. Specifically,
8 Minnesota Statute section 216B.163, Flexible Rate Tariff, provides an opportunity to
9 charge lower rates to customers (sales or transportation) based on a demonstration
10 that the customer can bypass MERC's system. Moreover, I conclude that the
11 Company's bypass concerns in the Rochester Area are exaggerated. Since the
12 Rochester Area is currently capacity constrained, and MERC will acquire 100 percent
13 of the incremental capacity associated with this Project, if a customer wishes to
14 bypass the system (e.g., Rochester Public Utilities) not only would they need to
15 construct a Town Border Station (TBS), and any associated facilities, but they would
16 also have to pay for capacity expansion, in much the same way that MERC proposes
17 in this proceeding, on the NNG system. As evidenced by the cost data in this record,
18 these bypass costs are intensive.
19

20 Q. Has the Company provided an estimate of the potential costs associated with RPU
21 bypassing the MERC system for the Westside Energy Station?

22 A. No, it has not. Without this information, it is difficult to determine whether RPU
23 represents a realistic threat to bypass MERC's system. However, as noted above, if
24 there is a realistic threat, MERC has the ability to examine flexible rates –

1 nonetheless, such a proposal would need to consider all of the costs of bypassing
2 MERC's system. I recommend that, to the extent possible, MERC provide these cost
3 estimates, and the costs of any other potential bypass risks in the Rochester Area,
4 prior to the close of the evidentiary hearing.

5
6 **Q. Earlier you mentioned that either new transportation customers, or existing**
7 **transportation customers seeking additional capacity, in the Rochester Area would**
8 **likely pay for the capacity costs associated with this Project, could you please**
9 **elaborate.**

10 **A.** Yes. As noted earlier, third party marketers will not have access to other sources of
11 capacity because the Rochester Area is currently constrained and MERC will acquire
12 100 percent of the incremental capacity. Given this fact, all else being equal, MERC
13 should be able to obtain near full, or maximum, rate recovery in the capacity release
14 market because the third-party marketers, with which transportation customers
15 contract, can only buy capacity deliverable in the Rochester Area from MERC. As
16 such, these transportation customers will indirectly pay for capacity costs if the
17 Company correctly negotiates these capacity releases.

18
19 **Q. Do you have any recommendations to ensure that the Company's system sales (*i.e.*,**
20 **firm, interruptible) customers receive appropriate benefit from capacity release to**
21 **third party marketers for delivery to customers in the Rochester Area?**

22 **A.** Yes. MERC currently provides information on capacity release in the Annual
23 Automatic Adjustment (AAA) filing; however, these data are reported on a system

1 wide basis. I recommend that in future AAA filings, and in the annual rider recovery
2 filing in this docket, the Company provide specific data, for each capacity release
3 associated with the Rochester Area over the most recent gas year (*i.e.*, July through
4 June). The Department will review these releases at that time to determine whether
5 the terms of the capacity release were reasonable based on market conditions.
6

7 **Q. How did Ms. Lee respond to your conclusions regarding the cost cap and prudence of**
8 **costs?**

9 A. The Company reiterated its disagreement with my recommendations regarding the
10 cap on project costs and argued that my recommendation that the Commission defer
11 findings on the prudence of costs until actual costs are incurred is inconsistent with
12 the language of the Natural Gas Expansion Project (NGEP) Statute. MERC Ex. ____
13 26-29 (Lee Rebuttal).
14

15 **Q. How do you respond to these concerns?**

16 A. My response regarding my proposed cost cap is discussed in Section IV above in my
17 response to Ms. Lyle. Further regarding prudence of costs, the Company's argument
18 appears to ignore the scope of analysis laid out by the Commission in its February 8,
19 2016 *Order* establishing a contested case in this matter. DOC Ex. ____ AJH-2 (Heinen
20 Direct).
21

22 In particular, the Commission stated that it will defer any decision on the
23 accuracy of MERC's revenue-deficiency calculation until the Company seeks approval
24 of an NGEP rider to recover that revenue deficiency. DOC Ex. ____ 44 and AJH-2
(Heinen Direct). Since the Commission did not request or envision review of the

1 revenue deficiency until the Company seeks approval of an NGEP rider, it is clear that
2 the Commission was not prepared to authorize specific cost estimates at this time.
3 The record in this proceeding does not support a conclusion as to the
4 reasonableness of individual cost components and should be deferred, as noted in
5 the Commission's February 8, 2016 *Order*, until a later formal rider filing.

6 Nonetheless, I recommend that the Commission impose a soft cap on cost
7 recovery of the Project and put MERC on notice about this aspect of cost recovery in
8 MERC's future rider petition.

9
10 **Q. Did MERC provide a discussion of how interruptible and transportation customers will**
11 **be impacted by the excess capacity associated with the proposed Project?**

12 A. Yes. The Company responded to concerns raised by both myself and Dr. Urban on
13 this issue. MERC Ex. ____ 39-44 (Lee Rebuttal). MERC agreed that excess capacity
14 in the Rochester Area will likely result in a decrease in curtailments and a drift to
15 "firmer" capacity for these customers; however, the Company did note that these
16 customers will still bear the risk of curtailment. MERC stated that it will look to work
17 with interruptible to transition, when possible, to firm capacity; however, the
18 Company believes that its current tariff language restricts its ability to require
19 customers to switch service. The Company also proposed to review its current tariff
20 in the next general rate case or in a separate docket to ensure that all customers are
21 paying the appropriate cost of service and, if needed, to modify the tariffs to consider
22 situations where significant excess capacity exists. *Id.*

1 **Q. How do you respond to this discussion?**

2 A. I appreciate the Company's admission that the excess capacity associated with the
3 Project, as proposed, will represent a rate design issue for the MERC system. I rely
4 on the analysis by DOC Witness Ms. Peirce in addressing rate design matters.
5

6 **Q. Do you have any additional comment on Ms. Lee's Rebuttal Testimony?**

7 A. Not at this time.
8

9 **VI. UPDATED EXCESS CAPACITY ANALYSIS**

10 **Q. Please explain the purpose of this section.**

11 A. In the Rebuttal Testimony of OAG Witness Dr. Urban, the OAG included a
12 correspondence with representatives from RPU regarding its current, and future,
13 natural gas usage. OAG Ex. ____ JAU-R-2 (Urban Rebuttal). After reviewing this
14 attachment, I conclude that expected usage by RPU, coupled with the fact that MERC
15 acquired 100 percent of incremental capacity in the Rochester Area, will likely result
16 in a decrease in excess capacity related to the proposed Project. Therefore, it is
17 necessary to update my excess capacity analysis originally presented in my Direct
18 Testimony. DOC Ex. ____ AJH-16 (Heinen Direct).
19

20 **Q. What information in JAU-R-2 leads you to revise your excess capacity analysis?**

21 A. RPU references three planned generation needs between 2018 and 2031 that will
22 use natural gas: 1) Westside Energy Station in 2018 with an estimated consumption
23 of 394,000 Mcf per year, 2) a Combined Heat and Power unit in 2026 with an
24 estimated consumption of 2,190,000 Mcf per year, and 3) a Combined Cycle

1 generation unit in 2031 with an estimated consumption of 4,730,400 Mcf per year.
2 OAG Ex. ____ JAU-R-2 (Urban Rebuttal). Given the discussion in Section V above,
3 even if RPU elects to take transportation service, it is highly likely that these plants
4 will be served with excess capacity associated with this Project.
5

6 **Q. Did you observe any other information in JAU-R-2 which may result in a decrease in**
7 **excess capacity associated with the proposed Project?**

8 A. Yes. In its discussion, RPU stated that there are multiple times a winter when gas
9 supply is not sufficient to operate its Cascade Creek plant at full capacity. OAG Ex.
10 ____ JAU-R-2 (Urban Rebuttal). The system upgrades and excess capacity associated
11 with the proposed Project will likely decrease the number of curtailments in the
12 Rochester Area and result in a decrease in the number of times that Cascade Creek
13 cannot be operated at full capacity. As such, annual consumption of natural gas by
14 Cascade Creek is likely to increase. Based on the information in this record, and in
15 response to discovery, it is unclear how much this increased consumption will
16 decrease MERC's excess capacity related to the proposed Project, but it is clear that
17 there will be a decrease.
18

19 **Q. What impact does consideration of these expected RPU generation facilities have on**
20 **excess capacity associated with the proposed Project?**

21 A. Using the assumptions and analysis conducted in DOC Ex. ____ AJH-16 (Heinen
22 Direct) and estimated average daily consumption for each of the generation facilities
23 listed above, the updated results are presented in Table S-2 below. The associated
24 calculations are attached to this testimony. DOC Ex. ____ AJH-S-1 (Heinen
25 Surrebuttal).

Table S-2: Updated Comparison of Excess Capacity

Year	MERC Excess Capacity (Dkt/day)	DOC Excess Capacity (Dkt/day) (Preferred Case)
2019	29,017	30,886
2020	27,964	30,491
2021	25,413	28,615
2022	22,824	26,719
2023	20,196	24,802
2024	17,528	22,864
2025	14,821	20,905
2026	12,073	18,926
2027	9,204	16,924
2028	4,870	14,901
2029	472	12,857
2030		10,790
2031		8,701
2032		6,589
2033		4,454
2034		2,297
2035		
2036		
2037		
2038		
2039		
2040		

Q. What conclusions do you draw from this updated analysis?

A. I conclude that the addition of natural gas fired generation by RPU is likely to appreciably decrease MERC's excess capacity. In particular, Table S-2 indicates that the estimated level of excess capacity would decrease by 10,000 to 20,000 Dkt/day in the early part of the next decade. Further, the duration of excess capacity is decreased significantly for the Department's preferred analysis. In Direct Testimony, my analysis showed that excess capacity in my preferred case was expected to exist throughout the forecasting period, while with these generating facilities there is no excess capacity after 2034. DOC Ex. ____ 30 (Heinen Direct).

Q. Were you able to estimate the decrease in excess capacity costs associated with these generation facilities?

A. Yes. Assuming that MERC is able to negotiate maximum rates for capacity release (since MERC acquired 100 percent of incremental capacity in the Rochester Area), I calculate the following levels of excess capacity in Table S-3 below.

Table S-3: Updated Comparison of Cost of Excess Capacity

Year	MERC Cost Excess Capacity	DOC Cost of Excess Capacity (Preferred Case)
2019	\$2,192,622	\$2,333,898
2020	\$5,644,228	\$6,300,355
2021	\$5,112,325	\$5,938,101
2022	\$4,559,180	\$5,552,642
2023	\$4,008,553	\$5,170,440
2024	\$3,445,534	\$4,770,757
2025	\$2,913,606	\$4,413,485
2026	\$1,639,832	\$3,308,958
2027	\$1,108,287	\$2,947,515
2028	\$577,725	\$2,578,910
2029	\$55,628	\$2,235,404
2030	\$0	\$1,885,667
2031	\$0	\$1,013,593
2032	\$0	\$767,585
2033	\$0	\$518,920
2034	\$0	\$267,571
2035	\$0	\$0
2036	\$0	\$0
2037	\$0	\$0
2038	\$0	\$0
2039	\$0	\$0
2040	\$0	\$0
Total	\$31,257,522	\$50,003,801

In Direct Testimony, I calculated excess capacity costs through 2040 of approximately \$36 million for the Company's forecast and approximately \$65 million for my revised forecast. DOC Ex. ____ 32 (Heinen Direct). The updated excess

1 capacity costs presented in Table S-3 above represent a potential decrease in costs
2 of nearly \$5 million for MERC's forecast and nearly \$15 million for my preferred
3 forecast. These estimated reductions reflect a significant decrease in costs to
4 ratepayers and highlights why it is necessary for MERC to vigorously negotiate in the
5 capacity release market.

6
7 **VII. RECOMMENDATIONS**

8 **Q. Based on your review of Rebuttal Testimony, do you make any changes to your initial**
9 **recommendations?**

10 A. The only change I make is a clarification of my original recommendation that both
11 sales and transportation customers pay for the capacity costs of the Project.
12 Specifically, I clarify that MERC has an obligation to its ratepayers, in particular its
13 sales customers, to receive the highest revenues possible through the capacity
14 release market. If not, then the Company's customers would be unfairly subsidizing
15 other parties wishing to use MERC's excess capacity and these customers will not
16 pay a fair share for the capacity costs associate with the Project. Otherwise, I
17 maintain the recommendations and conclusions presented in the summary section
18 of my Direct Testimony. DOC Ex. ____ 58-61 (Heinen Direct).

19
20 **Q. Do you recommend that MERC provide any additional information before the end of**
21 **the evidentiary hearing?**

22 A. Yes. I recommend that, to the extent possible, MERC provide estimates of the costs
23 of any other potential bypass risks in the Rochester Area, prior to the close of the
24 evidentiary hearing.

1 **Q. Do you recommend any filing requirements for future rate cases or regulatory filings?**

2 A. Yes. First, I recommend that in future AAA filings, and in the annual rider recovery
3 filing in this docket, the Company provide specific data, for each capacity release
4 associated with the Rochester Area over the most recent gas year (*i.e.*, July through
5 June). The Department will review these releases at that time to determine whether
6 the terms of the capacity release were reasonable based on market conditions.
7 Second, I recommend that the Company provide detailed analysis in its next general
8 rate case regarding interruptible and transportation rates and whether the rate
9 structures and design for these classes are appropriate given the impacts (*e.g.*,
10 excess firm capacity, less chance of curtailment) associated with the proposed
11 Project.

12
13 **Q. Does this conclude your Surrebuttal Testimony?**

14 A. Yes.

Updated MERC System Dead-Weight Loss Calculations										
	MERC Filed	DOC Alternative 1.5% Growth	DOC Alternative 1% Growth	Per therm rate	per dekatherm rate		Months	Dead-Weight Loss MERC	DW Loss DOC 1.5%	DW Loss DOC 1%
2016							12			
2017				0.00304	0.0304		12			
2018				0.0181	0.181		12			
2019	29,017	27,115	30,886	0.02099	0.2099	30	12	\$2,192,622	\$2,048,940	\$2,333,898
2020	27,964	25,400	30,491	0.0358	0.358	30	12	\$3,604,057	\$3,273,597	\$3,929,724
2021	25,413	22,172	28,615	0.0356	0.356	30	12	\$3,256,985	\$2,841,549	\$3,667,325
2022	22,824	18,890	26,719	0.03525	0.3525	30	12	\$2,896,385	\$2,397,150	\$3,390,611
2023	20,196	15,554	24,802	0.0349	0.349	30	12	\$2,537,430	\$1,954,212	\$3,116,098
2024	17,528	12,163	22,864	0.0344	0.344	30	12	\$2,170,729	\$1,506,267	\$2,831,490
2025	14,821	8,716	20,905	0.03418	0.3418	30	12	\$1,823,687	\$1,072,492	\$2,572,371
2026	12,073	5,212	18,926	0.03381	0.3381	30	12	\$1,469,450	\$634,421	\$2,303,546
2027	9,204	1,651	16,924	0.03345	0.3345	30	12	\$1,108,287	\$198,799	\$2,038,027
2028	4,870		14,901	0.03295	0.3295	30	12	\$577,725		\$1,767,608
2029	472		12,857	0.03272	0.3272	30	12	\$55,628		\$1,514,415
2030			10,790	0.03236	0.3236	30	12	\$0		\$1,256,973
2031			8,701	0.03236	0.3236	30	12			\$1,013,593
2032			6,589	0.03236	0.3236	30	12			\$767,585
2033			4,454	0.03236	0.3236	30	12			\$518,920
2034			2,297	0.03236	0.3236	30	12			\$267,571
2035				0.03236	0.3236	30	12			
2036				0.03236	0.3236	30	12			
2037				0.03236	0.3236	30	12			
2038				0.03236	0.3236	30	12			
2039				0.03236	0.3236	30	12			
2040				0.03236	0.3236	30	12			
Total Loss through 2040								\$21,692,985	\$15,927,427	\$33,289,756

Updated MERC Rochester Dead-Weight Loss Calculations									
	MERC Filed	DOC Rochester Growth		Per therm rate	per dekatherm rate	Months		Dead-Weight Loss MERC	DW Loss DOC
2016							12		
2017				0.00304	0.0304	30	12		
2018				0.0181	0.181	30	12		
2019	0	0		0.02099	0.2099	30	12	\$0	\$0
2020	15,830	18,394		0.0358	0.358	30	12	\$2,040,171	\$2,370,631
2021	14,477	17,718		0.0356	0.356	30	12	\$1,855,340	\$2,270,776
2022	13,103	17,037		0.03525	0.3525	30	12	\$1,662,796	\$2,162,031
2023	11,709	16,351		0.0349	0.349	30	12	\$1,471,124	\$2,054,341
2024	10,294	15,659		0.0344	0.344	30	12	\$1,274,805	\$1,939,267
2025	8,858	14,963		0.03418	0.3418	30	12	\$1,089,919	\$1,841,114
2026	1,400	8,260		0.03381	0.3381	30	12	\$170,382	\$1,005,412
2027	0	7,553		0.03345	0.3345	30	12	\$0	\$909,488
2028	0	6,840		0.03295	0.3295	30	12	\$0	\$811,302
2029	0	6,121		0.03272	0.3272	30	12	\$0	\$720,990
2030	0	5,397		0.03236	0.3236	30	12	\$0	\$628,694
2031	0	0		0.03236	0.3236	30	12	\$0	\$0
2032		0		0.03236	0.3236	30	12		\$0
2033		0		0.03236	0.3236	30	12		\$0
2034		0		0.03236	0.3236	30	12		\$0
2035		0		0.03236	0.3236	30	12		\$0
2036		0		0.03236	0.3236	30	12		\$0
2037		0		0.03236	0.3236	30	12		\$0
2038		0		0.03236	0.3236	30	12		\$0
2039		0		0.03236	0.3236	30	12		\$0
2040		0		0.03236	0.3236	30	12		\$0
					Total Loss through 2040			\$9,564,537	\$16,714,046

Updated Total Dead Weight Loss and Excess Capacity Cost									
	MERC Excess Capacity	DOC Excess Capacity						MERC Excess Capacity	DOC Excess Capacity
2016								2016	
2017								2017	
2018								2018	
2019	29,017	30,886						2019	\$2,192,622
2020	43,794	48,885						2020	\$5,644,228
2021	39,890	46,333						2021	\$5,112,325
2022	35,927	43,756						2022	\$4,559,180
2023	31,905	41,153						2023	\$4,008,553
2024	27,822	38,524						2024	\$3,445,534
2025	23,679	35,868						2025	\$2,913,606
2026	13,473	27,186						2026	\$1,639,832
2027	9,204	24,477						2027	\$1,108,287
2028	4,870	21,741						2028	\$577,725
2029	472	18,978						2029	\$55,628
2030		16,187						2030	\$0
2031		8,701						2031	\$0
2032		6,589						2032	\$0
2033		4,454						2033	\$0
2034		2,297						2034	\$0
2035								2035	\$0
2036								2036	\$0
2037								2037	\$0
2038								2038	\$0
2039								2039	\$0
2040								2040	\$0
							Total	\$31,257,522	\$50,003,801

[illegible]

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, Minnesota 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

IN THE MATTER OF THE APPLICATION OF
MINNESOTA ENERGY RESOURCES CORPORATION
FOR AUTHORITY OF RIDER RECOVERY FOR THE
ROCHESTER NATURAL GAS EXTENSION FOR
NATURAL GAS SERVICE IN MINNESOTA

MPUC Docket No. G011/M-15-895
OAH Docket No. 68-2500-33191

SURREBUTTAL TESTIMONY OF SUSAN L. PEIRCE

ON BEHALF OF

**THE MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

RATE DESIGN

AUGUST 25, 2016

1 **I. QUALIFICATIONS**

2 **Q. Please state your name.**

3 A. My name is Susan L. Peirce.

5 **Q. Are you the same Susan L. Peirce that filed Direct Testimony in this proceeding?**

6 A. Yes.

8 **II. PURPOSE OF TESTIMONY**

9 **Q. What is the purpose of your Surrebuttal Testimony?**

10 A. I respond to the Rebuttal Testimony of Minnesota Energy Resources Corporation
11 (MERC) Witness, Ms. Amber Lee, and Office of Attorney General-Antitrust Utilities
12 Division (OAG) Witness, Dr. Julie Urban on the issue of cost recovery between MERC's
13 Rochester and non-Rochester customers.

15 **Q. Please summarize your proposal.**

16 A. In my Direct Testimony, I recommended that at least 50 percent of the revenue
17 deficiency for be apportioned to MERC's Rochester customers with the remaining
18 amount to MERC's non-Rochester customers, calculated on a per therm basis for
19 each group. DOC Ex.____ at 5 (Peirce Direct).

21 **Q. How does your proposal differ from MERC's proposal?**

22 A. Both Ms. Lee and I recommend recovery of the revenue deficiency through a flat per
23 therm charge on all customers. The difference in our proposals is that Ms. Lee
24 recommends that the rates be determined on a flat per therm basis across all

1 customers, while I recommend calculating separate rates for Rochester and non-
2 Rochester customer groups using a 50/50 apportionment of the revenue deficiency.

3
4 **Q. Please summarize Ms. Lee's objections to your proposal.**

5 A. Ms. Lee asserted that spreading the costs equally across all customers is consistent
6 with the Natural Gas Extension Project (NGEP) Rider Statute, which authorized rider
7 recovery from "all of the utility's customers, including transport customers," and with
8 Commission precedent that spreads system upgrade costs across the entire rate
9 base. In addition, she stated that all of MERC's customers will benefit from the
10 Project. Finally, she is concerned that my proposal would result in creating separate
11 rate zones within the MERC system at a time when the Company has been
12 consolidating its operating companies to eliminate rate disparities among its
13 customers. MERC Ex.____ at 10 (Lee Rebuttal)

14
15 **Q. How do you respond to Ms. Lee's assertion that the NGEP Rider Statute supports
16 equal cost allocation to all customers?**

17 A. The NGEP Rider Statute states, "a public utility may petition the commission outside
18 of a general rate case for a rider that shall include all of the utility's customers,
19 including transport customers, to recover the revenue deficiency from a natural gas
20 extension project." Minn. Stat. §216B.1638, Subd. 2(a). I read this section of the
21 statute to require all customer classes to share in the revenue recovery, and not to
22 require rates to be the same for all customers.

23 Specifically, in detailing the information required in the utility's filing
24 requesting a rider, the statute requires a utility to file:

1 (6) the amount of the revenue deficiency, and how recovery of the revenue
2 deficiency will be allocated among industrial, commercial, residential,
3 and transport customers;

4 (7) the proposed method to be used to recover the revenue deficiency from
5 each customer class, such as a flat fee, a volumetric charge, or another
6 form of recovery. (Minn. Stat. §216B.1638, Subd. 2b(6) & (7))

7 Ms. Lee states her understanding of the statute as “authorizing equal cost
8 recovery from all customers”. MERC Ex.____ at 12 (Lee Rebuttal). I agree that the
9 statute requires recovery from all customer classes, including transport customers. I
10 do not agree that the statute requires equal cost recovery from all customers.
11 Instead, Minn. Stat. §216B.1638, Subd. 2b(6) & (7) clearly contemplates that a
12 utility could propose to apportion the revenue deficiency among its customer classes
13 on a basis of its choosing, and to propose different methods of recovery for the
14 revenue deficiency apportioned to each customer class. Consequently, my proposed
15 recovery method is consistent with the NGEP Rider Statute.

16
17 **Q. How do you respond to Ms. Lee’s concern that your proposed methodology would**
18 **result in a functionally separate rate zone for Rochester that is inconsistent with**
19 **MERC’s goal of integrating its customers into a single utility system?**

20 **A.** The purpose of this proceeding is to develop the revenue deficiency and rate recovery
21 for the NGEP Rider. The Rider reflects only one-third of the Project’s costs, and will
22 be a separate line item on customer bills. In addition, at some point MERC will file to
23 include the Rochester Project in base rates, and the Commission and parties are free
24 to revisit the appropriate apportionment of costs among MERC’s customers at that

1 time. Consequently, I do not expect the rate differentials I propose between
2 Rochester and non-Rochester customers will be a long-term separate rate zone.

3 Second, implicit in Ms. Lee's assertion is that customers in Northern
4 Minnesota, for example, would benefit from this project on the same per-kWh basis
5 as customers in Rochester. However, as I stated in my Direct Testimony:

6 The Rochester Project would most directly benefit Rochester
7 area customers, by improving reliability and allowing for
8 additional growth with the addition of the proposed Destination
9 Medical Center. Consequently, I recommend that Rochester
10 customers pay for half of the NGEP Rider costs of the project.
11 At that same time, customers outside the Rochester area would
12 also benefit from improved reliability on MERC's system, as
13 discussed in the testimony of Department Witness Michael
14 Ryan. I note that the 50/50 split of costs refers to the amount
15 remaining after assignment of costs to Rochester Public
16 Utilities, per the testimony of Department Witness Adam
17 Heinen.

18 DOC Ex. ____ at 3-4 (Peirce Direct).

19 Finally, as noted above, the NGEP statute contemplates that rates may be
20 different for different classes of customers. Consequently, the Commission's options
21 for setting rates in this proceeding are not limited by the utility's internal rate design
22 goals. Instead, rates should reasonably reflect the costs of serving customers.

23
24 **Q. How do you respond to Ms. Lee's remaining concerns?**

25 A. I don't disagree that all MERC customers will benefit to some degree from the
26 additional capacity, and growth in customer base that may result from the Rochester
27 Project as indicated in the quote above from my Direct Testimony; however, I think
28 the Rochester area receives the most immediate benefit, and should pay a bit more
29 as a result.

1 Further, I disagree with Ms. Lee that the Commission typically determines that
2 revenue requirements for system upgrade costs are recovered equally from all
3 customers. While such an outcome may occur when costs of projects are built into
4 base rates in a rate case, rider petitions typically result in different allocations of
5 costs of new projects to ratepayers.

6 Finally, the Rochester Project represents the first time the Commission is
7 being asked to determine recovery under the NGEP Statute. Consequently, the
8 Commission is free to craft the recovery methodology that it feels best fits the
9 Rochester Project.

10
11 **Q. OAG Witness Dr. Urban requested more discussion of your rationale for the 50/50**
12 **cost split between Rochester and non-Rochester customers. How do you respond?**

13 **A.** As I note above in response to the Company, I recommend the 50/50 cost split
14 between Rochester and non-Rochester customers for the purpose of setting NGEP
15 Rider rates. While all customers will share in some benefit from the upgrade costs,
16 customers in the Rochester area will be the most immediate beneficiaries.
17 Consequently, I recommend that Rochester customers take on recovery of half of the
18 initial Rider costs, net of the costs assigned to Rochester Public Utilities, per the
19 testimony of Department Witness Adam Heinen. As I noted above, once MERC files a
20 rate case to move the Rochester Project costs into its rate base, the Commission is
21 free to re-evaluate how the costs are recovered in base rates.

1 Q. What is the difference in the estimated bill impact between your proposal and
2 MERC's proposal?

3 A. Tables 1 and 2 below summarize the average monthly bill impact by customer class
4 under my proposal and MERC's proposal. I note that the non-Rochester Large
5 Volume and Super Large Volume customer classes include customers subject Minn.
6 Stat. § 216B.1696, the Energy-Intensive Trade-Exposed (EITE) statute. Minnesota
7 Statute section 216B.1695, Subd. 2 states that "It is the energy policy of the state of
8 Minnesota to ensure competitive electric rates for energy-intensive trade-exposed
9 customers." Thus the rate increases for such customers should be moderated.

Table 1: Summary of Average Monthly Bill Impact in 2017

Class	MERC Prop.	DOC-Rochester	DOC Non-Rochester	DOC-Rochester-less MERC	DOC Non-Rochester less MERC
Residential	\$0.007	\$0.023	\$0.004	\$0.016	(\$0.003)
Small C&I	\$0.008	\$0.027	\$0.004	\$0.019	(\$0.004)
Large C&I	\$0.060	\$0.230	\$0.040	\$0.170	(\$0.020)
Sm. Vol Interrupt-Sales	\$0.400	\$1.420	\$0.230	\$1.020	(\$0.170)
Sm. Vol. Joint Sales	\$0.410	\$1.440	\$0.240	\$1.03	(\$0.170)
Sm. Vol. Interrupt-Transp.	\$0.980	\$3.450	\$0.570	\$2.470	(\$0.410)
Sm. Vol. Joint Transp.	\$0.710	\$2.500	\$0.410	\$1.790	(\$0.300)
Transport for resale	\$1.980	\$7.020	\$1.150	\$5.040	(\$0.830)
Lg. Vol. Interrupt-Sales	\$1.700	\$6.020	\$0.990	\$4.320	(\$0.710)
Lg. Vol. Interrupt-Transp.	\$12.350	\$43.730	\$7.190	\$31.380	(\$5.160)
Lg. Vol. Joint Transp.	\$9.990	\$35.380	\$5.810	\$25.390	(\$4.180)
Super Lg Vol Interrupt-Transp	\$116.790	\$413.740	\$67.990	\$296.950	(\$48.800)
Super Lg Vol Joint-transp	\$43.400	\$153.740	\$25.260	\$110.340	(\$18.140)

Table 2: Summary of Average Monthly Bill Impact in 2020

Class	MERC Prop.	DOC-Rochester	DOC	DOC-Rochester-less MERC	DOC Non-Rochester less MERC
Residential	\$0.090	\$0.310	\$0.050	\$0.22	(\$0.04)
Small C&I	\$0.107	\$0.360	\$0.060	\$0.25	(\$0.30)
Large C&I	\$0.910	\$3.100	\$0.530	\$2.19	(\$2.57)
Sm. Vol Interrupt-Sales	\$5.630	\$19.180	\$3.300	\$13.55	(\$15.88)
Sm. Vol. Joint Sales	\$5.710	\$19.440	\$3.350	\$13.73	(\$16.09)
Sm. Vol. Interrupt-Transp.	\$13.740	\$46.770	\$8.050	\$33.03	(\$38.72)
Sm. Vol. Joint Transp.	\$9.950	\$33.870	\$5.830	\$23.92	(\$28.04)
Transport for resale	\$27.950	\$95.140	\$16.380	\$67.19	(\$78.76)
Lg. Vol. Interrupt-Sales	\$23.960	\$81.560	\$14.040	\$57.60	(\$67.52)
Lg. Vol. Interrupt-Transp.	\$173.980	\$592.360	\$101.970	\$418.38	(\$490.39)
Lg. Vol. Joint Transp.	\$140.740	\$479.180	\$82.480	\$338.44	(\$396.70)
Super Lg Vol Interrupt-Transp	\$1,645.960	\$5,603.940	\$964.650	\$3,957.98	(\$4,639.29)
Super Lg Vol Joint-transp	\$611.610	\$2,082.330	\$358.450	\$1,470.72	(\$1,723.88)

2

3 Q. Please summarize your recommendations.

4 A. I recommend that the Commission:

- 5 • Apportion at least 50 percent of the revenue deficiency to MERC's
- 6 Rochester customers and the remaining amount to MERC's non-Rochester
- 7 customers, after assigning costs to Rochester Public Utilities, per the

1 testimony of Department Witness Adam Heinen, and calculated on a per
2 therm basis for each group.

- 3 • Approve the recovery of NNG pipeline capacity costs through MERC's NNG
4 PGA.

5

6 **Q. Does this complete your Surrebuttal Testimony?**

7 **A. Yes.**

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
St Paul MN 55101-2147

IN THE MATTER OF THE APPLICATION OF
MINNESOTA ENERGY RESOURCES CORPORATION
FOR AUTHORITY OF RIDER RECOVERY FOR THE
ROCHESTER NATURAL GAS EXTENSION FOR
NATURAL GAS SERVICE IN MINNESOTA

MPUC Docket No. G011/M-15-895
OAH Docket No. 68-2500-33191

SURREBUTTAL TESTIMONY OF MICHAEL RYAN

ON BEHALF OF

**THE MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

AUGUST 25, 2016

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Michael Ryan. I am employed as a Public Utilities Rates Analyst by the
4 Minnesota Department of Commerce, Division of Energy Resources (Department).
5 My business address is 85 7th Place East, Suite 500, St. Paul, Minnesota 55101-
6 2198.

7
8 **Q. Are you the same Michael Ryan who filed Direct Testimony on behalf of the**
9 **Department regarding Minnesota Energy Resources Corporation's (MERC or the**
10 **Company) proposed expansion of natural gas service in the Rochester Area?**

11 A. Yes, I am.

12
13 **Q. What is the purpose of your Surrebuttal Testimony?**

14 A. The purpose of this testimony is to respond to statements made in the Rebuttal
15 Testimony of the Minnesota Office of the Attorney General-Antitrust and Utilities
16 Division (OAG) Witness Ms. Julie Urban regarding my assessment of the Company's
17 Request for Proposals (RFP) process in my Direct Testimony. OAG Ex. ____ 11-16
18 (Urban Rebuttal).

19
20 **Q. To what statement in the Rebuttal Testimony of Ms. Urban do you wish to respond?**

21 A. Ms. Urban stated that she did not agree with my assessment that MERC's RFP
22 process was fair and reasonable and provided a comprehensive gauge of the market
23 and potential alternatives to interstate pipeline services. She identified several
24 reasons for disagreeing with my assessment.

1 Her first reason for not agreeing with my assessment was that: “the RFP
2 limited the size of the proposals to supply 100,000 [Dekatherm] Dth/day based on
3 the forecast that both I and Mr. Heinen have testified is unreasonable.” OAG Ex. ____
4 12 (Urban Rebuttal). (As noted in my Direct Testimony at page 2, my responsibility in
5 Direct Testimony was to provide testimony on the RFP process used by MERC, while
6 DOC Witness Mr. Adam Heinen provided testimony on the forecast and size of the
7 project.)
8

9 **Q. Do you believe that the Company’s RFP process was compromised by requesting only**
10 **one size of project?**

11 A. No, I do not. In my experience, it is beneficial for entities issuing RFPs to provide
12 specific parameters in the RFP to allow the bids to be compared on an apples-to-
13 apples basis. The method that the Company used allowed it to compare the three
14 bids equally. If the MERC RFP had requested multiple sizes of proposals, as was
15 suggested by Ms. Urban, the Company would have received varying responses that
16 would have been difficult to compare in a meaningful manner. Also, under the
17 process used by MERC, if the RFP had needed to be adjusted or refreshed with a
18 different size, the Company could have issued an amended RFP with the new size
19 preference.
20

21 **Q. Were there additional statements in the Rebuttal Testimony of Ms. Urban that you**
22 **wish to respond to?**

23 A. Yes. Ms. Urban provided three additional points as to why she does not agree with
24 my assessment of MERC’s RFP process. OAG Ex. ____ 12-15 (Urban Rebuttal). The

1 three points question: 1) MERC's RFP analysis; 2) the negotiations after the RFP with
2 Northern Natural Gas (NNG); and 3) the independent review of the RFP process by
3 Mr. Sexton. Both Mr. Sexton's and MERC's review determined that NNG was the
4 most competitive bidder for the Rochester project. After NNG was determined to be
5 the most competitive bidder, MERC continued to negotiate. Ms. Urban's concerns on
6 all points drill down to the size and timing of the final NNG project selected.
7

8 **Q. Do you wish to respond to Ms. Urban's concerns with MERC's size and phased**
9 **approach?**

10 A. No. This is addressed by DOC Witness Mr. Adam Heinen.
11

12 **Q. Please summarize your Surrebuttal Testimony.**

13 A. Overall, I make no changes to my conclusions in my Direct Testimony. I continue to
14 conclude that MERC's RFP process was reasonable. My interpretation of Ms. Urban's
15 concerns is that she questions the size of the proposed project compared to the
16 other potential NNG proposals. When the alternative proposals are analyzed in
17 greater detail, it becomes a question of the necessary size and timing of the project.
18 I do not address this subject in my testimony. The Department's conclusions on the
19 size and reasonability of the Company's proposal are included in the testimony of Mr.
20 Adam Heinen.
21

22 **Q. Do you have any additional recommendations?**

23 A. No.

1 **Q. Do you have a correction to your Direct Testimony?**

2 A. Yes, for clarity, my Direct Testimony, on page 5, should be amended to read:

3 Moreover, even if it were possible to move gas supplies
4 intended for other areas of MERC's system, this
5 alternative would not address the need since it would
6 still require NNG to expand physical delivery
7 capability elsewhere to ultimately serve Rochester.

8

9 **Q. Does this conclude your Surrebuttal Testimony?**

10 A. Yes.