Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: April 27, 2017 .... *Agenda Item #3

Company: Minnesota Energy Resources Corporation (MERC)

Docket Nos. **G-011/M-16-87**
In the Matter of a Petition by Minnesota Energy Resources Corporation (MERC) for Approval of a Purchased Gas Adjustment (PGA) Rule Variance to include Kansas Ad Valorem tax as storage related cost of natural gas recovery through its PGA commodity factors.

Issue: Should the Commission approve MERC's PGA rules variance request to include its 2009-2014 lump-sum Kansas Ad Valorem taxes as storage related cost of natural gas recovery through its PGA commodity factor from its legacy Interstate Power & Light (IPL) customers?

Staff: Bob Brill 651-201-2242

Relevant Documents

<u>G-002/M-16-87</u>
MERC - Initial Petition .... January 27, 2016
Department of Commerce (Department) - Comments .... November 14, 2016
MERC - Reply Comments .... December 8, 2016
Department - Response Comments .... February 23, 2017
MERC – Additional Reply Comments .... February 28, 2017
Department – Response Letter .... March 15, 2017

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Statement of the Issue

Should the Commission approve MERC's PGA rules variance request to include its 2009-2014 lump-sum Kansas Ad Valorem taxes as storage related cost of natural gas recovery through its PGA commodity factor from its legacy Interstate Power & Light (IPL) customers?

Introduction

MERC purchases its natural gas supply at multiple interstate pipeline supply points, which includes Northern Natural Gas (NNG) points as part of its diversified natural gas supply portfolio. This includes MERC's storage and transportation interstate pipeline contracts (demand entitlements), and its hedging program that are necessary to meet its firm service Design Day (DD) requirements. As part of its firm service portfolio, MERC contracted with NNG for storage capacity located in the State of Kansas. The State of Kansas legislature levied its Kansas Ad Valorem tax (the Kansas tax) on all MERC quantities of natural gas stored in NNG's Kansas storage facilities.

MERC believes that there are two methods available to recover the Kansas tax liabilities; 1) through a rate case's revenue requirement, but MERC would be required to file a rate case in order to gain recovery of the Kansas tax liabilities; 2) through a Commission approved PGA rules variance to Minn. Rules Part 7825.2400, subp. 12 that would permit MERC to recover the Kansas tax liabilities through the PGA. MERC currently recovers a representative level for Kansas taxes through its revenue requirement determined in Docket No. 15-736 (MERC's last general rate case. This level included the Kansas tax for its NNG PGA area, but not its NNG-Albert Lea PGA area.

As a result of Docket No. 14-107, the Commission approved MERC's purchase of IPL's facilities, and other assets and liabilities. IPL's Kansas tax obligation was included in the liabilities purchased from IPL. MERC proposes to recover the lump-sum Kansas tax related to its IPL legacy customers for the 2009-2014 time-period through a PGA rule variance – through the Albert Lea PGA commodity factor. MERC seeks to recover $145,147.

The Department recommended to the Commission that it approve MERC's variance to Minn. Rule 7825.2400, subp. 12 to allow MERC recovery of its 2009-2014 lump sum Kansas tax through the PGA commodity factor.

PUC staff agrees with the Department's recommendations. MERC proposed different recovery periods in its Initial Petition, Reply Comments, and in its Additional Reply Comments. MERC wished to recover the lump-sum Kansas tax amount before its consolidation of the NNG and NNG Albert Lea PGA areas scheduled for July 1, 2017, but because of various extension of time requests from both MERC and Department, MERC's proposed recovery periods are no longer feasible. MERC proposes to recover the Kansas tax liability from its IPL legacy customer over the July 2017 through December 2017 time-period (see Attachment A).

Background

The Kansas tax has been a contested issue for a number of years. Interstate pipelines contested the Kansas tax in the 1980's when the interstate pipelines provided the Local Distribution Companies (LDCs) with a "bundled merchant service." The interstate pipelines were obligated to pay the Kansas tax which was included in its merchant service pricing; recovered through their underlying cost of service base rates. MERC would have reflected this bundled cost as part of its delivered cost of gas and recovered the costs through the appropriate PGA accounts.[1]

Effective with Federal Energy Regulatory Commission (FERC) Order 636 implementation in 1992, the LDC now owns the natural gas held in interstate pipelines storage facilities, which is subject to the Kansas tax.[2] Initially, Kansas law exempted ***out-of-state*** LDCs from paying the Kansas tax, but due to legislative changes and judicial outcomes, the out-of-state LDCs lost their exemption status and were obligated to start paying the Kansas tax in May 2004. Kansas enacted legislation to tax natural gas owners of quantities stored in Kansas for resale in others states. MERC and other out-of-state LDCs challenged the Kansas tax and eventually the Kansas Supreme Court resolved the issue in the LDCs favor on July 13, 2007. After the tax was overturned in 2007, MERC received a State of Kansas refund and later refunded these amounts collected for the Kansas tax to its customers in the fall of 2007.

Effective on July 1, 2009, the Kansas legislature modified its existing Kansas tax statutes (from 2004) to make out-of-state LDCs subject to the Kansas tax.[3] The out-of-state LDCs again challenged the Kansas tax application in the Kansas courts and to the United States Supreme Court of America (SCOTUS) where it was *denied certiorari*. However, under Kansas law, during the period of the appeal, the LDC was not obligated to pay the Kansas tax, but the tax liability accrued for that period (2009-2014).

In Docket No. 15-736 (MERC's last natural gas rate case), the Commission approved MERC's Kansas tax recovery associated with its storage contracts on NNG's system, but these contracts did not include the Interstate Power & Light (IPL) storage contracts for its Albert Lea customers. IPL contracted for natural gas from the NNG pipeline to serve its Minnesota natural gas customers, began receiving invoices from Kansas counties for its 2009-2014 natural gas storage tax expense in the fall of 2014.

MERC purchased IPL's Albert Lea facilities and the Commission approved the purchase in its December 8, 2014 Order, Docket No. G001/011/PA-14-107.[4] As part of the Asset Purchase and Sale Agreement, executed on September 3, 2013, MERC acquired unpaid Kansas storage taxes of $145,147 for the period 2009 through 2014. Effective May 1, 2015, IPL's natural gas

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[1] However, in the late 1990s, the interstate pipelines received refunds of these taxes collected by the State of Kansas and started the refund process to the LDCs, with MERC refunding its customers in 2003.

[2] Previously, the interstate pipeline owned the gas until it was delivered to the LDC at its receipt point. Even though MERC stores the gas in NNG facilities, the ownership (title) of the natural gas remains with MERC. The natural gas is MERC's property.

[3] K.S.A § 79-5a01.

[4] In its December 8, 2014 Order, the Commission approved the purchase of the IPL facilities and the transfer of IPL's Minnesota service rights and obligations to MERC.

customers were transitioned to MERC's rates and tariffs, but were maintained on the existing IPL customer charges and PGA allowed under IPL's tariff structure. The legacy IPL-PGA area is referred to as the "MERC- Albert Lea PGA area." In the 15-736 docket, the Commission approved MERC's request to consolidate its NNG-PGA and Albert Lea-PGA areas.

Minnesota Statutes and Rules

Minn. Stat. §216B.16, Subd. 7. Energy and emission control products cost adjustment

Notwithstanding any other provision of this chapter, the commission may permit a public utility to file rate schedules containing provisions for the automatic adjustment of charges for public utility service in direct relation to changes in:

(2) direct costs for natural gas delivered;

Minn. R. 7825.2400, subp. 6d, Commodity-delivered gas cost

"Commodity-delivered gas cost" is the portion of the cost of purchased gas charged a distributing gas utility for its gas supplies and supply-related services, as defined in subpart 12, that is a function of the volume of gas taken. It refers to the cost of purchased gas, including associated costs incurred to deliver the gas to the utility's distribution system.

Minn. R. Part 7825.2400, subp. 12, Cost of purchased gas; incorporation by reference.

"Cost of purchased gas" is the cost of gas as defined by the Minnesota uniform system of accounts, class A and B gas utilities, including accounts 800, 801, 802, 803, 804, 804.1, 805, 805.1, 808.1, 809.1, 810, 854, and 858 for energy purchased, as provided by Code of Federal Regulations, title 18, part 201, as amended through April 1, 1988. These accounts are incorporated by reference. The cost of purchased gas also includes the normal and ordinary cost of injection and withdrawal of gas from storage at the time of withdrawal. All gas public utilities shall use this definition regardless of class.

Minn. R. 7829.3200 Other Variances

Subpart 1. **When granted.**

The commission shall grant a variance to its rules when it determines that the following requirements are met:

A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
B. granting the variance would not adversely affect the public interest; and
C. granting the variance would not conflict with standards imposed by law.

Subp. 2. **Conditions**.

A variance may be granted contingent upon compliance with conditions imposed by the commission.

Subp. 3. **Duration**.

Unless the commission orders otherwise, variances automatically expire in one year. They may be revoked sooner due to changes in circumstances or due to failure to comply with requirements imposed as a condition of receiving a variance.

MERC

Initial Petition

As described in the Background section, prior to FERC's Order 636, the Kansas Ad Valorem tax (the Kansas tax) was billed to interstate pipeline because the pipelines owned the natural gas until it was delivered to the LDCs at their city gates (the title of ownership did not transfer until the natural gas reached the LDCs city gate). The interstate pipeline recovered its costs through its bundled sales services charged to the LDC. Subsequent to FERC Order 636, the LDC purchases and owns the natural gas quantities stored in NNG's storage facilities and is responsible for the Kansas tax liability. (The LDC retains title to the natural gas quantities stored).

<u>MERC Variance Request</u>

On January 6, 2016, MERC proposed in its *Initial Petition* to recover the Kansas tax related to the IPL Asset Purchase and Sale Agreement based on IPL's natural gas quantities stored in NNG's storage facilities located in Kansas from 2009-2014. As previously mentioned, during the 2009-2014 time-period, the LDCs objected to the Kansas tax and the issue entered into the legal process. IPL sold its Minnesota natural gas facilities pursuant to the Commission's December 8, 2014 Order in Docket No. G001,011/PA-14-107, with the Kansas tax liability transferring to MERC.

MERC requested that the Commission grant a rule variance to Minn. Rules Part 7825.2400, subp. 12. MERC proposed to recover the acquired Kansas gas storage tax costs through the MERC-NNG-Albert Lea PGA commodity factor. Initially, MERC requested authorization to continue recovery of future Kansas storage tax costs associated with the assumed IPL storage contracts through the FY2018 AAA period - to allow recovery of applicable Kansas storage tax through December 31, 2017, but later MERC withdrew this request. MERC currently recovers the Kansas tax liability from its pre-existing storage contracts (before MERC purchased the IPL storage contacts) through its base rates.[5]

For the 2009-2014 timeframe, neither MERC nor IPL pursued PGA rules variances at the Commission that would have allowed it to collect the Kansas tax through its PGA because the

[5] As an expense included in MERC's underlying cost structure recovered through its revenue requirement.

State of Kansas did not require the LDCs to pay the tax as they were appealing the tax in various courts.

Variance Term

Minn. R. 7829.3200, subp.3 provides that "unless the Commission orders otherwise, variances automatically expire in one year." MERC requested Commission approval for its variance request to recover the lump-sum 2009-2014 tax liability over a six month period, July 2017 through December 2017 (see Attachment A).

Revenue Impact

MERC stated that the requested variance would allow it to recover the Kansas gas storage tax costs from the IPL legacy customers through the PGA commodity factor. The additional revenue would be offset by the Kansas storage tax liability and would have no net impact on MERC's earnings.

[Staff Note: MERC initially sought PGA recovery for $151,247 of Kansas storage tax, but later modified the amount to $145,147, see MERC's February 28, 2017 *Additional Reply Comments*. MERC supported its PGA cost recovery proposal with customer bill impacts, but because of time extension requests, the rate impacts are no longer valid. [For further discussion, see the below staff comments.]

Reply Comments

MERC withdrew its rules variance request for ongoing Kansas taxes attributable to the former IPL customers. MERC stated that the administrative burden of collecting the ongoing expense through the PGA outweighed the benefit and MERC will absorb the ongoing Kansas taxes as a shareholder expense until its next rate case. At its next general rate case, MERC will propose to recover all of its Kansas tax amounts through the resulting base rates. MERC estimated that its on-going annual Kansas tax obligation for the legacy IPL customers to be approximately $13,000.

MERC initially sought to recover $151,249 as its Kansas tax liability from 2009-2014, but this amount was adjusted to $145,147 in *Reply Comments*. The $6,102 difference represented the estimated Kansas tax liability for the January 2015 through April 2015 time-period - MERC stated that it is not seeking recovery of this amount.

MERC continued to request a PGA rules variance to recover the $145,147 lump sum Kansas tax amount for the 2009 – 2014 time-period. MERC proposed to recover the Kansas taxes from its MERC Albert-Lea PGA area customers (MERC originally stated that it would recover this amount through the PGA commodity factor before Docket No. 15-736 consolidation of the MERC NNG-PGA and MERC Albert Lea-PGA areas on July 1, 2017). Because of timing issues, MERC was unable to include the Kansas tax liability in its last general rate case (Docket No. 15-736).

Under the Asset Purchase and Sale Agreement approved by the Commission,[6] the purchase price paid by MERC for the acquisition of IPL's Minnesota natural gas assets and operations included the PGA over/under collection balance. While the Agreement expressly excluded pre-closing tax liability, the amount of Kansas storage costs for the 2009-2014 time-period were included in the PGA under-collection amount that was transferred to MERC. MERC seeks to recover the $145,147 amount included in IPL's PGA under-collection balance transferred to MERC that was included in the purchase price. IPL has not sought recovery of the Kansas taxes of $145,147.

Further, MERC agrees with the Department request and will report the Kansas tax recovery through its MERC Albert Lea-PGA area as a separate line item in its 2017 AAA true-up filing and in its monthly PGA filing.

Additional Reply Comments

MERC summarized its proposal made in this docket:

- Withdraw its initial request for a variance to recover ongoing Kansas taxes attributable to the former IPL customers;
- Recover the $145,147 Kansas tax paid from 2009 through 2014 for IPL gas storage contracts through the MERC-NNG-Albert Lea PGA [recovery time-period is now six months from July 2017 through December 2017]; and
- List the Kansas tax expense on the monthly PGA as a separate line item, track the amount of recovery on a monthly basis relative to the total expense of $145,147, and roll any over- or under-recovered amount into the MERC-NNG PGA with the 2017 AAA and True-up filings effective September 1, 2017.

MERC believed the storage tax expense should be recovered from the former IPL customers who benefitted from the storage contracts from 2009 through 2014.

Because of various extension of time request by MERC and the Department, MERC's proposed recovery periods are no longer valid. MERC proposes to recover the Kansas tax over a six month period – July 2017 through December 2017 (see Attachment A).

Department

In its March 15, 2017 *Response Letter*, the Department recommended that the Commission approve MERC's *Initial Petition,* as modified in MERC's December 8, 2016 *Reply Comments* and in its February 28, 2017 *Additional Reply Comments*, including the following conditions and reporting requirements, which MERC has agreed to:

- Grant MERC its requested variance to recover the lump sum of $145,147 for the Kansas taxes paid from 2009 through 2014. MERC adjusted the lump sum amount from $151,249 to $145,147 in its December 8, 2016 *Reply Comments*. The $6,102 reduction

[6] See the Commission's December 8, 2014 Order in Docket No. G001/011/PA-14-107.

was attributable to the January 2015 to April 2015 time period MERC originally estimated in its *Initial Petition*, but later agreed to absorb as shareholder expense.

- Withdraw its variance request to recover the "ongoing" Kansas taxes attributable to the former IPL customers. MERC believed that the administrative burden of collecting the ongoing expense through the PGA outweighed the benefit. MERC stated that it will absorb the "ongoing" Kansas taxes as a shareholder expense until its next rate case.

- List the Kansas tax expense on the monthly PGA as a separate line item and track the recovered amount on a monthly basis relative to the total expense of $145,147. MERC proposes to roll any over- or under-recovered amount into the MERC-NNG PGA with the 2017 AAA and True-Up filings effective September 1, 2017.

PUC Staff Analysis

PUC staff generally agrees with the Department's recommendations, but staff does provide the following staff discussion.

Does MERC's Proposal satisfy Minnesota Rule 7829.3200 requirements?

Minn. R. 7829.3200 provides that the Commission may grant a variance to its Rules if it finds:

- Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule,
- Granting the variance would not adversely affect the public interest, and
- Granting the variance would not conflict with standards imposed by law.

Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule

MERC

MERC stated that by not allowing it to recover the Kansas tax through its proposed PGA rules variance, the Commission would be imposing an excessive burden on the utility. The Kansas tax was prudently incurred and was directly related to securing MERC's natural gas supply portfolio (for the IPL legacy customers) to enable it to provide reliable and cost-effective natural gas service to its customers. By requiring MERC to absorb the Kansas tax until it files its next rate case would unfairly penalize it for a ***direct*** cost of gas over which it has no control.

Department

The Department agrees with MERC that its Kansas tax recovery through the PGA would lessen the burden on MERC since the costs have not been included in base rates. Further, cost recovery of the Kansas tax owed from 2009 to the present has been delayed due to the uncertainty in the outcome of the legal process, and was not caused by a rate case timing decision. Therefore, the Department concluded that strict enforcement of the definition of "cost of gas" in Minn. Rule 7825.2400, subd. 12 would prevent the Company from recovery of past Kansas tax costs that were incurred over several years but not billed to MERC until October 2014, which could be considered an excessive burden.

PUC Staff

PUC staff agrees with the Department and MERC that the annual and lump sum Kansas tax liabilities would place a financial burden on MERC. PUC staff agrees with the Department that a PGA rules variance is not the only way MERC can recover these Kansas tax liabilities (both annual and lump sum tax liability amounts), recovery could also occur through MERC's general rate case. PUC staff is not suggesting to the Commission that it should deny MERC recovery of the Kansas tax, but is merely stating that a PGA rule variance is not the only way for MERC to recover the Kansas tax, i.e. file a rate case.

Specifically, MERC requested Commission approval for MERC's variance from Minn. Rules 7825.2400, subd. 12 - to collect natural gas storage costs of $145,147 incurred on behalf of legacy IPL customers from 2009 through 2014 through the MERC-Albert Lea PGA commodity factor.[7]

Granting the variance would not adversely affect the public interest

MERC

MERC believed that the IPL legacy customers received a benefit from the storage contracts in Kansas and the costs associated with the Kansas storage tax were a direct cost for the natural gas delivered to those customers. MERC stated that the rate impact of the Kansas storage contract was minimal and that the public interest was not adversely impacted by granting MERC its waiver request.

Department

The DOC believed that having natural gas storage is in the public interest since it enables price stability and assists with reliability. To the extent that granting a variance facilitates optimal use of storage, the variance would not adversely affect the public interest.

PUC Staff

PUC staff agrees with the Department and MERC comments, but is of the opinion that MERC should not require an incentive in order to continue its storage use in order to provide its firm customers safe and reliable services at a reasonable cost. Further, PUC staff believes that the Kansas tax liabilities are not a direct cost of gas, but could be considered costs that are related or associated with the cost of gas. As a public utility, MERC has a fiduciary responsibility to provide the best possible service to its customers and a utility's storage use has long been an effective way to accomplish reliable service at a reasonable cost.

[7] Currently, MERC has three PGA areas, MERC-NNG, MERC-Consolidated, and MERC Albert Lea. As a result of the Commission's Order in Docket No. 15-736, on July 1, 2017, MERC will consolidate the MERC-NNG and MERC-Albert Lea PGA areas into one PGA area.

Granting the variance would not conflict with standards imposed by law

All Parties

MERC stated that the Commission recently approved a similar variance to Xcel Energy - to recover the same types of costs in Docket No. G002/M-15-149. Thus, the Commission previously determined such a PGA rules variance does not conflict with standards imposed by law.

In summary, PUC staff believes that MERC generally satisfies the Minnesota Rule 7829.3200 requirements for a Commission variance.

What are the Kansas taxes?

The State of Kansas has long assessed Ad Valorem (property) taxes on parties that have stored natural gas quantities in underground storage caverns. Kansas considers the natural gas quantities stored underground an asset, similar to a piece of pipe or any other asset owned by a utility company.[8]

MERC

Pursuant to the Minnesota chart of accounts for utilities,[9] MERC recorded the Kansas tax in Account 408.1 (property taxes).

Department

MERC correctly determined that Kansas taxes were properly recorded in Account 408.1 – the FERC Chart of Accounts which is the account designated for property taxes incurred by the utility on its in-service assets.

PUC staff

PUC staff agrees with the Department that MERC correctly recorded the Kansas tax liabilities in the correct account, i.e. Account 408.1. MERC currently records its Kansas tax liability in Account 408.1, and recovers the tax expense through its underlying base rates [does not include the legacy IPL customers]. MERC stated that it will seek recovery of its current annual Kansas tax liability in its next general rate case for all of its storage contracts.

MERC's proposal to recover its Kansas tax liabilities

PUC staff believes that MERC has two recovery alternatives for the Kansas tax liabilities:

1. MERC could seek recovery through its next general natural gas rate case's revenue requirement (MERC's last rate case was in 2015 in Docket No. 15-736); **or**
2. The Commission could grant MERC a PGA rule variance (Minn. Rules Part 7825.2400, subp. 12) to recover the Kansas tax through MERC's PGA mechanism.

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8 As stated in the Background section, MERC and other utilities have exhausted all legal avenues on having this tax repealed. MERC estimated its annual tax assessment for the current year and received its Kansas tax lump sum assessment for the 2009-2014 time periods.

9 The State of Minnesota has incorporated the FERC chart of accounts.

MERC

MERC's March 15, 2017 Response Letter summarized its PGA rules variance proposal:

- Recover the $145,147 lump-sum Kansas tax liability paid for 2009 through 2014 for the IPL gas storage contracts.
- MERC withdrew its initial request for a PGA rules variance request to recover ongoing Kansas taxes attributable to the legacy IPL customers; and
- List the Kansas tax expense on the monthly PGA as a separate line item, track the amount of recovery on a monthly basis relative to the total expense of $145,147, and roll any over- or under-recovered amount into the MERC-NNG PGA.

MERC proposed to recover the lump-sum Kansas tax liability from only its legacy IPL customers. But, MERC will not be able to accomplish this recovery before the consolidation of MERC NNG-PGA and NNG-Albert Lea PGA areas scheduled for July 1, 2017.[10] MERC believes that collecting the $145,147 lump-sum amount in a two month period (assuming the Commission approves its PGA variance request at the April 27, 2017 Commission Agenda Meeting) would cause its legacy IPL customers undue excessive bill increases for May and June 2017. Staff agrees with MERC.

MERC, through an e-mail to staff, proposes to recover the lump-sum Kansas tax liability over July 2017 through December 2017 (see Attachment A). MERC indicated its new billing system has the ability to isolate the legacy IPL customers after the PGA area consolidation occurs and only the legacy IPL customers will pay for the additional Kansas tax amount. Staff believes that MERC's assumption to recover the $145,147 lump-sum Kansas tax from its legacy IPL customers is correct because IPL incurred the Kansas tax costs specifically to serve these customers.

MERC further proposed to roll any remaining under- or over-collected balance into the consolidated MERC NNG-PGA area at January 1, 2018, because it believed any impact would be minimal. Staff realizes that MERC's proposal of rolling-in the remaining balance into MERC's consolidated NNG-PGA area at the end of December 2017 is a slight deviation from the Commission Order requirement in Docket No. 14-107. The Commission's Order generally required MERC to recover outstanding gas costs inherited from its IPL purchase from the legacy IPL customers. The Commission may wish to consider approving MERC's proposal to roll-in any remaining under- or over-collected Kansas tax amounts into its consolidated NNG-PGA area because staff believes the resulting impact would have little or no impact on MERC's consolidated NNG-PGA area customers.

Rate Impacts on the Legacy IPL Customers

MERC provided staff with the average monthly impact on all applicable customer classes.

[10] See Docket No. 15-736.

Table 1: MERC's Estimated Rate Impacts on the Legacy IPL Customers ($/Therm)

Customer Class	Average Monthly Bill Impact	Six-month Bill Impact
Residential	$1.32	$7.90
Small C&I	$1.28	$7.69
Large C&I	$9.28	$55.69
Small Volume Interruptible	$72.09	$432.51
Large Volume Interruptible	$332.32	$1,993.91

Staff believes that these average monthly bill impacts appear to be reasonable.

Decision Alternatives

1. Grant MERC its request for a variance to Minn. Rule 7825.2400, subp. 12 to allow recovery of its $145,147 2009-2014 lump sum assessed Kansas Ad Valorem (property) tax through the PGA commodity factor; and

    a. Grant MERC its request for a variance to Minn. Rule 7829.3200, subp. 3 and approve MERC's latest variance recovery period proposal – a six-month recovery period from July 2017 to December 2017; and

    b. Approve MERC's proposal to roll-in any remaining under- or over-recovered Kansas tax amounts at December 31, 2017 into its consolidated NNG-PGA area.

    c. Direct MERC to include the Kansas property tax as a separate line item in its monthly PGA reports, and

    d. Require MERC to list the Kansas property tax costs and revenues as separate line items in the Annual Automatic Adjustment (AAA) and PGA true-up reports; and

    e. Require MERC to submit a report with its annual AAA and true-up reports detailing the total amount paid to Kansas and collected from ratepayers during the gas year. or

2. Deny MERC a PGA rule variance to Minn. Rule 7825.2400, subp. 12 for the recovery of the lump sum Kansas Ad Valorem (property) tax liabilities, but allow MERC to propose tax liabilities recovery in its next general rate case's revenue requirement filed with the Commission.

From:	Lee, Amber S
To:	Brill, Bob (PUC)
Subject:	MERC KAVT -- Proposed Timing
Date:	Monday, April 17, 2017 12:06:03 PM

Bob,

Wanted to confirm that MERC is in fact able to continue to assess these KAVT charges to the AL customers through the PGA after consolidation. We'd propose to move the entire outstanding amount to the consolidated NNG PGA, then, beginning July 1, start to assess an additional per therm charge against the AL customers in the NNG PGA over six months, from July thru December. We would not propose to include a true-up of any under/over-recovery in the PGA. Rather any under/over-collection would be absorbed in the broader AAA/true-up.

Please let me know if you have any questions or need more information.

Amber

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