MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	December 6, 2018		Agenda Item 11**
Company	Minnesota Energy Resources Corporation		
Docket No.	**G-011/M-18-281**		
	In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Gas Utility Infrastructure Cost Rider		
Issues	Should the Commission approve Minnesota Energy Resources Corporation's petition for approval of a Gas Utility Infrastructure Rider (GUIC)?		
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✓ **Relevant Documents**	**Date**
Minnesota Energy Resources Corporation – Initial Filing	April 13, 2018
Department of Commerce – Comments	July 25, 2018
Office of the Attorney General – Comments	July 27, 2018
Minnesota Energy Resources Corporation – Reply Comments (TS)	August 17, 2018

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

I. Statement of the Issues

- Should the Commission approve Minnesota Energy Resources Corporation's petition for approval of a Gas Utility Infrastructure Rider (GUIC)?

II. Background

On April 13, 2018, Minnesota Energy Resources Corporation (MERC or the Company) filed a petition seeking approval to establish a Gas Utility Infrastructure Cost Rider (GUIC) beginning in 2019. The GUIC rider seeks to recover costs associated with public right-of-way relocation projects as well as projects undertaken to comply with MERC's Distribution Integrity Management Plan (DIMP). MERC's proposed rider's annual revenue requirement for the first year is approximately $3.64 million per year.

On July 25, 2018, the Department of Commerce, Division of Energy Resources (Department) filed comments in support of MERC's petition, with modifications.

On July 27, 2018, the Office of the Attorney General, Residential Utilities and Antitrust Division (OAG) filed comments recommending the Commission reject MERC's petition.

On August 17, 2018, MERC responded to both the Department and the OAG. In its Reply, MERC reaffirmed its position and provided additional analysis in support of the Company's request.

A. Minn. Stat. § 216B.1635 – Recovery of Gas Utility Infrastructure Costs (GUIC Statute)

Minn. Stat. § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs. Gas utility infrastructure costs are those that are not included in the gas utility's rate base in its most recent general rate case, and that are incurred in projects involving: (1) the replacement of natural gas facilities required by road construction or other public work by or on behalf of a government agency or (2) the replacement or modification of existing facilities required by a federal or state agency, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure. (A copy of Minn. Stat. § 216B.1635 is attached to the briefing papers.)

B. Related Dockets

On November 8, 2018, at its meeting, the Commission authorized a general increase in rates for MERC of approximately $3.1 million per year, in docket 17-563. This increase is based on an authorized rate of return on common equity capital of 9.70% and fully incorporates the impact of the 2017 Tax Cut and Jobs Act on the Company's revenue requirement. The Commission's order is pending.

MERC also has two other significant rider petitions pending besides this GUIC rider petition. The first is MERC's request for approval of the Natural Gas Extension Project (NGEP) Cost Rider Surcharge for the Recovery of 2019 Rochester Project Costs, in docket 18-182. This docket is pending.

The other is MERC's request for cost recovery for the replacement of customer-owned (farm-tap) fuel lines, in docket 17-409. MERC's proposal for Phase II of this project is expected to be filed soon.

III. Parties' Comments

A. MERC

MERC is proposing to introduce a GUIC Rider effective January 1, 2019. The Company is proposing to recover the revenue requirement associated with approximately $12.5 million in capital spend related to infrastructure expenditures and an additional revenue requirement of $3 million in incremental operation and maintenance (O&M) expenses. Table 1[1] breaks down MERC's requested first-year cost recovery for its proposed GUIC.

Table 1: MERC's Historical and Proposed [Incremental] GUIC Investments and Expense

MERC's Historical GUIC Investments		**MERC's 2019 GUIC Investments**	
MERC's Annual Average Relocation Investment 2015-2017	$5,334,155	MERC's Requested Rider Recovery for Relocation Investment in 2019	$5,334,155[14]
MERC's Annual Average DIMP/TIMP Investment 2015-2017	$7,130,675	MERC's Requested Rider Recovery for DIMP Investment in 2019	$7,130,675 (Obsolete Materials Program)[15]
			$3 Million (O&M) (Valve Survey and Sewer Lateral Survey)
Total Investments			
Historical	$12,464,831	**2019 Proposed**	$15,464,831

[Staff Note: Footnotes 14 and 15 reflected in Table 1 have been omitted by staff.]

MERC is seeking to recover this from ratepayers by using a rate factor of $0.00415 per therm to all customer classes to collect the annualized revenue requirement amount of approximately $3.64 million. The Company proposes a January 1, 2019 implementation date. If the timing of Commission approval does not allow for a January 1, 2019 implementation date, MERC requests the Commission authorize it to recalculate and collect its revenue requirement over the remaining months in 2019. The average customer impact is reflected in Table 2.[2]

[1] MERC Initial Petition, Page 18

[2] MERC Initial Petition, Page 22

Table 2: Proposed GUIC Rider Surcharge Average Annual Customer Impact

Customer Class	Average Annual Rate Impact of GUIC Rider Surcharge
Residential	$3.60
Small Commercial & Industrial	$4.21
Large Commercial & Industrial	$35.84
Small Volume Interruptible	$417.67
Large Volume Interruptible	$2772.61
Super Large Volume Transport	$46,476.91

1. Right-of-Way Relocations

Right-of-way relocations involve projects where MERC is required to replace or relocate gas facilities located in a public right-of-way to accommodate construction or improvement of a highway, road, street, public building, or any other work by the local jurisdiction. In 2019, MERC estimates this work to result in $5.3 million in new investments to meet this requirement. MERC developed this estimate based on an average of actual annual spending from 2015-2017, as shown in Table 3.[3]

Table 3: MERC's Relocation Projects 2015-2017

Project Year	Number of Relocation Projects	Annual Road Relocation Costs
2015	72	$4,573,401
2016	72	$5,171,722
2017	86	$6,257,343
Average	**77**	**$5,334,155**

MERC also notes that it is not always informed of public works projects with enough lead time to incorporate those projects into the Company's planning and forecasting. Therefore, MERC faces challenges when trying to accurately forecast the number of projects for the upcoming year. As of the filing of the initial petition, MERC has been notified of 11 right-of-way projects to occur in 2019, though the Company anticipates a similar number of actual projects to occur in 2019 as in prior years. Therefore, MERC states that using a three-year historical average results in a reasonable estimate for 2019.

2. DIMP Projects

MERC is obligated to adhere to federal and state regulations that require natural gas utilities to implement integrity management programs to assess and improve the safety, reliability, and integrity of their natural gas infrastructure. Pursuant to the federal Pipeline Inspection, Protection, Enforcement and Safety Act and Pipeline and Hazardous Materials Safety Administration (PHMSA) rules, all system operators must know the make-up of their distribution system and adopt written distribution integrity management plans for distribution pipelines.

[3] MERC Initial Petition, Page 7

MERC's DIMP program assesses eight different threat categories – Corrosion; Equipment Malfunctions; Excavation Damage; Incorrect Operations; Materials, Welds and Joints; Natural Forces; Other Outside Forces; and Other Threats. MERC's annual DIMP projects are based on the assessment of three risk factors that are continually analyzed to prioritize work and reduce risk from pipeline threats.

MERC has conducted two major projects under its DIMP program. From 2004 to 2008, the Company removed (and replaced) all known polyvinyl chloride (PVC) piping from its system, a total of 26 miles of PVC pipe, due to its age and known risks of cracking. From 2008 to 2017, MERC replaced all known bare steel piping on its system, a total of 37 miles of steel, due to its age (being installed in the 1930s) and susceptibility to corrosion.

MERC has also done extensive work under its transmission integrity management program (TIMP). The Company has eliminated most of its high consequence Class 3 transmission lines. Approximately 49 of the 57 miles of transmission mains on the system have been removed and the Company plans to remove an additional 6 miles by the end of 2018.

Similar to the right-of-way projects, the Company has provided a three year average of its DIMP and TIMP projects from 2015-2017, as shown in Table 4.[4]

Table 4: MERC's DIMP and TIMP Investments 2015-2017

	2015	2016	2017	Total
DIMP	$2,292,632	$5,380,098	$6,703,574	$14,376,304
TIMP	$4,771,913	$1,233,916	$1,009,893	$7,015,722
Total	$7,064,545	$6,614,014	$7,713,467	$21,392,026

MERC notes that its TIMP spending is not expected to continue at the same pace for 2018 or 2019, largely due to the Company having fewer than 3 miles of transmission main remaining on its system. Instead, the Company intends to use the "available" money to identify and remediate threats to its distribution system. Beginning in 2019, MERC plans to initiate three projects under its DIMP: (1) Replacement of Obsolete Materials, (2) Stop Valve Survey, and (3) Sewer Cross Bore Survey.

a. Replacement of Obsolete Materials

MERC has budgeted approximately $7 million to replacing obsolete pipe and fitting materials resulting from corrosion, legacy installation techniques, legacy manufacturing techniques, and third party damage.

b. Stop Valve Survey

MERC has budgeted $2 million in incremental O&M costs to begin surveying meter set stop valves to assess risk of faulty valves and identify the need to replace valves. The Company

[4] MERC Initial Filing, Page 9

intends to begin inspecting approximately 70,000 meter sets located in the Rochester area in 2019.

c. Sewer Cross Bore Survey

A sewer cross bore is a situation in which a gas line, installed using trenchless installation methods, intersects with a sewer line, threatening the integrity of both the sewer and the gas line. Additionally, if the sewer line becomes blocked, regardless of whether or not the gas line caused it, a plumber may unknowingly damage the line while clearing the blockage, releasing natural gas into the sewer line and into the home.

MERC has been inspecting sewer laterals and mains under an ongoing Sewer Line Lateral Inspection Program since 2014 and has determined that further inspections are necessary to identify and mitigate the risk posed by a cross bore.

In its general rate case,[5] MERC included $150,000 in O&M costs related to sewer cross bore surveys. Between the years of 2014 and 2017, MERC has surveyed approximately 4,000 parcels. The Company proposes to include $1 million in incremental O&M costs in its proposed GUIC rider to increase its efforts and gain the assistance of a third party contractor. MERC notes that a third party contractor is needed due to the specialized equipment and expertise the Company does not organically possess.

B. Department Comments

The Department filed Comments recommending the Commission approve MERC's request to establish a GUIC, with modifications.

1. Right-of-way Projects

The Department noted that it understands MERC's challenges when it comes to accurately forecasting costs related to public right-of-way projects. The Department's argument against MERC's proposal of using a three-year historical average is that it would be acceptable if it were done in a rate case, not in a rider filing which is an extraordinary ratemaking mechanism.

The Department states that the Company is required by Minn. Stat. 216B.1635 to provide all pertinent information relating to the projects for which the Company seeks recovery, including, but not limited to project description and scope, estimated project costs, and project in-service date.

Because MERC is unable to provide that information until after the projects are completed, the Department recommends the Commission allow MERC to establish a GUIC rider, effective January 1, 2019, complete its projects under the GUIC rider, and request recovery beginning in January, 2020. This would allow the Company to provide the information required by state statute.

[5] MERC General Rate Case Docket G-011/GR-17-563

2. DIMP Projects

The Department does not believe MERC's proposal to use a three-year historical average of projects and their costs is appropriate for establishing a GUIC rider due to MERC stating (regarding TIMP projects), "we do not anticipate our TIMP efforts to continue at the same pace for 2018 and 2019." The Department requested MERC to provide additional information about specific projects and the expenditures the Company expects to incur in 2019.

3. Rate of Return and Revenue Requirements

The Department reviewed MERC's proposed rate of return (6.8842 percent) and gross revenue conversion factor (1.402) and determined that these assumptions are reasonable based on the information known at the time of its response. The Department reiterated its recommendation that this rider not go in effect until after 2019 using the rate of return from MERC's current rate case in docket 17-563.

4. Rate Design

MERC proposed a $0.00415 per therm rate factor on all energy used by all customers regardless of customer class. The Department, however, proposed an alternative. The Department argued that GUIC investment is based on distribution facilities and not energy usage. The Department believes a more appropriate allocation would be to base GUIC cost recovery on each customer class' proportionate share of (responsibility for) MERC's non-gas revenue requirement as determined in MERC's current rate case, Docket No. 17-563, once those allocation factors are determined. The Department did not object to using MERC's proposed sales forecast for 2019.

The Department provided the following Table 5, which it received from MERC in response to an information request (IR4).

Table 5: GUIC Cost Allocation

Class	Per Therm Cost (1)	Bill Impact (2)	Bill Impact as Filed (3)	Difference
Residential	$0.01238	$ 10.73	$ 3.60	$ (7.13)
GS Small C&I	$0.01907	$ 19.35	$ 4.21	$ (15.14)
GS Large C&I	$0.00812	$ 70.10	$ 35.84	$ (34.26)
SVI	$0.00447	$ 450.12	$ 417.67	$ (32.45)
LVI	$0.00178	$1,186.69	$ 2,772.61	$1,585.92
SLVI	$0.00015	$1,693.07	$46,476.91	$44,783.84

According to the Department, Table 5 demonstrates that different classes of customers produce different costs to the Company's distribution system. Using an energy-based cost recovery mechanism to recover costs to the distribution system ignores this concept. Therefore, the Department recommends the Commission require MERC to allocate GUIC costs using per therm rate factors based on the example in table 5 above from MERC's last approved rate case non-gas revenue apportionment (column 1 above).[6] Based on MERC's last rate case

[6] The revenue apportionment reflected in Docket No. 17-563 cannot be used until the Commission has

15-763, the Department's proposal would increase the average residential customers' bill by $10.73 per year and increase the average super large volume interruptible (SLVI or taconite) customers' bill by approximately $1,693 per year.

5. Carrying Charges

The Department opposes MERC's request for a carrying charge that would collect 1/12th of its currently authorized short-term cost of debt with its GUIC rider. The Department notes that a rider is already a mechanism that allows a utility to accelerate recovery of certain capital projects outside of a rate case; the presence of a tracker account does not immediately justify carrying charges.[7]

C. OAG Comments

The OAG filed Comments recommending the Commission deny MERC's request for a GUIC because it does not believe MERC has met the requirements of Minn. Stat. § 216B.1635.

1. Incremental Costs

The GUIC Statute only allows for utilities to recover incremental costs not already recovered in base rates. The OAG provided a simplified example as to why it is important to only recover incremental costs to a project.[8]

> …assume that base rates include $100 in O&M spending related to DIMP. In a "rider year," the utility anticipates spending $110 in DIMP related O&M. It would be unreasonable for the utility to recover $110 in O&M through an infrastructure rider, because it is already recovering $100 in DIMP-related O&M in base rates. To the extent that rider recovery is allowed at all, Minnesota's GUIC Statute would require it to be limited to the $10 in O&M spending that was above and beyond the $100 included in the test year—the amount that is incremental compared to base rates. To permit a utility to recover $210 in O&M spending, when it has increased its spend level by only $10, would be double recovery and result in unjust and unreasonable rates.

The OAG provided a second example illustrating its concerns with double recovery on capital projects.[9]

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issued its order.

[7] The Department argued that "The benefits provided by rider recovery accrue to the Company. Ratepayers do not benefit because they pay increased costs sooner and also increased rates for under-recovery true-up that they would not pay under normal rate recovery. A carrying charge is used to compensate for the time value of money. Because the utility is getting accelerated recovery in the rider compared to normal rate recovery, there is no reason to compensate for the time value of money." (Please see page 7 of the Department's comments for a complete discussion of the Department's position.)

[8] OAG Comments, Page 8-9

[9] OAG Comments, Page 9

> …assume that base rates include revenue requirements based on $1,000 in rate base on integrity projects. In the subsequent "rider year," the utility plans an additional $100 in capital spending. It would not be reasonable to allow recovery based on all $1,100 in capital spending, however, because several things would change from the test year to the "rider year." For example, depreciation would reduce the value of the $1,000 in investments included in the test year, such that the $1,000 included in the test year would be less during the subsequent rider year. The aggregate level of integrity rate base during the rider year is nearly certain to be less than $1,100 after depreciation of the rate base from the test year is taken into account. This means that recovering costs related to all $1,100 in investments would be a form of double recovery.

The OAG argues that MERC has not sufficiently demonstrated all of the requested rider costs are truly incremental.

a. Pending Rate Case

The OAG notes that MERC is requesting a GUIC rider be established while its general rate case is still pending. In order to calculate the incremental portion of expenses, it is necessary to compare those expenses to what is approved in base rates. The amount of investment included in the 2018 test year is therefore a "moving target" that complicates the review of this Docket.

b. Incremental O&M Spending

The OAG states that MERC has not demonstrated its O&M spending is incremental and eligible to be recovered under a GUIC rider. The Company requests recovery for two specific DIMP-related projects, a stop valve survey, expected to cost $2 million, and a Sewer Cross Bore Survey, expected to cost $1 million. Because MERC has not provided information about its historical integrity O&M expenses, the OAG cannot confirm that the requested amounts are truly incremental compared to test year expenses.

c. Incremental Capital Spending

The OAG raised concerns related to MERC's capital spending that are similar to the concerns OAG raised about MERC's O&M expenses. The OAG does not believe MERC has demonstrated that the capital projects the Company requests to recover through the GUIC are incremental.[10]

> …In any rate case, a natural gas utility's rate base reflects a snapshot of the additions, in the form of capital spending, and subtractions, in the form of retirements or replacement of assets, to the rate base for the representative test year. The "additions to plan" [sic] include any capital spending related to DIMP, TIMP, and relocations that will occur during the test year. The "subtractions to plant" incorporate any assets that were replaced by the test year additions. The additions and subtractions to this balance do not have to be equal for ratemaking purposes. These changes mean that the rate base that was used to set base rates

[10] OAG Comments, Page 13

> in the most recent rate case will almost certainly be lower at the time that rider investments are being added, and that it is necessary to make aggregate comparisons in order to demonstrate that investments are incremental…

The OAG also compared MERC's request in the GUIC petition to the amounts MERC included in the 2018 test year of its pending rate case. The OAG produced Table 6 and Table 7 demonstrating that the requested amounts are not all incremental.[11]

Table 6: MERC's Relocation and Integrity Investments in 2018 Test Year

System Integrity	6,123,000
DIMP Main Replacements	1,000,000
Total DIMP and TIMP	7,123,000
WMIS Gas Mains due to Road Change[1]	4,500,000
Bridge Crossings	150,000
Total Right-of-Way Relocations	4,650,000
Total	11,773,000

[footnotes omitted]

Table 7: MERC's 2018 Test Year and 2019 Relocation and Integrity Expense

2019 GUIC Investment (Relocation & DIMP)	2018 Test Year Relocation & DIMP
$12,465	$11,773

In '000s

The OAG concluded that MERC's expected level of investment in 2019 is only slightly higher than the historical average from Table 7 (and Table 1) of these Briefing Papers. Additionally, the OAG noted that the anticipated capital spending proposed for 2019 is actually lower than the 2017 amount. These facts do not suggest that MERC's spending in 2019 will be greater than the level of spending in recent years, or that it will be greater than what is included in base rates in MERC's pending rate case.

Finally, the OAG expressed concerns that MERC has been shifting investments made in TIMP projects to DIMP projects because it has removed most of its transmission lines, replacing them with distribution lines. To the extent that relocation spending could go up, it could be largely offset by TIMP expenses that could decrease.

2. Required Information in GUIC Statute

The OAG opposes MERC's proposed recovery amounts being related to a three year average because the GUIC statute requires utilities to be more specific on the scope and estimated costs of projects considered for recovery.

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[11] OAG Comments, Page 16

The only specific projects MERC has identified in its petition are the 11 known relocation projects for 2019. The OAG alleges that MERC has not met the requirements, including identifying expected costs and in-service dates, for those projects to be eligible for a GUIC rider.

Finally, the OAG notes that the Company has not specifically identified a state or federal requirement that specifically orders or requires certain gas utility projects or identifies the purpose of specific projects such that the Company should be allowed to recover costs associated with those projects through the GUIC Rider. The PHMSA provides guidelines to utilities to reduce risk to its gas infrastructure but does not specifically require utilities to any specific action or to complete certain or specific projects.

3. Recommended Modifications if the Commission Approves MERC's Petition

The OAG proposes modifications to MERC's proposal should the Commission authorize it to establish the GUIC. The OAG recommends the Commission cap the amount of recovery to incremental expenses only. Further, the Company should not automatically be allowed to collect amounts that exceed the estimates provided in its petition, but rather, MERC should be obligated to explain why it was reasonable to exceed the cost estimates.

The OAG also suggests considering performance metrics to help incent the Company to keep costs reasonable to ratepayers.

With regards to relocation expenses, the OAG noted that the three-year period selected was significantly higher than the prior years. Table 8 shows MERC's relocation expenses since 2010.[12]

Table 8: Main Relocation Expenses

Year	Annual Cost
2010	$1,510,667
2011	$1,358,175
2012	$3,075,296
2013	$1,583,733
2014	$2,564,112
2015	$4,215,270
2016	$3,922,339
2017	$4,802,435

The OAG recommends setting the rate of return equal to MERC's currently authorized cost of long-term debt of 3.6 percent.

The OAG summarized its position noting that its primary position is an overall denial of MERC's petition. In the event the Commission authorizes MERC's GUIC rider, the OAG recommends the Commission take steps to protect ratepayers.

[12] OAG Comments, Page 26

D. MERC Reply Comments

MERC filed Reply Comments urging the Commission to approve its petition and allow it to establish a GUIC rider.

1. Compliance with GUIC Statute

The Company believes it has complied with the GUIC Statute, noting that the statute does not call for the use of historical data in order to initiate cost recovery. According to MERC,

> The statute does not specify the level of detail at which "projects" must be identified in a GUIC plan; for example whether each specific right-of-way relocation project must be identified in the petition and plan or whether the broad project category and scope is what is required. In addition, the GUIC statute also provides that a GUIC report filing "must be for a forecast period of one year." Further, the statute clearly anticipates more detailed information regarding project actuals and costs to be provided in a subsequent true up filing and the Commission has recognized that much of the detailed project costs are not known until the true-up filing.[13]

MERC also replied to the OAG's interpretation of the statute. The Company does not believe right-of-way legislation would be drafted with such an insurmountable burden of proof that recovery would never actually be permitted. The relocation language in the statute would be meaningless if the OAG's position was adopted.

2. Relocation Costs

The OAG proposed a five-year average as opposed to the Company's three-year average. MERC believes the OAG's proposed alternative is unreasonable because the Company has demonstrated that its costs have been increasing over the past few years. MERC modified its table showing annual expenses (Table 3 in these Briefing Papers) to include its year-to-date (YTD) relocation projects for 2018, shown below as Table 9.[14]

Table 9: MERC's Right-of-Way Relocation Projects (2015-2017 and 2018 year-to-date)

Right-of-Way Relocation Projects	
Project Year	**Right-of-Way Relocation Costs**
2015	$4,573,401
2016	$5,171,722
2017	$6,257,343
2018 (through July)	**Approximately $6.3 million**

MERC believes a three year average is a conservative estimate and argues that it still would be required to demonstrate that all costs were prudently incurred in a subsequent true-up filing.

[13] MERC Reply Comments, Page 3-4

[14] MERC Reply Comments, Page 5

3. Incremental O&M Costs

MERC reiterated its main arguments made in its initial petition. The Stop Valve Survey is a new initiative for the Company beginning in 2019 and therefore no costs are being considered in the 2018 test year of its current rate case. Additionally, MERC intends to use a third-party contractor to help complete the work. Therefore, all $2 million is incremental to MERC's O&M expenses in its general rate case.

The Company is currently recovering $150,000 of annual expense in base rates related to the Sewer Cross Bore Survey. MERC's proposed $1 million increase in spending would be over and above the amount currently collected in base rates.

4. Incremental Capital Costs

MERC maintains that all of its capital projects proposed for its GUIC rider are incremental in that none of the projects have been requested or been previously approved by the Commission. Additionally, none of the projects proposed for the GUIC rider have been or are being considered in the Company's previous or current rate cases. Therefore, all of the projects are incremental.

In response to the OAG's concerns about double recovery, MERC stated:[15]

> The OAG's concern that the Company's proposed GUIC rider would result in double recovery of its capital investments first in base rates and again in the GUIC rider is misplaced because it fails to appreciate the manner in which the capital investments at issue are incremental. Rather than including a portion of the capital investments in both rate base and in the GUIC rider, the proposed capital to be included in the GUIC rider would be wholly different from public right-of-way relocation and DIMP-related work that has been completed in the past. Prior public right-of-way relocation and DIMP-related work and its associated costs have been proposed or included in base rates based on prior rate cases, and those assets would continue to be recovered in base rates. In contrast, the capital investments that would be included in the GUIC Rider beginning in 2019, are neither currently being recovered in base rates nor have they been proposed for recovery in base rates in MERC's pending rate case. Instead, the revenue requirement for the GUIC rider is calculated solely on the 13-month average ***incremental addition*** to rate base for GUIC-eligible capital projects.
>
> [MERC emphasis included]

Finally, MERC disagreed with the OAG regarding the need for a rate base adjustment to account for replacement assets. The assets being replaced are pipes and valves that utilize group depreciation accounting (because they are too numerous to track individually. MERC offered a proposal to track depreciation expense for each specific project replacement and include

[15] MERC Reply Comments, Page 15

depreciation expenses in its annual true-up. MERC notes that it anticipates any depreciation expense adjustment needed in a true-up would be relatively small.

5. Federal and State DIMP Requirements

MERC responded to the OAG's assertion that MERC did not specify what state or federal programs require the projects claimed under its DIMP.[16]

> MERC is perplexed that the OAG would raise this issue despite the fact that the Commission has approved similar requests for other utilities. In assessing the OAG's argument, it appears that it does not fully understand the obligations natural gas utilities have to follow both federal and state guidance addressing the integrity and safety improvement of natural gas pipelines. The Company cited PHMSA's Integrity Management Program for Gas Distribution Pipelines Rule (49 CFR Part 192, subpart P) as the federal regulation requiring gas utility work in the following DIMP project categories: replacement of obsolete materials; stop valve survey; and sewer cross bore survey. Under Subpart P, all natural gas distribution companies are required to develop, write, and implement an integrity management program with the following elements:
>
> - Understand system design and material characteristics, operating conditions and environment, and maintenance and operating history;
> - Identify existing and potential threats;
> - Evaluate and rank risks;
> - Measure integrity management program performance, monitor results, and evaluate effectiveness;
> - Periodically assess and improve the integrity management program; and
> - Report performance results to PHMSA, and where applicable, also to states.
>
> The OAG's argument that Subpart P "does not direct utilities to make any specific actions to accomplish these goals" fails to recognize the federal rule's expectation that MERC proactively address threats against the assets it is required to evaluate. As PHMSA states with respect to its DIMP regulations, operators are required to "implement an integrity management program," which ultimately requires MERC to remediate conditions that present a potential threat to the integrity of the Company's pipelines system. As a result, MERC must incur annual costs and expenses necessary to implement it its DIMP program that are eligible for GUIC recovery pursuant to the GUIC Statute.

[16] MERC Reply Comments, Page 10

MERC also argued that the Commission, in other GUIC Dockets, has expressly recognized that utility compliance with federal DIMP and state implementation of federal safety requirements meets the eligibility standard in the GUIC Statute that the replacement, modification, survey, assessment, or other work be required by a federal or state agency.

6. Performance Metrics

MERC agrees with the OAG's underlying argument that the goal is to ensure project costs are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers in accordance with the GUIC Statute, however, the Company does not believe performance metrics are an appropriate means to achieve that goal. MERC notes that the concept of performance metrics has been discussed and rejected in other utility GUIC filings and that the quantification of data to support MERC's performance may take several years to surface. MERC surveys its entire system every five years (a portion of the system is surveyed every year such that in five years the entire system is surveyed); the only leaks that would be quantified would be the result of the portion of the system tested in that particular year and the result of customer calls.

7. Rate of Return

MERC responded to the OAG's recommendation that the rate of return be equal to the Company's cost of long term debt.[17]

> …the OAG recommends setting the authorized rate of return equal to MERC's currently authorized cost of long-term debt of 3.6 percent. The OAG's recommendation is unreasonable, however, and should be rejected as it fails to meet the standards established in Hope[18] and Bluefield[19] for determining the fairness or reasonableness of a utility's allowed rate of return:
>
> (1) That the ROE be adequate enough to attract capital on reasonable terms, thereby enabling the Company to provide safe, reliable service;
>
> (2) That the ROE be sufficient enough to ensure the financial soundness of the Company's operations; and
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> (3) That the ROE be commensurate with returns on investments in comparable risk enterprises.
>
> [Footnotes in quoted text provided by MERC]

Additionally, MERC argues that the GUIC Statute specifically allows for utilities to earn a rate of return on their GUIC investments. Therefore, the Company argues that the OAG's proposal is unreasonable.

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[17] MERC Reply Comments, Page 19-20

[18] Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944)

[19] Bluefield Waterworks & Improve. Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679, 693 (1923).

8. Rate Design

MERC acknowledges that the Commission may determine the Department's proposal to be a more appropriate method to allocating costs, however, the Company prefers its own per therm method as stated in its initial petition due to the fact that it would be easier and more cost effective to implement. Also, MERC cautions that the Department's proposal would allocate more costs to Residential, Firm Sales, and Small Volume Interruptible customer classes.

9. Carrying Costs

MERC provided additional argument for including carrying costs on the tracker balance.[20]

> While MERC acknowledges that the GUIC rider provides a mechanism for accelerated recovery of utility investments and costs, the fact that the surcharge is calculated based on a forecast necessarily means that there will be an over- or under-recovered balance remaining. Even under the Department's alternative proposal to allow for recovery of project costs in the year after they are incurred, the surcharge must still be based on a sales forecast, which will simply never equal actual sales in a given year. Carrying charges are appropriate, as the Department notes, to recognize the time value of money, and operate to the benefit of both the utility and to ratepayers. Carrying charges on a positive or negative tracker balance allow that when under-recovery of costs results in a positive balance, carrying charges accrue to the Company and when the tracker account carries a negative balance due to over-recovery from ratepayers, carrying charges accrue to ratepayers. It is not a foregone conclusion that costs will be under-recovered, resulting in a carrying cost benefit to MERC. Rather, experience demonstrates that tracker balances are frequently over-recovered; application of carrying costs ensures that the Company and ratepayers are compensated for the time value of money.

IV. Staff Analysis

A. GUIC Statute and Implementation Date

Prior Commission Orders[21] involving GUIC Riders have stated:

> A utility seeking approval of a gas-utility-infrastructure-cost (GUIC) rider must file a petition with the Commission detailing the projects and costs proposed for recovery. The utility must file sufficient information to satisfy the Commission regarding the proposed gas utility infrastructure costs, including, but not limited to, the following:

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[20] MERC Reply Comments, Page 24

[21] See Xcel Energy Docket No. G-002/M-14-336 and Great Plains Natural Gas Company Docket G-004/M-16-1066

> • project description and scope, estimated costs, and in-service date;
>
> • the government entity ordering or requiring the project and the purpose for which the project is undertaken;
>
> • a description of the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project;
>
> • a comparison of the utility's estimated costs and the actual costs incurred, including a description of the utility's efforts to ensure that the costs of the facilities are reasonable and prudently incurred;
>
> • calculations to establish that the rate adjustment is consistent with the terms of the rate schedule, including the proposed rate design and an explanation of why the proposed rate design is in the public interest;
>
> • the magnitude and timing of any known future projects that the utility may seek to recover under the GUIC statute;
>
> • the magnitude of the costs in relation to the utility's base revenue as approved by the Commission in the utility's most recent general rate case, exclusive of gas-purchase costs and transportation charges;
>
> • the magnitude of the costs in relation to the utility's capital expenditures since its most recent general rate case; and
>
> • the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case.
>
> [footnotes omitted]

Both the Department and OAG raised concerns that MERC has failed to meet this standard due to its use of a three-year historical average methodology. The Department's modifications recommend that the Company only be allowed to begin recovery of costs after the costs have been incurred and reviewed for prudency. The OAG, however, recommends denial of the Petition.

In the Order approving Xcel Energy's (Xcel) request to establish a GUIC Rider, Docket 16-1066, the Commission also noted:

> The clear thrust of the GUIC statute is to establish a mechanism by which utilities may recover out-of-test-year infrastructure investments mandated by federal or state agencies. The ***costs of these investments can vary widely from year to year and are difficult to forecast with accuracy***. Approving a rider will give Xcel the

> ability to implement multi-year pipeline-replacement programs, ***adjusting the rates annually to correct for over- or under-recovery***.[22]
>
> [Staff emphasis added]

Here, the Commission acknowledges the same argument currently being made by MERC and not disputed by either the Department or the OAG. The Commission did not specifically decide on a policy to permit utilities to use a forecasted time period or require utilities to use a historical time period to initiate cost recovery.

Regardless of the Commission's decision on the implementation date for the GUIC rate factors, an annual true-up will be necessary from the utility. In this annual true-up, the Department, OAG, and other interested parties may scrutinize expenses and provide recommendations for cost recovery. At that time, the Commission will have the ability to adjust rates to correct for over- or under-recovery.

B. Implementation Date

MERC and the Department agree that the Company should be authorized to establish a GUIC Rider, but disagree on the date MERC is able to recover its costs.

MERC proposes to use a forecasted test period. The Company has forecasted its 2019 sales, including sales in both Minnesota and Michigan, and requests that the Commission approve the rider to begin cost recovery in 2019. At the end of the year, MERC will file a true-up that will determine which, if any, Michigan sales or projects need to be excluded and determine a new rider factor to implement the following year. Using the Company's preferred methodology reduces regulatory lag and allows MERC to begin cost recovery in the same year its costs are being incurred.

Conversely, the Department proposes to use historical data. The Department argues that historical data will allow all interested parties to scrutinize the projects for prudency and allows the Company to begin cost recovery in 2020, following the 2019 test period. This would eliminate the need to forecast sales and would eliminate concerns with ADIT proration, discussed in more detail below.

Regardless of the implementation and cost recovery method used, an annual true-up will review projects and costs and ensure ratepayers are receiving the benefits of the GUIC Rider at the lowest possible cost. The difference between MERC and the Department weigh the concerns of accurately collecting revenues from customers against the concerns of regulatory lag. The Commission may wish to address whether the utility can use a forecasted time period or the utility must use a historical time period to determine its GUIC capital investments for cost recovery through the GUIC rider.

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[22] ORDER APPROVING RIDER WITH MODIFICATIONS, In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider, Docket No. G-002/M-14-336, January 27, 2015, Page 7

C. Incremental Costs

Minn. Stat. § 216B.1635, Subd. 2. states:[23]

> A public utility submitting a petition to recover gas infrastructure costs under this section must submit to the commission, the department, and interested parties a gas infrastructure project plan report and a petition for rate recovery of ***only incremental costs*** associated with projects under subdivision 1, paragraph (c)…
>
> [Staff emphasis added]

The OAG provided a clear, concise, simplified example on pages 8-9 of these Briefing Papers demonstrating the importance that only incremental costs are recovered. MERC, in its Reply Comments, stated that the costs it seeks to recover in this GUIC rider are incremental and are not included in current base rates, nor part of its pending rate case.[24] If the Commission approves MERC's GUIC Rider, the Department, OAG and other interested parties will have an opportunity to review costs to ensure the costs are incremental to what is approved in MERC's pending rate case, in docket 17-563, when the Company makes its annual GUIC true-up filing.

D. Rate of Return

Minn. Stat. § 216B.1635, Subd. 6. States:[25]

> The return on investment for the rate adjustment shall be at the level approved by the commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest.

The statute leaves room for the Commission to consider alternative rates of return. In Xcel's most recent natural gas rate case,[26] the Commission authorized an 8.28% overall rate of return based on a 10.09% return on equity. In Xcel's most recently approved GUIC annual filing,[27] the Department and OAG recommended using a return on equity of 7.02% and 7.00%, respectively to determine the authorized overall rate of return. Xcel proposed an overall rate of return of 7.26%, based on a return on equity of 7.50%. The Commission ultimately adopted the Department's recommendation and authorized a rate of return of 7.02% based on a return on equity of 9.04%

In MERC's GUIC Rider, the Commission may wish to consider using MERC's rate of return from its last approved rate case (Docket No. 15-736 - 6.8842%), as proposed by the Company, given that the test year in that rate case was 2016, much more recent than Xcel's 2009 rate case noted above. The Department recommends using the rate of return determined by the

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[23] https://www.revisor.mn.gov/statutes/cite/216B.1635

[24] Docket G-011/GR-17-563

[25] https://www.revisor.mn.gov/statutes/cite/216B.1635

[26] Docket G-002/GR-09-1153

[27] Docket G-004/M-16-891

Commission in MERC's current rate case, in Docket No. G-011/GR-17-563. The OAG recommends setting the rate of return equal to MERC's currently authorized cost of long-term debt of 3.6 percent, a method that has not previously been used by the Commission.

E. Rate Design

MERC proposed using an energy-based (per therm) charge that would be added to all customers' bills. Therefore, the highest users of natural gas would pay a higher share of the proposed GUIC Rider.

The Department noted that this energy-based approach ignores the fact that the GUIC Rider costs are being incurred based on the Company's distribution system, not on the amount of natural gas MERC moves through its system. Therefore, the Department proposed using the non-gas class revenue apportionment (allocation) from MERC's last approved rate case (not its pending rate case) to apportion responsibility for the GUIC revenue requirement.

The OAG did not provide specific comments on rate design, but maintains it recommends the petition be denied.

In other GUIC rider dockets approved by the Commission, rate design has generally been closely linked with class revenue apportionment approved in prior rate cases. For example, in Xcel's GUIC rider, the Commission's order states that

> … the 2015 GUIC revenue requirement be allocated to Xcel's customer classes according to the apportionment approved in the Company's last natural-gas rate case. There is nothing in the record to indicate that circumstances have changed such that the allocation is no longer appropriate.[28]

In that rate case, in docket 09-1153, the class revenue apportionment was based on non-gas revenue.

If the Commission wishes to remain consistent with prior decisions, it may wish to consider the Department's proposal for MERC's GUIC rate design to be based on non-gas revenue and to apportion responsibility accordingly.

The Company raises a couple of arguments in support of its proposed rate design. Under the Department's proposal, Residential, Firm Sales, and Small Volume Interruptible customers would pay a larger share of costs than under MERC's energy-based proposal. Additionally, MERC notes the implementation and administration of the rider would be simplified if a per-therm rate was used. But, staff notes that MERC recently implemented its new ICE billing system that should provide the flexibility to add a different GUIC rider for each customer class. Staff believes this argument should carry little weight when the Commission makes its decision.

[28] ORDER APPROVING RIDER WITH MODIFICATIONS, In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider, Docket No. G-002/M-14-336, January 27, 2015, p. 12

F. Performance Metrics

Performance Metrics have been discussed in other dockets, including in Xcel's GUIC rider, but have not been implemented except in the context of Xcel's service quality standards tariff.

In the current Docket, the OAG provided potential performance metrics for the Commission to consider, as shown in Table 10.[29]

Table 10: Potential Performance Metrics for MERC's GUIC Activities

Desired Regulatory Outcome	Potential Performance Metric
Safety/reliability	Leak rate by pipe material; Causes of leaks/incidents; Quantification of system risk; and Quantification of reduction to system risk.
Cost-Effectiveness	Integrity management budget; Unit cost by pipe material; Comparison of budgeted costs to actual costs; and Quantification of cost savings resulting from reduced leaks.

MERC does not support performance metrics in this Docket. The Department did not specifically comment on performance metrics.

The Commission previously expressed interest in exploring performance metrics when Xcel, in response to an OAG recommendation, proposed performance metrics in its GUIC annual filing. However, in the Commission's February 8, 2018 Order, Docket 16-891, the Commission stated that:[30]

> The Commission also declines to adopt Xcel's proposed metrics at this time. The Commission appreciates the Company's efforts to develop criteria to better evaluate the success and prudence of GUIC investments; its proposal has been a helpful starting point for discussions among Xcel, the OAG, the Department, and other stakeholders. But the Commission is not yet persuaded that it should rely solely on the criteria identified by Xcel to the exclusion of any other factors. The Commission will direct the Company to continue this discussion and ongoing evaluation of reporting requirements in future GIUC proceedings.

Staff does not believe OAG's proposal can be implemented at this time, however, the Commission may want to give parties some direction as to whether they should continue working on developing these proposed metrics. Staff notes that MOPs has primary responsibility for evaluating the effectiveness of the Company's integrity management programs.

[29] OAG Comments, Page 31

[30] See Commission Order, Docket G-004/M-16-891, Dated February 8, 2018, Page 10

G. ADIT Proration

The Department recommends that the Commission require MERC to wait until 2020 to begin cost recovery for costs incurred in 2019.

> Such timing would also ensure that MERC's rates would be set after the test period and thus be fully compliant with the requirements of the Internal Revenue Service (IRS) regarding normalization. Specifically, implementing rates subsequent to the test period on which rates are based would not require proration of accumulated deferred income taxes to avoid violating the IRS's normalization rules.[31]

MERC agrees that the Department's proposal would avoid the topic of ADIT proration, but noted that the avoidance of proration alone is not enough to require the Company to delay cost recovery on its GUIC rider.[32]

> The proration adjustment in the projected rates and the true-up adjustment will have a minimal impact on the GUIC Rider rate as proposed in MERC's Petition and do not justify delaying implementation of MERC's GUIC Rider until after the 2019 forecast period. As noted above and reflected in Attachment D, the inclusion of prorated ADIT does not change the proposed GUIC rider surcharge of $0.00415 and results in an increase to the revenue requirement calculation of only $249.

The Company maintains its proposal would not violate IRS normalization rules and that the revenue requirement impact is de minimus.

The treatment of ADIT and the use of a historical or forecasted time period is a disputed issue between the utility and the Department (and in some cases the OAG) in almost every pending petition that involves a rider with a forecasted time period. Table 11 is a list of some of those dockets.

Table 11: Partial List of Pending Dockets in which the Treatment of ADIT is disputed

Company	Docket No.	Rider
Great Plains Natural Gas Co.	G-004/M-18-282	Gas Utility Infrastructure Charge (GUIC)
Minnesota Energy Resources Corp.	G-011/M-18-281	GUIC
Xcel Energy	G-002/M-17-787	GUIC
Xcel Energy	E-002/M-17-797	Transmission Cost Recovery (TCR)
Xcel Energy	E-002/M-17-818	Renewable Energy Standard (RES)
MP	E-015/M-18-375	Renewable Resource Rider (RRR)

[31] Department Comments at 4 (footnote: The IRS has stated in numerous Private Letter Rulings (PLR), including the ones issued on July 31, 2015, such as PLR No. 140121-14, and the more recent PLR dated January 25, 2018, PLR No. 123443-17 that "if rates go into effect after the end of the test period, the opportunity to flow through the benefits of future accelerated depreciation to current ratepayers is gone, and so too is the need to apply the proration formula.").

[32] MERC Reply Comments, Page 24

The Commission, to date, has not developed a general policy specific to the topic of ADIT proration or whether rider test periods should be historical or forecasted. Generally, companies prefer forecasted test periods because it improves case flow and avoids regulatory lag. The state agencies prefer historical test periods because the projects and their costs included in the riders for cost recovery are more certain and easier to review and believe the one-year "lag" in cost recovery is di minimis compared to the amount of time that normally passes between rate cases. The Commission may wish to continue making case-by-case determinations and consider the facts and circumstances specific to this rider, and consider the materiality of the revenue requirement impact.

H. Customer Notification

MERC proposes to notify customers of the implementation of the GUIC rate via the following bill message, which will appear on bills effective the first month the GUIC surcharge takes effect.

> Effective January 1, 2019, a GUIC (Gas Utility Infrastructure Cost) Surcharge of \$0.00415 per therm has been included on your bill. The GUIC Surcharge is a surcharge authorized under Minn. Stat. § 216B.1635 to recover out-of-test-year infrastructure investments mandated by federal or state agencies associated with MERC's pipeline integrity programs and public right-of-way projects. The GUIC Surcharge will appear as a line item on your bill labeled "GUIC Rider."

The Commission will need to decide if this proposed bill message provides sufficient notice to customers and if it provides an adequate explanation of MERC's new GUIC rider, the rate factors and the proposed \$3.64 million rate increase. If not, the Commission should require MERC to work with the Commission's Consumers Affairs Office and Commission staff to develop an appropriate bill insert that more fully explains the GUIC rider, its intended purpose, and the programs that are covered by the rider.

V. Decision Options

GUIC Statute Compliance and Implementation Date

1. Determine that MERC's petition, as filed, meets the information requirements set forth in Minn. Stat. § 216B.1635, allow the Company to establish a GUIC rider in 2019, and allow MERC to begin cost recovery in 2019. (MERC) <u>or</u>

2. Determine that MERC can only meet the information requirements set forth in Minn. Stat. § 216B.1635 by using a historical test period, therefore allowing MERC to establish a GUIC in 2019, but prohibit cost recovery until 2020. (Department) <u>or</u>

3. Determine that MERC's petition, as filed, is missing specific information required by Minn. Stat. § 216B.1635 and deny MERC's petition to establish a GUIC rider. (OAG) <u>and</u>

4. Determine that MERC's proposed GUIC costs are not incremental to the amounts collected in base rates and deny MERC's petition to establish a GUIC rider. (OAG)

If the GUIC is approved - Specific Project Expenses

5. Authorize MERC to recover approximately $5.3 million, using its proposed three year average, in its GUIC rider to recover costs associated with relocation of natural gas facilities for public works and right-of-way projects. (MERC) <u>or</u>

6. Authorize MERC to recover approximately $4.4 million, using the OAG's proposed five year average, in its GUIC rider to recover costs associated with relocation of natural gas facilities for public works and right-of-way projects. (OAG – If GUIC is approved)

7. Authorize MERC to recover approximately $7 million in capital costs in its GUIC rider to recover costs associated with its Replacement of Obsolete Materials Project. (MERC) <u>or</u>

8. Do not authorize MERC to recover approximately $7 million in capital costs in its GUIC rider to recover costs associated with its Replacement of Obsolete Materials Project. (OAG)

9. Authorize MERC to recover approximately $2 million in O&M costs in its GUIC rider to recover costs associated with its Stop Valve Survey. (MERC) <u>or</u>

10. Do not authorize MERC to recover approximately $2 million in O&M costs in its GUIC rider to recover costs associated with its Stop Valve Survey. (OAG)

11. Authorize MERC to recover approximately $1 million in O&M costs in its GUIC rider to recover costs associate with its Sewer Cross Bore Survey Project. (MERC) <u>or</u>

12. Do not authorize MERC to recover approximately $1 million in O&M costs in its GUIC rider to recover costs associate with its Sewer Cross Bore Survey Project. (OAG)

13. Take no action and require MERC to submit its petition to recover 2019 historical GUIC costs in its April 1, 2020 GUIC Annual Report.

Rate of Return

14. Set MERC's rate of return for the GUIC rider at 6.8842%, equal to the authorized rate of return in MERC last approved general rate case, Docket No. 15-736. (MERC) or

15. Set MERC's rate of return for the GUIC rider equal to the 6.6971% rate of return authorized in MERC current general rate case, Docket No. 17-536 (order pending). (Department) or

16. Set MERC's rate of return for the GUIC rider at 3.60%, equal to MERC's currently authorized cost of long-term debt. (OAG)

Rate Design

17. Approve MERC's proposed energy-based rate factor of $0.00415[33] per therm. (MERC) or

18. Require MERC to utilize the non-gas class revenue apportionment from its current rate case, in docket 17-563, based on the example from MERC's last rate case as shown in Table 5 of Staff Briefing Papers. (Department)

Rate Factor Time Period

19. Authorize MERC to design its rate factors based on the length of time it expects the rate factors to be in effect, for example 9 months. (MERC) or

20. Deny MERC's request and require the design of the per therm GUIC rate factors to be based on twelve-months of sales.

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[33] $0.00415 per therm has been calculated based on MERC's proposal. If the Commission adopts any of the OAG's recommendations to disallow expenses, the volumetric rate will need to be recalculated.

Performance Metrics

21. Adopt the OAG's proposed performance metrics, as shown in Table 10 of Staff Briefing Papers. (OAG) <u>or</u>

22. Adopt other or additional performance metrics as determined by the Commission. <u>or</u>

23. Do not adopt any performance metrics for MERC's GUIC rider. (MERC) <u>or</u>

24. Require MERC, in its next annual rider filing, to submit a proposal for implementing performance metrics as part of its GUIC rider.

Carrying Charges

25. Authorize MERC to accrue a carrying charge to the average monthly tracker balance at a rate equal to $1/12^{th}$ of MERC's currently-authorized short-term cost of debt. (MERC) <u>or</u>

26. Do not authorize a carrying charge to the average monthly tracker balance. (Department)

Customer Notification

27. Authorize MERC to notify customers through its proposed bill message. <u>or</u>

28. Require MERC to work with the Commission's Consumers Affairs Office and Commission staff to develop a bill insert that explains MERC's GUIC program and rates in each customers' first bill that includes the new GUIC rate factors.

Compliance Filing

29. Require MERC to submit a compliance filing within 10 days of the Commission's order that includes the following, to the extent authorized, a calculation of the authorized GUIC revenue requirement, GUIC rate factor(s), revised tariff language and a revised (as needed) customer bill message and bill insert (if required) that explains the change in rates. (Staff) <u>and</u>

30. MERC's compliance filing should also include a proposed effective date for the rider and a plan of implementation, to the extent authorized, for the new rate factors. (Staff) <u>and</u>

31. Authorize comments on MERC's compliance filing within 10 days of MERC submitting its compliance filing. (Staff)