

Staff Briefing Papers

Meeting Date	September 17, 2020	Agenda Item *1
Company	Minnesota Energy Resources Corporation	
Docket No.	G011/M-20-563	
	In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of Proposed Modifications of Tariffs in Section 9, Extension of Natural Gas Service	
Issues	Should the Commission approve modifications to Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book?	
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Relevant Documents

Date

Minnesota Energy Resources Corporation—Initial Filing—Petition for Approval of Modifications to Section 9, Extension of Natural Gas Service	July 1, 2020
Minnesota Department of Commerce—Comments	July 31, 2020
Minnesota Energy Resources Corporation—Reply Comments	August 10, 2020

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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 Issue

Should the Commission approve modifications to Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book?

In this filing, MERC's proposes to provide, in its tariff, clarification of the customer connection procedures and guidelines, and to revise the tariff language regarding winter construction charges to state that charges will be equal to the rates charged by MERC's construction contractor.

II. Background

Section 9, Extension of Natural Gas Service, of MERC's Tariff and Rate Book, governs customer connection and service procedures and guidelines for winter construction charges and requirements.

Under the current tariff, a customer must meet all application requirements and be ready for the installation of natural gas service pipe or gas main by the deadline of November 30, just one day before the beginning of the winter construction season. MERC's winter construction runs from December 1 to April 1. MERC's winter construction charges, which come into effect December 1, are higher than summer construction season charges due to the extra expense of thawing frost for digging trenches and drilling bore holes. MERC is proposing to modify its tariff in this docket because the one-day lead time does not provide enough time for MERC to design, schedule, and construct the requested service or installation before higher winter construction charges from its contractors come into effect. This means that the customer may have no choice but to pay higher winter construction charges.

In order to allow the customer to be directly responsible for winter construction charges, MERC proposed in its July 1, 2020 petition to change the application deadline from November 30 to September 30. The effect of this change is to make customers more responsible for winter construction charges if they choose to schedule the work on December 1 or after. MERC would also have sufficient lead time to design and install the requested service before December 1 if the customer so chooses.

MERC currently negotiates contractor rates for 3-year terms, with the currently approved tariff covering 2018, 2019, and 2020. In this petition, MERC proposed to modify the language in Tariff Sheet 9.06 by removing the specific winter construction footage charges, frost footage charges, and burner charges. Specifically, MERC would apply then-applicable contract rates for all winter construction charges when the tariff conditions are met, namely between December 1 and April 1, when 12 or more inches of frost exist, and/or when thawing devices are required to excavate bell holes or locate other utility crossings. These modifications would allow the Company to recover actual contractor costs in excess of normal summer construction costs imposed by customers who have natural gas service installed during winter construction conditions, ensure customers are not assessed any charges in excess of actual construction costs, and eliminate the time and expense associated with tariff modification filings whenever contract rates change.

There would be no revenue impact to MERC since the Company would simply charge customers the same contractor rate it incurs. This passthrough modification would also eliminate the need to file for approval of contractor rates, which are competitively and reasonably negotiated. The Commission has customarily approved negotiated contractor rates for implementation in the past.¹

III. Parties' Comments

A. Department of Commerce

The Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Comments on July 31, 2020. The Department does not object to MERC's proposed clarification relating to the processing of winter construction projects. It agrees that increasing customer awareness regarding the application process would be beneficial. The additional two months for the application deadline would provide more than enough time, on average, for MERC to complete an installation project. It is in the interest of both parties to complete a project before December 1. The Department views the new deadline of September 30 as reasonable, and recommends the Commission approve it.

Regarding MERC's proposal to replace negotiated rates with current contractor rates, the Department notes that Minnesota Rule 7820.4800, Information Available to Customers and Public, requires each utility to "have available for existing customers and applicants for service such information as is needed to obtain and maintain adequate timely and efficient service." Information about the costs of connecting to MERC's system should be made available and as transparently as is reasonably possible. Therefore, it recommends MERC continue to post its competitively negotiated winter construction rates in its tariff. The Department also recommends MERC post its newly negotiated rates for 2021, 2022, and 2023, effective March 1, 2021.

The Department recommends the Commission:

- Approve MERC's proposal to change the deadline for customers to complete all requirements for service or main installation to guarantee avoidance of base winter construction charges assessed for construction occurring between December 1 and April 1;
- Require that MERC continue to include the specific winter construction charges in its tariff;
- Authorize MERC to implement the 2021, 2022, and 2023 winter construction charges effective March 1, 2021; and

¹ See Docket Nos. G-007,011/M-07-1188, G-007,011/M-12-362, G-011/M-13-722, G-011/14-361, and G-011/M-18-589. Pursuant to the Commission's January 15, 2008, Order in Docket No. G-007,011/M-07-1188, MERC is currently required to submit, for Commission approval, any future proposed changes to the Company's approved Winter Construction Charges tariff.

- Require that MERC continue to actively negotiate winter construction charges to ensure that they are reasonable and competitive and regularly undertake a competitive bidding process to ensure that its blanket construction contract and pricing are reasonable.

B. Minnesota Energy Resources Corporation

MERC submitted Reply Comments on August 10, 2020. While MERC continues to believe its proposal to allow future contracted winter construction charges to be implemented without additional approval is reasonable and feasible, the Company accepts the Department's recommendation that it continue to include the specific winter construction charges in its tariffs at this time. Based on this acceptance, the Company agrees to all the recommendations the Department outlined in its Comments. MERC proposes to implement the new charges effective March 1, 2021, with the other tariff changes effective upon Commission approval.

IV. Staff Analysis

With the agreement of both the Company and the Department on this recommendation, as listed in the Department's Comments, Staff supports it. Staff also notes that there may exist some variation in how winter construction season charges are applied in natural gas tariffs across other Minnesota gas utilities. The Department and the Commission may be mindful going forward that all of the utilities' winter construction season charges are clearly explained and transparent in their service extension tariffs.

V. Decision Alternatives

1) Approve the agreed upon list of recommendations:

- Approve MERC's proposal to change the deadline for customers to complete all requirements for service or main installation to guarantee avoidance of base winter construction charges assessed for construction occurring between December 1 and April 1;
- Require that MERC continue to include the specific winter construction charges in its tariff;
- Authorize MERC to implement the 2021, 2022, and 2023 winter construction charges effective March 1, 2021; and
- Require that MERC continue to actively negotiate winter construction charges to ensure that they are reasonable and competitive and regularly undertake a competitive bidding process to ensure that its blanket construction contract and pricing are reasonable.

Staff Recommendation: 1)