

October 1, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-20-702

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

In the Matter of a Notice of Refund Plan for Viking Gas Transmission Pipeline and Request for a Rule Variance submitted by Minnesota Energy Resources Corporation (MERC or the Company).

The Petition was filed on September 1, 2020 by:

Joylyn C. Hoffman Malueg
Project Specialist 3
Minnesota Energy Resources Corporation
2685 145th Street West
Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the Petition. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ar
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G-011/M-20-702

I. INTRODUCTION

On September 1, 2020 Minnesota Energy Resources Corporation (MERC or the Company) submitted a filing (*Petition*) in which the Company requested approval a proposed refund of interstate pipeline costs that the Company had collected from ratepayers for service on the Viking Gas Transmission (VGT) pipeline.

The amount of the refund is \$28,371.25. VGT also calculated an amount of interest on the credit of \$548.58 with the resulting total equal to 28,919.83. MERC received the refund from Viking on August 7, 2020.

According to the Company, the source of the refund was the difference between Viking's interim and final rates related to a rate case VGT filed with the Federal Energy Regulatory Commission (FERC) on June 28, 2019. On July 1, 2020 FERC approved a final rate settlement with rates effective as of March 1, 2020 and required a refund for the difference between the rates collected from January 1, 2020 through February 29, 2020 and the final approved settlement rates.

MERC also proposed to:

- restrict the refund to ratepayers who pay the Consolidated System Purchased Gas Adjustment (CON-PGA),¹
- pay interest on the refunded amount until such time that it is formally refunded to ratepayers, and
- use the Prime Rate, currently 3.25 percent, as the appropriate interest rate for that calculation.

Table 1 below provides MERC's estimates for average customer impacts.

¹ The Company collects two PGAs for its different Minnesota service areas. The CON-PGA and a Northern-Natural Gas or NNG-PGA.

Table 1 – MERC’s Estimated Customer Impact by Class²

Rate Class	Base Cost of Gas	Total VGT Refund	Average PGA-CON Cust. Count	Average Impact Per Customer
General Service	9,023,039	\$ 15,697.26	30,853	\$ 0.51
Firm Class 1	826,957	\$ 1,438.65	2,195	\$ 0.66
Firm Class 2 & 3	6,773,585	\$ 11,783.92	3,527	\$ 3.34
Total	16,623,581	\$ 28,919.83	36,575	\$ 0.79

The Department provides its analysis in the following section.

II. DEPARTMENT’S ANALYSIS

A. MERC’S PROPOSED REFUND PLAN

Minn. R. 7825.2700, subp. 8 describes the process for a returning a pipeline refund to ratepayers.

Refunds and interest on refunds, that are received by suppliers or transporters of purchased gas and attributable to the cost of gas previously sold, must be annually refunded by credits to bills, except that cumulative refund amounts equal to or greater than \$5 per customer must be refunded within 90 days from the date the refund is received from a supplier or transporter. Refunds must be allocated to customer classes in proportion to previously charged costs of purchased gas. Within classes, the refund amount per unit must be applied to bills on the basis of individual 12-month usage. The utility shall add interest to the unrefunded balance at the prime interest rate.

MERC recognized that the applicable refund process according to Minn. R. 7825.2700, subp. 8 would be for the Company to issue the refund at some point during the next twelve months as a bill credit. MERC prefers using the Purchase Gas Adjustment (PGA) mechanism to disperse the VGT refund to customers rather than issue a bill credit. Thus, the Company is requesting a variance to the requirements in Minn. R. 7825.2700 subp 8.

² *Petition* at page 5.

1. Refund Amount

The Department calculated its own estimate of the VGT refund amount through October 2020. Table 2 below delineates the calculation.

Table 2 – Department’s Estimated Refund as of November 1, 2020

Line No.	Description	Amounts
1.	VGT Refund with interest through August 31, 2020 ³	\$28,981.63
2.	Interest on refund for September and October 2020	\$157.90
3.	Estimated total amount to be refunded on 11/1/2020	\$29,139.53

Two months of additional interest increases the amount of the refund slightly.

2. Allocation of Refund to Customer Classes and Per Customer Estimate

MERC’s proposal would effectively allocate the refund based on actual November 2020 sales volumes. The Company proposes to include a small credit on its monthly CON-PGA to achieve this disbursement. Table 3 (below) provides an estimate of the amounts of the customer refund by class.

Table 3 –Estimated Refund per Customer Class

Line No.	Description	Amounts
1.	Estimated total amount to be refunded on 11/1/2020	\$29,139.53
2.	Forecasted November 2020 Firm Sales (therms)	5,148,179
3.	Refund per therm (line 3/line 5)	\$0.00566
4.	Avg. Nov. sales/customer Residential (therms)	97
5.	Residential estimated avg. refund (line 5 x line 6)	\$0.55
6.	Average November sales/customer Small Commercial (therms)	122
7.	Small Commercial estimated avg. refund (line 5 x line 8)	\$0.69
8.	Average November sales/customer Large Commercial (therms)	534
9.	Large Commercial estimated avg. refund (line 5 x line 10)	\$3.03

³ *Petition* at page 8.

As noted in Table 3, the estimated average value of the VGT refund by class, assuming normal November usage varies from \$0.55 for residential customers to \$3.03 for a large commercial customer.

The Company also identified several prior dockets in which the Commission had allowed it or other natural gas local distribution companies to use a similar approach to return pipeline refunds to customers.⁴

The Department reviewed MERC's proposed allocation method and concludes that it is appropriate and reasonable.

3. Interest on Refund

The Department reviewed MERC's proposed use of the Prime Rate to calculate interest on the VGT refund and concludes that it is appropriate and consistent with past practice.

B. MERC'S PROPOSED VARIANCE REQUEST

Minn. R. 7829.3200, delineates the decision criteria for evaluating a request for a rule variance.

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.

1. Enforcement of the Rule Would Impose an Excessive Burden Upon the Applicant or Others Affected by the Rule

In its *Petition*, MERC stated that enforcement of the 12-month pipeline refund requirement found in Minn. R. 7825.2700, subp. 8, would be administratively burdensome on the Company because the requirement would force MERC to issue a small bill credit to each customer. Under this approach MERC would incur the costs associated with the programming and issuing of the bill credits.

Department information request no. 2 asked the Company to provide an estimate of the costs that MERC would incur to: 1) develop the functionality within its billing system to be able to disperse the VGT refund via a bill credit and 2) issue the bill credits to customers paying the CON-PGA.⁵ In its response, the Company estimated its costs for developing this capability and providing the refund via

⁴ See Docket Nos. G007, 011/M-11-154, G004/M-10-63, and G004/M-08-1027.

⁵ This approach would be consistent with the requirements in Minn. R. 7825.2700, subp. 8.

bill credit to be at least \$30,000.⁶ MERC also identified some additional issues related to the bill credit approach in that same response.

Setting aside potential issues such as the accuracy of the \$30,000 amount and whether such costs are incremental to the amounts being recovered in rates, the fact that the estimated bill credit from the VGT refund does not exceed \$5.00 for any of MERC's customer classes, and thereby does not meet or exceed the threshold identified in Minn. R. 7825.2700, subd 8, provides the basis to conclude that strict enforcement of the rule is not warranted in this instance. Thus, the Department agrees with MERC that enforcement of the rule would impose an excessive burden on the Company given the estimated November 2020 VGT refund amount and the estimated refund per customer by class.

2. Granting the Variance Would Not Adversely Affect the Public Interest

MERC stated that the public interest would be served by the administrative efficiencies associated with issuing the refund through the PGA. In addition, the Company noted that it will continue to apply interest at the prime rate until the refund is complete and that to the "extent that actual sales differ from forecasted sales for the month in which the refund is issued, this amount will be trued up in the Company's annual true-up filing."⁷

The Department concludes that granting the variance would not adversely affect the public interest. As discussed above, the refund rule requires interest to accrue on supplier refunds. The Company's proposal regarding the application of the appropriate interest rate on the unreturned refund balance until it is fully refunded means that sales customers would not be adversely affected by the proposed variance.

3. Granting the Variance Would Not Conflict with the Standards Imposed by Law

MERC stated that it is not aware of any standard imposed by law that would conflict with the use of the PGA to effectuate the refund. The Company also cited three prior dockets in which the Commission approved a variance under similar circumstances. The Department is also not aware of any statute that would prevent the implementation of the Company's refund proposal.

The Department concludes that the Company's request for a variance to the refund rule meets the three-part test for granting a variance. Therefore, the Department recommends that the Commission approve a variance to Minnesota Rules part 7825.2700, subpart 8, to allow the Company to return the proposed refunds to sales customers via the Company's PGA in the earliest month possible through the CON-PGA rather than as customer bill credits.

⁶ See Attachment A.

⁷ *Petition* at page 8.

III. CONCLUSION AND RECOMMENDATIONS

Based on the analysis provided above, the Department recommends that the Commission:

- 1) Require MERC to accrue interest on the un-refunded amounts including the continue application of the appropriate prime rate interest rate until the balance of the VGT refund is fully refunded.
- 2) Require MERC to report on the status of the refund in its 2021 True-up filing filed in September 2021;
- 3) Approve a variance to Minnesota Rules part 7825.2700, subpart 8, to allow the Company to return the proposed refunds to customers via the Company CON-PGA in the earliest month possible rather than as customer bill credits.

/ar



Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
Information Request

Docket Number: G011/M-20-702
Requested From: Joylyn C. Hoffman Malueg, MERC
Type of Inquiry: General

☐ Nonpublic ☒ Public
Date of Request: 9/8/2020
Response Due: 9/18/2020

SEND RESPONSE VIA EMAIL TO: Utility.Discovery@state.mn.us as well as the assigned analyst(s).

Assigned Analyst(s): John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-600-1182

ADDITIONAL INSTRUCTIONS:

Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy.

Request Number: 2
Topic: Bill credit costs
Reference(s): Pages 4 and 5

Request:

Provide an analysis that estimates the expenses associated with programming, testing and the issuance of a bill refund within MERC's billing system for this refund.

MERC Response:

The ICE billing system was initially designed to serve utilities in Wisconsin and Upper Michigan and has the functionality to calculate and apply rate refunds. When it was adapted for use by MERC and Michigan Gas Utilities, and later the Illinois gas utilities, all applicable Minnesota regulatory requirements were reviewed and the refund functionality remained. However, each time a refund is authorized, the system must be configured to accommodate the unique circumstances of the refund. For instance, there are differences between the methods used to apply interim rate refunds in Minnesota as compared to applying a pipeline rate return refund under Minn. R. 7825.2700, subp. 8 and Minnesota has the added complexity of franchise fees to consider, so there can be a considerable amount of configuration and testing to ensure all aspects of the process are configured and implemented correctly. MERC also added a number of additional customer classes to its rate design in its 2018 rate case (Docket No. G011/GR-17-563) such that applying a refund under Minn. R. 7825.2700, subp. 8 would likely require additional configuration and testing.

MERC estimates, at a minimum, a cost of \$30,000 to conduct the configuration and testing phases of a bill refund within MERC's billing system that is in accordance with Minn. 7825.2700, subpart 8.

To be completed by responder

Response Date: September 24, 2020
Response by: Joylyn Hoffman Malueg
Email Address: Joylyn.HoffmanMalueg@wecenergygroup.com
Phone Number: 414-221-4208



Minnesota Department of Commerce
85 7th Place East | Suite 280 | St. Paul, MN 55101
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Assigned Analyst(s): John Kundert
Email Address(es): john.kundert@state.mn.us
Phone Number(s): 651-600-1182

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MERC reiterates that this is a minimum estimate, as MERC has not undertaken a pipeline refund in accordance with Minn. 7825.2700, subpart 8 within the current billing system previously. MERC is basing the estimate upon the time and effort involved with the process of refunding interim rate refunds attributable to a general rate case. In comparison to the process MERC has applied for interim rate refunds, Minn. R. 7825.2700, subpart 8, from which MERC is requesting a variance, would require a pipeline refund to be allocated to customer classes in proportion to previously charged costs of purchased gas, requiring separate calculations for each customer class. Within classes, the refund amount per unit must be applied to bills on the basis of individual 12-month usage. This customer class component to the refund calculation will most likely require additional configuration and testing beyond what has been required for interim rate refunds.

Assuming available resources, a minimum of 60 days lead-time would be needed to conduct the configuration and testing phases for issuance of pipeline refunds via individual bill credits. After the configuration and testing is completed, the refunds would then be applied over the course of one month, taking 4-5 bill cycles to run over the weekends, due to the volume and time needed to process these adjustments within the billing system. Lastly, MERC would then need to address the following impacts of issuing the pipeline refund under Minn. R. 7825.2700, subp. 8, which would require additional time and expense:

- How are customers who have left MERC's system who are owed a refund to be addressed? Historically, in the situation of interim refunds from a general rate case, these customers who have left and are owed a refund of \$2.00 or greater are sent a check for the refund amount owed to their forwarding address if one was provided upon termination of service. This situation may be further complicated by the average customer refund for Viking's pipeline refund being \$0.79¹, which is less than the \$2.00 threshold.
- Any refund amounts owed to customers who have left MERC's system who MERC is unable to locate will be handled in accordance with Minnesota Statutes chapter 345.

¹ See Table 1 of MERC's filing petition.

To be completed by responder

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Email Address: Joylyn.HoffmanMalueg@wecenergygroup.com
Phone Number: 414-221-4208



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Assigned Analyst(s): John Kundert
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Phone Number(s): 651-600-1182

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-
- Customer checks that are sent out but are not cashed are handled in accordance with Minnesota Statutes chapter 345.
 - Historically, in the situation of interim refunds from a general rate case, customers due a refund of less than \$2.00 who are no longer customers of MERC will not receive a refund and those amounts are donated to the Salvation Army Northern Division for distribution to customers under the Minnesota HeatShare Program to help offset costs of low income customers. This situation may be further complicated by the average customer refund for Viking's pipeline refund being \$0.79², which is less than the \$2.00 threshold.

² See Table 1 of MERC's filing petition.

To be completed by responder

Response Date: September 24, 2020
Response by: Joylyn Hoffman Malueg
Email Address: Joylyn.HoffmanMalueg@wecenergygroup.com
Phone Number: 414-221-4208

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G011/M-20-702

Dated this 1st day of **October 2020**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_20-702_M-20-702
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-702_M-20-702
Daryll	Fuentes	dfuentes@usg.com	USG Corporation	550 W Adams St Chicago, IL 60661	Electronic Service	No	OFF_SL_20-702_M-20-702
Joylyn C	Hoffman Malueg	Joylyn.hoffmanmalueg@wecenergygroup.com	Minnesota Energy Resources	2685 145th St W Rosemount, MN 55068	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Brian	Meloy	brian.meloy@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-702_M-20-702
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-702_M-20-702
Catherine	Phillips	Catherine.Phillips@wecenergygroup.com	Minnesota Energy Resources	231 West Michigan St Milwaukee, WI 53203	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Elizabeth	Schmiesing	eschmiesing@winthrop.com	Winthrop & Weinstine, P.A.	225 South Sixth Street Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-702_M-20-702

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Colleen	Sipiorski	Colleen.Sipiorski@wecenergygroup.com	Minnesota Energy Resources Corporation	700 North Adams St Green Bay, WI 54307	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Kristin	Stastny	kstastny@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 South 8th St Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_20-702_M-20-702
Mary	Wolter	mary.wolter@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)	231 West Michigan St Milwaukee, WI 53203	Electronic Service	Yes	OFF_SL_20-702_M-20-702
Tina E	Wuyts	tina.wuyts@wecenergygroup.com	Minnesota Energy Resources Corporation	PO Box 19001 700 N Adams St Green Bay, WI 54307-9001	Electronic Service	Yes	OFF_SL_20-702_M-20-702