MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	January 6, 2021		Agenda Item * 3
Company	Minnesota Energy Resources Corporation (MERC)		
Docket No.	**G-011/M-20-702**		
	In the Matter of the Petition of Minnesota Energy Resources Corporation for a Variance and Notice of Refund Plan for Viking Gas Transmission Pipeline Refund		
Issues	Should the Commission grant Minnesota Energy Resources Corporation a variance to Minn. R. 7825.2700, subp. 8 and allow MERC to refund a Viking Gas Transmission Pipeline Refund over a single month through the PGA mechanism based on one-month forecasted sales rather than 12-months of actual sales?		
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✓ **Relevant Documents**	**Date**
MERC – Initial Filing	September 1, 2020
Department of Commerce – Comments	October 1, 2020
MERC – Reply Comments	October 9, 2020
MERC – Letter Clarifying Variance Request	October 26, 2020
Department of Commerce – Response Letter	October 28, 2020

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 grant Minnesota Energy Resources Corporation a variance to Minn. R. 7825.2700, subp. 8 and allow MERC to refund a Viking Gas Transmission Pipeline Refund over a single month through the PGA mechanism based on one-month forecasted sales rather than 12-months of actual sales?

II. Background

Viking Gas Transmission (VGT) filed a rate case with the Federal Energy Regulatory Commission ("FERC") on June 28, 2019, proposing an increase to its transportation rates. On July 31, 2019, FERC issued an order accepting VGT's filing, suspending rates, and approving implementation of the proposed increase to rates effective January 1, 2020, subject to refund based on final approved rates. On July 1, 2020, FERC approved a final rate settlement with rates effective as of March 1, 2020 and required refunds for the difference between rates collected from January 1, 2020 through February 29, 2020 and the final approved settlement rates.

On an invoice dated August 7, 2020, VGT issued a pipeline refund to MERC in the amount of $28,371.25. VGT included interest in the amount of $548.58, with the total amount of the refund plus interest being $28,919.83.

On September 1, 2020, MERC submitted its petition, in this docket, requesting a variance from Minn. R. 7825.2700, subp. 8 to allow MERC to issue the refund to its customers via the MERC Consolidated rate area's purchased gas adjustment (CON-PGA), rather than through customer bill credits, and to apply the refund amount volumetrically based on a forecasted one month of usage rather than individual 12-month usage.

On October 1, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Minnesota Public Utilities Commission (Commission) approve MERC's petition.

On October 9, 2020, MERC filed reply comments stating that MERC agrees with the Department recommendations, and all issues between the Company and MERC are resolved. MERC requested that the Commission approve the Company's petition to allow implementation of the refund, as proposed, as soon as possible.

On October 26, 2020, MERC filed a letter to clarify that the Company, in requesting approval of a variance from Minnesota Rule 7825.2700, subp. 8, is also requesting a variance from the requirement contained in that rule that "within classes, the refund amount per unit must be applied to bills on the basis of individual 12-month usage." MERC stated:

> As stated in MERC's initial petition at page 4, "MERC seeks a variance from the Commission from the requirements of Minn. R. 7825.2700, subp. 8 in order to issue the VGT refund through the monthly PGA over one month rather than as a separate line item bill credit on customer bills." Given MERC's proposal, the per-

> therm refund proposed to be issued through the PGA would be calculated based on the forecasted sales in the month the refund is included in the PGA, and the per-therm refund would be credited to customers' usage via the PGA in the month following Commission approval.

On October 28, 2020, the Department filed a letter in response to MERC's clarification letter. The Department stated:

> The Department recommended approval of the Company's request for a variance to certain requirements in Minn. R. 7825.27 subp. 8 in our comments dated October 1, 2020. In addition, for the reasons identified in MERC's October 26, 2020 letter, the Department agrees with MERC that a variance to the requirement to use 12 months of individual customer usage is appropriate in this instance after reviewing MERC's request.

The Department recommended that the Commission approve MERC's additional request for a variance contained in in MERC's October 26, 2020 letter.

III. Parties' Comments

A. MERC's Proposal and Request

MERC proposes to return the pipeline refund plus interest of $28,919.83 received from Viking Gas Transmission ("VGT" or "Viking") to customers in the MERC-Consolidated purchased gas adjustment ("PGA") area through the monthly PGA in the month of November 2020, or as soon as the Commission approves MERC's variance request.

According to MERC the source of the refund was the difference between Viking's interim and final rates collected during the period of January 1, 2020 through February 29, 2020 related to a rate case VGT filed with FERC.

MERC proposes to:

- restrict the refund to ratepayers who pay the Consolidated System Purchased Gas Adjustment (CON-PGA);
- pay interest on the refunded amount at the Prime Rate (currently 3.25 percent) until such time that it is formally refunded to ratepayers;
- calculate the per-therm credit to be incorporated into the CON-PGA in the month of the refund, MERC proposes to divide the total refund amount by the forecasted demand sales as approved in Docket No. G-011/MR-17-564, for the month of the refund. To the extent that actual sales differ from forecasted sales for the month of the CON-PGA in which the refund is issued, this amount will be trued-up in the Company's annual true-up filing due September 1, 2021. This would have the effect of allocating the refund based on actual sales volumes for the month in which the refund is made;

- incorporate the refund rate per-therm, which is a credit amount, as a line item on Page 5 of the monthly CON-PGA, ensuring the refund and interest at prime rate for the unrefunded period, is refunded to customers through the PGA in the month following Commission approval.

MERC provided its Table 2. Average Customer Impact on page 5 of its petition, which is reproduced below as Table 1. This provides the average impact per customer if the Viking refund was provided right away to MERC's Consolidated PGA area customers, before accruing additional interest at the prime rate, which would change the numbers slightly.

Table 1. Average Customer Impact[1]

Rate Class	Total VGT Refund	Average MERC-Consolidated Customer Count	Average Impact Per Customer
Residential	$15,697.26	30,853	$0.51
Firm Class 1	$1,438.65	2,195	$0.66
Firm Class 2 & 3	$11,783.92	3,527	$3.34
Total	$28,919.83	36,575	$0.79

Minn. R. 7825.2700, subp. 8. Refunds, provides:

> Refunds and interest on the refunds, that are received from the 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 based on individual 12-month usage. The utility shall add interest to the unrefunded balance at the prime interest rate.

MERC requested a variance to Minn. R. 7825.2700, subp. 8 to allow MERC to issue the refund to its customers via the Consolidated purchased gas adjustment in the month following Commission approval, rather than through customer bill credits, and to apply the refund amount per unit based on a forecasted one month of usage rather than individual 12-month usage.

Pursuant to Minn. R. 7829.3200, 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] MERC Initial filing, p. 5.

MERC stated that it meets these three criteria as follows:

1. **Enforcement Would Impose an Excessive Burden on MERC**

   Enforcement of the requirement to issue the refund through a bill credit would be administratively burdensome due to the time and expense associated with such a refund. MERC would need to separately administer the refund by issuing a small bill credit to each customer, and MERC would incur expenses associated with the programming, testing, and issuance of the refund within MERC's billing system. Additionally, issuing the refund as customer bill credits would require MERC to address inactive customer account refunds. As shown in Table 2 below, the impact of the VGT refund for an average Residential customer is approximately $0.51 per customer.

   Not only would individual customer bill credits be administratively difficult, it would result in insignificant bill impacts, and in the majority of cases be subject to rounding errors. MERC's proposal to issue the VGT Total Refund through the CON-PGA would ensure that Consolidated System sales customers at the class level are appropriately refunded, would avoid the confusion and potential for errors associated with the calculation and application of credits to individual accounts, and will allow the refunds to be issued as soon as the Commission approves the requested variance. In light of the time and administrative expense of separate bill credits, MERC believes it will be more efficient to issue the refund through the CON-PGA over a single month.

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

   The public interest would be served by the administrative efficiencies associated with issuing the refund through the CON-PGA. It would not adversely affect the public interest to issue the refund to customers through the CON-PGA because this proposal will ensure that Consolidated System sales customers are appropriately refunded based on the VGT refund amounts and will allow for timely refund to customers. Additionally, MERC would apply interest at the prime rate until the refund is complete.

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

   MERC is not aware of any standard imposed by law that would conflict with MERC's implementation of the refund through the CON-PGA. Further, the Commission has granted variances to Minn. R. 7825.2700, subp. 8 in the past, to allow pipeline refunds to be refunded to customers through the monthly PGA and/or annual automatic adjustment.[2]

[2] For example, in Docket No. G-007,011/M-11-154, MERC requested and was granted identified variance

MERC also clarified in its letter of October 26, 2020 that:

> [C]alculation of refunds based on individual 12-month usage would impose an excessive burden on MERC as such individual 12-month calculations would be administratively burdensome due to the time and expense required to determine individual 12-month usage. Granting a variance to allow the Company to refund over a single month through the PGA mechanism based on one-month forecasted sales rather than 12-months of actual sales also will not adversely affect the public interest as MERC's proposal will ensure customers are appropriately refunded based on the Viking refund amounts. Finally, granting a variance to allow MERC to calculate refunds based on one month rather than 12-months of individual usage does not conflict with standards imposed by law.

B. Department's Position

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

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

The Department also reviewed MERC's request for a variance from Minn. R. 7825.2700, subp. 8 and concluded that the Company's request for a variance to the refund rule meets the three-part test for granting a variance. Therefore, the Department recommended 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.

In conclusion, the Department recommended that the Commission:

1) Require MERC to accrue interest on the un-refunded amounts including the continued 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 annual 2021 True-up filing, that will be filed in September 2021;

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to Minn. R. 7825.2700, subp, 8 to allow the Company to return pipeline refunds to customers through the PGA adjustment rather than as customer bill credits. In the Matter of a Request by Minnesota Energy Resources Corporation for Approval of a Variance and Notice of Refund Plan, Docket No. G-007,011/M11-154, ORDER (Aug. 25, 2011). See also Docket No. G-004/M-10-63, ORDER (Apr. 30, 2010) (approving a variance to Minn. R. 7825.2700, subp. 8 to allow Great Plains to return Kansas ad valorem tax refund amounts through the Company's Gas Cost Reconciliation adjustment rather than customer bill credits); Docket No. G-004/M-08-1027, Order (May 15, 2009) (approving a variance to Minn. R. 7825.2700, subp. 8 to allow Great Plains to return a Northern Natural Gas System Leveling Account refund and Viking Load Management System refund to customers through the Company's Gas Cost Reconciliation Adjustment rather than customer bill credits).

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.

In addition, in the Department's October 28, 2020 Response to MERC's October 26, 2020 clarification letter, the Department agreed with MERC that a variance to the requirement in Minn. R. 7825.2700, subp. 8, that the refund amount per unit must be applied to bills based on individual 12-month usage, is appropriate in this instance.

IV. Staff Comment

Staff agrees with MERC and the Department.

V. Decision Alternatives

1) Require MERC to accrue interest on the un-refunded amounts including the continued application of the appropriate prime rate interest rate until the balance of the VGT refund is fully refunded. [Department, MERC]

2) Require MERC to report on the status of the refund in its 2021 True-up filing filed in September 2021; [Department, MERC]

3) Grant a variance to Minnesota Rules part 7825.2700, subpart 8, to allow MERC to return the proposed refunds to its customers via the Consolidated purchased gas adjustment in the earliest month possible following Commission approval, rather than through customer bill credits, and to apply the refund amount per unit based on a forecasted one month of usage rather than individual 12-month usage. [MERC, Department]