MINNESOTA DEPARTMENT OF COMMERCE

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August 31, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G004/M-15-645

Dear Mr. Wolf:

On July 1, 2015, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a change in demand entitlement petition (Petition) for its customers.

In its August 27, 2015 *Comments*, the Minnesota Department of Commerce (Department or DOC) recommended that the Minnesota Public Utilities Commission (Commission) accept Great Plains' *Petition* pending Great Plains' response to various inquiries and the provision of additional information in *Reply Comments*:

> In the instant *Petition,* Great Plains' analysis produces results that are acceptable for planning for the design day. Therefore, the Department recommends that the Commission:
> 1. accept the Company's proposed design-day method for the South District and the North District;
> 2. request Great Plains to provide a detailed explanation in its *Reply Comments* of how it manages its non-heating season capacity given the fact that it appears to have a capacity shortfall in the North District;
> 3. request Great Plains in its future demand entitlement filings to check the regression models it ultimately uses for autocorrelation, and correct the models if autocorrelation is present;
> 4. accept the Company's proposed reserve margins for the South District and the North District;
> 5. accept the Company's proposed PGA recovery of its demand entitlement proposals for the South District and the North District;
> 6. request that Great Plains in its *Reply Comments* provide a reconciliation and explanation for all data discrepancies in the Company's Exhibit D; and
> 7. request Great Plains to supplement its *Petition* once the final demand entitlement changes and the associated rate and bill impacts are known.

Given the overlap of this docket with other contested cases with statutory deadlines and the fact that Great Plains' new contract with Northern Natural Gas Pipeline Company (Northern or NNG) was not part of its July 1, 2015 filing, the Department is only now able to address the issue in this petition. The Department provides its additional analysis below.

As indicated in recommendation seven above, the Department requested that Great Plains supplement its *Petition* once the Company had the final TF-12B and TF-12V reallocations and the associated rate and bill impacts. The Department also requested that Great Plains in its *Reply Comments*:

- provide a detailed explanation (for its North District) of how it manages its non-heating season capacity given the fact that it appears to have a non-heating season capacity shortfall; and

- provide a reconciliation and explanation for all the data discrepancies shown in DOC Attachment 2.

A. OCTOBER 29 INFORMATIONAL UPDATE

1. Non-Heating Season Capacity Shortfall

On October 29, 2015, Great Plains filed an *Informational Update* which did not include an explanation on the non-heating season capacity shortfall.

The Department observes that capacity from Viking Interstate Pipeline Company (Viking) and Northern Natural Gas Company (NNG or Northern) should be readily available during the non-heating season and may be cheaper to ratepayers than the additional cost to contract for the additional non-heating season demand. In addition, utilities may sell their contracted pipeline capacity (capacity-release transactions) if the utility determines that a portion of their reserved capacity will not be needed to serve its customers. Thus, Great Plains would likely also have access to capacity release supplies from other shippers during the non-heating season. However, Great Plains should confirm the accuracy of the Department's observation and provide its explanation regarding the non-heating season capacity shortfall.

2. Data Discrepancies

Regarding the data discrepancies, the Company's update did not provide the requested explanation. Specifically, the Department stated in its Comments on page 5:

> Consistent with the analysis presented by the DOC in Docket Nos. G004/M-11-1075, G004/M-12-740, and G011/M-13-566 the Department used two methods to gauge the reasonableness of the Company's design-day amounts for the South District and the North District: 1) using data from the previous five heating seasons; and 2) using data from the heating season with the overall greatest peak sendout per firm customer, which occurred before the previous five heating seasons. The Department identified several inconsistencies in

> the data contained in the Company's Exhibit D. For example for the North District, the Company shows 13,236 dk as the firm peak day sendout for the 2013-2014 heating season whereas in Docket No. G999/AA-14-580, the Company shows 13,109 dk for the firm peak day sendout. Please see DOC Attachment 2 that shows, for example, some of the highlighted cells where discrepancy in the data exists. The Department requests that Great Plains in its *Reply Comments* provide a reconciliation and explanation for all data discrepancies. (footnote omitted)

Great Plains neither filed Reply Comments nor did it provide the requested reconciliation in its updates in this proceeding. However, given the time that has elapsed in this proceeding, the Department requests that Great Plains provide an explanation and reconciliation of the data discrepancies referenced above in its next demand entitlement filing in Docket No. G004/M-16-557.

3. Changes to North District Capacity

On October 29, 2015, the Company filed its update. The Company mentioned the changes that were made to its North District capacity since the time of its initial filing. Overall, it appears that no changes were made to the design-day requirements.

The Company stated the following:

> Great Plains Natural Gas Co. (Great Plains), a Division of MDU Resources Group, Inc., submitted its Demand Entitlement Filing on July 1, 2015 (July 1 DEQ) in the above referenced docket. In that filing, Great Plains proposed to increase the North District capacity by 700 dk per day. Also, as noted in that filing, a 500 dk per day firm gas purchase agreement with a gas supplier utilized to meet the 2014-2015 winter peak expired. The Company proposed to replace the expired contract as well as the incremental capacity with a seasonal contract on Viking. Great Plains now reports 700 dk per day of seasonal capacity was procured from Viking which results in a North District reserve percentage of 1.9% as shown on Exhibit B.
>
> In addition, Great Plains entered into a contract for an additional 730 dk per day of firm gas to be delivered to Vikings' Chisago receipt point from a current gas supplier. This does not provide additional capacity to meet the North District's design day peak demand but does result in additional base load gas and provides additional capacity on the Northern pipeline to ensure gas is delivered to Viking.

Great Plains' *Update*, Attachment A shows the changes for the North District as follows:

Table 1: October 29, 2015 Update[1]

North District	Initial Filing (Dth)	Change (Dth)	Update (Dth)
BP Seasonal Contract	500	(500)	0
Viking FT-A Seasonal (Nov-Mar)	0	700	700[2]

The Company also showed the 730 Dth/day[3] contract referenced above. The Company's revised demand entitlement levels would result in the following annual demand cost impacts compared to the Company's June 2015 PGA:[4]

- annual bill increase of approximately $1.42, or approximately 0.2 percent, for the average residential customer consuming 103.8 Dth annually; and

- annual bill increase of $5.11, or approximately 0.2 percent, for the average firm general service customer consuming 375.7 Dth annually.

The changes in demand cost impacts are shown in Table 2 below:

Table 2: October 29, 2015 Update[5]

North District	Initial Filing	Initial Change (%)	Update	Update Change (%)
Residential Customer	($0.38)	-0.1	$1.42	0.2
Firm General Service	($1.39)	-0.1	$5.11	0.2

4. Changes to South District Capacity

On October 29, 2015, the Company filed its update. The Company mentioned the changes that were made to its South District capacity since the time of its initial filing. Further, it appears that no changes were made to the design-day requirements.

The Company stated the following:

> Also in the July 1 DEQ, Great Plains proposed to increase the South District capacity by 730 dk per day with a TFX Seasonal contract from Northern. Northern had additional capacity available as a result of pipeline system improvements. Great Plains took advantage of this newly available capacity and

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[1] Great Plains requested the changes to be effective November 1, 2015.
[2] This amount is the winter level of Viking's FT-A service.
[3] The contract terms as reported by Great Plains in Docket No. G004/AA-15-951 and in its December 9, 2015 *Informational Update* are 730 Dth/day at $0.33/Dth for the period November 1, 2015 through March 21, 2016.
[4] Great Plains' October 29, 2015 filing, Attachment C shows the effect of this change per class with new figures for the Commodity Cost of Gas, Demand Cost of Gas, and Commodity Margin. Thus, the numbers in Attachment C do not match Great Plains' Tables 1 and 2 in its *Update*.
[5] Great Plains requested the changes be effective November 1, 2015.

> entered into a 10-year, 2,000 dk per day annual capacity contract effective November 1, 2015. Although this amount of capacity exceeds current requirements, Great Plains believes it will require this amount of capacity in the near future. Great Plains has released 1,300 dk per day of the 2,000 dk per day additional capacity for the upcoming heating season to a third party marketer, which results in a reserve margin for the South District for the 2015-2016 season of 5.9 percent, net of the released capacity.
>
> As stated in the July 1 DEQ filing, Great Plains agreed to update the Commission on the allocation of Northern's TF12 Base and TF12 Variable in place for the 2015-2016 season. Great Plains was informed that Northern is decreasing the TF12 Base by 496 dk to 4,604 dk per day, and increasing the TF12 Variable by 496 dk to 2,931 dk per day. This new allocation will be effective November 1, 2015.

The Department notes the changes in NNG's transportation service (TF) Base (B) and Variable (V) services and TFX 5-month (TFX seasonal) service and TFX (12 month) annual service on Great Plains *Update*, Attachment A for South District as follows:

Table 3: October 29, 2015 Update[6]

South District	Initial Filing (Dth)	Change (Dth)	Update (Dth)
TF 12 mo. B	5,100	(496)	4,604[7]
TF 12 mo. V	2,435	496	2,931[8]
TFX Seasonal (Nov-Mar)	730	(730)	0[9]
TFX Annual	0	2000	2,000

NNG's annual November reallocation of units between TF12 B and TF12 V is typically based on the utility's previous May through September usage. The Company also showed the 1,300 Dth/day[10] short-term capacity release referenced above. The Company's revised demand entitlement levels would result in the following annual demand cost impacts compared to the Company's June 2015 PGA:[11]

[6] Great Plains requested the changes be effective November 1, 2015.
[7] Great Plains described the changes in the write-up but did not portray the changes in its Attachment A, Update.
[8] *Id*.
[9] This is the winter level of Northern's TFX service that Great Plains had initially proposed to acquire.
[10] The contract terms as reported by Great Plains in docket G004/AA-15-952 and in its December 9, 2015 *Informational Update* are 1,300 Dth/day at $0.22/Dth for the period November 1, 2015 through March 21, 2016.
[11] Great Plain's October 29, 2015 filing, Attachment C shows the effect of this change per class with new figures for the Commodity Cost of Gas, Demand Cost of Gas, and Commodity Margin. Thus, the numbers in Attachment C do not match Great Plains Tables 1 and 2 in its *Update*.

- annual bill increase of approximately $12.86, or approximately 2.6 percent, for the average residential customer consuming 88.2 Dth annually; and

- annual bill increase of $49.71, or approximately 2.8 percent, for the average firm general service customer consuming 340.9 Dth annually.

The 10-year TFX contract's annual costs are approximately $231,092 per year with a temporary revenue recovery through the short-term capacity release, in the amount of $43,186. In its June 2015 PGA, the annual costs were $1,674,996. Thus, without the capacity release the impact of the new contract would have been an annual increase of approximately 14 percent over the Company's prior annual demand costs for the South District.

The resulting changes in demand cost are shown in Table 4 below:

Table 4: October 29, 2015 Update[12]

North District	Initial Filing	Initial Change (%)	Update	Update Change (%)
Residential Customer	$3.60	0.7	$12.86	2.6
Firm General Service	$13.95	0.8	$49.71	2.8

As mentioned above, the Company indicated that, "Northern had additional capacity available as a result of pipeline system improvements. Great Plains took advantage of this newly available capacity and entered into a 10-year, 2,000 dk per day annual capacity contract effective November 1, 2015. Although this amount of capacity exceeds current requirements, Great Plains believes it will require this amount of capacity in the near future." In terms of assessing whether this expectation is reasonable, the Department notes that, in Exhibit B and D of its *Petition*, Great Plains projected approximately 12,039 customers for its South District. In Docket No.G004/GR-15-879, in Statement Workpapers C, page C1-3 (included as DOC RC Attachment 1), Great Plains had projected approximately 12,068 firm customers for the 12 months ending December 31, 2016, for its South District, which is close to what Great Plains projected in the instant *Petition*. In its *Petition*, Exhibit D, Great Plains also indicated that in some years, Great Plains has experienced the loss of firm customers and also in some years has added customers. For example, in the 2014-2015 heating season Great Plains projected the addition of approximately 193 customers from the prior heating season. Thus, the basis for Great Plains' projection of a need for the excess capacity in the future is not clear.

Because Great Plains has not provided reasonable explanations for why it was in the best interest of its current South District ratepayers to acquire this new additional capacity, the Department requests that Great Plains, at a minimum, clarify, and provide detailed explanations for the following:

[12] Great Plains requested the changes be effective November 1, 2015.

a) What sort of pipeline system improvements did Northern make, where on its system were the improvements made, and when?
b) Did Northern conduct an open season?
c) If the response to part b is, "yes," when did Northern conduct the open season and did Great Plains participate?
d) If the response to part b is, "yes," which other Northern shippers participated?
e) Did Northern have any unutilized capacity available prior to the "pipeline system improvements" referenced above?
f) Did Great Plains inquire of other Northern Shippers and/or marketers if they had capacity available for release to Great Plains?
g) Did Great Plains, after it filed its *Initial Petition* in the instant docket, need to meet unexpected demand growth of new customers or group of customers?
h) Is this new contract tied to any of its existing contracts with Northern? For example, is the contract a result of "grandfathered rights"?
i) What sort of criteria did Great Plains use to evaluate the costs, benefits, and reasonableness of the acquisition of this particular 10-year contract for its South District customers?

The Company had initially projected 5.1 percent and 6.0 percent reserve margins for its North and South districts, respectively. With the changes proposed by Great Plains in its October 29 *Update*, the resulting reserve margins are 1.9 percent and 5.9 percent (net of the temporary capacity release) for its North and South districts, respectively.

Table 5: Great Plains' Authorized Reserve Margins for the 2014-2015 Heating Season and Proposed Reserve Margins for the 2015-2016 Heating Season

District	2014-2015 Reserve Margin	Initially Proposed Reserve Margin	Update Proposed Reserve Margin
South	5.1%	6.0%	5.9%
North	4.6%	5.1%	1.9%

Given that the newly acquired TFX capacity released by the Company is short term in nature (from November 1, 2015 to March 31, 2016) and that the annual contract is long-term in nature (10 years), the reserve margin without the short-term capacity release is effectively 13.6 percent. See the Department's August 27, 2015 *Comments* and the discussion on reserve margins,[13] wherein the Department notes that the Commission required Great Plains to reduce its reserve margin in Docket No.G004/M-09-1262 (Docket 09-1262) to approximately 5 percent or to explain why it was not reasonable to do so. In Docket 09-

[13] See Ordering Paragraph No. 4 of the Commission's September 30, 2010 Order in Docket Nos. G004/M-07-1401, G004/M-08-1306, and G004/M-09-1262.

1262, Great Plains reduced its capacity through the retirement of its propane peaking facilities.

Given all the capacity changes to the Company's North and South Districts that were reported in the *Informational Updates*, Great Plains did update its Attachments A, B and C but failed to update its Attachment D to reflect its proposed changes. In its future demand entitlement filing updates and/or Reply Comments, the Department requests that Great Plains not only explain the proposed changes that are made in the update and/or Reply Comments, but also update all of its Attachments and provide a red-lined version so that changes can readily be seen.

B. DECEMBER 9, 2015 INFORMATIONAL UPDATE

1. Docket No. G004/MR-15-878

On December 9, 2015, Great Plains filed its second I*nformational Update*. The Company stated the following:

> Pursuant to the Order in Docket No. G-004/MR-15-878, Great Plains herewith supplements its July 1 DEQ filing with Tables 1 and 2 provided on Attachment A. The tables contain contract rate information for the upcoming 2015/2016 heating season for the North and South Districts.

The Commission's November 30, 2015 *Order Setting New Base Cost of Gas* in Docket No. G004/MR-15-878, at ordering point 5 stated the following:

> 5. Prospectively, Great Plains shall provide specific information on its transportation and storage contracts in its demand entitlement petitions, starting with supplementing its 2015-2016 petition in Docket No. G-004/M-15-645, In the Matter of Great Plains Natural Gas Company's Demand Entitlement Filing.

The Commission's November 13, 2015 Staff Briefing Papers in Docket Nos. G004/MR-15-871 and G004/MR-15-878, at page 5 stated the following:

> PUC staff believes that the Commission may wish to require Great Plains to provide its transportation and storage contract information in its demand entitlement petitions, to include a similar breakdown of information as illustrated above in Tables 1 and 2, on a going forward basis, starting with supplementing its 2015-2016 (in Docket No. 15-645) demand entitlement petition.

In Great Plains' December 9, 2015 *Informational Update* in the instant docket, the Company provided the requested tables as Attachment A. Thus, the Department concludes that Great Plains complied with Commission's November 30, 2015 *Order* in Docket No. G004/MR-15-878.

C. RECOMMENDATIONS

The Department now recommends that the Commission:

- **withhold approval of** Great Plain's peak-day analysis;
- **withhold approval of** Great plains' level of demand entitlements until Great Plains provides the clarification and detailed explanations requested above in reference to its new TFX 12-month 2,000 Dth/day annual contract with Northern; and
- Require Great Plains to confirm the accuracy of the Department's observations regarding the North District non-heating season capacity shortfall and/or provide its explanation.

The Department recommends that Great Plains provide an explanation and reconciliation of the data discrepancies referenced in the Department's August 27, 2015 *Comments*. This explanation and reconciliation should also be filed in Docket No. G004/M-16-557.

The Department requests that, in future demand entitlement updates and/or Reply Comments, Great Plains not only explain its proposed changes but update all its Attachments and provide a red-line version so that changes can readily be seen.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/lt

GREAT PLAINS NATURAL GAS CO.
GAS UTILITY - MINNESOTA

Summary of Customers by Tariffed Rate
Projected Twelve Months Ended December 31, 2016

	Rate	Per Books	Per Books @ Current Rates	Projected 2015	Projected 2016	Growth Rate
Sales						
Residential						
North	N60	8,330	8,330	8,414	8,499	1.01%
South	S60	10,231	10,231	10,284	10,337	0.52%
Total Residential		18,561	18,561	18,698	18,836	
Small Firm General						
North	N70	770	770	789	808	2.43%
South	S70	1,079	1,079	1,098	1,118	1.80%
Total Firm General		1,849	1,849	1,887	1,926	
Large Firm General						
North	N75	430	430	446	463	3.81%
South	S75	562	562	587	613	4.48%
Total Firm General		992	992	1,033	1,076	
Small Interruptible						
North	N71	77	77	70	70	0.00%
South	S71	71	71	69	69	0.00%
Total Small Interruptible		148	148	139	139	
Large Interruptible						
North 4	N85	5	5	5	5	0.00%
South 13	S85	3	3	1	1	0.00%
Total Large Interruptible		8	8	6	6	
Total Sales		21,558	21,558	21,763	21,983	
Transportation						
Small Interruptible						
North 4	N81	1	1	2	2	0.00%
South 13	S81	3	3	3	3	0.00%
Total Small Interruptible		4	4	5	5	
Large Interruptible						
North	TF1	1	1	1	1	0.00%
North	TF2	2	2	2	2	0.00%
North	TF4	2	2	2	2	0.00%
South	S82	4	4	6	6	0.00%
South	TF3	2	2	2	2	0.00%
Total Large Interruptible		11	11	13	13	
Total Transportation		15	15	18	18	
Total Minnesota		21,573	21,573	21,781	22,001	

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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
Response Comments

Docket No. G004/M-15-645

Dated this 31st day of August 2016

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-645_M-15-645
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