

October 3, 2024

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-24-269

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 Minnesota Energy Resources Corp.'s Petition for Approval
of a Change in Demand Entitlement for its Consolidated System (Petition)

The Petition was filed on August 1, 2024 by Minnesota Energy Resources Corporation.

The Department will provide its final recommendations to the Minnesota Public Utilities Commission (Commission) after the Company files its Reply Comments and its November 1, 2024 updated filing. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ Dr. Sydnie Lieb
Assistant Commissioner of Regulatory Analysis

AZ/DT/ad
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G011/M-24-269

I. INTRODUCTION

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its comments on the Demand Entitlement Filing (Petition) of Minnesota Energy Resources Corporation (MERC or the Company) for its Consolidated System in Docket No. G011/M-24-269.¹ Pursuant to Minn. R. 7825.2910, Subp. 2,² MERC filed a petition requesting a change in demand³ on August 1, 2024 for MERC customers served off the Consolidated Purchased Gas Adjustment (PGA) system (MERC-Consolidated).⁴ MERC-Consolidated serves customers located along three pipelines: Great Lakes Gas Transmission (Great Lakes or GLGT), Viking Gas Transmission Co. (Viking or VGT), and Centra Minnesota Pipelines (Centra). MERC requested that the Commission approve changes in the Company's recovery of the overall level of contracted capacity.

MERC proposes to increase its total design-day requirement by 588 dekatherms (Dth) to 57,736 dekatherms (Dth) per day. The Company proposes an increase of 2,410 Dth/day from the Company's current design-day deliverability of 62,019 Dth/day approved for the last heating season. The Company proposes to achieve the increase by acquiring additional capacity from GLGT and updating volumes for the Centra contract.

The Department provides its initial recommendations in these comments, primarily related to the Company's proposed design-day requirements. The Department will provide its analysis on the remaining components of the Company's Petition and final recommendations after the Company files

¹ *Petition for Approval of a Change in Demand Entitlement for its Consolidated System – Minnesota Energy Resources Corporation, In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a Change in Demand Entitlement for its Consolidated System, Docket No. G011/M-24-269* (August 1, 2024). (eDocket No. [20248-209170-01](#)). Hereinafter "Petition."

² [Minn. R. 7825.2910, Subp. 2](#): "Filing upon a change in demand. Gas utilities shall file for a change in demand to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another."

³ Also called entitlement, capacity, or transportation on the pipeline.

⁴ In its December 21, 2012, Order in Docket No. G007,011/GR-10-977, the Commission approved consolidation of MERC's four Purchased Gas Adjustment (PGA) systems effective July 1, 2013. See [eDocket No. 201212-82091-01](#). MERC named the PGA for the NNG customers "MERC-NNG." At the time, MERC's only other PGA system was named "MERC-Consolidated." Effective May 1, 2015, MERC acquired Interstate Power & Light Company's Minnesota natural gas operations and customers. The Commission required MERC to maintain the transitioned customers on a separate PGA until MERC's next rate case. MERC named the PGA for the transitioned customers "MERC NNG-Albert Lea." Pursuant to the Commission's October 31, 2016 Order in Docket No. G011/GR-15-736, the MERC-NNG and MERC NNG-Albert Lea PGAs were consolidated effective July 1, 2017. See [eDocket No. 201610-126124-01](#). On August 1, 2024, MERC filed a demand entitlement request for MERC-NNG in Docket No. G011/M-24-270.

its Reply Comments and its November 1, 2024 updated filing. For example, the remaining analysis of the Company's request would include the following areas:

- Remaining compliances;
- changes to capacity;
- reserve margins; and
- PGA cost recovery proposals.

II. PROCEDURAL HISTORY AND SUMMARY OF MERC'S REQUEST

The Department provides the relevant procedural history and a summary of MERC's requests in the Petition below.

A. PROCEDURAL HISTORY

In its February 4, 2015 Order in Docket Nos. G011/M-12-1192, G011/M-12-1193, G011/M-12-1194, G011/M-12-1195, the Commission stated in part the following: "Required MERC to check its regression models for autocorrelation and correct the model if autocorrelation is present by removing the autocorrelation from the model."⁵

In its April 28, 2016 Order in Docket Nos. G011/M-15-722, G011/M-15-723, G011/M-15-724, the Commission stated in part the following: "Required MERC to verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain."⁶

On February 17, 2023, the Commission issued its Order Requiring Actions To Mitigate Impacts From Future Natural Gas Price Spikes, Setting Filing Requirements, and Initiating A Proceeding to Establish Gas Resource Planning Requirements in Docket Nos. G999/CI-21-135, G008/M-21-138, G004/M-21-235, G002/CI-21-610, and G011/CI-21-611.⁷ Ordering Paragraphs 9 and 10 stated the following:

9. In future contract demand entitlement filings, the gas utilities in this docket shall discuss how changes to their pipeline capacity affect their supply diversity and, if pipeline capacity comes at a cost premium but increases supply diversity, provide a meaningful cost/benefit discussion of the tradeoff, including a comparison with the least-cost capacity option.

10. Each gas utility in this docket shall include in its relevant annual, forward-looking gas planning or hedging filings:

⁵ See [eDocket No. 20152-107016-04](#). Hereinafter "February 4, 2015 Order."

⁶ See [eDocket No. 20164-120779-03](#). Hereinafter "April 28, 2016 Order."

⁷ See [eDocket No. 20232-193249-04](#). Hereinafter "February 17, 2023 Order."

- A. Its expected supply mixes across different load and weather conditions throughout each month of the upcoming winter season;
- B. The forecasted minimum, average, and maximum day load requirements; and
- C. The expected mix of baseload, storage and spot supply on those days.

In its January 17, 2024 Order in Docket No. G011/M-23-358, the Commission accepted the Company's proposed demand entitlement, allowed the Company to recover associated demand costs through the monthly PGA effective November 1, 2023, and required the Company provide an update on the Viking Gas Transmission (VGT or Viking) rate case in its next demand entitlement filing.⁸

On August 21, 2024, the Company submitted its Petition in the current proceeding, requesting a change to the Company's demand entitlements pursuant to Minn. R. 7829.2910, Subp. 2.⁹

B. SUMMARY OF MERC'S REQUEST

MERC proposes to increase its total design-day requirement by 588 dekatherms (Dth) to 57,736 Dth/day.¹⁰ The Company currently has design day capacity of 62,019 Dth/day on its MERC-Consolidated system. In terms of capacity, MERC proposed to increase its current design-day deliverability of 62,019 Dth/day approved for the last heating season, by 2,410 Dth to 64,429 Dth/day for the 2024-2025 heating season.¹¹ This increase results in an estimated reserve margin of approximately 11.59%.¹² MERC also proposes changes to its non-design-day deliverable contracts such as storage contracts.¹³

MERC's proposed entitlement changes results in an estimated increase in demand costs for residential customers of \$0.0481 per Dth, 5.72 percent, or approximately \$4.15 per year compared to the rates included in the Company's July 2024 PGA.¹⁴

MERC also requests that the Commission allow recovery of the associated demand costs in the Company's monthly PGA effective November 1, 2024.¹⁵

III. DEPARTMENT ANALYSIS

⁸ See [eDocket No. 20241-202256-01](#). Hereinafter "January 17, 2024 Order."

⁹ [Minn. R. 7825.2910, Subp. 2](#)

¹⁰ Petition at 1-2.

¹¹ Petition Attachment 3.

¹² Petition at 2.

¹³ Petition at 6.

¹⁴ Petition Attachment 4.

¹⁵ Petition at 1.

The Department’s analysis of the Company’s request includes the following areas:

- The design-day requirements; and
- Compliance with the Commission’s January 17, 2024 Order.

The Department will provide its analysis and recommendations on the remaining components of Company’s Petition after the Company files its November 1, 2024 updated filing.

A. *DESIGN-DAY REQUIREMENTS*

The Company proposes to increase its total design-day in Dth as follows.¹⁶ Table 1 shows MERC’s consolidated design-day levels.

Table 1: MERC-Consolidated Design-Day Levels				
Filing	Previous Design-Day (Dth)	Proposed Design-Day (Dth)	Design-Day Changes (Dth)	Change From Previous Year (%)
Centra	9,691	9,626	(65)	(0.67)%
Great Lakes	29,497	30,245	748	2.54%
Viking	17,960	17,866	(94)	(0.52)%
Total Consolidated	57,148	57,736	588	1.03%

At pages 2-3 of its Petition, MERC states the following:

The Consolidated Design-Day requirement has increased by 588 dekatherms (dth) since November 1, 2023. This represents a 1.03% increase in Design-Day requirement over the 2022-2023 heating season.

...

For the Demand Entitlement filing effective November 1, 2024, the total Design-Day requirement for MERC – Consolidated is 57,736 dth (Attachment 1). The difference between the total Design-Day requirement and total Design-Day capacity results in an 11.59% reserve margin (Attachment 3).

MERC uses a similar approach to last year’s filing for its design-day analysis. MERC’s telemetry program makes it possible for all interruptible customers to have daily metered data, and the Company no longer needs to estimate interruptible customers’ peak-day impact for the customers served on the MERC-Consolidated system.

¹⁶ Petition at 2.

MERC obtained the daily large volume transportation, interruptible and joint interruptible customer's volumes by pipeline and weather station (Data A). In addition, MERC obtained the daily small volume interruptible customer's volumes by pipeline and weather station (Data B). MERC calculated the daily firm volumes by subtracting both Data A and Data B from the total throughput volumes.

In addition, MERC made some adjustments to its data, for example for the MERC-Consolidated system, in its regression analysis. In its Petition MERC states the following:¹⁷

Review daily total metered throughput, Data A, and Data B and identify missing or bad reads, and to the extent possible, fix missing or bad reads. To the extent that the data could not be fixed, it was not included in the regressions.

In its Petition, MERC also states the following:¹⁸

Identify the coldest Adjusted Heating Degree Day (AHDD) since January 1996 for each weather station. Note, this is a change in practice from prior analysis that used a rolling 20-year period. The change was included because many weather stations experienced historically cold weather in the January/February 1996 time period and without inclusion of that additional data from January/February 1996, AHDD were materially lower and not reflective of MERC's capacity needs.

To the Department's knowledge, MERC's prior design-day analyses have relied on the coldest days from 1996. In any event, the Department agrees with MERC that it would not be acceptable to use a rolling 20-year weather period in the design-day calculations when planning for the Company's capacity needs in meeting the design-day. The rolling 20-year weather period may not necessarily reflect the coldest design-day that needs to be planned for.

The design-day analysis employed by MERC, as described in the Petition,¹⁹ is similar to what was used by the Company in recent demand entitlement filings. The Company's design-day analysis is based on Ordinary Least Squares (OLS) regression and daily heating season (i.e., December, January, February) data over the period from December 2021 to February 2024.

Since MERC's Consolidated PGA service area serves customers on three separate pipelines and separate parts of Minnesota, the Company conducted four separate regression models for the various

¹⁷ Petition Attachment 12 at 3.

¹⁸ *Id.*

¹⁹ Petition Attachment 12.

parts of the Consolidated-PGA area. MERC used Adjusted Heating Degree Days (AHDD)²⁰ and various other determinants (e.g., month, day of the week, holiday) to estimate daily heating season consumption for each weather station area. The Department reviewed each of MERC's design-day regression models and concluded that the signs of the determinant coefficients are appropriate and reasonable. The Department notes that in the Company's previous filing,²¹ the Viking regression contained a negative intercept, however in the instant docket, the Company's regression does not contain a negative intercept.

During the 2018-2019 heating season, MERC's service area, and the entire state of Minnesota, experienced a cold weather outbreak in late January and early February. This cold weather event marked the coldest conditions since the 1995-1996 heating season. The Company included information and a discussion regarding this event in its Petition.²² On an AHDD basis, the cold weather event during the 2018-2019 heating season was the coldest weather on record for all of MERC's weather stations except Fargo and International Falls (Table 2).

Table 2: Coldest Weather Conditions

<u>Station</u>	<u>Date</u>	<u>Avg. Temp (F)</u>	<u>Avg. Wind Speed (mph)</u>	<u>HDD65</u>	<u>AHDD65</u>	<u>AHDD65-1</u>
Bemidji*	1/29/2019	-32	14	97	110	84
Cloquet*	1/29/2019	-24	16	89	103	74
Fargo*	1/18/1996	-16	34	81	109	85
International Falls*	2/2/1996	-34	8	99	107	107
Minneapolis	1/29/2019	-20	17	85	100	71
Rochester	1/29/2019	-20	21	85	104	76
Worthington	1/29/2019	-20	21	85	103	81
Ortonville	1/29/2019	-23	14	88	101	77

* Consolidated PGA weather station.

In previous demand entitlement filings, the Company's planning objective was based on the coldest day, defined as the highest AHDD, for each of MERC's regional regression models. Beginning with the 2019 demand entitlement filing (covering the 2019-2020 heating season), the Company considered the day prior to the coldest day (AHDD65-1) when determining whether a specific date represents the planning objective for a weather station. MERC provided the following explanation in its Petition:²³

²⁰ AHDD incorporates the impacts of wind into the weather determinant used to estimate peak day consumption. MERC has historically used AHDD in its design-day analysis.

²¹ See the Department's November 22, 2023 comments at 7 on the MERC 2023 Consolidated Demand Entitlement Filing. [eDocket No. 202311-200723-01](#).

²² Petition Attachment 12 at 4-5.

²³ Petition Attachment 12 at 4.

While the January 2019 cold weather outbreak was significant, it was not considered to be as severe as the weather conditions experienced in 1996. With the exception of Worthington, the 1996 weather conditions overall were colder when considering both the current day and the prior day weather conditions.

As a result, the following planning objective data for the various weather stations were used in the Company's design-day analysis.

Table 3: MERC Planning Objective Data

<u>Station</u>	<u>Date</u>	<u>Avg. Temp (F)</u>	<u>Avg. Wind Speed (mph)</u>	<u>HDD65</u>	<u>AHDD65</u>	<u>AHDD65-1</u>
Bemidji*	2/1/1996	-34	8	99	107	94
Cloquet*	2/2/1996	-31	7	96	103	100
Fargo*	1/18/1996	-16	34	81	109	85
International Falls*	2/2/1996	-34	8	99	107	107
Minneapolis	2/2/1996	-25	8	90	97	92
Rochester	2/2/1996	-27	10	92	101	94
Worthington	1/29/2019	-20	21	85	103	81
Ortonville	1/14/2009	-21	11	86	95	86

* Combined PGA weather station.

As shown in Table 3 for each of the regression models except Worthington, MERC's planning objective did not occur during the data period (2021 through 2024). The Company adjusted the results to approximate usage at the planning objective. The Company's combined regression analyses resulted in a design-day estimate of 54,797 Dth/day. However, as explained in MERC's filing, the Company modified the analysis such that the ultimate design-day estimate was based on a higher throughput estimate that factors in a volume risk adjustment. This adjustment resulted in a calculated design-day estimate of 57,736 Dth/day, which is 588 Dth/day greater than the design-day estimate in last year's demand entitlement filing. The Company stated that volume risk adjustments were incorporated into the forecast to provide a confidence level that the daily metered load under design conditions would not exceed the daily metered regression estimate.²⁴ In other words, the volume risk adjustment is meant to modify the results to ensure a bias toward reliability since this adjustment places the design-day estimate at the top end of expected design-day conditions based on the regressions. This post-regression adjustment is similar to adjustments the Company used in previous demand entitlement filings. The Department reviewed MERC's analysis and was able to replicate the Company's results.

²⁴ Petition Attachment 12 at 6.

Additionally, the Company tried to estimate firm peak day estimates for each of its gate stations. The Commission's April 28, 2016 Order (at Order point 10), stated in part the following:²⁵

Required MERC to verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain.

In its Petition, MERC states the following:²⁶

Order Point 10 of the Commission's April 28, 2016, Order in Docket No. G011/M-15-723 required that MERC verify its regression analysis results in future demand entitlement filings to ensure the results are consistent with the underlying theory the analysis attempts to explain. MERC has carefully reviewed the results of its regression analysis and verified that the results are consistent with the underlying theory the analysis attempts to explain. Please see MERC's May 31, 2016, compliance filing in Docket Nos. G011/M-15-722, G011/M-15-723, and G011/M-15-724 for further discussion of this issue.

The Department notes that MERC appropriately corrected its models for autocorrelation, as required by the Commission's February 4, 2015 Order in Docket Nos. G011/M-12-1192, G011/M-12-1193, G011/M-12-1194, and G011/M-12-1195²⁷ wherein the Commission required that, in its future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Given the fact that MERC must plan for its design-day, the Department concludes that MERC's approach is not unreasonable. As a result, the Department recommends that the Commission approve the Company's peak-day analysis.

B. COMPLIANCE WITH THE COMMISSION'S JANUARY 17, 2024 ORDER

Viking filed a general rate at the Federal Energy Regulatory Commission (FERC) in Docket RP23-917 on July 28, 2023.²⁸ On August 31, 2023, FERC issued an Order suspending the implementation of Interim Rates by Viking until February 1, 2024. Therefore, at the time of the 2023 demand entitlement proceeding and Commission Order, the matter was still pending; accordingly the Commission ordered an update on the Viking rate case in MERC's next demand entitlement petition.²⁹

²⁵ See Docket Nos. G011/M-15-722, G011/M-15-723, and G011/M-15-724 and see [eDocket No. 20164-120779-03](#).

²⁶ Petition Attachment 12 at 10.

²⁷ [See eDocket No. 20152-107016-04](#).

²⁸ [See eLibrary No. 20230728-3042](#).

²⁹ January 17, 2024 Order at Order Point 3.

In the Petition, MERC states the following:

Additionally, MERC notes that Viking Gas Transmission filed a rate case in Docket No. RP23-917 with the Federal Energy Regulatory Commission (“FERC”) on July 28, 2023. On August 31, 2023, FERC issued an Order suspending the implementation of Interim Rates by Viking Gas Transmission (“Viking”) until February 1, 2024; Viking implemented Interim Rates on February 1, 2024. During February 2024, a settlement agreement was achieved, and on March 1, 2024, FERC issued an order granting Viking to implement Settlement Rates effective as of February 1, 2024 and stating that interim rates are subject to refund. Based on this timing, Viking was able to forego implementation of Interim Rates and implemented Settlement Rates effective February 1, 2024. Therefore no refunds were necessary nor conducted by Viking given that Interim Rates were never implemented. The Settlement Rates are reflected in the Company’s demand rates in this filing.³⁰

The Department concludes that MERC complied with the Commission’s January 17, 2024 Order.

IV. CONCLUSION AND RECOMMENDATIONS

The Department recommends approval of the Company’s Design-Day Analysis, but withholds its final recommendations for the remainder of the Company’s Petition until after the Company files its Reply Comments and files its update in November 2024.

³⁰ Petition at 6-7.

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-24-269

Dated this **3rd** day of **October 2024**

/s/Sharon Ferguson

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