

Staff Briefing Papers

Meeting Date April 23, 2020 Agenda Item 3*

Company Minnesota Energy Resources Corporation (MERC)

Docket Nos. **G-011/M-19-496**
G-011/M-19-497

In the Matter of the Petitions of Minnesota Energy Resources Corporation for Approval of a Change in Demand Entitlements for the Consolidated (19-497) and Northern Natural Gas (19-496) PGA areas

- Issues
1. Should the Commission approve MERC's proposed demand entitlement capacity for the 2019-2020 Heating Season for its Consolidated PGA area, effective November 1, 2019?
 2. Should the Commission approve MERC's proposed demand entitlement capacity for the 2019-2020 Heating Season for its NNG PGA area, effective November 1, 2019?

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 **Relevant Documents**


Date

G-011/M-19-496 – MERC Northern Natural Gas (NNG) PGA Rate Area

Initial Filing – NNG August Demand Entitlement	August 1, 2019
Compliance Filing – NNG November Demand Entitlement	November 1, 2019
Department of Commerce - Comments	January 3, 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.

 Relevant Documents	Date
MERC - Reply Comments (also filed in Docket No. G-011/M-19-497)	January 13, 2020
G-011/M-19-497 – MERC Consolidated PGA Rate Area	
Initial Filing – Consolidated Area August Demand Entitlement	August 1, 2019
Compliance Filing – Consolidated Area November Demand Entitlement update	November 1, 2019
Department of Commerce - Comments	January 3, 2020
MERC - Reply Comments (also filed in Docket No. G-011/M-19-496)	January 13, 2020
Department of Commerce - Letter	February 14, 2020

I. Statement of the Issues

Should the Commission approve MERC's proposed demand entitlement capacity for the 2019-2020 Heating Season for its Consolidated PGA area, effective November 1, 2019?

Should the Commission approve MERC's proposed demand entitlement capacity for the 2019-2020 Heating Season for its NNG PGA area, effective November 1, 2019?

II. Background

On August 1, 2019, MERC filed petitions for change in demand entitlement in Docket No. 19-496 for its NNG PGA area and in Docket No. 19-497 for its Consolidated PGA area. On November 1, 2019, MERC filed updated petitions in each docket.

On January 3, 2020, Department of Commerce, Division of Energy Regulation (Department) filed its initial comments in each docket. On January 13, 2020, MERC filed its reply comments in each docket. On February 14, 2020, the Department filed a letter in docket 19-497 updating its previous recommendation.

Minnesota Rule, part 7825.2910, subpart 2 requires gas utilities to make a filing whenever there is a change to its demand-related entitlement to services provided by a supplier or transporter of natural gas.

III. Parties' Comments

A. Northern Natural Gas Area – 19-496

MERC is proposing an increase to its Design-Day requirement for the 2019-2020 heating season in the area served from the Northern Natural Gas pipeline (the NNG area) by 3,534 dekatherms (Dth), or 1.3%, to 277,376 Dth.

MERC's Design-Day calculation is consistent with its previous filings. MERC conducted five regression models to estimate design-day usage across various sections of its NNG system, and included data from the January 2019 weather event. Firm usage during the January 2019 event, which resulted in near-design day weather conditions, were close to, but below, design-day calculations from 2018-2019, providing reassurance that the design-day calculation MERC provided in this petition are producing an adequate capacity margin.

To cover this load and create a reserve, MERC is proposing to add 37,093 Dth per day of capacity. This additional capacity consists of an increase in pipeline entitlement of 34,500 Dth related to an expansion of the pipeline at Rochester and an additional 8,032 Dth of pipeline capacity in SE Minnesota. This is partly offset by a 5,439 decrease in entitlement in one of its contracts.

MERC also changed 74 Dth in variable capacity into firm in contract 112495, an action which saves \$1,345 annually. The net effect of all these changes is to increase total Design Day

capacity to 310,814 Dth. This improves MERC's NNG area reserve margin from 1.25% in 2018-2019 to 13.33% in 2019-2020. These changes are summarized in Table 1, below:¹

Table 1: MERC Current and Proposed Entitlements - NNG

Contract	Previous Entitlement (Dkt)	Proposed Entitlement (Dkt)	Change in Entitlement Level (Dkt)
TFX-12	48,236	85,329	37,093
TF-12B (Base)	51,706	51,780	74
TF-12V (Variable)	33,003	32,929	(74)
Total All Contracts	277,256	314,349	37,093
			+13.38%

MERC's demand entitlement proposal would result in the following annual cost impacts to the average annual bill:²

Table 2: Changes to Cost of Annual Bill - NNG

Class	Commodity Charge Change	Demand Charge Change
General Service Residential	\$64.81	(\$2.31)
Small C & I Class	\$511.18	(\$18.25)
Large C & I Class	\$13,359.31	(\$476.97)
Small C & I Interruptible	\$2,934.33	N/A
Large C & I Interruptible	\$19,119.79	N/A

In its comments of January 3, 2020, the Department recommended that the Commission:

- Accept the Company's proposed level of demand entitlement; and
- Allow MERC to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2019.

Staff agrees with the Department recommendations.

B. Consolidated Area – 19-497

The Consolidated area consists of MERC's customers served from the Centra Pipeline, Viking Gas Transmission, and Great Lakes Gas Transmission.

MERC is proposing to increase its total Design-Day requirement for the Consolidated territory by 312 Dth, from 56,470 Dth to 56,782 Dth. This reduces its reserve margin from 2.62% for 2018-2019 to 2.06% in 2019-2020. There are no changes to gas supply.

¹ Department Comments of January 3, 2020, p. 3.

² MERC's November 1, 2019 update, Attachment 4.

In its initial comments, the Department expressed concern and requested further information from MERC about the negative reserve margin in MERC's Consolidated PGA rate area served by the Viking pipeline.

Table 4 – MERC-Consolidated Reserve Margin

Pipeline	Total Entitlement (Dkt)	Design-Day Estimate (Dkt)	Difference (Dkt)	2019/2020 Reserve Margin (%)	2018/2019 Reserve Margin (%)	Percentage Point Change from Prior Year
Centra	9,500	9,464	36	0.38%	3.97%	3.59%
Great Lakes	31,358	30,025	1,333	4.44%	3.88%	(0.56%)
Viking	17,091	17,293	(202)	(1.17%)	(0.32%)	(0.85%)
Total Consolidated	57,949	56,782	1,167	2.06%	2.62%	(0.56%)

However, after reviewing the explanation MERC provided in its January 13 reply comments, the Department submitted a letter on February 4, 2020, indicating that it recognizes MERC's concern about the outcome of Viking's pending rate case at the FERC and consequences of that case if MERC were to purchase additional capacity on Viking. And that, while imperfect, a temporary reliance on the availability of purchased "delivered supply" at Viking city gate locations would be sufficient for the 2019/2020 heating season.

There are no changes to demand charges due to the proposed change in the design-day estimate, but there will be an increase from the proposed commodity changes on average annual bills.

Table 3: Changes to Cost of Annual Bill - Consolidated

Class	Commodity Charge Change	Demand Charge Change
General Service Res	\$52.77	\$0.00
Large C & I Class	\$374.06	\$0.00
Small C & I Interruptible	\$3,460.89	N/A
Large C & I Interruptible	\$19,437.17	N/A

MERC evaluated the impact of the cold weather event of January 2019 on its design day requirements, and found that firm customer load was below design-day capacity on all days of the event, including January 29, 2019, where weather conditions across the Consolidated territory were near design-day temperatures.

MERC notes that Viking Gas Transmission has filed a rate case with the Federal Energy Regulatory Commission, with a modest increase requested for January 1, 2020. At the time of the filing, FERC had not ruled on the case, so any rate increase from that case was excluded from the PGA calculations for this filing.

On February 14, 2020, the Department filed a letter recommending that the Commission:

- Approve recovery of MERC's demand costs through the monthly PGA effective November 1, 2019 and
- Accept MERC's total entitlement level.

IV. Staff Analysis

Staff recommends approval of MERC's total entitlement level and recovery of demand costs through the monthly PGA as recommended by the Department in both dockets.

V. Decision Alternatives

Docket No. G-011/M-19-496 – Northern Natural Gas PGA rate area (territory)

1. Approve recovery of MERC's demand costs in the Northern Natural Gas territory through the monthly Purchased Gas Adjustment (PGA) effective November 1, 2019.
2. Accept MERC's proposed total entitlement level in the Northern Natural Gas territory.

Docket No. G-011/M-19-497 - Consolidated PGA rate area

3. Approve recovery of MERC's demand costs in the Consolidated territories through the monthly PGA effective November 1, 2019.
4. Accept MERC's proposed total entitlement level in the Consolidated territories.