Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: January 30, 2014 .... *Agenda Item # **6**

Company: Interstate Power and Light Company (IPL)

Docket No. G001/M-13-579
In the Matter of IPL's Request for Changes in Demand Entitlements

Issues: Should the Commission approve IPL's proposed level of demand entitlement effective November 1, 2013 and allow IPL to recover the associated demand costs through the monthly Purchased Gas Adjustment?

Staff: Sundra Bender 651-201-2247

Relevant Documents

IPL – Initial Filing (Public).. July 1, 2013
DOC – Comments.. August 23, 2013
IPL – Supplemental Demand Entitlement ....October 31, 2013
DOC – Supplemental Comments... December 17, 2013

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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Statement of the Issues

Should the Commission approve Interstate Power and Light Company's (IPL) proposed level of demand entitlement effective November 1, 2013 and allow IPL to recover the associated demand costs through the monthly Purchased Gas Adjustment?

Minnesota Rules

Minnesota Rules require gas utilities to make a filing whenever there is a change in their entitlement to the demand-related services provided to them by a supplier or transporter of natural gas.

Minnesota Rule part 7825.2910, Subp. 2, Filing upon a change in demand, is included in the Automatic Adjustment of Charges rule parts 7825.2390 through 7825.2920 and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

Minnesota Rule part 7825.2400, Subp. 13a. Demand, defines demand as "the maximum daily volumes of gas that the utility has contracted with a supplier or transporter to receive."

Background and Party Positions

On July 1, 2013, IPL requested to change its demand entitlements, effective November 1, 2013, and requested Commission approval to implement the rate impact of its filing in the Purchased Gas Adjustment (PGA) factor, effective with November 1, 2013 usage. IPL stated that the main contributing factor for the revision in demand levels is related to changes in IPL's contract with Northern Natural Gas (NNG) which will be effective November 1, 2013. Additionally, in response to recommendations made in IPL's previous demand entitlement proceeding, Docket No. G001/M-12-737, IPL (1) identified that there were no changes in its Interruptible Sales Class since its last Demand Entitlement filing, and (2) provided a trade secret version of the hourly raw weather data used to create the weather variables in the Company's design-day analysis.

IPL did not propose any change in its overall heating season capacity level of 14,219 Dth. However, IPL did project a decrease in its design-day requirements. With IPL's lower projected design-day requirement of 13,035 Dth, IPL estimated a reserve margin of 9.08 percent.

On August 23, 2013, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC), filed comments. The Department concluded that (1) IPL's design-day analysis likely estimates sufficient capacity to serve firm need on a peak day, and (2) the Company's reserve margin is reasonable in this proceeding. The Department encouraged IPL to continue providing, in future demand entitlement filings, IPL's analysis tying the reserve margin to the Company's design-day analysis to serve as a check on the appropriateness of its proposed reserve margin.

The Department recommended that the Commission:

- Approve Interstate's proposed level of demand entitlement; and
- Allow IPL to recover associated demand costs through the monthly PGA effective November 1, 2013.

On October 31, 2013, IPL filed a supplement including updated schedules incorporating changes in several contracts since its initial filing. The changes provided in the update include the reallocation of NNG TF 12 entitlements between TF-12 Base and TF-12 Variable rates effective November 1, 2013. There are also minor revisions in the Minnesota allocation of NNG Firm Deferred Delivery (FDD) capacity and reservation charges as well as the SMS demand charge. These minor revisions are made due to a small percentage change in the contracted demand level for the Stacyville, Iowa town border station as compared to the total contracted demand.

On December 17, 2013, the Department filed supplemental comments. Based on IPL's comparison of its proposed November 2013 PGA changes to its October 2013 PGA, the Department stated that the Company's demand entitlement proposal would result in the following annual rate impacts:

- Annual bill increase of $3.11, or approximately 2.65 percent, for the average General Service customer consuming 95 Mcf annually; and

- No change in costs for interruptible and transportation customers.

The Department recommended that the Commission:

- Approve IPL's proposed level of demand entitlements as proposed in its Supplemental Filing; and
- Allow IPL to recover associated demand costs through the monthly PGA effective November 1, 2013.

The Department also continued to recommend that IPL provide the following in future demand entitlement filings:[1]

- An attachment listing all interruptible sales customers who switched between the interruptible sales class to either transportation of firm sales service, and vice versa, and the average annual usage by each customer over the previous three calendar years; and
- Hourly raw weather data, in Microsoft Excel and Access format, used to create the weather variables in the Company's design-day analysis.

[1] Staff notes that the Commission's September 9, 2013 ORDER APPROVING CHANGE IN DEMAND ENTITLEMENTS, AUTHORIZING COST RECOVERY, AND ESTABLISHING FUTURE FILING REQUIREMENTS, Docket No. G-001/M-12-737, requires IPL to provide these items in future demand-entitlement filings.

Staff Comment

There does not appear to be any controversy in this docket.

IPL did not propose any change to its total peak day transportation capacity level of 14,219 MMBtu. However, IPL's proposal does include a change in the projected design day. Based on its design-day analysis, IPL projected a decrease of 407 MMBtu/day (or approximately 3%) in the design-day requirements from 13,442 MMBtu/day to 13,035 MMBtu/Day. This small change increases the estimated reserve margin from 5.78 percent to 9.08 percent. In its filing, IPL included calculations that attempt to tie its reserve margin to its design-day analysis. The Department reviewed IPL's reserve margin method and concluded that IPL's reserve margin is reasonable in this proceeding.

As can be seen, IPL's reserve margin is quite sensitive to small changes in the level of either design-day requirements or design-day entitlements.

For comparative purposes, the Department looks at all of the natural gas utilities' reserve margins during its review of the Annual Automatic Adjustment reports (AAA Review). For illustrative purposes, a table from page 52 of the Department's January 4, 2013, fiscal-year 2012 AAA Review is reproduced below.

TABLE G9[126]
FYE12
Firm Peak-Day Demand Profiles

Utility/System	Firm Design-Day Demand (Mcf)	Firm Peak-Day Demand Deliverability (Mcf)	Annual Firm Throughput (Mcf)	Annual[127] Firm Load Factor (Percent)	Reserve Margin[128] (Percent)
Greater Minnesota[129]	4,656	5,044	333,624	24.64%	8.33%
Great Plains[130]					
North	14,068	14,841	865,955	22.67%	5.49%
South	14,868	17,025	1,108,727	30.16%	14.51%
Interstate Gas[131]	12,927	17,490	996,117	32.44%	35.30%
MERC-NMU[132]	57,989	62,100	6,426,736	37.96%	7.09%
MERC-PNG[133]					
Northern	211,182	221,436	19,834,162	36.44%	4.86%
Great Lakes	9,304	10,149	828,257	26.69%	9.08%
Viking	6,851	7,116	582,120	29.51%	3.87%
CenterPoint Energy[134]	1,216,000	1,379,681	82,018,262	27.06%	13.46%
Xcel Gas[135]	702,294	745,094	53,723,074	33.17%	6.09%
MN Totals	**2,250,139**	**2,479,976**	**166,717,034**	**30.14%**[136]	**10.21%**[137]

[Footnotes Omitted]

Staff notes that the design-day demand, demand deliverability (entitlements) and reserve margin statistics reported for IPL in the above table are from IPL's 2011 demand entitlement filing (Docket No. G-001/M-11-1066) for the 2011-2012 year. The large reserve margin in that year was largely the result of implementing a new design-day methodology and a reduction in the estimated design-day requirements with no corresponding change in the design-day entitlements. For the 2012-2013 year, Docket No. G-001/M-12-737, IPL was able to realign capacity and delivery points between Minnesota and Iowa, decreasing its Minnesota peak day entitlements from 17,490 Dths to 14,219 Dths. With estimated design-day requirements of 13,442 Dth for the 2012-13 year, IPL had an estimated 5.78% reserve margin that year.

The following table summarizes the reserve margin calculations over this three-year time period.

Interstate Gas	Firm Design-Day Demand (Mcf)	Firm Peak-Day Demand Deliverability (Mcf)	Reserve Margin (Percent)
2011-2012	12,927	17,490	35.30%
2012-2013	13,442	14,219	5.78%
2013-2014	13,035	14,219	9.08%

As discussed above, the relatively small decrease in the projected design-day requirements for the current 2013-2014 fiscal year, increases the estimated reserve margin from 777 Dth, or 5.78 percent, to 1,184 Dth, or 9.08 percent.

Decision Alternatives

1. Approve IPL's proposed level of demand entitlements as proposed in its Supplemental Filing; and

2. Allow IPL to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2013.

3. Take some other action the Commission thinks is appropriate.