BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

Kristine A. Anderson
Corporate Attorney
Greater Minnesota Transmission, Inc.
202 South Main Street, P.O. Box 68
Le Sueur, MN 56058

SERVICE DATE: May 26, 2017

DOCKET NO. PL-6580/M-16-936

In the Matter of a Petition by Greater Minnesota Transmission, LLC (GMT) for Approval of a Firm Gas Transportation Agreement with Lake Region Energy Services (LRES), a subsidiary of Lake Region Energy Cooperative

The above entitled matter has been considered by the Commission on April 18, 2017 and the following disposition made:

> **Approved the agreement between Greater Minnesota Transmission, LLC (GMT) and Lake Region Energy Services (LRES), a subsidiary of Lake Region Energy Cooperative, based on the facts of GMT's and LRES's circumstances in this docket but without setting precedent, allowing future petitions requesting approval of intrastate pipeline contracts to be decided on a case-by-case basis.**
>
> **Required GMT to include this project in its annual load utilization factor letter required by the Commission's February 18, 2016 Order in Docket No. PL-6580/M-15-967, *In the Matter of a Petition by Greater Minnesota Transmission, LLC's (GMT) Petition for Approval of a Firm Gas Transportation Agreement with Community Co-ops of Lake Park for Red Lake Falls, MN Community.***

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and hereby incorporated into the order. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary

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MINNESOTA DEPARTMENT OF COMMERCE

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December 19, 2016 **PUBLIC DOCUMENT**

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. PL6580/M-16-936

Dear Mr. Wolf:

Attached are the **PUBLIC** *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> A *Petition* by Greater Minnesota Transmission, LLC for Approval by the Minnesota Public Utilities Commission (Commission) of a Firm Gas Transportation Agreement (Agreement) with Lake Region Energy Services, Inc., a subsidiary of Lake Region Electric Cooperative.

The filing was submitted on November 17, 2016. The petitioner is:

> Kristine A. Anderson
> Corporate Attorney
> Greater Minnesota Transmission, Inc.
> 202 South Main Street, P.O. Box 68
> Le Sueur, Minnesota 56058

The Department recommends that the Commission **approve** the Agreement as filed.

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

Sincerely,

/s/ MICHAEL RYAN
Rates Analyst
651-539-1807

MR/lt

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. PL6580/M-16-936

I. BACKGROUND

On November 17, 2016, Greater Minnesota Transmission, LLC (GMT or the Company) filed a *Petition* with the Minnesota Public Utilities Commission (Commission) for a Firm Gas Transportation Agreement (Agreement) with Lake Region Energy Services, Inc. (LRES), a subsidiary of Lake Region Electric Cooperative. The proposed Agreement sets forth the terms and conditions of service, including rate design and rates, between GMT and LRES. Under the proposed Agreement, natural gas service will be provided to the communities of Parkers Prairie and Deer Creek, Minnesota via planned construction of 24 miles of new transmission line from a proposed Town Border Station (TBS) near Wadena, Minnesota to two interconnections with LRES near Parkers Prairie and Deer Creek, Minnesota.

Under the terms of the Agreement, LRES would purchase its own natural gas and arrange transport to GMT's planned Wadena TBS with the Viking pipeline. From the Wadena TBS, GMT would accept delivery of LRES's natural gas and transport it to the agreed-upon interconnections with LRES's distribution facilities. The Agreement allows for the transport of up to [TRADE SECRET DATA HAS BEEN EXCISED] Dekatherms (Dth) per day at a minimum operating pressure of [TRADE SECRET DATA HAS BEEN EXCISED] pounds per square inch (psi) over a [TRADE SECRET DATA HAS BEEN EXCISED] term.

The Agreement contains a standard rate structure for an intrastate pipeline. The rate negotiated by GMT and LRES involves a fixed monthly charge of [TRADE SECRET DATA HAS BEEN EXCISED], a monthly demand charge of [TRADE SECRET DATA HAS BEEN EXCISED] and a volumetric charge of [TRADE SECRET DATA HAS BEEN EXCISED].

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis of the *Petition* below.

II. ANALYSIS

The Department's analysis is divided into the following sections: 1) the statutory requirements of an intrastate natural gas pipeline; 2) cost recovery associated with the Agreement; and 3) the utility status of LRES.

A. REQUIREMENTS OF MINNESOTA STATUTES AND RULES

Minn. Stat. §216B.045, subd. 1 states:

> For the purposes of this section "intrastate pipeline" means a pipeline wholly within the state of Minnesota which transports or delivers natural gas received from another person at a point inside or at the border of the state, which is delivered at a point within the state to another, provided that all the natural gas is consumed within the state. An intrastate pipeline does not include a pipeline owned or operated by a public utility, unless a public utility files a petition requesting that a pipeline or a portion of a pipeline be classified as an intrastate pipeline and the commission approves the petition.

As an intrastate pipeline owner, GMT must comply with the provisions of Minn. Stat. §216B.045. The Department notes that GMT is not a public utility since it does not furnish retail natural gas service. As such, GMT is not subject to the same Minnesota Rules as regulated distribution companies such as Xcel Energy or CenterPoint Energy.
The Commission has not promulgated rules applicable to intrastate pipelines under Minnesota Statute § 216B.045; as such, there appear to be no Minnesota Rules that specifically apply to GMT's provision of intrastate wholesale transportation service.

Minnesota Statute §216B.045 requires that an intrastate pipeline provide service under the following three conditions:

- Contract at rates that are just and reasonable and do not unreasonably discriminate among customers receiving like or contemporaneous services (Minnesota Statute §216B.045, subd. 2);
- Offer services by contract on an open access, nondiscriminatory basis (Minnesota Statute §216B.045, subd. 3); and
- Obtain Commission approval for each contract to be effective (Minnesota Statute §216B.045, subd. 4).

The Department separately discusses these statutory requirements below.

1. Contract at Reasonable Rates

The Agreement contains standard language and rate design. As noted in the filing, Minnesota Statute §216B.03 states:

> Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in the application to a class of customers.

The Department notes that, under most circumstances, a reasonable rate could be defined as being a rate based on a utility's cost of service. This reasonableness check is generally associated with the review of retail rate-regulated utilities. In certain instances, however, a reasonable rate may be a rate that is negotiated as part of an arm's length transaction. GMT incorporated this latter argument in its filing. In simple terms, one could find the rate in this filing reasonable because all parties involved, through the negotiating process, have agreed to the set rate. The Department is generally agreeable to the Company's reasoning in this *Petition*, because the proposed cost-recovery mechanism is for the pipeline-related costs associated with this project, which is similar to other intrastate pipeline projects previously proposed by the Company and its affiliate.[1]

Despite the negotiated rate, it is necessary to review the various assumptions made by GMT to determine whether or not they are reasonable. Although this project is not fully analogous to a retail utility project, the Department believes it is important that the rate is reviewed to ensure that it is crafted in a way that provides reasonable benefit to LRES while still allowing GMT an opportunity to earn an acceptable return. These issues are discussed in greater detail in Section B below.

2. Obligation to Offer Service

As previously noted, GMT is required to offer services by contract on an open access, non-discriminatory basis. GMT stated in the *Petition* that since it would willingly enter into negotiations with other similarly situated private entities to discuss similar cooperative agreements that would serve the public interest in other respective communities, there is no discriminatory element to the Agreement and GMT has complied with its statutory obligation to offer its terms on an open-access basis. In addition, the terms and conditions contained in the Agreement are substantially similar to those approved by the Commission in previous GMT and affiliate filings. Consequently, the Department concludes that the Company offers service on an open access, non-discriminatory basis.

Based on its analysis, the Department concludes that GMT is offering its services by contract on an open-access, non-discriminatory basis which appears unlikely to unreasonably discriminate among customers receiving like services.

[1] Docket Nos. PL6580/M-14-1056; PL6580/M-15-967; PL6580/M-15-968; & PL6580/M-15-1041.

3. Approval of the Agreement

LRES and GMT signed the Agreement on November 16, 2016. The Company formally submitted the Agreement to the Commission for approval on November 17, 2016. Subject to regulatory approval,[2] GMT will begin providing service beginning the later of (i) August 1, 2017 or (ii) the date when the Company has completed the construction of all necessary facilities to effectuate the transportation of gas. Since the Agreement is subject to Commission approval, the Department concludes that the proposed effective date is consistent with Minnesota Statutes.

B. FINANCIAL ANALYSIS

The Department's primary criterion for review in a filing of this type is that the project is financially viable from GMT's perspective. Since GMT owns, and operates, several other intrastate pipeline projects, it is necessary to verify whether construction of the project may have a negative impact on the Company's overall financial health and, potentially, the operation of other pipelines.

While the rates LRES has agreed to as part of the Agreement are also a concern for the Department, the fact that Minn. Statute §216B.045, subd. 5 allows for a complaint process before the Commission lessens the Department's rate-related concerns over the long-term.

The Department reviewed the assumptions and calculations used by the Company in its financial analysis of the project. If the project is constructed and operates in accordance with the assumptions in the model, GMT will earn an average of **[TRADE SECRET DATA HAS BEEN EXCISED]** percent return on equity over the term of the Agreement.[3]

1. Contingencies Evaluated

Over the past couple of years, the Department has developed an analysis that evaluated multiple contingencies relative to the project's cash-flows for GMT's proposed intra-state pipelines. While that approach is fundamentally correct in that it focuses on the project's cash-flows, the Department's analysis has included a contingency that, if it were to be realized, would potentially result in GMT no longer being in compliance with the loan agreement that financed the project. Given the information included in its financial analysis, the Department inferred that GMT's loan agreement requires GMT to maintain a Fixed Charge Coverage Ratio of at least **[TRADE SECRET DATA HAS BEEN EXCISED]** for the project.[4] By extension, the Department's analysis also assumed that the Company would be

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[2] See Section 7.0 of the Agreement.
[3] A summary page for that scenario "base case" is included in the *Petition's* **TRADE SECRET** Revised Exhibit C, dated December 7, 2016.
[4] The Fixed Charge Coverage Ratio is defined in GMT's financial model as the annual Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) divided by the annual loan payment. In GMT's case, the fixed Charge Coverage Ratio can be affected by a variance from forecasted revenues and/or operating expenses or both.

able to satisfactorily amend or renegotiate that loan agreement if one of those contingencies identified actually occurred.

To provide a more financially conservative analysis for the Commission's review, the Department included an additional decision criterion in its analysis in this docket. We considered the three contingencies that are usually included in this type of analysis (lower volumetric revenue, higher capital costs and a combination of lower volumetric revenue and higher capital costs) while simultaneously requiring that GMT's Fixed Charge Coverage Ratio remain at or above **[TRADE SECRET DATA HAS BEEN EXCISED]**.

Scenario 1 attempted to quantify the risk GMT assumed under the Agreement related to changes in throughput by estimating the maximum amount of decrease in the forecasted volumetric revenue that GMT could experience and still remain in compliance with the Fixed Charge Coverage Ratio requirement.

GMT's Base Case assumes **[TRADE SECRET DATA HAS BEEN EXCISED]** in annual volumetric revenue which results in a **[TRADE SECRET DATA HAS BEEN EXCISED]** percent annual load utilization factor. The Department calculated **[TRADE SECRET DATA HAS BEEN EXCISED]** as the annual volumetric revenue GMT would need to recover in order to remain in compliance with the minimum required Fixed Charge Coverage Ratio in its loan covenant, if no other changes occurred.[5] Table 1 summarizes this information.

Table 1 – Comparison of Forecasted Annual Volumetric Revenue Estimated in the Base Case and Scenario 1, the Fixed Charge Ratio and the Annual Load Utilization Factor

Description	Base Case	Scenario 1	Variance	Percentage Change
Volumetric Revenue ($/yr)	**[TRADE SECRET DATA HAS BEEN EXCISED]**			
Fixed Charge Coverage Ratio				
Annual Load Utilization Factor				

The information contained in Table 1 suggests that GMT could withstand a significant decrease in throughput-related revenue and still remain in compliance with its loan agreement, *ceteris paribus*.

[5] This Fixed Charge Coverage Ratio has been consistent in GMT's financial models included in Docket Nos. PL6580/M-14-1056; PL6580/M-15-967; PL6580/M-15-968; and PL6580/M-15-1041.

Scenario 2 examined the risk of higher capital costs on GMT's ability to remain in compliance with the Fixed Charge Coverage Ratio requirement. GMT's Base Case assumes [TRADE SECRET DATA HAS BEEN EXCISED] in capital costs and a contingency of [TRADE SECRET DATA HAS BEEN EXCISED] for a total investment plus contingency of [TRADE SECRET DATA HAS BEEN EXCISED]. It also assumes a [TRADE SECRET DATA HAS BEEN EXCISED] debt-to-equity ratio that results in [TRADE SECRET DATA HAS BEEN EXCISED] of equity and [TRADE SECRET DATA HAS BEEN EXCISED] in debt. The Department estimates that GMT's current capital cost estimate (excluding the [TRADE SECRET DATA HAS BEEN EXCISED] contingency) could increase by [TRADE SECRET DATA HAS BEEN EXCISED] percent and the Company would still remain in compliance with its loan covenant assuming no other changes occurred. This information is summarized in Table 2.

Table 2 – Comparison of Forecasted Capital Costs in the Base Case and Scenario 2, the Fixed Charge Ratio and the Annual Load Utilization Factor

Description	Base Case w/o Contingency	Scenario 2	Variance	Percentage Change
Capital Costs ($)	[TRADE SECRET DATA HAS BEEN EXCISED]			
Fixed Charge Coverage Ratio				
Annual Load Utilization Factor				

A [TRADE SECRET DATA HAS BEEN EXCISED] percent increase in the project's capital costs would represent a significant increase in capital costs for a project of this type.[6] Therefore, it appears that an increase in capital costs, even at levels much higher than the contingency, would not cause GMT to be in violation of the loan agreement. The Department also notes that an increase in capital costs does not have an effect on the annual load utilization factor in this scenario since neither the total amount of gas that can be delivered during the year nor the annual amount of gas forecasted to be delivered changed in the analysis as a result of the increase in the capital costs.

A third contingency (Scenario 3) attempted to identify the combined effects of higher-than-forecasted capital costs and lower-than-forecasted volumetric revenues. The Department examined the effects of changes in both of these factors around a [TRADE SECRET DATA HAS BEEN EXCISED] percent benchmark (capital cost increase or volumetric revenue decrease) for this scenario. The result indicated that GMT should be able to meet its

[6] This analysis assumes that GMT's annual loan payment would not increase (*i.e.,* GMT would fund the cost over-run in excess of the current [TRADE SECRET DATA HAS BEEN EXCISED] contingency with equity).

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commitments even if capital costs increased by **[TRADE SECRET DATA HAS BEEN EXCISED]** percent and volumetric revenue decreased by **[TRADE SECRET DATA HAS BEEN EXCISED]** percent. The latter change also lowered the annual load utilization factor from **[TRADE SECRET DATA HAS BEEN EXCISED]** percent to **[TRADE SECRET DATA HAS BEEN EXCISED]** percent. Table 3 summarizes this information.

Table 3 – Comparison of Changes in Capital Costs and Volumetric Revenue in the Base Case and Scenario 3, the Fixed Charge Ratio and the Annual Load Utilization Factor

Description	Base Case w/o Contingency	Scenario 3	Variance	Percentage Change
Capital Costs ($)	[TRADE SECRET DATA HAS BEEN EXCISED]			
Volumetric Revenue ($/yr.)				
Fixed Charge Coverage Ratio				
Annual Load Utilization Factor				

Given that the project can withstand a combination of an increase of **[TRADE SECRET DATA HAS BEEN EXCISED]** percent in its capital costs and a decrease of **[TRADE SECRET DATA HAS BEEN EXCISED]** percent in its annual volumetric revenue before violating its loan agreement, the project appears to be reasonable.

Table 4 is intended to provide a context for the annual load utilization factor estimates included in Tables 1 through 3. Table 4 shows the projected annual load utilization factors for four earlier GMT pipeline-related dockets (14-1056, 15-967, 15-968, and 15-1041).[7]

[7] The Commission required GMT to file an annual letter stating the Co-op's annual load utilization factor separately for each pipeline" in its Order dated May 26, 2015 in Docket No. PL6580/M-14-1056. GMT filed that information for the September through December 2015 time period on January 6, 2016.

Table 4 – Comparison of Assumed Annual Load Utilization Factors in Recent GMT Dockets

Docket No.	Annual Load Utilization Factor
14-1056	[TRADE SECRET DATA HAS BEEN EXCISED
15-967	
15-968	
15-1041	
16-936	

The annual load utilization factor included in the instant docket (16-936) is within the range from the prior four dockets listed. From the Department's experience, the annual load utilization factors listed in Table 4 do not appear to be unreasonable.

As a result, the Department concludes that if the project is developed as planned, GMT's ability to serve other customers and projects are unlikely to be negatively impacted. As such, the Department recommends that the Commission approve the Agreement.

C. UTILITY STATUS OF LRES

As noted above, LRES is a subsidiary of Lake Region Electric Cooperative. The status of LRES as a natural gas utility serving retail customers is unclear. In the Petition, GMT stated:

> LRES is a well-established member-owned cooperative that provides service in the target communities and the surrounding area, covering a service territory of approximately 3,200 square miles. Dedicated to its mission of providing its members with safe, reliable, and affordable power and leading by offering innovative energy services, LRES's vision statement embodies the principles of leadership, empowerment, and guidance for wise energy use to secure a better future. Providing natural gas to its members will dovetail with LRES's mission and vision symbiotically. Additionally, by virtue of being a co-op, LRES's members receive co-op profits, which money goes directly back into the local communities. LRES has served its members communities for approximately 80 years; and, it seeks to enhance the economic stability of the target communities by providing another source of affordable energy.

It appears the Petition was referring to Lake Region Electric Cooperative (LREC or the Cooperative), rather than its subsidiary LRES. The Department was unable to find a website for LRES, but did confirm that LRES was incorporated November 14, 2016; the Chief Executive Officer of LREC is listed as the registered agent for LRES.[8] Unless LREC is

[8] See attached copy of the record found on the Office of the Minnesota Secretary of State's website.

intending to expand its electric utility service, it appears that LRES (the corporation) will be the retail natural gas utility.

Minn. Stat. §216B.02, subd. 4 states, in relevant part:

> "Public utility" means persons, corporations, or other legal entities, their lessees, and receivers, now or hereafter operating, maintaining, or controlling in this state equipment or facilities for furnishing at retail natural, manufactured, or mixed gas or electric service to or for the public or engaged in the production and retail sale thereof but does not include (1) a municipality or a cooperative electric association, organized under the provisions of chapter 308A, producing or furnishing natural, manufactured, or mixed gas or electric service; (2) a retail seller of compressed natural gas used as a vehicular fuel which purchases the gas from a public utility; or (3) a retail seller of electricity used to recharge a battery that powers an electric vehicle, as defined in section 169.022, subdivision 26a, and that is not otherwise a public utility under this chapter. . . . In addition, the provisions of this chapter shall not apply to a public utility whose total natural gas business consists of supplying natural, manufactured, or mixed gas to not more than 650 customers within a city pursuant to a franchise granted by the city, provided a resolution of the city council requesting exemption from regulation is filed with the commission. . . .

Given that LRES is a new entity, the Department requests that LRES indicate in reply comments whether or not it is a public utility and, if not, whether it needs to file for an exemption under the statute quoted above.

III. RECOMMENDATIONS

Based on its review, the Department recommends that the Commission approve the Agreement as filed.

The Department also recommends that GMT include the LRES Project in the annual load utilization factor report required in prior dockets (*e.g.*, PL6580/M-967, PL6580/M-968, and PL6580/M-15-1041).

Finally, the Department requests that LRES indicate in reply comments whether or not it is a public utility and, if not, whether it needs to file for an exemption under the statute quoted above.

Business Record Details »

Minnesota Business Name

Lake Region Energy Services, Inc.

Business Type
Business Corporation (Domestic)

MN Statute
302A

File Number
915146700024

Home Jurisdiction
Minnesota

Filing Date
11/14/2016

Status
Active / In Good Standing

Renewal Due Date
12/31/2017

Registered Office Address
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Number of Shares
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Registered Agent(s)
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☐	11/14/2016	Original Filing - Business Corporation (Domestic) (Business Name: Lake Region Energy Services, Inc.)	

CERTIFICATE OF SERVICE

I, Jamie Eschbach, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

Minnesota Public Utilities Commission
ORDER

Docket Numbers: **PL-6580/M-16-936**
Dated this **26th** day of **May, 2017**

/s/ Jamie R Eschbach

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