office of energy security
Minnesota Department of Commerce

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March 16, 2011

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

RE: **Comments of the Minnesota Office of Energy Security**
Docket No. G011/M-10-1167

Dear Dr. Haar:

Attached are the comments of the Minnesota Office of Energy Security (OES) in the following matter:

> A request by Minnesota Energy Resources Corporation-PNG (MERC-PNG, MERC, or Company) for approval by the Minnesota Public Utilities Commission (Commission) of a change in demand rates on its Great Lakes Transmission (GLGT or Great Lakes) Purchased Gas Adjustment (PGA) system effective November 1, 2010.

The filing was submitted on November 1, 2010. The petitioner is:

> Gregory J. Walters
> Minnesota Energy Resources Corporation
> 3460 Technology Drive NW
> Rochester, MN 55901

The OES recommends that MERC provide a full discussion explaining why its design-day requirement amount is reasonable. The OES will provide additional comments subsequently.

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

Sincerely,

/s/ ADAM JOHN HEINEN
Rates Analyst
651-296-6329

AJH/sm
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO. G011/M-10-1167

I. SUMMARY OF COMPANY'S PROPOSAL

Pursuant to Minnesota Rules 7825.2910, subpart 2, Minnesota Energy Resources Corporation-PNG (MERC-PNG, MERC, or Company) filed a proposed change in demand entitlement petition (*Petition)* on November 1, 2010 for its Great Lakes Transmission (GLGT or Great Lakes) Purchased Gas Adjustment (PGA) system with the Minnesota Public Utilities Commission (Commission). In its *Petition*, MERC does not request changes in the Company's overall level of contracted capacity. It does, however, propose changes to storage and balancing contracts which would impact MERC's overall demand rate.

Since MERC-PNG does not propose changes in contracted capacity on its Great Lakes PGA system, it seeks to maintain its current demand capacity of 11,500 Dekatherms (Dkt) per Day.

The Minnesota Office of Energy Security (OES) discusses the various effects on the Company's rates for different customer classes below; however, MERC-PNG's proposal would increase demand rates for General Service customers by $0.0808 per Dkt or approximately $8.08 per year for customers using 100 Mcf. The Company requests that the Commission allow recovery of the associated demand costs in its monthly PGA effective November 1, 2010.

The changes in demand rates proposed by MERC-PNG are the result of changes to non-capacity items in the November 2010 PGA compared to the October 2010 PGA. The main change is that the Company replaced its Nexen Balancing Contract with a combination of Niska (AECO) Storage and AECO/Emerson Swap Contracts. This combination allows MERC-PNG to access storage volumes in the Canadian province of Alberta and then deliver this gas to Minnesota customers.

The OES notes that it has advocated in several recent demand entitlement filings that demand costs associated with storage costs should be recovered through the commodity portion of the PGA since all customers, not just firm customers, benefit from storage gas. The OES's comments on this topic are well defined in previous entitlement filings and, as such, are not repeated in this proceeding. However, in this case, if the OES's position is used, demand costs charged to MERC Great Lakes firm customers would decrease between the October 2010 and November 2010 PGA filings since the Nexen Balancing contract was replaced with storage and swap contracts as noted above. Correspondingly, costs charged to interruptible customers would increase.

II. THE OES'S ANALYSIS OF THE COMPANY'S PROPOSAL

The OES's analysis of the Company's request includes the following sections:

- the proposed overall demand entitlement level;
- the design-day requirement;
- the reserve margin; and
- the PGA cost recovery proposal.

A. THE COMPANY'S DEMAND ENTITLEMENT LEVEL

1. Proposed Overall Demand Entitlement Level

As indicated in OES Attachment 1, the Company proposes no changes in its overall entitlement level. In MERC's 2009-2010 demand filing (Docket No. G011/M-09-1283), the OES recommended approval of MERC's proposed demand level. The OES notes that MERC has a higher proposed reserve margin in the instant filing due to decreases in customer growth; as a result, the OES has concerns that MERC is recovering costs that are too high to meet the needs of firm customers. Based on these concerns, the OES cannot conclude, at this time, that the Company's proposed recovery of overall demand costs is reasonable.

2. Design-Day Requirement

The Company used the same basic design-day study in its previous demand entitlement filings.[1] As noted in the OES's March 10, 2010 *Comments* in MERC's 2009-2010 demand filing, MERC reduced its estimate of the peak-day sendout during the 2008-2009 heating season:

> In its *Comments*, the OES asked that MERC provide an explanation discussing the circumstances surrounding the peak-day sendout during the 2008-2009 heating season. The OES requested this information since peak-day usage during the 2008-2009 heating season was significantly higher than during the same day in the 2007-2008 heating season. In its *Reply Comments*, MERC states that it does not have daily usage capabilities for all of its

[1] See Docket No. G011/M-09-1283.

> interruptible and transportation customers; therefore, the Company has to estimate these customers' use before determining firm peak day usage. While reviewing its peak-day calculations, MERC observed that its original peak-day calculation was probably not the best way to estimate actual non-firm volumes. The Company now believes that a more reasonable approach is to subtract actual usage by interruptible and transportation customers where available from total actual peak-day throughput, and then subtract out the estimates of non-firm usage for those customers where actual daily data is unavailable. Based on this new calculation, MERC determined that actual firm peak-day usage during the 2008-2009 heating season was 8,064, not 9,777 Mcf as originally estimated. In addition, based on this modified approach, MERC believes that its original firm peak-day usage calculation for the 2007-2008 heating season was inaccurate. Using its new approach, MERC calculates a 2007-2008 heating season peak day firm usage of 8,127 Mcf. After reviewing MERC's discussion and explanation, the OES no longer has concerns associated with peak-day use during the 2008-2009 heating season.

In MERC's 2009-2010 demand filing, the Company indicated declines in customer growth; MERC indicates in the instant docket that the Company expects continued declines in customer growth. However, MERC does not reduce the amount of total entitlements. As a result, MERC proposes a reserve margin of 21.8 percent in the instant filing: (11,500 – 9,440)/9,440 = 21.8 percent. The OES concludes that this level is too high to charge to firm customers since these customers do not need that level of reserve margin to ensure reliable service. The OES invites MERC to address in reply comments why its proposed design-day requirement amount is reasonable.

3. Reserve Margin

As indicated in OES Attachment 1, the reserve margin is as follows:

Total Entitlement (Dkt)	Design-day Estimate (Dkt)	Difference (Dkt)	Reserve Margin %	% Change From Previous Year[2]
11,500	**9,440**	**2,060**	**21.82**	**6.46**

MERC-PNG's proposed reserve margin of 21.82 percent for its Great Lakes PGA system represents a significant increase over last year's reserve margin. However, based on the discussion in Section IIA(2) above, the OES recommends that MERC address the reasonableness

[2] As shown on OES Attachment1, the Company's average reserve margin since the 1999-2000 heating season is 3.18 percent.

of its reserve margin in reply comments. The OES withholds comment on the reserve margin until such time that the Company has sufficiently justified its proposal.

B. THE COMPANY'S PGA COST RECOVERY PROPOSAL

The demand entitlement amounts listed in OES Attachment 1 represent the demand entitlements for which the Company's firm customers would pay. In its *Petition*, the Company compares its October 2010 PGA to its November 2010 PGA as a means of comparison for its changes in demand costs (the Company's Exhibit 4, page 1 of 4). The Company's demand entitlement proposal would result in the following annual rate impacts:

- Annual bill increase of $11.80 related to demand costs, or approximately 10.62 percent, for the average General Service customer consuming 146 Dkt annually;[3] and
- No demand charge impacts related to MERC's other rate classes.

Based on the concerns discussed earlier in these *Comments*, the OES withholds any recommendation regarding the Company's proposed recovery of demand costs through the monthly PGA until such time that MERC fully addresses the OES's concerns.

III. THE OES'S RECOMMENDATIONS

The OES recommends that the Company explains in its *Reply Comments* a full discussion explaining why its design-day requirement amount is reasonable. The OES will provide further comments subsequently.

/sm

[3] The bill impacts recommended by the Company do not take into account a shift in storage costs from the demand portion of the monthly PGA to the commodity portion of the monthly PGA.

Minnesota Office of Energy Security Attachment 1
MERC-PNG's Great Lakes Purchased Gas Adjustment Area Demand Entitlement Analysis
Docket No. G011/M-10-1167

	Number of Firm Customers			Design Day Requirement			Total Entitlement + Peak Shaving			Reserve Margin
								+ Peak Shaving		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Heating Season *	Number of DD Customers	Change From Previous Year	% Change From Previous Year	Design Day (Mcf)	Change From Previous Year	% Change From Previous Year	Total Entitlement (Mcf)	Change From Previous Year	% Change From Previous Year	% of Reserve Margin [(7)-(4)]/(4)
2010-2011	6,053	(15)	-0.25%	9,440	(1,362)	-12.61%	11,500	0	0.00%	21.82%
2009-2010	6,068	194	3.30%	10,802	503	4.88%	11,500	1,000	9.52%	6.46%
2008-2009	5,874	58	1.00%	10,299	749	7.84%	10,500	500	5.00%	1.95%
2007-2008#	5,816	69	1.20%	9,550	7	0.07%	10,000	314	3.24%	4.71%
2006-2007	5,747	68	1.20%	9,543	33	0.35%	9,686	0	0.00%	1.50%
2005-2006	5,679	165	2.99%	9,510	61	0.65%	9,686	0	0.00%	1.85%
2004-2005	5,514	103	1.90%	9,449	(198)	-2.05%	9,686	0	0.00%	2.51%
2003-2004	5,411	133	2.52%	9,647	1,659	20.77%	9,686	1,186	13.95%	0.40%
2002-2003	5,278	172	3.37%	7,988	(123)	-1.52%	8,500	0	0.00%	6.41%
2001-2002	5,106	134	2.70%	8,111	(254)	-3.04%	8,500	0	0.00%	4.80%
2000-2001	4,972	175	3.65%	8,365	92	1.11%	8,500	0	0.00%	1.61%
1999-2000**	4,797	341	7.65%	8,273	588	7.65%	8,500	2,422	39.85%	2.74%
1998-1999	4,456	241	5.72%	7,685	416	5.72%	6,078	0	0.00%	-20.91%
1997-1998	4,215	386	10.08%	7,269	665	10.07%	6,078	0	0.00%	-16.38%
1996-1997	3,829	336	9.62%	6,604	579	9.61%	6,078	0	0.00%	-7.96%
1995-1996	3,493			6,025			6,078			
Average Change Since 1999-2000:			2.60%			2.01%			6.51%	3.18%

Per Peoples, the 2001-02 Design Day declined due to a downward trend in consumption and heat factor possibly due to high gas costs in 2000-01 and more energy efficient housing.

Firm Peak Day Sendout

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Heating Season *	Number of Peak Day Customers	Firm Peak Day Sendout (Mcf)	Sendout Change from Previous Year	% Change From Previous Year	Excess per Customer [(7) - (4)]/(1)	Design Day per Customer (4)/(1)	Entitlement per Customer (7)/(1)	Peak Day Sendout per PD Customer (12)/(11)	Peak Day Sendout per DD Customer (12)/(1)
2010-2011	unknown	unknown			0.3403	1.5596	1.8999	unknown	unknown
2009-2010	6,071	7,391	(673)	-8.35%	0.1150	1.7802	1.8952	1.2174	1.2180
2008-2009^	6,144	8,064	(63)	-0.78%	0.0342	1.7533	1.7875	1.3125	1.3728
2007-2008	unknown	8,127	1,355	20.01%	0.0774	1.6420	1.7194	unknown	1.3974
2006-2007	unknown	6,772	(959)	-12.40%	0.0249	1.6605	1.6854	unknown	1.1784
2005-2006 ***	unknown	7,731	1,608	26.26%	0.0310	1.6746	1.7056	unknown	1.3613
2004-2005	5,714	6,123	(1,543)	-20.13%	0.0430	1.7136	1.7566	1.0716	1.1104
2003-2004	5,529	7,666	567	7.99%	0.0072	1.7828	1.7901	1.3865	1.4167
2002-2003	5,411	7,099	1,104	18.42%	0.0970	1.5135	1.6105	1.3120	1.3450
2001-2002	5,099	5,995	(567)	-8.64%	0.0762	1.5885	1.6647	1.1757	1.1741
2000-2001	4,970	6,562	(576)	-8.07%	0.0272	1.6824	1.7096	1.3203	1.3198
1999-2000	4,627	7,138	(368)	-4.90%	0.0473	1.7246	1.7719	1.5427	1.4880
1998-1999	4,627	7,506	1,567	26.38%	-0.3606	1.7246	1.3640	1.6222	1.6845
1997-1998	unknown	5,939	588	10.99%	-0.2826	1.7246	1.4420	unknown	1.4090
1996-1997	unknown	5,351	427	8.67%	-0.1374	1.7247	1.5874	unknown	1.3975
1995-1996	unknown	4,924			0.0152	1.7249	1.7401	unknown	1.4097
Average Change Since 1999-2000:				0.86%	0.0767	1.6730	1.7497	1.2923	1.3075

-- The analysis conducted by the OES does not include the 423 Mcf/day capacity related to MERC's FT0011 agreement.
This decision to omit these volumes is discussed in the body of the Comments in Docket No. G011/M-07-1404.
*Per Peoples, information prior to 1995 is not available.
**Corrected from peak day to design day number of customers.

*** The Company has not provided the number of peak-day customers beginning from the 2005-2006 heating season.
^ The number of peak day customers is calculated using the Residential and Commercial customer count data provided in MERC's Attachment 11.

Prepared by the Minnesota Office of Energy Security

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 Office of Energy Security – Comments

Docket No. G011/M-10-1167

Dated this 16th day of March, 2010.

/s/Linda Chavez

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