202 South Main Street
Le Sueur, Minnesota 56058
Toll Free: (888) 931-3411
Fax: (507) 934-6675

September 6, 2018

VIA ELECTRONIC FILING

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

RE: Response to Briefing Papers
Various Petitions for Approval of Firm Gas Transportation Agreements
PUBLIC DOCUMENT—TRADE SECRET DATA EXCISED
Docket Nos. PL-6580/M-06-1063
PL-6580/M-13-91
PL-6580/M-13-94
PL-6580/M-14-386
G-022/M-14-342
PL-6850/M-14-578
PL-6580/M-14-1056
PL-6580/M-15-967
PL-6580/M-15-968
PL-6580/M-15-1041
PL-6580/M-16-936
PL-6580/M-16-1026

Dear Mr. Wolf:

The Commission will consider Greater Minnesota Transmission, LLC's annual load factor compliance filings in the above-referenced dockets at its September 13, 2018 Agenda Meeting. GMT appreciates Commission Staff's submission of Staff's Briefing Papers substantially in advance of the meeting date. Inasmuch as Staff raised several issues and questions in its Briefing Papers, a number of which depend on layered underlying assumptions, GMT submits a response herewith in the spirit of providing answers to Staff's questions and providing the Commission with additional clarity as it prepares to consider the dockets next week.

Given the complexity of the issues, rather than submit a separate document with its Response, GMT incorporated its response directly into the relevant portions of Staff's Briefing Papers. GMT's response appears in red font throughout the document; and, GMT attached five Exhibits labeled Exhibit A through Exhibit E.

The attached document is a public document, as trade secret data has been excised.

Please do not hesitate to contact me should you have any questions or concerns or if you require additional information. My direct dial number is (507) 665-8657 and my email address is kanderson@greatermngas.com. All individuals identified on the official service lists for each respective docket have been electronically served with the same.

Sincerely,

GREATER MINNESOTA TRANSMISSION, LLC

/s/
Kristine A. Anderson
Corporate Attorney

cc: Service List

CERTIFICATE OF SERVICE

I, Kristine Anderson, hereby certify that I have this day served a true and correct copy of the following document to all persons at the addresses indicated on the official service list for each docket by electronic filing, electronic mail, or by depositing the same enveloped with postage paid in the United States Mail at Le Sueur, Minnesota:

Greater Minnesota Transmission, LLC's Response to Briefing Papers

Docket Nos. PL-6580/M-06-1063
PL-6580/M-13-91
PL-6580/M-13-94
PL-6580/M-14-386
G-022/M-14-342
PL-6850/M-14-578
PL-6580/M-14-1056
PL-6580/M-15-967
PL-6580/M-15-968
PL-6580/M-15-1041
PL-6580/M-16-936
PL-6580/M-16-1026

filed this 6th day of September, 2018.

/s/ Kristine A. Anderson
Kristine A. Anderson, Esq.
Corporate Attorney
Greater Minnesota Transmission, LLC

GMT's Responses to Items Raised in Staff Briefing Papers

Meeting Date	September 13, 2018	Agenda Item #4 *
Company	Greater Minnesota Transmission, LLC (GMT)	
Docket Nos.	PL-6580/M-06-1063 PL-6580/M-13-91 PL-6580/M-13-94 PL-6580/M-14-386 G-022/M-14-342 (Greater Minnesota Gas) PL-6850/M-14-578 PL-6580/M-14-1056 PL-6580/M-15-967 PL-6580/M-15-968 PL-6580/M-15-1041 PL-6580/M-16-936 PL-6580/M-16-1026	

GMT's Annual Load Factor Utilization Report, by Pipeline Segment

Issues

1. Should the Commission accept Greater Minnesota Transmission's January 12, 2018 annual load factor utilization report as compliant with Commission Orders?
2. Should the Commission require additional analysis on Greater Minnesota Gas' high utilization of Greater Minnesota Transmission overrun capacity service?
3. Should the Commission require Greater Minnesota Gas to demonstrate that it holds sufficient Northern Natural Gas and Greater Minnesota Transmission mainline and lateral capacity to serve its retail firm sales customers located on these pipeline segments?

Staff			
	Bob Brill	bob.brill@state.mn.us	651-201-2242
	Jason Bonnett	jason.bonnett@state.mn.us	651-201-2235
	Eric Bartusch	eric.bartusch@state.mn.us	651-201-2259

Relevant Documents

Relevant Documents	Date
Commission Order – Docket Nos. 15-967 & 15-968[1]	February 18, 2016
Commission Order – Docket No. 15-1041	March 1, 2016
Commission Order – Docket No. 16-936	May 26, 2017
Commission Order – Docket No. 16-1026	May 26, 2017
GMT – 2017 Annual Load Factor Utilization Report (Trade Secret)[2]	January 12, 2018
GMT - Response to Commission Data Requests (Trade Secret)[3]	June 25, 2018

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

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.

[1] The Commission's February 16, 2016 Order in Docket No. 15-967 incorporated Docket Nos. 06-1063, 13-91, 13-94, 14-386, 14-342, and 14-1056 into its decision requiring GMT to file an annual load factor utilization compliance report for all of its pipeline segments.

[2] Filed in all the above docket numbers.

[3] Ibid.

I. Statement of the Issues

1. Should the Commission accept Greater Minnesota Transmission's January 12, 2018 annual load factor utilization report as compliant with Commission Orders? GMT respectfully requests that the Commission accept its annual load factor utilization report, as it complies with the Orders requiring "GMT to file an annual load utilization factor letter . . . state its annual load utilization factors by contract for each of its intrastate pipelines and pipeline segments . . ." (Feb. 18, 2016 Order, Dkt. PL6580/M-15-967) and it is in the same format that GMT has filed annually in response to that and subsequent Orders, save the addition of any new pipelines throughout the years. GMT also responded to Staff's questions regarding usage in its information request responses and was not aware that any confusion or concern remained until the matter was placed on an Agenda and Staff's Briefing Papers were released.

2. Should the Commission require additional analysis on Greater Minnesota Gas' high utilization of Greater Minnesota Transmission overrun capacity service? GMT addresses issues identified by staff below, designated in red font, to provide the requested information for the Commission herein.

3. Should the Commission require Greater Minnesota Gas to demonstrate that it holds sufficient Northern Natural Gas and Greater Minnesota Transmission mainline and lateral capacity to serve its retail firm sales customers located on these pipeline segments? GMT respectfully asserts that, as explained herein, it does have sufficient capacity to serve its retail firm customers.

II. Background

Pursuant to Minn. Stat. § 216B.045 and Natural Gas Act Section 1(c), Greater Minnesota Transmission, LLC (GMT) is classified as an *intrastate pipeline* – providing transportation services for natural gas within the State of Minnesota (MN).

Natural Gas Act (NGA) (1938) Section 1 establishes federal regulations for natural gas companies. Section 1(a) states:

> ……it is hereby declared that the business of transporting and selling natural gas for ultimate distribution to the public is affected with a public interest, and that ***Federal regulation*** in matters relating to the transportation of natural gas and the sale thereof in interstate and foreign commerce is necessary in the public interest. [Emphasis Added]

Section 1(a) made all natural gas utilities involved in the transportation or selling of natural gas subject to federal regulation. By virtue of the NGA Section 1(a), GMT would have been federally

regulated, subject to all Federal Energy Regulatory Commission (FERC) rules and regulations that current interstate pipelines, such as Northern Natural Gas (NNG) are subject too. However, Section 1(c) states:[4]

> The provisions of this Act **shall not** apply to any person engaged in or legally authorized to engage in the transportation in interstate commerce or the sale in interstate commerce for resale, of natural gas received by such person from another person within or at the boundary of a State if all the natural gas so received is ultimately consumed within such State, or to any facilities used by such person for such transportation or sale, provided that the rates and service of such person and facilities **be subject to regulation by a State commission**. The matters exempted from the provisions of this Act by this subsection are hereby declared to be matters primarily of local concern and subject to regulation by the several States. A certification from such State commission to the Federal Power Commission that such State commission has regulatory jurisdiction over rates and service of such person and facilities and is exercising such jurisdiction shall constitute conclusive evidence of such regulatory power or jurisdiction. [Emphasis Added]

GMT qualifies as an intrastate pipeline under NGA section 1(c), exempt from FERC jurisdiction, making it a *Hinshaw Pipeline*. A Hinshaw Pipeline is defined as a company engaged in the transportation in interstate commerce, or the sale in interstate commerce for resale, of natural gas received by that company from another person within or at the boundary of a state, if all the natural gas so received is ultimately consumed within such state, provided that the rates and service of such company and its facilities are subject to regulation by a state commission.

In 1987[5], the Minnesota Legislature enacted into law Minn. Stat. § 216B.045 Regulation of Intrastate Natural Gas Pipeline. This statute gave the Minnesota Public Utilities Commission (Commission) the authority to review and approve agreements between intrastate pipelines and Local Distribution Companies (LDC) customers, where intrastate pipelines, like GMT, can transport natural gas within Minnesota to an LDC who provided retail distribution services.

Minn. Stat. § 216B.045 Regulation of Intrastate Natural Gas Pipeline states:

> Subdivision 1. Definition of intrastate pipeline. 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

[4] . The Federal Power Commission was renamed FERC.
[5] Later modified in 1990 and 1992.

intrastate pipeline and the commission approves the petition.

Subd. 2. Reasonable rate. Every rate and contract relating to the sale or transportation of natural gas through an intrastate pipeline shall be just and reasonable. No owner or operator of an intrastate pipeline shall provide intrastate pipeline services in a manner which unreasonably discriminates among customers receiving like or contemporaneous services.

Subd. 3. Transportation rate; discrimination. Every owner or operator of an intrastate pipeline shall offer intrastate pipeline transportation services by contract on an open access, nondiscriminatory basis. To the extent the intrastate pipeline has available capacity, the owner or operator of the intrastate pipeline must provide firm and interruptible transportation on behalf of any customer. If physical facilities are needed to establish service to a customer, the customer may provide those facilities or the owner or operator of the intrastate pipeline may provide the facilities for a reasonable and compensatory charge.

Subd. 4. Contract; commission approval. No contract establishing the rates, terms, and conditions of service and facilities to be provided by intrastate pipelines is effective until it is filed with and approved by the commission. The commission has the authority to approve the contracts and to regulate the types and quality of services to be provided through intrastate pipelines. The approval of a contract for an intrastate pipeline to provide service to a public utility does not constitute a determination by the commission that the prices actually paid by the public utility under that contract are reasonable or prudent nor does approval constitute a determination that purchases of gas made or deliveries of gas taken by the public utility under that contract are reasonable or prudent.

Subd. 5. Complaint. Any customer of an intrastate pipeline, any person seeking to become a customer of an intrastate pipeline, the department, or the commission on its own motion, may bring a complaint regarding the rates, contracts, terms, conditions, and types of service provided or proposed to be provided through an intrastate pipeline, including a complaint that a service which can reasonably be demanded is not offered by the owner or operator of the intrastate pipeline. If a complaint involves the question of whether or not an intrastate pipeline has capacity available, the commission shall after hearing make a determination of the available capacity but shall not impair the owner or operator of the intrastate pipeline contractual obligation to provide firm transportation service. If a complaint concerns the use of available capacity by one or more customers of an intrastate pipeline, the commission shall after hearing determine the reasonable use of the available capacity by the customers. The commission shall not require an owner or operator of an intrastate pipeline to expand its available capacity but may require the owner or operator to maintain a reasonable quality of service. The commission may dismiss any complaint without a hearing if in its opinion a hearing is not in the public interest. Complaints brought under this subdivision shall be governed

by section 216B.17.

Minn. Stat. § 216B.045 substantially reduces the administrative burden that would otherwise exist if the intrastate pipeline was subject to FERC regulation. GMT qualifies for the Hinshaw exemption because the Commission reviews and approves all transportation agreements GMT has entered into, making GMT subject to MN Commission regulation.

III. Staff Analysis

On January 12, 2018, GMT submitted its annual pipeline segment utilization compliance filing.[6] GMT's 2017 utilization compliance filing reflected customer load utilization factors that ranged from near-zero percent to 159 percent.[7] The identified customer operating at 159 percent is Greater Minnesota Gas (GMG), GMT's sister company. Greater Minnesota Synergy, Inc. is the parent corporation of both GMT and GMG. The capacity used by GMG was approved by the Commission in Docket Nos. 06-1063 and 13-94. These Commission approved petitions granted GMT intrastate pipeline status. In accordance with Minn. Stat. § 216B.48, subd. 3 (affiliated interest), in Docket No. 13-94, the Commission found GMT's agreement with GMG to be reasonable and in the public interest, the Commission's Order stated:

> *Minn. Stat. § 216B.48, subd. 3, requires that contracts between utilities and affiliated interests be reasonable and consistent with the public interest. The Commission finds that the Agreements meet that standard, so long as it is clear to potential customers along the lateral pipeline that utilities besides Greater Minnesota Gas may be able to provide natural gas distribution service. This disclosure will serve the public's interest in open-access and nondiscriminatory service on the proposed pipeline.*

Staff's concern with GMT compliance filing is caused by GMG's 159 percent load utilization factor. In an attempt to resolve its concerns, staff issued GMT information requests 1 through 4, dated June 12, 2018. Staff received GMT's responses on June 25, 2018. Staff's information requests and GMT's responses are discussed below:[8]

1. In the 06-1063 and 13-94 dockets, provide an explanation of how Greater Minnesota Gas' (GMG) load utilization factor of 159% was calculated. Were other GMT customers able to use their subscribed capacity at the same time GMG was using 159% of its capacity? Explain how GMT was operationally able to accommodate this utilization of these two pipeline segments.

---

[6] As part of its Docket 15-967 Order requirements, the Commission required GMT to submit an annual compliance filing stating its load utilization factors for all of the above listed dockets.

[7] See GMT's January 12, 2018 Compliance Filing, marked as "**Trade Secret.**"

[8] GMT's public responses are attached to these briefing papers.

In response, GMT provided GMG's load utilization factor calculation:

> *Annual volume of 58,150 Dth divided by the result of annual contract entitlement of 100 Dth/day multiplied by 365 days: 58,150/36,500 = 159.32%*

As reflected above, GMG contract entitlements are 100 Dth/day for both GMT's mainline (06-1063) and lateral (13-94) pipeline segments. GMT states that GMG has contracted for 0.1 percent of GMT's mainline entitlements and 8 percent of GMT lateral's entitlements that provide service to GMG's customers. From this information, GMT's 06-1063 mainline capacity would be equal to 100,000 Dth/day (100 Dth/day divided by 0.1 percent) and its 13-94 lateral capacity would be equal to 1,250 Dth/day (100 Dth/day divided by 8 percent). The Commission may wish to verify these calculations with GMT at the September 13, 2018 Commission Meeting.

GMT appreciates the opportunity to clarify information regarding Staff's calculations, as GMT believes that there is some confusion. It appears that contract entitlement is being confused with a means to identify pipeline capacity. The chart below identifies the contract entitlement related to GMT's lines in Docket Nos. 06-1063 and 13-94 (the pipelines of concern to Staff); however, the contract entitlement does not provide a means to calculate actual pipeline capacity, contrary to Staff's extrapolation above.

TRADE SECRET DATA BEGINS:

Main Line		**Lateral Line**	
Contract Customer	Entitlement (Dkt)	Contract Customer	Entitlement (Dkt)
TOTAL ENTITLEMENT		TOTAL ENTITLEMENT	

TRADE SECRET DATA ENDS.

Additional capacity is available on GMT's main line. Additional capacity may also be available on GMT's lateral line, depending on the location of the load and the BTU content of the gas delivered.

GMT asserts that if its customers do not fully use their daily contract entitlements, its mainline and lateral pipeline segments will have excess capacity. GMT claims that, pursuant to its customer agreements approved in the 06-1063 and 13-94 dockets, all GMT system customers have access to this capacity by overrunning their daily contract entitlements on an interruptible basis. For these system overruns, GMT charges a daily overrun rate pursuant to its customer

agreements. GMT clarified that if all of its customers are using their full contract entitlements during the day, overrun capacity is not available. GMT states that its transport customers always have access to their full contract entitlements on a daily basis.

[Staff note: Based on GMT's load utilization report, it appears that GMG is the only GMT customer using the capacity overrun service.]

GMT asserts that GMG uses its overrun service to serve GMG's grain drying customers along GMT's mainline and lateral pipeline systems; during the non-peak months of September through November. GMT states that it is operationally able to accommodate GMG's request for overrun service because it has excess capacity during these non-peak months when GMT's other subscribing customers are not using their full daily contract entitlements for electric generation or space heating.

As illustrated by the above calculation, GMG overran its GMT 2017 annual contract entitlement by 21,650 Dth (58,150 Dth – 36,500 Dth).

GMT respectfully notes that Staff's calculation is incorrect. The premise for the calculation assumes that GMG never experiences a day where less than 100 Dkt of capacity is used. In reality, GMG never uses its full 100 Dkt of capacity unless grain dryers are running. The actual calculation of the overrun charges is shown on Exhibit A hereto. It shows GMG's daily overrun volume multiplied by the contractually approved overrun volume charge. Exhibit A demonstrates that overruns did not occur during most days of the year. Rather, overruns occurred primarily during the grain drying season of October and November, with some days in December and three small overrun use days in January and February (during rare times where customers briefly fired up).

2. Because GMG used more than its subscribed capacity on GMT, was GMG assessed penalties? If so, provide the assessed 2017 penalties amounts and the applicable tariff sheets that reflects GMT's penalty provisions. If not, provide a discussion that explains why GMG was not assessed penalties for its over-utilization of GMT's system.

Pursuant to Section 3.4 of its customer agreements, GMT assessed GMG its daily overrun volume charge when actual deliveries to GMG exceeded its contract entitlements. For example, if GMG takes 150 Dth for a day, the additional 50 Dth for that day is billed the overrun charge.

During 2017, GMT billed GMG $4,782 for overrun charges and GMG paid the amount.

3. Did GMG use other shippers' released capacity, if so, did GMG pay GMT's maximum rates[9] for the capacity release or did GMG receive a discount from GMT's maximum rates? Please explain.

GMT states that GMG used its overrun capacity service authorized under Section 3.4 of its customer agreements and that GMG did not purchase capacity release from other GMT shippers.

4. Provide a list the GMG customers causing this over-utilization of capacity.

GMT stated that the capacity overruns were caused by its grain dryer customers, and marked its response to information request #4 as "***Trade Secret***".[10]

GMG purchases its natural gas at NNG supply points and NNG transports the natural gas through its system to GMT's mainline interconnections, then GMT transports the natural gas through its system, and delivers the natural gas to GMG's receipt points. FERC requires NNG to maintain an electronic bulletin board, where all unsold capacity is listed and NNG's shippers are able to release their unused capacity for others to purchase. This creates a secondary capacity market where shippers have the ability to recoup some of their daily capacity costs by releasing (selling) their excess capacity. It is important to note that GMG retains title (ownership) to the natural gas once it purchases the gas at the supply point. Neither NNG nor GMT sell natural gas to their customers, they only provide transportation service.

FERC requires NNG to maintain a tariff book where all rates and service terms and conditions are listed. Minnesota statutes and Commission regulations do not require GMT to offer capacity release nor is GMT required to maintain a tariff book. GMT operates its pipeline system and pipeline segments through its customer agreements.

Staff reviewed GMT's calculation of GMG's 159% load utilization factor, and believes that the calculation appears to be correct. Staff also reviewed the customer agreements from the 06-1063 (mainline) and 13-94 (lateral) dockets and the agreements appear to be consistent with each other except for the overrun rates and other rates charged.

GMG appears to hold 100 Dth/day (per 06-1063 and 13-94 customer agreements) of GMT's mainline and lateral capacity. Staff assumes that GMG also holds 100 Dth/day of NNG's capacity. While Staff's statement is technically true, the underlying assumption is not, as it is missing crucial information. As reflected in the Commission's Order Approving Agreements in Docket No. 13-94, attached hereto as Exhibit B for ease of reference, the Commission denied rate recovery of the transportation costs under the GMT/GMG agreements for the main and

[9] Because GMT does not have a rate book or tariffs, the only rates GMT may charge are the rates in the contracts it has with its customers (customer agreements).

[10] See GMT's June 25, 2018 response, p. 5, marked as "***Trade Secret***"

lateral lines without prejudice for later consideration, giving GMG leave to raise the issue of cost recovery at a later time in its next rate case. Staff's Briefing Papers issued prior to the Commission's May 23, 2013 Agenda Meeting wherein it considered whether to approve the agreements provided substantial commentary regarding GMG's plan to provide interruptible supply for agricultural operations to increase GMG's margin recoveries and the corresponding denial of cost recovery without prejudice at the time of the order. Relevant pages of those Briefing Papers are included in Exhibit B behind the Commission's Order. Hence, GMG integrated its customers into its common portfolio with other GMG customers. GMG has the benefit of group billing from Northern Natural Gas (NNG) for its lateral system, occasioned by not having cost recovery and rolling the capacity used for the lateral line in with that of the rest of GMG's customers in its Zone EF billing from NNG. The relevant section of NNG's tariff is attached as Exhibit C. GMG can use its full contract entitlement wherever it is needed. Consequently, GMG has much more capacity available to it from NNG than just the capacity of the related GMT line. GMG appears to use both NNG's and GMT's overrun capacity services to provide natural gas to its grain dryer customers. Staff is concerned about GMG's use of overrun capacity service because it appears that GMG has not purchased sufficient pipeline capacity to serve its grain dryer customers. The Commission may wish to address this concern during the September 13, 2018 Meeting or by asking for information in a compliance filing. As explained above, GMG has its entire portfolio available to serve its grain drying customers, in addition to interruptible capacity and purchased release capacity on the interstate pipelines. It is true that GMG does not purchase firm capacity to serve interruptible customers; and, GMG believes that both prudence and past Commission decisions would prohibit such a practice. GMG is not aware of any Minnesota gas utility that is permitted to purchase pipeline capacity to serve interruptible customers, but those customers can be served on an interruptible basis using the overrun capacity on both NNG and Viking. The respective tariff provisions related to overrun volumes are attached as Exhibit D. Overrun capacity has traditionally used to provide interruptible service in the pipeline industry and GMG's practice in this situation is no different.

In Docket No. 13-94, GMT's lateral customer agreement with GMG, section 3.4 states the following:[11]

> **Contract Article 3.4. DAILY OVERRUN VOLUME CHARGE.** A volume charge shall be assessed equal to the product of \$0.095 per dekatherm and the actual deliveries made daily by the Company to the Customer in excess of Daily Demand Volume listed in Article 2.1.[12]

---

[11] In Docket No. 06-1063, GMT marked Section 3.4 of its agreement with Invenergy as "***Trade Secret***."

[12] **Contract Article 2.1. REQUIREMENTS AND DELIVERIES: POINT OF DELIVERY.** Company agrees to accept delivery of Customer's gas at the inlet of Company's Coates, MN town border station and to transport and to re-deliver said gas to Customer in volumes up to 100 dekatherms per day ("Daily Demand Volume"), at a minimum operating pressure of 120 psig or such other volumes and pressure as mutually agreed. Customer's point of delivery

As noted above, GMG paid $4,782 in GMT overrun charges in 2017. By dividing this amount by the overrun volume of 21,650 Dth, staff's calculated overrun rate is $0.221 per Dth (considerably higher than GMT's approved lateral overrun rate of $0.095/Dth). This calculation is predicated on an erroneous underlying assumption and calculation by Staff. The correct calculations are provided in Exhibit A and demonstrate that the overrun rate was, in fact, $0.095 per dekatherm. Overrun charges are based on a daily overrun calculation. From GMT's information responses, staff could not determine whether GMG's overruns occurred on GMT's mainline or lateral pipeline segments, which are billed at different rates.[13] If GMG's grain dryer customers are located off GMT's lateral pipeline segment, staff believes that GMT should be billing GMG both the mainline and lateral overrun capacity charges. First, all of GMG's grain dryer customers in that area are served off the lateral line and use both lines; although, some use on the lateral line may be de minimus because at least two dryers are served directly off the interconnect between the main line and the lateral line. Second, GMT applies the charges as set forth in the contracts that were approved by the Commission. The overrun charges and all other provisions of the main line were the result of negotiations between Xcel and GMT. Each company, both well-versed in the industry and its practices and familiar with NNG contracts, agreed to the contract terms with the expectation that the terms would be binding. Subsequently, when the GMT-PIIC lateral line contract was negotiated, the contract provisions excluded the overrun charge; and, that agreement was approved by the Commission. Overrun charges have not been included in GMT's subsequent transportation agreements, either. GMT has allowed shippers to move extra gas as long as system capacity is available. Staff is essentially proposing that GMT do something that is different from negotiated contractual provisions contained in Commission-approved agreements. GMT submits that it is acting consistently with its contractual provisions and no change is either warranted or appropriate. GMT did not provide its calculation detail for the $4,782, thus staff cannot verify GMT's calculation. The Commission may wish to require GMT to provide its $4,782 overrun charge calculation in spreadsheet format with calculations and formulas intact in a compliance filing to these dockets. For easier preparation for consideration of this matter, GMT has appended its calculation hereto in Exhibit A and filed an Excel spreadsheet containing the same herewith.

In addition, staff cannot determine if GMG's $4,782 overrun charges flowed-back to the other shippers or if GMT retained the funds. If all of GMT's capacity is sold, (which it is not) an argument could be made that GMT's other shippers should receive all of GMT's capacity overrun charge revenue because their capacity is being used by GMT to make the deliveries to GMG's customers. This is similar to how capacity release works, in that, the shipper releasing its capacity receives a credit from the pipeline for the capacity sold. The releasing shipper retains the financial responsibility for its capacity purchase from the interstate pipeline, which is why the shipper received a credit for capacity released and purchased by another shipper. The use of capacity release is a function of the negotiated contracts. In this case, the approved

---

shall be the outlet of the meter installation at the current GMT midline valve location on 250th St East (the "Point of Delivery").

[13] In Docket No. 06-1063, GMT marked Section 3.4 of its agreement with Invenergy as "***Trade Secret***."

negotiated contracts gave GMT the benefit of any additional capacity sales after the in-service date, including overrun, as well as saddling GMT with the risk of cost overrun and expense increases. The historical record is quite clear that the main line that costs came in well above budget and GMT lost money in the initial years of service.

GMT asserts that GMG's use of NNG's overrun capacity service is an efficient, cost effective supply management tool and is a general benefit to society.[14] Staff believes that GMT may be referring to NNG's Daily Variance Charges (DDVC), NNG's tariff, Section 48. A. states:

> *Shippers are required to take actual daily volumes at their delivery point(s) as close to daily scheduled volumes as possible.* In the event that actual daily volumes vary from daily scheduled volumes, Shippers are subject to Daily Delivery Variance Charges (DDVC), after a tolerance has been considered.....

Staff's belief that GMT was referring to NNG's Daily Variance Charge is mistaken and misapprehends the basis for the Company's belief that use of overrun capacity is a beneficial supply management tool. The NNG tariff section cited by Staff applies to balancing rather than capacity. As discussed above, the tariff sections from NNG and Viking that relate to authorized overrun service are contained in Exhibit D. The contract negotiated between Xcel and GMT was modeled after the interstate pipeline tariff and the line's contemplated use. GMG is still required to nominate daily use on NNG and balancing charges are a separate rate.

As clearly stated by NNG's tariff, "*Shippers are required to take actual daily volumes at their delivery point(s) as close to daily scheduled volumes as possible."* Staff believes that overrun services are generally reserved for the occasional overruns as NNG's tariff indicates, not for overruns that occur on a daily basis. Therefore, it is difficult for staff to believe NNG would be tolerant of GMG's constant use of NNG's overrun service. NNG will not discriminate against its other customers by allowing one customer to overrun its scheduled volumes, while not allowing its other customers to overrun their scheduled volumes. If all of NNG's customers are using its overrun service, NNG would not be able to keep its system in balance.

Staff has not determined which NNG and GMT services GMG is paying for, whether GMG is paying for transportation services and overrun services or if GMG is only paying for overrun services on the additional volumes used for the overrun service and no transportation charges.

GMG is paying the rates under the contracts approved by the Commission in the respective dockets. Pursuant to the Commission's Order, GMG has not asked for cost recovery of the charges and will not do so until GMG's next general rate case.

The Commission may wish for further discussion on GMG's use of NNG's and GMT's overrun services at the September 13, 2018 Commission Meeting. Or, in the alternative, the

[14] See GMT's information response to staff information request #4, marked as "***Trade Secret***."

Commission may wish to require GMT to respond to its questions in a compliance filing. The Companies believe that its responses herein address the underlying confusion regarding use and billing for overrun services.

The Commission may wish to ask GMT to address the following questions

1. Discuss and verify staff's calculations, this includes staff's mainline and lateral capacity calculations and its overrun capacity service rates calculation. As discussed above, Staff's calculations are based on erroneous assumptions. The correct calculations are discussed herein, with detail provided in Exhibit A.

2. Provide an explanation of GMT's daily nomination process used for its customers, including a discussion on:

    a. how GMT determines that there is available capacity to provide its overrun service;

       Nominations are made on a daily basis on the interstate pipeline. The pipleline confirms or denies the nominations. While the nominations have never been denied during the grain dryer season, the Company would be obligated to curtail the grain dryer use in the event that a denial occurred. Usually, if denial occurs, it happens during the coldest weather season when grain dryers are not in regular or high use. In addition, curtailment decisions for system purposes are made based on operating conditions at the time. As the graph in Exhibit E demonstrates, the system was delivering well above its operation pressure to the Prairie Island Indian Community even during the grain drying period. That level of performance is possible because of where the grain drying load comes off the system (early in the line), the BTU content of the gas, and the flow conditions on the given days the dryers are operating. The Company's models are conservative by nature. Pipelines are designed for use by customers under design day conditions. Grain drying loads almost always occur when temperatures are between 20 and 50 degrees, which happens to be when firm loads are generally at 30% to 50% of design conditions and Invenergy power generation is not needed for air conditioning. The ability is further enhanced by the location of the dryers, as they are not at the end of the pipeline.

    b. how GMT is able to use other customers purchased capacity to provide overrun capacity service; and

       GMT was contractually given the ability to increase sales as an offset to the construction cost risk that it accepted for building the line. It was part of

both the approved Xcel and PIIC contracts, which were negotiated terms and which contracts provided GMT's customers with their desired price certainty.

c. why GMT does not require GMG to purchase sufficient capacity to serve its customers instead of using overrun capacity.

Purchasing capacity to service interruptible customers contradicts past practices and industry standards. On the lateral line in question, GMG has 76 residential customers and 11 commercial customers that it serves on a firm basis off of the GMT main line. GMG's estimated design day for those customers is 95 dekatherms, so GMG still has a 5% reserve margin in its contract entitlement. GMG maintains that it has sufficient firm capacity for its customers on the line. If GMG were to add customers on that system that would require additional capacity, GMG would seek the Commission's approval for the same.

3. Require GMT to provide its $4,782 overrun charge calculation in spreadsheet format with calculations and formulas intact in a compliance filing to these dockets.

The detail of the calculations is provided in Exhibit A and an Excel spreadsheet containing the same was filed herewith.

4. Provide a discussion of who receives the $4,782 in overrun charges, GMT or the remaining GMT shippers who own the capacity.

As explained above, the contract between GMT and Xcel and between GMT and PIIC contain negotiated terms that were agreed to in exchange for providing GMT's customers with price certainty; and, those contracts were approved by the Commission. The terms of the agreements gave GMT the benefits of additional sales, including overrun charges (as the risk of cost overruns, tax increases such as GMT's recent 18% increase in property taxes, etc.).

It would be inappropriate to abrogate existing, approved contracts by requiring redistribution of overrun charge revenue; and, doing so would confiscate bargained-for incremental revenue. Reopening previously approved contracts or nullifying select provisions of them will impact the ability of parties to negotiate agreements and will, thereby, affect not only the ability of pipelines but also the ability of independent power producers to finance critical infrastructure within the State of Minnesota.

IV. Decision Options

1. Accept GMT's 2017 annual utilization load factor compliance report.

   GMT supports Decision Option 1.

2. Accept GMT's 2017 annual utilization load factor compliance report, subject to GMT providing the following information in a compliance filing, 60 days after the Commission's Order is issued.

   a. Discuss and verify staff's calculations, this includes staff's mainline and lateral capacity calculations and its overrun capacity service rates calculation.
   b. Provide an explanation of GMT's daily nomination process used for its customers, including a discussion on:

      i. how GMT determines that there is available capacity to provide its overrun service;
      ii. how GMT is able to use other customers' purchased capacity to provide overrun capacity service; and
      iii. why GMT does not require GMG to purchase sufficient firm capacity to serve its customers instead of using overrun capacity.

   c. Require GMT to provide a discussion on how it bills GMG for transportation services provided by GMT to GMG:

      i. does GMG pay transportation rates on *all* volumes (including overruns) transported and GMT's overrun rate for volumes that exceed GMG daily entitlements of 100 Dth/day; or
      ii. does GMG only pay transportation rates on the nominated volumes (up to 100 Dth/day) and pays only the overrun rate on volumes that exceed GMG's daily entitlements of 100 Dth/day.

   d. Require GMT to provide a discussion on GMG's use of NNG's and GMT's overrun services.
   e. Require GMT to provide its $4,782 overrun charge calculation in spreadsheet format with calculations and formulas intact.
   f. Require GMT to provide a discussion indicating who retains the $4,782 collected as overrun charges, whether GMT retains the amount or is it GMT's remaining shippers on its mainline and lateral pipeline segments.

3. Open an investigation into GMG's use of NNG's and GMT's overrun service.

EXHIBIT A
Overrun Charges

ENTIRE EXHIBIT IS TRADE SECRET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

In the Matter of a Request by Greater Minnesota Gas, Inc. for Approval of Affiliated Interest Agreements with Intrastate Pipeline Greater Minnesota Transmission, LLC and Approval of GMT's Contracts under Minn. Stat. § 216B.045

ISSUE DATE: June 5, 2013

DOCKET NO. PL-6580, G-022/AI-13-94

ORDER APPROVING AGREEMENTS

PROCEDURAL HISTORY

On January 31, 2013, Greater Minnesota Gas, Inc. (GMG) filed a Petition for approval of two Transportation Agreements (the Agreements) with its affiliate Greater Minnesota Transmission, LLC (GMT).[1] GMG also proposed two cost recovery methods for transportation charges under the Agreements.

On April 3, 2013, the Minnesota Department of Commerce Division of Energy Resources (the Department) filed comments provisionally recommending approval of the petition subject to review of information to be provided by GMG in reply comments.

On April 5, 2013, GMG filed reply comments responding to the Department's requests for information.

On April 16, 2013, the Department filed a response to GMG's reply comments. The Department recommended that the Commission approve the agreements as filed, subject to certain requirements. The Department recommended that the Commission reject GMG's proposed cost recovery methods, and instead require GMG to implement a separate Purchased Gas Adjustment (PGA) for all new GMG customers along the GMT lateral pipeline.

On April 19, 2013, GMG filed reply comments stating that it opposed the Department recommendation that it be required to implement a separate Purchased Gas Adjustment for new customers along the lateral pipeline. GMG stated that instead it would prefer the Commission not make a cost recovery determination at this time.

On May 23, 2013, the Commission met to consider the petition.

[1] The "GMT Mainline Firm Transportation Agreement," and the "GMT Lateral Firm Transportation Agreement."

FINDINGS AND CONCLUSIONS

I. Background

Greater Minnesota Gas, Inc. seeks approval of two agreements between it and its affiliate, Greater Minnesota Transmission. The Agreements concern natural gas transportation on GMT's existing intrastate mainline, and a planned 23-mile lateral line that would connect GMT's mainline to facilities belonging to Northern States Power Company d/b/a Xcel Energy (Xcel) in the Prairie Island Indian Community (the PIIC).

Additional comments describing and discussing the arrangement can be found in Docket No. PL-6580/M-13-91, which relates to GMT's petition for Commission approval of its agreements with the PIIC.

Under the Agreements, GMT commits to provide firm transportation of natural gas, and to build a new interconnection point and a lateral pipeline to a delivery point on tribal grounds. At the delivery point, Xcel states that it plans to build a distribution system to serve the PIIC and Xcel's Prairie Island generating facility and surrounding infrastructure.[2]

According to GMG, the Agreements with GMT at issue in this docket will allow GMG to provide natural gas distribution services to between 50 and 100 customers who are along the proposed lateral pipeline but are not within the Prairie Island Indian Community.

II. Positions of the Parties

GMG seeks Commission approval of the Agreements under Minn. Stat. §216B.48 (requiring Commission approval of contracts between regulated utilities and affiliated interests). Additionally, the Department contends that the Agreements require Commission approval under Minn. Stat. § 216B.045 (requiring Commission approval of contracts concerning intrastate natural gas pipelines).

GMG asserts that the terms of the Agreements are substantially similar to those in a contract previously approved by the Commission for GMT's main pipeline.[3] Specifically, GMG states that the terms and the pricing of the mainline agreement are the same as those previously approved, and that the terms of the lateral agreement are substantially similar—the lateral agreement price includes the estimated cost to complete the new 23-mile transmission line, and contemplates use of the line by Xcel and other ratepayers along the line.

GMG also proposed two methods of possible cost recovery for transmission costs charged under the Agreements. It suggested either incorporating the charges in GMG's purchased gas adjustment rider, which would apply to all GMG customers, or allocating the charges only to new customers along the proposed route, through its TR-2 tariff. GMG stated that the PGA method is its preferred option.

---

[2] Docket No. PL-6580/M-13-91, Letter from Xcel to Burl Haar and Kate O'Connell (February 13, 2013).

[3] Docket. No. G-002/AI-06-1063, Order Approving Agreement (December 26, 2006).

Upon reviewing GMG's reply comments, the Department recommended approval of the Agreements as filed, with certain requirements.

The Department recommended that the Commission require GMG to state in its marketing material that in addition to GMG, other utilities (CenterPoint Energy, Minnesota Energy Resources Corporation, and Xcel) may also be able to provide distribution service to the customers along the proposed lateral pipeline.

The Department also recommended that the Commission deny GMG's proposed revisions to its TR-2 tariff; and instead recover transmission costs through a separate PGA for all new GMG customers along the GMT lateral pipeline.

In reply comments, GMG agreed to provide the marketing information the Department requested. GMG also acknowledged that proposed revisions to its TR-2 tariff were not its preferred option and did not oppose the Department's recommendation that the tariff not be revised at this time.

However, GMG opposed the Department's recommendation that it be required to implement a separate PGA for new customers along the lateral pipeline. GMG instead recommended that the Commission deny cost recovery at this time without prejudice, so that GMG may seek cost recovery at a later date.

III. Commission Action

The Commission concludes that, with the clarification in the marketing material recommended by the Department and agreed to by GMG, the Agreements meet statutory requirements. The Commission will therefore approve them.

Minn. Stat. § 216B.045 requires that contracts relating to the sale or transportation of natural gas through an intrastate pipeline be just and reasonable, and that operators of such pipelines offer services on an open-access, nondiscriminatory basis. The Commission concurs with the Department that the Agreements meet these requirements.

Minn. Stat. § 216B.48, subd. 3, requires that contracts between utilities and affiliated interests be reasonable and consistent with the public interest. The Commission finds that the Agreements meet that standard, so long as it is clear to potential customers along the lateral pipeline that utilities besides Greater Minnesota Gas may be able to provide natural gas distribution service. This disclosure will serve the public's interest in open-access and nondiscriminatory service on the proposed pipeline.

The Commission will deny, at this time, rate recovery of transportation costs under the Agreements, without prejudice to later consideration of the issue. New customers along the lateral pipeline will receive service under GMG's currently approved rates and tariffs. Greater Minnesota Gas may raise the issue of cost recovery again at a later time.

ORDER

1. The Commission finds that the proposed Agreements satisfy the statutory requirements for intrastate pipeline contracts under Minn. Stat. § 216B.045 and for affiliated interest agreements under Minn. Stat. § 216B.48.

2. The Agreements between Greater Minnesota Gas, Inc. and Greater Minnesota Transmission, LLC are approved, subject to the following requirement: Greater Minnesota Gas, Inc. shall state in its marketing material that in addition to Greater Minnesota Gas, other utilities (CenterPoint Energy, Minnesota Energy Resources Corporation, and Xcel) may also be able to provide distribution service to the customers along the proposed lateral pipeline.

3. Cost recovery from ratepayers of Greater Minnesota Gas, Inc. for the transportation costs of Greater Minnesota Transmission is denied, without prejudice.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

This document can be made available in alternative formats (i.e., large print or audio) by calling 651.296.0406 (voice). Persons with hearing loss or speech disabilities may call us through Minnesota Relay at 1.800.627.3529 or by dialing 711.

Minnesota Public Utilities Commission

Staff Briefing Papers

Relevant Pages Attached

Meeting Date: May 23, 2013 .... *Agenda Item # ___

Company: Greater Minnesota Gas, Inc., Greater Minnesota Transmission, LLC

Docket No. PL-6580, G-022/AI-13-94

In the Matter of a Request By Greater Minnesota Gas for Approval of Affiliated Interest Agreements with Intrastate Pipeline Greater Minnesota Transmission, LLC and Approval of GMT's contracts under Minn. Stat. §216B.045

Issue: Should the Commission approve the Agreements?

Staff: Bob Harding 651-201-2237
Stuart Mitchell 651-201-2258
Bob Brill 651-201-2242

I. Relevant Documents

GMG Initial Filing January 31, 2013 (Trade Secret Resubmitted) .... April 30, 2013
DOC Comments (Trade Secret) .... April 3, 2013
GMG Reply Comments .... April 5, 2013
DOC Response to Reply Comments .... April 16, 2013
GMG Reply Comments .... April 19, 2013
GMT Clarifying Letter .... May 7, 2013

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.

This document can be made available in alternative formats (i.e., large print or audio) by calling 651.296.0406 (voice). Persons with hearing loss or speech disabilities may call us through Minnesota Relay at 1.800.627.3529 or by dialing 711.

- Require GMG to state in its marketing material that in addition to GMG, other utilities (CenterPoint Energy, Minnesota Energy Resources Corporation, and Xcel) may also be able to provide distribution service to the customers along the proposed lateral pipeline;
- Deny the proposed revisions to the TR-2 tariff; and
- Require GMG to implement a separate PGA for all new GMG customers along the GMT lateral pipeline.

Greater Minnesota Gas — Second Reply Comments

GMG said the issue at question is the methodology used by GMG to recover the charges from its affiliate, GMT. The Department opposed using the existing PGA because GMG has not demonstrated that cost to existing customers will be reduced through the addition of these new customers. GMG agreed that is correct in the short term. The Company also agreed not to pursue changes to its TR-2 tariff at this time.

GMG said it has been contacted by several agricultural operations seeking interruptible gas supply that would increase GMG's margin recoveries without creating additional demand entitlement requirements [i.e., pipeline capacity]. Additionally, the Company expects continued development in southern Dakota County with the potential for GMT rates to come down as the GMT lateral line is completed and other customers are added to the lateral.

GMG said it will either file a revised tariff when sufficient market stability is achieved or seek recovery of the GMT charges in the Company's next general rate case as a cost of service item. It said if margins resulting from sales via GMT exceed GMT charges plus the Company's revenue requirements for distribution facilities, cost recovery for the Company should be a reasonable request.

GMG said it remains opposed to the Department's recommendation that a separate PGA be established for customers of the GMT line. It noted that standards for PGAs include monthly PGA filings, an annual natural gas true-up filing, demand entitlement filings, external audits, and reviews of the Company's portfolio and purchasing practices by the Department and Commission staff. A separate PGA would also require separate pipeline, transportation, supply and balancing agreements without the ability to integrate and optimize these resources. It said establishing a separate PGA would eliminate the Company's ability to optimize resources and would impose significant additional cost.

GMG asked the Commission to deny cost recovery at this time without prejudice. It said it will file a new petition for cost recovery or seek recovery in its next general rate case when the market is established and benefits to remaining ratepayers can be better quantified.

GMG said customers along the GMT lateral will receive service under the Company's currently approved rates and tariffs along with access to natural gas service. The PIIC, Xcel Energy and future customers will receive lower cost service because of the added

throughput on the line.

Greater Minnesota Transmission — Clarification letter
GMT provided a table laying out, for each of its three transportation customers, the contracted daily demand volumes and the charges applicable to them. GMT also clarified that the contracts provide for two one-time adjustments, both to be made at the time the lateral pipeline goes into service. The first is an adjustment to the demand charges if the contracted volumes increase due to additional customers. The increase in volumes would serve to reduce the demand charges. The second is an adjustment based on the difference between the estimated and actual costs of the pipeline. The rates can move up or down as much as 5 percent, if the actual cost is higher or lower, respectively.

VI. Staff Discussion

As noted by the Department, the contracts for service on GMT's main and lateral lines at issue here are identical or substantially the same as the other contracts for transportation on these lines with respect to terms, conditions, and pricing. Because of this, staff thinks the Commission could find that these contracts can be approved under the standards for Minnesota intrastate pipelines, Minn. Stat. §216B.045. Further, staff agrees with the Department that GMG's filing is sufficient to conclude that the Agreements can be approved under the Affiliated Interest statute, Minn. Stat. §216B.48.

GMG and the Department disagreed about how the costs of the GMT Agreements should be recovered from GMG's customers. GMG's preferred method was to place them in its existing PGA and recover them from existing customers as well as the new ones that will come on the GMT lateral line. Because this would almost certainly increase costs for existing customers, the Department insisted that GMG establish a new PGA applicable only to the new customers. In the end, GMG said it was not worth the cost of that action, and that it would forego recovery of these costs until the market stabilized. At that time it would either file a new petition for cost recovery or would seek recovery in a general rate case. Thus it would seem there are no remaining issues between GMG and the Department over the Agreements.

Before the Commission approves these Agreements, though, staff thinks there should be some discussion of the risks that are posed to both GMG and GMT.

GMT is set to make a significant investment to construct the lateral line. It believes this investment will be profitable under the terms, conditions, and pricing of the three sets of contracts with the three customers: the PIIC, Xcel Energy, and GMG. To the extent that sales to end-users by these pipeline customers meet or exceed expectations, GMT is probably correct. But it is important to note that the volumes expected from each of these customers are required for this project to be financially viable.

Staff thinks the PIIC component is reasonably secure. The Community seems to have the ability to absorb the high costs of transportation on GMT, and the users will be insulated from those costs. Likewise, Xcel will be purchasing what, for it, is a relatively small amount of

transportation which will not find its way into system gas costs, but will be accounted for as operation and maintenance expense for the Prairie Island generating station. In both of these cases, the likelihood is high that the expected volumes will be required.

For GMG, though, the situation is a little different. The Company will have to find customers along a 23-mile pipeline, and these customers will have to want to purchase sufficient volumes that GMG can pay the high fixed costs imposed by these Agreements. The Company's filing showed that it would be relatively easy for GMG to apply these costs system-wide and by so doing make them seem insignificant. The Department objected to this, and, in staff's view, rightly so. In fairness to existing customers, the incremental costs of service to lateral line customers should be recovered through the incremental revenues they provide.

GMG has said it is willing to forego recovery from ratepayers of these costs until it can show benefits to the system as a whole. Thus, GMG is assuming the risk that it will be able to make sufficient sales along the lateral line. It is obligated to pay the fixed costs outlined in the Agreements for the term of the Agreements whether or not it makes anticipated sales.

To some extent, GMT shares this risk. If GMG should be unable, at some point, to pay the fixed costs of the contracts, GMT would still be obligated to make good on its loan payments. It would not be able to simply raise the transportation price to the two remaining customers, because that price is fixed by contract.

It would be a mistake not to recognize that this project brings benefits as well as risks. In staff's view, certainly the PIIC consumers will benefit greatly from the construction and operation of the lateral line. For the first time, they will have access to natural gas utility service. They will see a considerable savings over their current heating fuel. This is especially the case because the individual consumers will not be responsible for the costs of transportation on GMT's lines – the tribal organization will collectively pay those costs. The benefit is not limited to the price differential, either. Natural gas transmission and distribution through piping networks is safer than the individual storage requirements of propane, and will reduce truck traffic on the Island.

Xcel also will reap benefits. It will avoid the risk of building a transmission system to deliver gas to Prairie Island, but will gain the retail customers there. It will also be able to take advantage of gas availability to upgrade its infrastructure in support of the Prairie Island Generating Station.

The customers who sign up for GMG's distribution service along GMT's lateral line will also benefit – they would not sign up otherwise. If they do so in sufficient numbers, GMG's existing customers will (ultimately) enjoy lower rates through greater sharing of fixed costs. The increased throughput will certainly be welcomed by both GMT and GMG.

Of the three proposed customers – the PIIC, Xcel, and GMG – GMG is the key because the risk is focused here. Both GMG and GMT think the potential benefits outweigh the risks. The Commission's determination must also be based on a weighing of benefits and risks.

Staff notes that GMG has agreed not to request recovery from its ratepayers of the transportation costs through the GMT pipelines at this time. The Commission should be aware that it would not be necessary for GMG to file a rate case to begin collecting these costs. While it will require a separate PGA, the costs can be recovered incrementally. For example, if GMG connects customers with an aggregate design day demand of 40 dekatherms, it could make a demand adjustment filing for 40 dekatherms, and begin collecting revenues for those costs even as it continues to pay for 60 dekatherms without recovery. If, after some time (say a month) passes, it gains more customers, GMG can make a filing to add the demand associated with them. So it need not wait until it has sufficient sales to recover the full demand charges to begin recovering some of them.

VII. Commission Alternatives

A. Find that the proposed Agreements satisfy the statutory requirements for intrastate pipeline contracts under Minn. Stat. § 216B.045 and for affiliated interest agreements under Minn. Stat. § 216B.48. Approve them as filed, with cost recovery for GMG as described in Option A.

B. Find that the proposed Agreements satisfy the statutory requirements for intrastate pipeline contracts under Minn. Stat. § 216B.045 and for affiliated interest agreements under Minn. Stat. § 216B.48. Approve them as filed, with cost recovery for GMG as described in Option B.

C. Find that the proposed Agreements satisfy the statutory requirements for intrastate pipeline contracts under Minn. Stat. § 216B.045 and for affiliated interest agreements under Minn. Stat. § 216B.48. Approve them subject to GMG being required to state in its marketing material that in addition to GMG, other utilities (CenterPoint Energy, Minnesota Energy Resources Corporation, and Xcel) may also be able to provide distribution service to the customers along the proposed lateral pipeline. Require GMG to implement a separate PGA for all new GMG customers along the GMT lateral pipeline.

D. Find that the proposed Agreements satisfy the statutory requirements for intrastate pipeline contracts under Minn. Stat. § 216B.045 and for affiliated interest agreements under Minn. Stat. § 216B.48. Approve them subject to GMG being required to state in its marketing material that in addition to GMG, other utilities (CenterPoint Energy, Minnesota Energy Resources Corporation, and Xcel) may also be able to provide distribution service to the customers along the proposed lateral pipeline. Deny GMG cost recovery from ratepayers for GMT transportation costs at this time, without prejudice.

E. Reject the proposed Agreements.

VIII. Staff recommendation

Staff recommends Alternative D.

GENERAL TERMS AND CONDITIONS

Prior period adjustment time limits will be 6 months from the date of the initial transportation invoice and 7 months from date of initial sales invoice with a 3-month rebuttal period, excluding government-required rate changes. This provision shall not apply in the case of deliberate omission or misrepresentation or mutual mistake of fact. Parties' other statutory or contractual rights shall not otherwise be diminished by this provision. Mutual agreement between parties, legal decisions, and regulatory guidance may be necessary to determine if the event qualifies for an extension of the above time periods.

Should Shipper fail to pay part or all of the amount of any billing for services rendered or for any other charges hereunder, Northern may impose interest at the then effective Refund Interest Rate pursuant to the Commission's Regulations, from the due date until date of payment. If such failure to pay continues, Northern, in addition to any other remedy it may have, may suspend or terminate service hereunder after implementing a notification procedure in accordance with Section 16 of the General Terms and Conditions.

If the invoice is in dispute, Shipper shall pay the portion not in dispute and provide documentation identifying the basis for the dispute, and at any time thereafter within twenty (20) days of a demand made by Northern for the balance furnishes a good and sufficient surety bond in amount and with sureties satisfactory to Northern, conditioned upon the payment of any amounts ultimately found due upon such billing after a final determination, which may be reached either by agreement or judicial or administrative proceeding, as the case may be, then Northern shall not be entitled to suspend or terminate service pursuant to this provision as a result of said dispute unless and until default is made in the conditions of such bond.

9. GROUP BILLING

For the purposes of billing, a Point of Delivery in a specific service agreement may be defined as a group of physical delivery points to the same, or affiliated, LDCs in the Market Area or Argus Zone in the Field Area, including municipally owned/cooperative distribution companies, where such delivery points are located in a single Operational Zone.

For purposes of this Section 9, "Affiliated" LDCs are local distribution companies, including municipalities, (1) which are divisions of the same corporation, (2) have a common parent company which owns 100% of the voting stock of the LDCs (either directly or through another wholly owned subsidiary), (3) wherein one LDC owns 100% of the voting stock of the other company(ies) (either directly or through another wholly owned subsidiary), or (4) which are organized as a gas purchasing authority or similarly-structured group, subject to Northern's reasonable approval.

RATE SCHEDULE TF
Firm Throughput Services

(3) Deletion of Original Primary Delivery Points. If an original primary delivery point is deleted through an amendment, the capacity at that original primary point will not be held for that Shipper.

b) Alternate Firm Delivery Points.

(1) Flexibility. All delivery points on the system will be available for use as alternate firm delivery points (including zone deliveries to a specific customer) within the area provided by the contract and subject to operational conditions. A Shipper may not have delivery point flexibility between the Market Area and the Field Area (or vice versa) unless the Shipper has a combined Field Area/Market Area contract.

(2) Discounts. Any discount granted (reservation or commodity) at the primary delivery point will not be automatically granted at the alternate delivery point.

Northern shall have the right to interrupt or curtail service under this Rate Schedule TF as a result of a force majeure event as defined in Section 10, "Force Majeure" of the GENERAL TERMS AND CONDITIONS of this Tariff, or in accordance with Section 19, "Limitation of Northern's Obligation to Provide Firm Services" of the GENERAL TERMS AND CONDITIONS of the Tariff. Curtailment shall be in accordance with Section 29, "Allocation of Capacity" of the GENERAL TERMS AND CONDITIONS.

3. THROUGHPUT SERVICES OFFERED.

The Throughput Service(s) available under Rate Schedule TF are as follows:

TF12 Base is a Firm Throughput Service available for twelve (12) consecutive months. The TF12 Base MDQ is determined as provided in Section 8 of this Rate Schedule TF.

TF12 Variable is a Firm Throughput Service available for twelve (12) consecutive months. The TF12 Variable MDQ is determined as provided in Section 8 of this Rate Schedule TF.

TF5 is a Firm Throughput Service available during the consecutive months of November, December, January, February and March.

TFF is a Firm Throughput Service available for twelve (12) consecutive months for receipt in the Field Area and delivery to the F/M Demarcation Point.

Although a TF agreement may contain one or more of these services, each service (TF12 Base, TF12 Variable, TF5 and TFF) is distinct for purposes of rates.

4. OVERRUN

Overrun Volumes. Northern agrees to transport volumes in excess of the Total Aggregate MDQ contracted for ("Overrun Volumes") on an interruptible basis for Shipper in accordance with the terms and conditions of this Rate Schedule and the GENERAL TERMS

RATE SCHEDULE TFX
Firm Throughput Service

iii) To the extent that the firm end use customer was not exclusively served by Northern, Northern will provide reduction rights on a pro rata basis to Northern's portion of all the customer's firm requirements if the LDC Shipper receives commensurate relief from all other pipelines.

iv) The firm end use customer has ceased to pay or is expected to cease to pay the LDC Shipper for the firm entitlement used by the LDC to serve the firm end use customer and the LDC submits to Northern a request for reduction.

v) LDC Shipper's request for reduction shall state the requested effective date. LDC Shipper's request shall be accompanied by an affidavit from LDC Shipper setting forth the information supporting Shipper's request and such supporting documents as will allow Northern to evaluate the request and verify that LDC Shipper is eligible for a reduction under this section. Such information shall include the firm entitlement level associated with service to the firm end use customer.

vi) The effective date of the reduction shall be prospective and shall be the later of:

i) the first day of the month following the date of the LDC Shipper’s request,

ii) the date the firm end use customer ceased paying the LDC for the firm entitlement, or

iii) the effective date of the incremental firm service purchased from Northern.

New TFX Agreements

1) TFX Agreements at maximum rates with a term of twelve (12) or more consecutive months of service or for a term of more than one (1) year for service not available for twelve consecutive months and TFX Agreements at discounted rates entered into prior to March 27, 2000, with a term equal to or greater than one (1) year, shall have a guaranteed Right of First Refusal as provided in Section 52 of the GENERAL TERMS AND CONDITIONS of this Tariff. Northern and Shipper may mutually agree to include ROFR rights in other TFX Agreements on a not unduly discriminatory basis.

2) TFX Agreements with a term up to, but not including, twelve (12) consecutive months of service or for one (1) year or less, shall not be eligible for the Right of First Refusal process. The service will be automatically abandoned upon expiration of the term.

5. OVERRUN

Overrun Volumes. Northern agrees to transport volumes in excess of the MDQ contracted for ("Overrun Volumes") on an interruptible basis for Shipper in accordance with the terms and conditions of this Rate Schedule and the GENERAL TERMS AND CONDITIONS of this Tariff, provided that sufficient capacity exists to transport such Overrun Volumes.

Within total MDQ - While staying within its MDQ in the Area contracted for, should Shipper, or its Designee, desire to nominate volumes for transportation a) in excess of the MDQ specified at a point in the Firm Throughput Service Agreement (Primary Point) or b) at any other point on Northern's system, (Alternate Point) such excess volume shall be considered firm volumes for billing purposes and shall be transported if capacity is available and shall be scheduled pursuant to Section 29 of the GENERAL TERMS AND CONDITIONS of this Tariff.

In Excess of total MDQ - Should Shipper, or its Designee, desire to nominate volumes for transportation in excess of its MDQ contracted for, such excess volumes will be interruptible volumes for nomination, scheduling and billing purposes and shall be scheduled for transportation if capacity is available pursuant to the terms and conditions of Rate Schedule TI and shall be scheduled pursuant to Section 29 of the GENERAL TERMS AND CONDITIONS of this Tariff.

In the event Company and Shipper agree to establish a fixed rate to be charged for the duration of the transportation service, such rate will be set forth in the applicable Firm Transportation Agreement.

5.3 Incidental Charges

In addition to the charges pursuant to Subsection 5.2 of this Rate Schedule, Company shall charge Shipper an amount to reimburse Company 100 percent for any filing or similar fees, which have not been previously paid by Shipper, which Company incurs in establishing or rendering service. Company shall not use the amounts so collected (both costs and revenues) in establishing its general system rates.

5.4 Overrun Charge

If Shipper should on any Gas Day take, under this Rate Schedule, a quantity of gas more than the effective quantity applicable to such Shipper established in an Operational Flow Order pursuant to Section 8 of the General Terms and Conditions, then such excess quantity shall constitute an unauthorized overrun quantity.

Shipper shall pay Company an unauthorized overrun charge equal to fifteen dollars ($15.00) for each Dth of excess deliveries to Shipper. The payment of the overrun charge is in addition to any other remedies Company may have against Shipper for Shipper's unauthorized overrun.

If Shipper, upon receiving the advanced approval by Company, should on any Gas Day transport under this Rate Schedule a quantity of natural gas in excess of Shipper's TQ under Shipper's Firm Transportation Agreement, then such excess quantity shall constitute authorized overrun quantities.

Shipper shall nominate authorized overrun quantities through Company's System. Authorized overrun quantities shall be requested on a separate transaction. [1.3.19]

Shipper shall pay Company a rate equal to the volumetric derivative of the maximum transportation charge applicable to the service under its Firm Transportation Agreement pursuant to this Rate Schedule designed on a 100 percent load factor basis multiplied by the amount of the authorized overrun quantity, unless the parties mutually agree otherwise.

6. FUEL AND LOSSES

Shipper shall furnish the quantity of gas required for fuel and losses associated with rendering transportation service pursuant to this Rate Schedule in accordance with Section 26 of the General Terms and Conditions.

7. MONTHLY BILL

The Monthly Bill for deliveries shall be equal to:

(a) Reservation Charge

A reservation rate or rates determined under Section 5 of this Rate Schedule multiplied by the TQ applicable to the month as specified in the Firm Transportation Agreement; and

EXHIBIT E