MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	January 31, 2019		Agenda Item *5
Company	All Commission-Regulated Natural Gas Utilities		
Docket No.	**G-999/AA-17-493, et al (please see attached list)**		
	In the Matter of the Review of the 2016-2017 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment (PGA) True-up Filings		
Issues	Should the Commission accept the natural gas utilities' 2016-2017 annual automatic adjustment reports and 2016-2017 annual true-up filings?		
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✓ **Relevant Documents**	**Date**
Department – Review of the 2016-2017 AAA Reports	December 4, 2018
CenterPoint Energy – Reply Comments	December 12, 2018
Minnesota Energy Resources Corporation – Reply Comments (TS)	December 12, 2018
Great Plains Natural Gas Co. – Reply Comments	December 12, 2018
Greater Minnesota Gas, Inc. – Letter	December 13, 2018
Department – Response Letter	December 21, 2018

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I. Statement of the Issues

Should the Commission accept the natural gas utilities' 2016-2017 annual automatic adjustment reports and 2016-2017 annual true-up filings?

II. Introduction

Every year the natural gas utilities file by September 1 annual automatic adjustment reports and annual purchased gas adjustment true-up filings for the preceding July 1 through June 30 fiscal gas year. Each year, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) performs an extensive review of the utilities' filings. In the current dockets, the natural gas utilities incurred and recovered total purchased gas costs during the 2016-2017 fiscal gas year of approximately $862 million and $836 million, respectively. There are no issues in dispute.

III. Background

Automatic rate adjustments are covered under Minnesota Rules parts 7825.2390 through 7825.2920. Every year the Commission reviews the automatic adjustment of charges reported in the natural gas and electric utilities' annual automatic adjustment (AAA) reports and the natural gas utilities' annual true-up filings. The Commission's review is closely tied to the Department's review of these filings. The electric utilities' 2016-2017 AAA reports were reviewed and addressed in Docket No. E-999/AA-17-492.

On or before September 1, 2017, the following gas utilities submitted AAA reports in this docket (Docket No. G-999/AA-17-493) and true-up filings (true-ups) in the dockets indicated below:

Greater Minnesota Gas, Inc. (GMG)	G-022/AA-17-630
Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains)	G-004/AA-17-650
Minnesota Energy Resources Corporation- (MERC-Albert Lea PGA)	G-011/AA-17-654
Minnesota Energy Resources Corporation-(MERC-Consolidated PGA)	G-011/AA-17-655
Minnesota Energy Resources Corporation-(MERC-NNG PGA)	G-011/AA-17-656
CenterPoint Energy (CenterPoint Energy or CPE)	G-008/AA-17-668
Northern States Power Company, d/b/a Xcel Energy (Xcel Gas)	G-002/AA-17-657

Each year, the Department prepares a comprehensive review and analysis of the utilities' annual reports and provides comment on other topics that it believes are important. On December 4, 2018, the Department submitted its REVIEW OF THE 2016-2017 ANNUAL AUTOMATIC ADJUSTMENT REPORTS (Review). In its Review, the Department recommended the Commission accept the fiscal-year ending on June 30, 2017 (FYE17) annual reports as filed by the gas utilities as being complete as to Minnesota Rules, parts 7825.2390 through 7825.2920. The Department also recommended the Commission accept the annual true-up filings of all of the natural gas utilities: GMG, Great Plains, MERC, CenterPoint Energy, and Xcel Gas. However, the Department requested that in reply comments (1) GMG provide a discussion about whether and how the underlying issues that led to negative lost and unaccounted for gas in the FYE16 reporting period have been fully resolved, and (2) MERC provide a discussion of the treatment of its gas losses due to damages for each PGA system. The Department also requested that MERC provide totals for Schedule Q, Third Party Damage in future AAA reports.

The Department also provided comments on the gas utilities' 2016-2017 gas costs, peak-day demand profiles and pipeline transportation sources, capacity releases, annual auditor reports, lost-and-unaccounted for gas, contractor main strikes and meter testing, purchasing and hedging practices, as well as other topics.

On December 12, 2018, CenterPoint Energy, MERC, and Great Plains submitted reply comments.

On December 13, 2018, GMG submitted a letter in lieu of filing reply comments.

On December 21, 2018, the Department submitted response comments (Department Response). The Department Response addresses GMG's and MERC's reply comments.

IV. Department Review

The Department's Review stated:

> In FYE17, natural gas prices were higher than prices during FYE16. Despite the warmer-than-normal winter, prices increased during the reporting period. Several factors seemed to be at play in explaining why prices increased. One, while the weather in Minnesota was warmer-than-normal, it was slightly colder than the 2015-2016 heating season, which would put slight upward pressure on gas prices. Two, storage at the end of the 2015-2016 heating season was at a ten-year high,[1] which helped push 2015-2016 natural gas prices to levels lower than the 2011-2012 heating season when natural gas prices fell below $2.00 for the first time since the late 1990s. Prices during 2015-2016 fiscal year were so significantly depressed, that it would have been hard for prices to be any lower, despite warmer-than-normal temperatures. Three, with the depressed prices in 2015-2016, production fell, putting upward pressure on prices.
>
> The Henry Hub price[2] in 2015-2016 ranged between $1.73 and $2.84. In 2016-2017, the Henry Hub price began the reporting period at $2.82 per Mcf in July 2016 and ended the reporting period around $2.98 per Mcf in June 2017, but during the year pricing ranged from the low of $2.55 per Mcf in November 2016 to the high of $3.59 in December 2016.

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[1] EIA Natural Gas Weekly Update, April 13, 2017, https:/www.eia.gov/naturalgas/weekly/archivenew_ngwu/2017/04_13/.

[2] The Henry Hub is a distribution hub on the natural gas pipeline system that serves as the official delivery location for futures contracts on the New York Mercantile Exchange (NYMEX).

> With the prevalence of shale gas, natural gas production has become more diversified and less reliant on any single basin or area of production. The industry still has concentration in the Gulf of Mexico, making hurricanes an ongoing concern of market interruption. During FYE17 there were no major interruptions from hurricanes, and the FYE17 annual temperatures were warmer than normal. The storage inventory level reached historic heights at the start of the heating season, as injections were above average due to increasing production and mild weather resulting in lower demand. . .[3]

A. FYE17 AAA Reports and True-up Filings

Gas costs are a significant portion of most customers' bills. The Department found that the gas utilities incurred approximately $862 million in natural gas commodity, transportation, storage and related purchased gas costs for the fiscal year ended June 30, 2017. This represents an increase in gas costs of approximately $131 million, or approximately 18 percent from the level in FYE16. The gas utilities recovered approximately $836 million in natural gas costs in base rates and the monthly purchased gas adjustment (PGA). The PGA system over- and under-recoveries during FYE17 ranged from a 1.41 percent over-recovery for MERC-Consolidated (CON) to an under-recovery of 4.48 percent for Great Plains South.

The following table (Table G1) was copied from page 5 of the Department's Review:

[3] Department Review at pages ii through iii.

Table G1: Summary of Gas Utilities' Annual Demand & Commodity Cost Recovery

July 1, 2016 - June 30, 2017

Utility/System	Gas Cost Recovered ($)	Incurred Cost of Gas ($)	Over(Under) Recovery ($)	Over(Under) Recovery (%)
Greater Minnesota	$4,928,225	$4,973,368	$(45,143)	(0.91%)
Great Plains				
North	$6,665,556	$6,733,071	$(67,515)	(1.00%)
South	$6,897,930	$7,221,097	$(323,167)	(4.48%)
MERC				
CON	$20,758,169	$20,469,420	$288,749	1.41%
NNG	$96,478,038	$99,436,069	$(2,958,031)	(2.97%)
AL	$6,228,484	$6,518,764	$(290,280)	(4.45%)
CenterPoint Energy	$446,861,558	$465,329,533	$ (18,467,975)	(3.97%)
Xcel Gas	$247,339,673	$251,669,495	$(4,329,822)	(1.72%)
MN TOTAL	**$836,157,633**	**$862,350,817**	**$(26,193,184)**	**(3.04%)**

[Footnotes omitted.]

In footnote 7 of its Review, the Department stated that the information for Table G1 can be found in each of the utilities' true-ups, which have been included as Department Attachments G5 through G11.

In footnote 8 of its Review, the Department stated, "Except for CenterPoint Energy, the recovery in Table G1 includes credits or revenues related to gas costs. CenterPoint Energy's revenues related to annual credits [for curtailments, balancing, off-system sales, and losses collected for damages] were $1,193,119 in FYE17. As shown on DOC Attachment G10, CenterPoint Energy's under-recovery including these revenues was $17,274,859, or approximately 3.71 percent."

The Department recommended that the Commission accept each of the utilities' FYE17 true-up filings in the individual true-up dockets, and allow each of the utilities to implement its FYE17 true-up(s)[4] as shown in DOC Attachments G5 through G11 of the Department's Review.

[4] With the exception of MERC-Albert Lea, because it is included in MERC-NNG's true-up.

B. Comparison between Minnesota Local Distribution Companies (LDCs)

The Department's Review provides cost and operating data for all of the rate regulated natural gas local distribution companies. (Please see pages 44 through 76 of the Department's Review.)

One comparison ranks the companies according to the annual usage of an average residential customer and the size of the annual bill for an average residential customer.

The following table (Table G15) was copied from page 46 of the Department's Review.

Table G15: Average Annual Residential Bill and Average Use per [Customer by] Utility for the FYE17 Reporting Period

Utility	System	Average Usage Rankings	Average Use (Mcf)	Annual Bill Rankings	Total Annual Bill ($)	Average Cost per Mcf ($)	Annual Customer Charges ($)
Greater Minnesota		**1**	66.0	**8**	$704.72	$10.68	$102.00
Great Plains	North	**3**	71.7	**2**	$575.91	$8.03	$84.00
	South	**2**	66.2	**1**	$492.93	$7.45	$84.00
MERC	CON	**5**	78.1	**3**	$601.16	$7.70	$130.94
	NNG	**4**	77.3	**7**	$699.43	$9.05	$121.60
	AL	**6**	78.2	**5**	$626.98	$8.02	$73.00
CenterPoint Energy		**8**	81.0	**6**	$628.60	$7.76	$166.70
Xcel Gas		**7**	80.0	**4**	$616.07	$7.70	$108.00

[Footnotes omitted.]

Similar to the last four years, residential customers of GMG had the highest average annual bill and customers of Great Plains' South District had the lowest. MERC NNG customers received the second highest average annual bills and Great Plains North district customers had the second lowest average annual bills. Many factors contributed to the size of these average annual residential bills. The amount of gas used by an average residential customer is one factor which is effected by weather, housing conditions and other variables. A second factor would be the company's cost of gas, and a third would be the non-gas rates the company is allowed to charge. There are a number of other contributing factors such as load factor, mix of firm and interruptible customers, number of available pipeline systems, weather, access to storage, and provisions of pipeline service as approved by the FERC. See page 47 of the Department's Review.

As can be seen in the following table, GMG's system had the highest average purchased gas cost and MERC's Consolidated (CON) system had the lowest average purchased gas cost.

The following table (Table G17) was copied from page 50 of the Department's Review with the footnote renumbered from 115 to 5).

Table G17: FYE17
Total System Gas Costs (Demand and Commodity)[5]

Utility	PGA Recovered ($/Dth)	Rank	Current-Period Actual incurred Gas Cost ($/Dth)	Rank	Actual Over/(Under) ($/Dth)	Percentage Over/(Under) Recovery
Greater Minnesota	$ 4.3253	**8**	$ 4.3650	**8**	$ (0.0396)	(0.91%)
Great Plains						
North	$ 4.1832	**6**	$ 4.2256	**4**	$ (0.0424)	(1.00%)
South	$ 4.0649	**4**	$ 4.2553	**5**	$ (0.1904)	(4.48%)
MERC						
CON	$ 3.7908	**1**	$ 3.7380	**1**	$ 0.0527	1.41%
NNG	$ 4.1996	**7**	$ 4.3283	**7**	$ (0.1288)	(2.97%)
AL	$ 4.0917	**5**	$ 4.2824	**6**	$ (0.1907)	(4.45%)
CenterPoint Energy	$ 3.9517	**3**	$ 4.1150	**3**	$ (0.1633)	(3.97%)
Xcel Gas	$ 3.8395	**2**	$ 3.9067	**2**	$ (0.0672)	(1.72%)
MN Weighted Avg.	**$ 3.9460**		**$ 4.0696**		**$(0.1236)**	**(3.04%)**
MN Non-Weighted Avg.	**$ 4.0558**		**$ 4.1520**		**$(0.0962)**	**(2.32%)**

C. Department Review of LDC Gas Purchasing Practices

In its August 11, 2014 Order, Docket No. G-999/AA-13-600, et al, the Commission requested that the Department include a review of gas purchasing practices in its review of future annual automatic adjustment reports.[6] The Department provided its analysis at pages 70 through 72 of its Review.

The Department explained that it analyzes gas procurement in various ways throughout the year, for example:

- review of the utilities' PGAs and filing of subsequent reports;

[5] The numbers reported in Table G17 are from the true-up filing submitted by each utility. The numbers and the detailed calculations used are contained in Department Attachments G12, G12a, and G16 through G18.

[6] August 11, 2014 ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-13-600 et al, at Order Point 3.

- individual meetings with utilities regarding their respective procurement plans for the upcoming year; and
- annual winter pricing recap presentations by the utilities for the Commission.

The Department stated that each utility has unique purchasing practices based on resources available.[7]

> The Department notes that purchasing practices differ between utilities based on resources available. CenterPoint Energy, MERC, and Xcel Gas use hedging. Great Plains North does not have access to storage, and GMG procures storage only for balancing purposes. Utilities that have peak shaving facilities are CenterPoint Energy and Xcel Gas. GMG uses outside sources to assist in managing its gas resource portfolio. Thus, each gas supply portfolio is unique to the utility.
>
> In addition, gas utilities have various ways to purchase natural gas. For example, the largest share of all natural gas purchases, across all utilities, comes from monthly index-priced gas. Other types of purchases include daily spot-priced gas, daily index-priced gas, or fixed price gas.
>
> [footnotes omitted]

The Department also looked at the non-weighted average FYE17 per-unit storage cost of gas for the individual utilities and the percentage of storage used, or withdrawn, during FYE17 compared to the utility's total winter gas portfolio. The results are shown below in Table G31, copied from page 71 of the Department's Review.

[7] Department Report, Filed December 4, 2018, Page 70

Table G31[175]: FYE17
Actual Per-Unit Storage Cost and Percentage of Storage

Utility/System	Storage Costs ($/Mcf)	Percent of Winter Portfolio Comprised of Storage (%)
Greater Minnesota	$2.75	17.80%
Great Plains		
North[176]	$0.00	0.00%
South	$2.57	22.16%
MERC		
Consolidated	$1.47	20.49%
NNG	$2.25	40.87%
AL	$2.72	30.48%
CenterPoint Energy	$2.64	34.54%
Xcel Gas	$2.58	33.67%
MN Weighted Avg.	**$2.55**	
MN Non-Weighted Avg.	**$2.43**	

(175) The storage costs listed in this table relate to total storage costs for the entire reporting period, while the portfolio percentages relate solely to those used during the five-month heating season.

The Department did not challenge the prudence of any of the natural gas utilities' purchasing practices.

D. Minnesota Gas Utilities' Hedging Practices

Three Minnesota LDCs have received Commission approval to recover the costs of financial hedging through the purchased gas adjustment, CenterPoint Energy, MERC and Xcel Gas. In Docket No. G-999/AA-10-885, the Commission's April 3, 2012 Order required that in future initial Annual Automatic Adjustment reports, all regulated gas utilities must provide additional information on the embedded cost/benefit associated with physical hedges (non-storage price protections) used in the procurement of gas supplies.

In its August 11, 2014 Order, Docket No. G-999/AA-13-600, et al, the Commission requested the Department to include a review of gas cost hedging practices in its review of future annual automatic adjustment reports.[8] At pages 72 through 76 of its Review, the Department provided its review of Minnesota gas utilities' hedging practices and evaluated expectations against actual performance.

[8] August 11, 2014 ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-13-600, et al, at Order Point 3.

Additionally, at its February 4, 2016 Commission Agenda meeting regarding CenterPoint Energy's hedging variance filing in Docket No. G-008/M-15-912, the Commission expressed interest in taking a closer look at utility hedging practices given the current state of the natural gas market. On June 28, 2016, the Commission held a Planning Meeting to discuss hedging. A presentation was provided by the utilities that participate in hedging (CenterPoint, MERC, and Xcel).[9]

The Department stated:[10]

> Weather and various supply issues play a significant role in the commodity price of natural gas, especially during the heating season of November through March. As previously discussed in Section 1.C. *Natural Gas Prices and Weather*, the 2016-2017 heating season was warmer than normal. Further, the natural gas prices remained relatively stable during the reporting period. In FYE17, the gas storage inventory level that was above the five-year *high* from July until December 2016, when the storage level dropped nearer to the the [sic] five-year *average* through June 2017.
>
> Based on the 2016-2017 heating season, the Department expected that CPE, MERC, and Xcel Gas would experience losses on the hedge portion of their purchase portfolios.

The Department reviewed the performance of MERC's, CenterPoint Energy's and Xcel Gas's hedging programs against the expectation that they would experience losses on the hedge portion of their purchase portfolios.

According to the Department's Review, each of the three utilities experienced losses due to hedging during FYE17. The Department concluded that the utilities' hedging programs performed as expected. Specifically:

- In FYE17, MERC's hedging portfolio provided gas at a slightly higher cost than if it did not hedge, which is consistent with expectations. Hedges reduce volatility in gas prices but do so for a fee. Since there were no external factors that caused prices to spike, this outcome is to be expected. The Department concluded that MERC accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

- According to CenterPoint Energy, hedged gas purchases added approximately $7.2 million (or $0.1508 per dekatherm) to CenterPoint Energy's customers' costs during the winter period when compared to buying gas at actual First of Month index pricing. CenterPoint Energy's hedges provided a financial loss in FYE17 due to the lower prices experienced in the winter months; again, since there was no external factor causing

[9] Department Review at page 72.

[10] Id at page 79.

prices to spike, this outcome is to be expected. The Department concluded that CenterPoint Energy accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

- Xcel Gas' hedges provided a financial loss of approximately $1.1 million in FYE17 due to the lower prices experienced in the winter months, which is to be expected as noted above. The Department concluded that Xcel Gas accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

With respect to each of the three utilities experiencing losses due to hedging, the Department stated:[11]

> While this is an overall cost to ratepayers given the lack of an adverse event during this time period, ratepayers had protection in place in case such an event occurred. Moreover, the Department observes that the natural gas purchases covered by hedges were only a portion of the total winter requirements purchased. The ultimate goal of hedging is to reduce price volatility on a percentage of the utilities' purchase portfolios, not to speculate or make money on commodity prices.

The Department recommended that each utility that hedges (including physical and financial) continue to provide a post-mortem analysis, in a format similar to what was provided in this docket, in subsequent AAA filings.

E. Lost-and-Unaccounted For Gas (LUF)

The Department developed a comparison of LUF gas by utility using the formula[12] from the U. S. Department of Transportation, Pipeline and Hazardous Material Safety Administration's Form 7100.1-1 to calculate the LUF percentages.

The following table (Table G29) presents the Department's summary of LUF gas percentages for the period July 1, 2016 to June 30, 2017 for Minnesota jurisdictional volumes and is copied from page 67 of the Department's Review. The footnote number in the Table G29 has been changed from 162 to 13.

[11] Department Review at 76.

[12] The formula is as follows: [(purchased gas + produced gas) minus (customer use + utility use + appropriate adjustments)] divided by (purchased gas + produced gas) equals percent LUF.

Table G29:[13] FYE17
Lost-and-Unaccounted-For Gas

Utility/System	Revenue as a Percent of Total Gas Costs (%)
Greater Minnesota	(0.01)%
Great Plains	
North	1.45%
South	1.13%
MERC	
Consolidated	(1.36)%
NNG	(2.43)%
Albert Lea	2.84%
CenterPoint Energy	1.89%
Xcel Gas	2.52%
MN Weighted Avg.	**1.60%**

As shown in the table above, the LUF gas ranged from a negative 2.43 percent for MERC-NNG to a positive 2.84 percent for MERC-Albert Lea.

1. MERC

A negative LUF number means that a utility, in effect, found gas. The MERC-NNG system reported negative lost gas during the reporting period, as it did during the prior two reporting periods and as the former MERC-PNG and MERC-NMU did during reporting periods prior to that. MERC-Consolidated also reported negative LUF during the reporting period. MERC's Albert Lea system (which is on the NNG pipeline) had the highest percentage of LUF.[14]

As stated by the Department, MERC has had a long, and well-documented, history of negative LUF. While it may not be highly unusual for a utility to occasionally report negative LUF, it is unusual for a utility to consistently and continuously report negative LUF.

MERC has previously investigated its negative LUF and while it has found some errors contributing to it in the past, MERC stated at the April 26, 2018 Commission meeting on the FYE16 AAA Reports that it has not found anything that was consistently pointing to billing errors, metering errors, or purchased gas accounting methodologies. MERC further stated, perhaps it has something to do with Farm Tap usage. As they dig into the Farm Tap project, those meters and systems, it could be related to that.[15]

[13] See Attachment G19 of the Department's Review for detailed calculations.

[14] This is the last year of having a separate MERC-Albert Lea system as it has been fully integrated into the NNG PGA system for FYE18.

[15] April 26, 2018 Agenda Meeting webcast beginning at 49:37

Since FYE14 when MERC was investigating its negative LUF and found some errors, MERC has had the following annual LUF percentages:

	FYE15	FYE16	FYE17
MERC-Consolidated	5.37%	0.25%	(1.36%)
MERC-NNG	(0.78%)	(1.46%)	(2.43%)
MERC[16]-Albert Lea	0.13%[16]	1.78%	2.84%

Staff notes the negative LUF trend for NNG has continued through FYE17. Despite selling more gas than it purchased for the NNG system in FYE17, MERC under-recovered its commodity costs by $2,088,946, or approximately 2.63%.

The Commission may wish to consider requiring MERC to submit a plan within 30 days of the Commission's Order in this docket, for investigating its LUF, with a report on the results of the investigation due with its FYE19 AAA report to be filed by September 3, 2019.

2. GMG

GMG reported negative LUF of 1.31 percent in its FYE16 AAA Report. In FYE16, GMG explained that the negative LUF was attributable to two main circumstances: an increase in estimated meter reads at GMG's many poultry farm customers at the height of the avian flu quarantine procedures during 2015, and incorrect interstate pipeline metering in GMG's St. Clair service area.

This year, FYE17, GMG reported negative LUF of 0.01 percent. The Department stated that the FYE16 issues seem largely resolved in light of the significant decrease in negative LUF, but the Department requested that GMG provide a follow-up discussion in its *Reply Comments* about whether and how those issues have been fully resolved.

In its December 13, 2018, letter of reply, GMG stated:

> GMG has resolved the underlying factors that resulted in the 2016 negative LUF. Automatic meter reading technology has been installed at all of the poultry operations that GMG serves so that meters can be read remotely without the need to enter a biohazard zone. Any future occurrence of a negative LUF will be either due to the slight fluctuations in the level of unbilled sales existing on June 30 each year or new factors that currently do not exist.

3. Xcel Gas

Other than MERC-Albert Lea, Xcel Gas once again has the highest LUF. During the April 26, 2018 Commission meeting regarding the natural gas utilities' FYE16 AAA Reports, the

[16] FYE15 includes a combination of MERC-Albert Lea and Interstate Gas.

Commission asked Xcel Gas to provide an explanation of what is going on with the lost gas on its system and what actions they are taking regarding it. Xcel responded that it was bringing a group together to understand why they have more LUF than the other utilities. Xcel agreed that the Commission could except to see in its next filed report some more detailed analysis and explanation and a description of actions Xcel has taken to address this issue.

Staff notes that at the time of the April 26, 2018 Commission meeting the FYE17 reports addressed in these briefing papers had already been filed and were under review. Xcel's gas AAA report filed subsequent to the April 26, 2018 Commission meeting was the FYE18 report filed on August 31, 2018. In its FYE18 report, Xcel Gas identified five items to note as part of the unaccounted for gas volumes, with one being an allocation issue between Xcel's LDC and the electric utility regarding gas volumes used at the High Bridge plant. The FYE18 reports are currently undergoing review by the Department and will be brought before the Commission at a later date. Hopefully, the Department will address Xcel Gas' LUF gas in the Department's review of the FYE18 reports.

Xcel Gas reported the following LUF percentages over the last three fiscal years:

2014-15	2.46%
2015-16	2.72%
2016-17	2.52%

The Department concluded that the FYE17 LUF percentages are reasonable.

F. Reporting of Contractor Main Strikes and Meter Testing

In its October 11, 2012, *Order Accepting Progress Reports and Meter Testing Plans* in Docket No. G-999/AA-10-885, the Commission required all gas utility companies to file, as part of their annual AAA reports, a schedule reflecting the contractor main strikes during the corresponding annual period billings to at-fault contractors. The Commission required that the schedules reflect the date, party involved, repair cost amount, and gas lost amount for each incident. The Commission also required the utilities to file any updates regarding meter testing within an annual period in their AAA reports starting in 2012.

1. Contractor Main Strikes Reports

The Department reviewed the AAA reports and determined that all gas utilities filed the required information as it related to contractor main strikes.[17] However, the Department asked MERC for additional information:[18]

> In its FYE14 AAA Report, the Department stated that the reports would be more meaningful if the total gas cost charged for main strikes during the period reconciled to the amount in the true up and also if the reports provide the allocation of the gas costs credited to each class in its true up.
>
> The Department requests that MERC provide in its *Reply Comments* a discussion of the treatment of its gas losses due to damages for each PGA system. Additionally, in future AAA Reports, the Department requests that MERC provide totals for Schedule Q.
>
> Otherwise, all of the utilities totaled the gas cost charged for main strikes and indicated how the contractor main strike revenue was treated in the FYE17 true up, therefore complying with the requirement.

In its December 12, 2018, *Reply Comments*, MERC explained "that in instances where gas losses occur due to damage, MERC bills lost gas charges to the party responsible for damages. Any revenue collected from those third parties are netted against the commodity cost, thereby reducing the overall gas costs for the AAA period." MERC stated that:[19]

> For the 2016-2017 gas year, the following amounts were credited to the commodity costs:

PGA	$ Amount Credited to Commodity
NNG	$9,533.45
Albert Lea	$1,943.67
Consolidated	$2,853.85

> Second, with respect to Schedule Q, MERC is including revised Schedules Q with the total gas losses and amounts billed summed as attachments to this filing. MERC will ensure that Schedule Q includes totals for future AAA filings.

2. Meter Testing Updates

The Department also reviewed the AAA reports and determined that all of the gas utilities filed the required information as it relates to meter testing updates. The Department provides a short summary at pages 68-69 of its filing.

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[17] See GMG's AAA Report, page 5, Great Plains' AAA Report, Exhibit D, MERC's AAA Reports, Schedule Q, CenterPoint Energy's AAA Report, Exhibit 9 and Xcel Gas' AAA Report, Attachment G, Schedule 7.
[18] Department Review at page 68.

[19] MERC's December 12, 2018 *Reply Comments* at page 2.

G. Penalties collected for Non-Compliance with Curtailment Orders/Use of Unauthorized Gas

During the review of the 2013-2014 AAA Reports, "the Department raised certain questions regarding the effectiveness of imposing curtailment penalties to curb the unauthorized consumption of gas by interruptible customers after a utility has alerted them to a gas curtailment period."[20]

In its August 24, 2015 ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-14-580, the Commission required all Minnesota regulated natural gas utilities to provide, for the next three AAA reports (2014-2015, 2015-2016, and 2016-2017), the following information on unauthorized gas use for each customer that did not comply with a called interruption during the heating season:

A. The volume of gas consumed by the non-compliant customer during the curtailment period.

B. The specific commodity rate charged for the unauthorized gas used and how that rate is determined.

C. The financial penalty, if any, assessed by the company to the customer, including calculations in determining the penalty or penalties.

D. A discussion about utility communication with each customer regarding non-compliance with interruptions (excluding invoices).

According to the Department's Review, all of the utilities complied with the reporting requirements.

GMG reported that it did not have any non-compliant interruptible customers that engaged in unauthorized use during a curtailment period.[21]

For Great Plains, the Department stated that:[22]

> In its Exhibit F, Great Plains explained that it had five curtailment periods during the 2016-2017 heating season and all eleven customers that were requested to curtail gas usage complied with the request. One customer however, ignored instructions to not run their grain dryer on March 14-15, 2017. That customer used

[20] August 24, 2015 ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G999/AA-14-580, at page 7.

[21] GMG's AAA Report, page 5.

[22] Department Review, page 21.

> over 300 dekatherms of unauthorized gas, resulting in a penalty of over $15,000 that was credited back to ratepayers.[23]

For MERC, the Department stated:[24]

> On pages 8-10 of MERC-NNG's AAA Report, MERC stated that there were two curtailments called and twelve occurrences of unauthorized gas use by MERC-NNG customers during the time period. MERC reported the required information for those customers and stated that MERC had discussions with each to ensure the curtailment process was understood. MERC also stated, "Of the 12 customers who continued to burn natural gas: several had technical difficulty with ramping down systems at the start of the curtailment; several had technical difficulty with their backup systems; and a few conveyed that they never intended to curtail if called, but have opted to pay the curtailment penalty assessed for unauthorized usage."[25]

For CenterPoint Energy, the Department stated:[26]

> On pages 19-21 of its AAA Report, CenterPoint Energy stated that "[t]he Company had 47,818 therms of unauthorized gas billed in the 2016-2017 gas year." Regarding the utility's communication with each customer on the noncompliance with interruptions, CenterPoint Energy stated:
>
>> To follow-up with customers who used unauthorized gas in December 2016 and January 2017, Company representatives contacted each customer to discuss the incidents and emphasize the importance of complying with curtailment orders. Company representatives worked with these customers to ensure they had plans that would allow them to reliably curtail their usage in the future.
>>
>> Equipment failure was the most frequently cited reason for customers' inability to discontinue gas use. In those cases, customers made repair calls and maintenance requests to rectify the situations. In about ten percent of the follow up contacts, the Company learned that it had incorrect customer contact

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[23] The Department contacted Great Plains on November 21, 2018 to verify that the penalty was indeed flowed back to ratepayers. The credit was posted in March of 2018, so it is included in the overall gas cost incurred and not shown separately in the true-up.

[24] Department Review, page 29.

[25] In the Order from Docket No. G999/AA-14-580, The Commission required MERC in its next rate case to raise the Company's curtailment penalty from $20 to $50 per dekatherm. MERC did so in Docket No. G011/GR-15-736. The Commission's Order in Docket 15-736 was issued on October 31, 2016, therefore the increased penalty of $5 per therm was first reflected in MERC's filing in Docket No. G999/AA-18-374.

[26] Department Review, pages 36-37.

> information, and those records were corrected. About a fourth of those who used unauthorized gas did curtail at least some or most of their use of natural gas, but either did so later than required, or some equipment behind the meter continued to draw small amounts of gas. Follow-up included emphasizing the one-hour response window, customers tracing equipment, and changing rate classes. The Company learned that about 10% of those contacted no longer had working backup systems and were unable to curtail. In those cases, follow-up is required to see how CNP may be able to meet the customers' changed service needs.
>
> In early September, the Company will be sending its annual Curtailment Contact Information form to all interruptible customers, where it asks customers to update their curtailment contact information and also emphasizes the importance of interruptible customers being able to curtail their gas usage when called upon. In addition, the Energy Sales Department will be conducting seasonal energy management seminars to provide further education on customers' dual fuel service obligations.

For Xcel Gas, the Department stated:[27]

> Xcel Gas provided information on this requirement in its Attachment G, pages 11-12, and in Attachment G, Schedule 8 of its AAA Report. In Attachment G, Schedule 8, Xcel Gas reported 1,261 therms of unauthorized gas billed in the 2016-2017 gas year. Xcel Gas also detailed its communication procedures to avoid or address unauthorized use.

Staff Comment

As noted above, the Commission's August 24, 2015 Order required utilities to provide additional information on curtailment non-compliance for the AAA reports covering 2014-2015, 2015-2016, and 2016-2017.

The Commission may wish to consider extending this requirement for one or more additional years. Specifically, MERC stated that a "few [customers] conveyed that they never intended to curtail if called, but have opted to pay the curtailment penalty assessed for unauthorized usage." The intent of interruptible gas service contracts is to provide the utility with operational tools to manage load during peak times, not for individual customers to utilize a lower rate as a risk/reward budgeting tool. Additionally, CenterPoint identified customers that were unable to switch to alternate fuel due to equipment malfunction. Although the utilities appear to be making positive and prudent efforts to ensure compliance, the Commission may wish to continue receiving information about unauthorized use of gas to ensure that interruptible rates are being used for their intended purpose. That is, to get customers who agree to be

[27] Id, page 43.

interrupted (curtailed) during periods of high demand in exchange for a lower rate, to do so when asked.

GMG, MERC, Great Plains, CenterPoint, and Xcel have all filed AAA reports in Docket 18-374. A requirement to provide information on curtailment non-compliance would likely result in each utility being required to make a supplemental filing in that docket. The Department has already received an extension for its report and the deadline for the Department to file its report on gas utilities' 2017-2018 AAA reports and annual PGA true-up filings is March 26, 2019.

V. Decision Options

All Commission Regulated Natural Gas Utilities

1. Accept the FYE17 annual reports as filed by the gas utilities as being complete as to Minnesota Rules 7825.2390 through 7825.2920. (See staff briefing papers, pp. 1-2.)

2. Require each utility to provide, for the next AAA report (2017-2018) the following information on unauthorized gas use for each customer that did not comply with a called interruption during the heating season.

    a. The volume of gas consumed by the non-compliant customer during the curtailment period.
    b. The specific commodity rate charged for the unauthorized gas used and how that rate is determined.
    c. The financial penalty, if any, assessed by the company to the customer, including calculations in determining the penalty or penalties.
    d. A discussion about utility communication with each customer regarding non-compliance with interruptions (excluding invoices).

3. Require each utility that hedges (including physical and financial) to continue to provide a post-mortem analysis, in a format similar to what was provided in this docket, in subsequent AAA filings. (See staff briefing papers, p. 9-11)

Greater Minnesota Gas (GMG)

4. Accept GMG's FYE17 true-up as filed in Docket No. G-022/AA-17-630; and

5. Allow GMG to implement its true-ups, as shown in Department Attachment G5 of the Department's December 4, 2018, *Review of the 2016-2017 Annual Automatic Adjustment Reports* (Department's Review).

Great Plains

6. Accept Great Plains' FYE17 true-ups, Docket No. G-004/AA-17-650; and

7. Allow Great Plains to implement its true-ups, as shown in Department Attachments G6a and G6b of the Department's Review.

MERC

8. Accept MERC-NNG's FYE17 true-up filing in Docket No. G-011/AA-17-656; and

9. Allow MERC-NNG to implement its true-up, as shown in Department Attachment G8 of the Department's Review;

10. Accept MERC-CON's FYE17 true-up filing in Docket No. G-011/AA-17-655; and

11. Allow MERC-Consolidated to implement its true-up, as shown in Department Attachment G9 of the Department's Review;

12. Accept MERC-AL's FYE17 true-up filing in Docket No. G-011/AA-17-654 as informational; and

13. Require MERC to provide totals for Schedule Q, Third Party Damage, in future AAA Reports.

14. Require MERC to submit, within 30 days of the Commission's Order, a compliance filing outlining a plan to investigate its LUF: and

15. Require MERC to file a report on the results of its LUF investigation with its FYE19 Annual Automatic Adjustment Report on, or before September 3, 2019.

CenterPoint Energy

16. Accept CenterPoint Energy's FYE17 true up, Docket No. G008/AA-17-668; and

17. Allow CenterPoint Energy to implement its true up, as shown in Department Attachment G10 of the Department's Review.

Xcel Gas

18. Accept Xcel Gas' FYE17 true-up, Docket No. G-002/AA-17-657; and

19. Allow Xcel Gas to implement its true-up, as shown in Department Attachment G11 of the Department's Review.

20. Request that in its review of the FYE18 annual automatic adjustment reports, the Department evaluate Xcel Gas' findings regarding its LUF.

2016-17 Annual Automatic Adjustment Reports—Docket No. G-999/AA-17-493
Docket Numbers for the Gas Utilities' 2016-2017 True-Up Filings:

Docket No. G-004/AA-17-650 – Great Plains Natural Gas Company

Docket No. G-022/AA-17-630 – Greater Minnesota Gas, Inc.

Docket No. G-008/AA-17-668 – CenterPoint Energy

Docket No. G-011/AA-17-654 – Minnesota Energy Resources Corporation (MERC) – Albert Lea PGA system

Docket No. G-011/AA-17-655 – Minnesota Energy Resources Corporation (MERC) – Consolidated PGA system

Docket No. G-011/AA-17-656 – Minnesota Energy Resources Corporation (MERC) – Northern Natural Gas PGA system

Docket No. G-002/AA-17-657 –Northern States Power d/b/a Xcel Energy