division of energy resources
Minnesota Department of Commerce

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March 4, 2013

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-12-1194

Dear Dr. Haar:

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

A request by Minnesota Energy Resources Corporation-PNG (MERC-PNG, MERC, or Company) for approval by the Minnesota Public Utilities Commission (Commission) of a change in demand entitlement for its Viking Gas Transmission System (Viking) Purchased Gas Adjustment (PGA) effective November 1, 2012.

The filing was submitted on November 1, 2012. The petitioner is:

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

Based on its investigation, the Department recommends that the Commission:

- **allow** MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion;
- **accept** the peak day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned herein;
- **accept** the Company's proposed level of demand entitlement; and
- **allow** the proposed recovery of associated demand costs effective November 1, 2012.

The Department requests that, in future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Finally, for future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments. The Department puts MERC on notice that it may recommend rejection of any of the Company's future filings that are in the same or similar condition as the instant Petition.

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

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

/s/ SACHIN SHAH
Rates Analyst

MS/SS/jl
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/M-12-1194

I. SUMMARY OF COMPANY'S PROPOSAL

Pursuant to Minnesota Rules 7825.2910, subpart 2, Minnesota Energy Resources Corporation-Peoples Natural Gas (MERC-PNG, MERC, or Company) filed a change in demand entitlement petition (Petition) on November 1, 2012 for its Viking Gas Transmission System (Viking or VGT) Purchased Gas Adjustment (PGA). In its Petition, MERC requested that the Minnesota Public Utilities Commission (Commission) accept the following changes in the Company's overall level of contracted capacity.

Table 1

MERC-PNG's Proposed Total Entitlement Changes	
Type of Entitlement	Proposed Changes increase (decrease) (Dkt)[1]
FT-A 12 months	(60)
FT-A 3 months	(4)
FT-A 5 months	(1,148)
Wadena Delivered Option	1,325
Sum of Increases	1,325
Sum of Decreases	(1,212)
Total Entitlement Changes	**113**

The Company's proposal would increase MERC-PNG's design-day (winter) capacity by 113 Dkt from the previous level. As discussed further below, the Company's 2012-2013 design-day

[1] Dekatherms (Dkt).

requirements (overall needs of its firm customers on a design day) would increase by 173 Dkt (or approximately 2.53 percent) from the previous year.

MERC described the factors contributing to the change in demand entitlements as follows:[2]

- demand entitlement increased due to purchasing a Wadena Delivered Option (1,325 Dkt) as the Company was not able to purchase firm winter capacity (November 2012 through March 2013 only) from Viking; and
- MERC-PNG's prorated share of Viking FT-A service decrease by 1,212 Dkt.[3]

In addition to the increase of 113 Dkt in total entitlement, the Company also proposed changes to non-capacity items in the November 2012 PGA compared to the October 2012 PGA. MERC made changes to its AECO storage contract as follows:

> As shown in Attachment 6, MERC has a contract for AECO Storage. To deliver the supply from storage to MERC-NMU's markets, MERC entered in an AECO/Emerson swap. MERC sells gas at the storage point (AECO) to a supplier and MERC buys an equivalent volume at Emerson/Spruce, which MERC then transports to its PNG-GLGT, PNG-VGT and NMU (GLGT, VGT and Centra) customers. The swap substituted the need to contract for firm transport on TransCanada Pipeline (TCPL) to transport the gas from AECO to Emerson/Spruce.[4]

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) does not oppose any of the proposed changes. As discussed below, the effect of the above proposed changes is a decrease in demand costs. The Company requested that the Commission allow recovery of the associated demand costs in its monthly PGA effective November 1, 2012.

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

The Department's analysis of the Company's request includes the:

- trade secret designation;
- timeline for filing the annual demand entitlement filing;
- storage costs allocated to commodity costs;
- changes to capacity;

[2] MERC Petition, pages 13-14.
[3] All Viking capacity is allocated between MERC-PNG and MERC-Northern Municipal Utility (NMU) based on design day numbers, which changed the allocated volumes on the other VGT contracts.
[4] MERC Petition, page 14.

- design-day requirement;
- reserve margin; and
- PGA cost recovery proposal.

A. TRADE SECRET DESIGNATION

Regarding the designation of trade secret data, the Department notes that in MERC's November 1, 2012 trade secret and public filings, the trade secret data is not identified in a manner that satisfies the Commission's requirements. Further, such data appears to be inconsistently designated in the trade secret and public versions. MERC initially filed three trade secret attachments for each of its demand entitlement filings. Specifically, the Department identifies the following trade secret designation issues in the Company's attachments:

- On Attachment 1, page 1, the trade secret copy states "Non-public Document – Contains Trade Secret Data" but no indication of which words or numbers are considered trade secret is given; and
- No words or numbers are redacted from the public copy of Attachment 1, page 1.

When the Department asked MERC whether information was considered trade secret on Attachment 1, page 1, the response was that Attachment 1, page 1 should not have been marked trade secret. The Department cautions MERC about this erroneous designation of trade secret data. For future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments.

Additionally, the Department notes that MERC initially filed all of its attachments (approximately 13-15 attachments for each of its four demand entitlement filings) as electronic spreadsheets. While the Department appreciates spreadsheets that show formulas, some of the spreadsheets had no labels, certain pages seemed to be missing, and much formatting needed to be done in order to print paper copies. Rather than recommending rejection of the filing in this instance, the Department requested that the Company re-file its attachments in PDF format with the trade secret correctly marked and labels on every attachment so that the labels agreed with the references in the filing and could easily be printed. The Department puts MERC on notice that it may recommend rejection of any of the Company's future filings that are in the same or similar condition as the instant Petition.

B. TIMELINE FOR FILING

As stated above, MERC filed its Petition on November 1. In MERC's January 31, 2012 *Reply Comments* in Docket No. G011/M-11-1083, the Company stated that it would comply with the Department's recommended initial filing date of August 1 for its annual demand entitlement filings on a going-forward basis. The Department continues to conclude that July 1 or August 1 is an optimal filing time since it would enable any reliability issues to be identified and possibly resolved prior to the start of the heating season.

C. STORAGE COSTS

The Department has advocated in several recent demand entitlement filings[5] that demand costs associated with storage contracts be recovered through the commodity portion of the PGA since all customers, not just firm customers, benefit from stored gas. The Commission has not yet determined whether storage-related costs are more appropriately recovered through the commodity or through the demand portion of MERC's PGAs.

The Department notes that the Commission allowed CenterPoint Energy to allocate a portion of its storage costs to commodity costs in CenterPoint Energy's PGA.[6] Similarly, the Department recommends that the Commission allow MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion.

While the Department has been recommending this rate design change since MERC's 2007 demand entitlement dockets, the Department is aware that it would be problematic to implement such changes retroactively; as a result, the Department urges the Commission to address this question of rate design and implement the change on a going-forward basis.

D. MERC'S PROPOSED CHANGES

1. Capacity

As shown in DOC Attachments1 and 2, the Company proposed to increase its total entitlement level in Dkt as follows:

Table 2

Previous Entitlement (Dkt)	Proposed Entitlement (Dkt)	Entitlement Changes (Dkt)	Change From Previous Year (%)
7,116	7,229	113	1.59

As discussed below, the design day increased by 173 Dkt. As also discussed below, MERC-PNG Viking's reserve margin is reasonable. Therefore, the Department concludes that the Company's proposed level of demand entitlement is reasonable and recommends acceptance of the proposed level of capacity.

[5] See the Commission's February 6, 2008 Order in Docket No. E,G999/AA-06-1208, for more background.
[6] See the Commission's February 28, 2012 Order in Docket No. G008/M-07-561.

2. *Design-Day Requirement*

As indicated in DOC Attachment 1, the Company proposed to increase its design day in Dkt as follows:

Table 3

Previous Design Day (Dkt)	Proposed Design Day (Dkt)	Design Day Changes (Dkt)	Change From Previous Year (%)
6,851	7,024	173	2.53

MERC provided significant discussion regarding its design-day calculation. The Department notes that the Company's design-day analysis is similar to the process that it has used in prior demand entitlement filings. MERC once again explored the use of additional weather variables in its review of other design-day regression models but did not use the variables in the Company's final design-day analysis. The Department does not oppose MERC's evaluation of other weather determinants in its efforts to produce the most robust design-day estimates possible; however, the Department notes that some of these additional data were taken from a proprietary source as was discussed in the Department's January 3rd, 10th, and March 12th, 2012 Comments in Docket Nos. G011/M-11-1082, G011/M-11-1083, and G011/M-11-1084 respectively. When a utility uses proprietary data in its analysis, the Department cannot fully verify that the results of the analysis are correct.

The Department notes that MERC's analysis and models had correlation present in the regression analysis. The presence of autocorrelation in an Ordinary Least Squares (OLS) regression analysis implies that the errors are not independent of each other. This would violate one of the basic assumptions in typical regression analysis which is that one normally assumes that the errors are all independent of one another. Hence the presence of autocorrelation would affect the validity of the statistical tests that are typically applicable to OLS multiple regression analysis such as, for example, the coefficient of determination ("R-squared") test statistic, and the t-statistic. When forecasting with an OLS regression model, absence of autocorrelation between the errors is very important. Thus, in the Company's future demand entitlement filings, MERC should check the regression models it ultimately uses for autocorrelation and correct the models if autocorrelation is present.

The Department recommends that the Commission accept MERC's peak-day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned above. Further, the Department requests that in its future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the models if autocorrelation is present.

3. *Reserve Margin*

As indicated in DOC Attachment 1, the reserve margin decreased by 205 Dkt as follows:

Table 4

Total Entitlement (Dkt)	Design-day Estimate (Dkt)	Difference (Dkt)	Reserve Margin (%)	Change From Previous Year (%)
7,229	7,024	205	2.92	-0.95

The proposed reserve margin of 2.92 percent is a decrease over last year's reserve margin of 3.87 percent. Generally, a reserve margin up to five percent is not unreasonable. Based on this information and the Department's analysis of the Company's design-day analysis, the Department concludes that the reserve margin is reasonable at this time.

E. THE COMPANY'S PGA COST RECOVERY PROPOSAL

The demand entitlement amounts listed in DOC Attachment 2 represent the demand entitlements for which the Company's firm customers would pay. In its Petition, the Company compared its October 2012 PGA to its November 2012 PGA as a means of highlighting its changes in demand costs (MERC Attachment 4, page 1 of 4). The Company's demand entitlement proposal would result in the following annual demand cost impacts:

- an annual bill decrease of $4.95 related to demand costs, or approximately 0.07 percent, for the average General Service customer consuming 82 Dkt annually; and
- no demand cost impacts related to MERC-PNG Viking's other rate classes.

Based on its analysis, the Department recommends that the Commission allow the proposed recovery of associated demand costs effective November 1, 2012.

III. THE DOC'S RECOMMENDATIONS

Based on its investigation, the DOC recommends that the Commission:

- allow MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion;
- accept the peak day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned herein;
- accept the Company's proposed level of demand entitlement; and
- allow the proposed recovery of associated demand costs effective November 1, 2012.

The Department requests that, in future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Finally, for future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments. The Department puts MERC on notice that it may recommend rejection of any of the Company's future filings that are in the same or similar condition as the instant Petition.

/jl

Department Attachment 1
Docket No. G011/M-12-1194
Demand Entitlement Analysis

MERC-PNG's Viking Area Demand Entitlement Analysis

Heating Season*	Number of Firm Customers: (1) Number of Customers	(2) Change from Previous Year	(3) % Change From Previous Year	Design-Day Requirement: (4) Design Day (Dth)	(5) Change from Previous Year	(6) % Change From Previous Year	Total Entitlement Plus Peak Shaving: (7) Total Design-Day Capacity (Dth)	(8) Change from Previous Year	(9) % Change From Previous Year	Reserve Margin: (10) Reserve (7) - (4)	(11) % of Reserve [(7)-(4)]/(4)
2012-2013	4,675	3	0.06%	7,024	173	2.53%	7,229	113	1.59%	205	2.92%
2011-2012	4,672	(3)	-0.06%	6,851	(441)	-6.05%	7,116	(1,607)	-18.42%	265	3.87%
2010-2011	4,675	267	6.06%	7,292	401	5.82%	8,723	1,098	14.40%	1,431	19.62%
2009-2010	4,408	(227)	-4.90%	6,891	(529)	-7.13%	7,625	0	0.00%	734	10.65%
2008-2009	4,635	49	1.07%	7,420	(715)	-8.79%	7,625	(915)	-10.71%	205	2.76%
2007-2008	4,586	63	1.39%	8,135	23	0.28%	8,540	(324)	-3.66%	405	4.98%
2006-2007	4,523	62	1.39%	8,112	198	2.50%	8,864	778	9.62%	752	9.27%
2005-2006	4,461	(63)	-1.39%	7,914	316	4.16%	8,086	268	3.43%	172	2.17%
2004-2005	4,524	211	4.89%	7,598	175	2.36%	7,818	300	3.99%	220	2.90%
2003-2004	4,313	89	2.11%	7,423	340	4.80%	7,518	293	4.06%	95	1.28%
2002-2003	4,224	9	0.21%	7,083	286	4.21%	7,225	400	5.86%	142	2.00%
2001-2002	4,215	23	0.55%	6,797	93	1.39%	6,825	0	0.00%	28	0.41%
2000-2001	4,192			6,704			6,825				
Average:			0.95%			0.51%			0.85%		5.24%

Heating Season*	Firm Peak-Day Sendout: (12) Firm Peak-Day Sendout (Dth)	(13) Change from Previous Year	(14) % Change From Previous Year	(15) Excess per Customer [(7) - (4)]/(1)	(16) Design Day per Customer (4)/(1)	(17) Entitlement per Customer (7)/(1)	(18) Peak-Day Send per Customer (12)/(1)
2012-2013	unknown			0.0439	1.5025	1.5463	unknown
2011-2012*	5,405	118	2.23%	0.0567	1.4664	1.5231	1.1569
2010-2011	5,287	583	12.39%	0.3061	1.5598	1.8659	1.1309
2009-2010	4,704	(985)	-17.31%	0.1665	1.5633	1.7298	1.0672
2008-2009	5,689	(1,369)	-19.40%	0.0442	1.6009	1.6451	1.2274
2007-2008	7,058	143	2.07%	0.0883	1.7739	1.8622	1.5390
2006-2007	6,915	(849)	-10.94%	0.1663	1.7935	1.9598	1.5289
2005-2006	7,764	2,191	39.31%	0.0386	1.7740	1.8126	1.7404
2004-2005	5,573	(428)	-7.13%	0.0486	1.6795	1.7281	1.2319
2003-2004	6,001	85	1.44%	0.0220	1.7211	1.7431	1.3914
2002-2003	5,916	1,816	44.29%	0.0336	1.6768	1.7105	1.4006
2001-2002	4,100	(439)	-9.67%	0.0066	1.6126	1.6192	0.9727
2000-2001	4,539						
Average			3.39%	0.0923	1.6437	1.7288	1.3079

* Per MERC, the firm peak-day sendout for 2011-2012 should be corrected from 5,287 (Filing, Atth. 1) to 5,405.

Prepared by theMinnesota Department of Commerce

Department Attachment 2
Docket No. G011/M-12-1194
MERC -PNG Viking's Demand Entitlement Historical and Current Proposal

2009-2010 Heating Season	Quantity (Mcf)	2010-2011 Heating Season	Quantity (Mcf)	2011-2012 Heating Season	Quantity (Mcf)	2012-2013 Heating Season	Quantity (Mcf)	Change in Quantity
FT-A 12 months	6,527	FT-A 12 months	6,527	FT-A 12 months	5548	FT-A 12 months	5,488	(60)
FT-A 3 months	1,098	FT-A 3 months	1,098	FT-A 3 months	420	FT-A 3 months	416	(4)
FT-A (5 month backhaul)	0	FT-A 5 months	0	FT-A 5 months	1,148	FT-A 5 months	0	(1,148)
NNG TF 12 mos (backhaul)	1,098	FT-A (5 month backhaul)	0	FT-A (5 month backhaul)	0	FT-A (5 month backhaul)	0	0
TF12 (NNG)	432	NNG TF 12 mos (backhaul)	1,098	NNG TF 12 mos (backhaul)	0	NNG TF 12 mos (backhaul)	0	0
TF5 (NNG)	105	TF12 (NNG)	0	TF12 (NNG)	0	TF12 (NNG)	0	0
TFX12 (NNG)	389	TF5 (NNG)	0	TF5 (NNG)	0	TF5 (NNG)	0	0
TFX5 (NNG)	172	TFX12 (NNG)	0	TFX12 (NNG)	0	TFX12 (NNG)	0	0
FT-D 12 months	0	TFX5 (NNG)	0	TFX5 (NNG)	0	TFX5 (NNG)	0	0
		FT-D 12 months	0	FT-D 12 months	0	FT-D 12 months	0	0
		Wadena Delivered Option	1,098	Wadena Delivered Option	0	Wadena Delivered Option	1,325	1,325
Total Design Day Capacity	7,625	Total Design Day Capacity	8,723	Total Design Day Capacity	7,116	Total Design Day Capacity	7,229	113
Total Viking Transportation	7,625	Total Viking Transportation	8,723	Total Viking Transportation	7,116	Total Viking Transportation	7,229	113
Total Annual Transportation	7,348	Total Annual Transportation	7,625	Total Annual Transportation	5,548	Total Annual Transportation	5,488	(60)
Total Seasonal Transport	1,375	Total Seasonal Transport	2,196	Total Seasonal Transport	1,568	Total Seasonal Transport	416	(1,152)
Percent Seasonal on Viking	18.0%	Percent Seasonal on Viking	25.2%	Percent Seasonal on Viking	22.0%	Percent Seasonal on Viking	5.8%	-16.28%

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G011/M-12-1194

Dated this **4th** of **March, 2013**

/s/Sharon Ferguson

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