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Minnesota Department of Commerce

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August 19, 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. G004/M-13-566

Dear Dr. Haar:

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

> *Demand Entitlement Filing* (*Petition*) submitted by Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), to the Minnesota Public Utilities Commission (Commission).

The *Petition* was submitted on June 28, 2013 by:

> Rita A. Mulkern
> Regulatory Affairs Manager
> Great Plains Natural Gas Co., A Division of MDU Resources Group, Inc.
> 400 North 4th Street
> Bismarck, North Dakota 58501-4092

The Department recommends that the Commission **accept** Great Plains' *Petition* subject to its provision of additional information in *Reply Comments*.

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

Sincerely,

/s/ LERMA LA PLANTE
Financial Analyst

/s/ ADAM JOHN HEINEN
Rates Analyst

LL/AJH/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. Docket No. G004/M-13-566

I. SUMMARY OF THE UTILITY'S PROPOSAL

Pursuant to Minnesota Rules part 7825.2910, subpart 2, Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains or the Company), filed a petition on June 28, 2013 with the Minnesota Public Utilities Commission (Commission) to change the levels of demand for the Company's South District and North District (*Petition*).[1]

For the South District, Great Plains proposes to reallocate 144 dekatherms (dk) per day of capacity for its South District customers served by Northern Natural Gas Company's (NNG or Northern) pipeline system to reflect NNG's annual 12-month firm throughput (TF-12) Base (TF-12B) and TF-12 Variable (TF-12V) reallocation, pursuant to NNG's tariff as approved by the Federal Energy Regulatory Commission (FERC). The Company projects a 2.3 percent reserve for the 2013-2014 heating season.

For the North District, Great Plains requests that the Commission accept its contracted 5,000 dk/day of forward haul on the Viking system with receipt point of Emerson and 10,000 dk per day of back haul capacity, which when combined is sufficient to meet the estimated peak day demand. The North District capacity for the 2013-2014 heating season is unchanged from the 2012-2013 heating season. The Company projects a 6.1 percent reserve for the upcoming heating season.

[1] Great Plains' South District includes the following Minnesota communities: Belleview, Boyd, Clarkfield, Danube, Dawson, Echo, Granite Falls, Marshall, Montevideo, Redwood Falls, Renville, Sacred Heart, and Wood Lake. Great Plains' North District includes the following Minnesota communities: Breckenridge, Crookston, Fergus Falls, Pelican Rapids, and Vergas.

Great Plains has converted its FT-A Zone 1-2 contract of 4,500 dk, utilized in both the North and South District, to FT-A Zone 1-1 due to the expiration on November 1, 2012 of a long-term transportation contract.

The Department discusses below the various effects on the Company's rates for different customer classes. However, Great Plains estimated that its proposal would:

- decrease rates for South District residential customers by $0.027 per dk or approximately $2.38 per year for customers using 88.2 dk; and

- decrease rates for North District residential customers by $0.018 per dk or approximately $1.87 per year for customers using 103.8 dk.

Great Plains requested that the Commission allow recovery of the associated demand costs in the Company's monthly Purchased Gas Adjustment (PGA) for each district effective November 1, 2013.

In Section II below, the Minnesota Department of Commerce, Division of Energy Resources' (Department or DOC) analysis of the Company's requests for the South District and the North District includes the following areas:

- the proposed overall demand entitlement levels;
- the design day requirements;
- the reserve margins; and
- the PGA cost recovery proposals.

II. THE DEPARTMENT'S ANALYSIS OF GREAT PLAINS' PROPOSAL

A. PROPOSED OVERALL DEMAND ENTITLEMENT LEVELS

1. South District

For the South District, Great Plains proposed to change its demand entitlement portfolio based on NNG's reallocation of TF-12B and TF-12V services, per NNG's FERC-approved tariff.[2] Specifically, Great Plains requested approval of a decrease in TF-12B entitlements of 144 dk/day and an increase in TF-12V entitlements of 144 dk/day. There is no deliverability difference between TF-12B and TF-12V services, but TF-12B service is less expensive than TF-12V

[2] Under its federally approved tariff, NNG is allowed to adjust a utility's assigned level of contracted capacity, based on the utility's usage of its NNG-based capacity over the previous five-month period (May through September).

service. Table 1 below provides a comparison of the Company's current and proposed overall level of entitlements for the South District.

Table 1: A Comparison of Great Plains' Current and Proposed Entitlements for the South District

Current Entitlement (dk/day)	Proposed Entitlement (dk/day)	Change (dk/day)	Percent Change
15,645	15,645	0	0%

As indicated in Table 1, the Company's proposal would not result in any change to the overall demand entitlement level for the South District compared to the overall entitlement level proposed by the Company in the 2012 demand entitlement proceeding. Great Plains estimated a slight reduction of demand charges to South District customers by approximately $0.027 per dk, or 2.2 percent, from the June 2013 PGA.

2. *North District*

Table 2 below provides a comparison of the Company's current and proposed overall level of entitlements for the North District.

Table 2: A Comparison of Great Plains' Current and Proposed Entitlements for the North District

Current Entitlement (dk/day)	Proposed Entitlement (dk/day)	Change (dk/day)	Percent Change
15,000	15,000	0	0%

As indicated in Table 2, the Company's proposal would not result in any change to the overall demand entitlement level for the North District compared to the overall entitlement level proposed by the Company in the 2012 demand entitlement proceeding . Great Plains estimated a slight reduction of demand charges to North District customers by approximately $0.018 per dk, or 1.2 percent, from the June 2013 PGA.

The Department analyzes below the proposed changes, the proposed design day requirements, and the proposed reserve margins for the South District and the North District.

B. DESIGN DAY REQUIREMENTS

The Company used the same basic design day method in this docket that the Commission accepted in Docket No. G004/M-03-303. In previous demand entitlement proceedings, the Department and Commission Staff expressed concerns that Great Plains' design day method might under-estimate the need for natural gas on a peak day for the South District and the North District.[3] In response to these concerns, the Commission ordered the Company and the Department to work cooperatively on developing a design day analysis that would address the concerns raised by the Department.[4] The Department and Great Plains held several meetings regarding the design-day analysis and, subsequently, Great Plains submitted a *Compliance Filing* in Docket No. G004/M-11-1075 regarding the Company's design-day methodology. The Department reviewed the Company's *Compliance Filing* and concludes that the concerns discussed by the Department and Commission Staff in previous demand entitlement filings (*e.g.,* small sample size) still exist. However, these concerns cannot be verified because a cold weather event similar to what occurred during the 1995-1996 and 1996-1997 heating seasons has not occurred since. Therefore, while concerns about sample size and changing weather patterns remain valid, and will continue to be factors in the Department's analysis of Great Plains' demand entitlement filings, because the Company's analysis produces results that are not unreasonable, the Department supports Great Plains' *Petition* as more fully explained below.

Consistent with the analysis presented by the DOC in Docket No. G004/M-11-1075 and Docket No. G004/M-12-740, the Department used two methods to gauge the reasonableness of the Company's design day amounts for the South District and the North District: 1) using data from the previous five heating seasons; and 2) using data from the heating season with the overall greatest peak sendout per firm customer, which occurred before the previous five heating seasons.[5]

1. South District

For the South District, the Department multiplied the peak sendout per firm customer for the 2008-2009 heating season of 1.1840 dk, which is the highest peak sendout per firm customer in the previous five heating seasons, by the expected number of firm customers for the 2013-2014 heating season of 11,649 to arrive at an estimated design day amount of 13,792 dk/day. This amount is 1,501 dk/day less than the Company's proposed design day level of 15,293 dk/day.

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[3] The Department's concerns on this issue are discussed in detail in the following documents:

- the Department's July 2, 2008 *Comments* in Docket No. G004/M-07-1401;
- the Department's July 31, 2009 *Comments* in Docket No. G004/M-08-1306; and
- the Department's February 5, 2010 *Comments* in Docket No. G004/M-09-1262.

Commisison Staff's concerns are discussed in detail in their September 9, 2010 *Briefing Papers*, which were contemporaneously submitted in each of these three dockets.

[4] *See* Ordering Paragraph No. 2 of the Commission's September 30, 2010 *Order* in Docket Nos. G004/M-07-1401, G004/M-08-1306, and G004/M-09-1262.

[5] The data used by the Department is taken from Exhibit D of the Company's *Petition*.

Thus, using this method based on the highest firm peak sendout data for the previous five heating seasons, Great Plains appears to have a sufficient level of entitlements for the 2013-2014 heating season for the South District.

The Department also calculated an estimated design day amount using data from the 1996-1997 heating season, which represents the highest peak sendout per firm customer in the South District in the previous 18 heating seasons. Specifically, the Department multiplied the peak sendout per firm customer for the 1996-1997 heating season of 1.5331 dk by the expected number of firm customers for the 2013-2014 heating season of 11,649 to arrive at an estimated design day amount of 17,859 dk. This amount is 2,566 dk more than the Company's proposed design day level of 15,293 dk/day. The Department discusses this situation below in Section II.B.3.

2. North District

For the North District, the Department multiplied the peak sendout per firm customer for the 2012-2013 heating season of 1.0262 dk, which is the highest peak sendout per firm customer in the previous five heating seasons, by the expected number of firm customers for the 2013-2014 heating season of 11,579 to arrive at an estimated design day amount of 11,882 dk. This amount is 2,258 dk less than the Company's proposed design day level of 14,140 dk/day. Thus, using this method based on the highest firm peak sendout data for the previous five heating seasons, Great Plains appears to have sufficient level of entitlements for the 2013-2013 heating season for the North District.

As was done for the South District, the Department also used data from the 1999-2000 heating season, which represents the highest peak sendout per firm customer in the North District in the previous 18 heating seasons. Specifically, the Department multiplied the peak sendout per firm customer for the 1999-2000 heating season of 1.6321 dk by the expected number of firm customers for the 2013-2014 heating season of 11,579 to arrive at an estimated design day amount of 18,898 dk. This amount is 4,758 dk more than the Company's proposed design day level of 14,140 dk/day. The Department discusses this situation below in Section II.B.3.

3. The Department's Analysis

As noted above, when all-time peak-day sendout is analyzed, it appears that Great Plains may not have sufficient capacity to serve firm customers, for each of its districts, on a Commission design day. In its 2010 demand entitlement proceeding, Great Plains stated that the peak-day use per customer figures during past heating seasons are no longer appropriate metrics because of the many changes (*e.g.,* the movement of firm customers to interruptible service, customer losses due to natural disasters, customer growth and losses, energy conservation) that have occurred since 1995, resulting in a steadily declining use per customer. In that same proceeding, the Department observed that, in general, Great Plains' assertions about changes in use per customer over time appear to be plausible and should be reflected in estimates of use per customer. However, because an analysis of actual conditions confirming those assertions had not been completed, the

Department recommended that the Commission continue its previous practice of accepting but not approving Great Plains' proposal.

In recent demand entitlement filings, the Department had requested that Great Plains conduct analyses that compare actual usage by new construction to existing construction, because the Company had argued that new construction, along with Great Plains' conservation programs, have contributed to the decrease in peak day consumption. In its *Petition*, the Company states that through its review it has been unable to accurately quantify differing types of consumption due to the number of variables and lack of available data. Further, Great Plains states that its billing system does not contain the specific information necessary to conduct a comparative analysis. The Company concludes its discussion by stating that it is still open to suggestions on how to conduct this comparison, but it is concerned about it being cost-effective and that any conclusions would be speculative.

Based on Great Plains' discussion, the Department believes the Company has reasonably attempted to model the difference between gas consumption for newer construction and existing housing stock. The Department understands the issues involved with creating this sort of analysis and appreciates the attempts that the Company made. Given the discussion above, the Department recommends, in the current docket, that the Commission accept the Company's proposed design day method for the South District and the North District. In addition, given existing concerns with the Company's analysis, the Department will continue to closely assess Great Plains' design-day method so that it produces the most reasonable results possible.

The Department notes that a Commission-prescribed peak day has generally been interpreted as the coldest 24-hour average temperature in the past 20 years. Generally speaking, these events occurred during the 1995-1996 heating season; as such, the 20 year anniversary of the coldest day for most Minnesota natural gas utilities is approaching. In the time since the 1995-1996 heating season, there has not been a cold weather event that has equaled what occurred during that heating season. Therefore, based on the Commission's peak-day definition, the design-day planning target for the natural gas utilities will change, and become less stringent, in the near future. Minnesota ratepayers will benefit from a less stringent planning objective through lower demand costs; however, if a cold weather event similar to the 1995-1996 heating season were to occur in the future, under different planning requirements, reliability could be at risk. The Department requests that Great Plains provide a detailed discussion, in its *Reply Comments*, explaining whether it believes the current Commission peak day definition (coldest temperature in the past 20 years) is appropriate or whether maintaining the 1995-1996 heating season event as the planning objective, on a going-forward basis, is more appropriate.

C. PROPOSED RESERVE MARGINS

In the Company's 2007, 2008, and 2009 demand entitlement proceedings, the Commission stated the following:

> Great Plains shall reduce its reserve margin in Docket No. G-004/M-09-1262 to approximately five percent or explain why it is not reasonable to do so.[6]

Table 3 below compares Great Plains' authorized and proposed reserve margins for the South District and the North District.

Table 3: Great Plains' Authorized Reserve Margins for the 2010-2011 Heating Season and Proposed Reserve Margins for the 2013-2014 Heating Season

District	2010-2011[7] Reserve Margin	Proposed Reserve Margin
South	5.7%	2.3%
North	11.8%	6.1%

As indicated in Table 3, Great Plains proposed to reduce its reserve margin for the South District from 5.7 percent to 2.3 percent, and to reduce its reserve margin for the North District from 11.8 percent to 6.1 percent. Both of the Company's proposed reserve margins are near the 5 percent reserve margin preferred by the Commission. The Department does not believe that Great Plains' reserve margin is unreasonable.

D. THE COMPANY'S PGA COST RECOVERY PROPOSAL

The demand entitlement amounts listed above and in the Company's *Petition* represent the demand entitlements for which Great Plains' firm customers would pay. In its *Petition*, the Company used its June 2013 PGA to compare its proposed changes.[8] Great Plains presented an analysis indicating that the Company's demand entitlement proposal would result in the following estimated annual rate impacts for customers in the South District:

- an annual bill decrease of $2.38 or approximately 0.4 percent, for the average residential customer consuming 88.2 dk annually; and

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[6] *See* Ordering Paragraph No. 4 of the Commission's September 30, 2010 *Order* in Docket Nos. G004/M-07-1401, G004/M-08-1306, and G004/M-09-1262.

[7] The demand entitlement for the 2010-2011 heating season, Docket No. G004/M-10-1164, is the last filing where the Commission has issued an *Order*.

[8] *See* Exhibit C of the Company's *Petition*.

- an annual bill decrease of $9.20, or approximately 0.4 percent, for the average firm general service customer consuming 340.9 dk annually.

Great Plains also presented an analysis indicating that the Company's demand entitlement proposal would result in the following estimated annual rate impacts for customers in the North District:

- an annual bill decrease of $1.87 or approximately 0.2 percent, for the average residential customer consuming 103.8 dk annually; and
- an annual bill decrease of $6.77, or approximately 0.3 percent, for the average firm general service customer consuming 375.7 dk annually.

The Department recommends that the Commission accept the Company's proposed PGA recovery of its demand entitlement proposals for the South District and the North District.

III. THE DEPARTMENT'S RECOMMENDATIONS

Given the concerns regarding the potential impacts of sample size and changing weather patterns to Great Plains' design-day analysis, the Department will continue to monitor the Company's methods going forward. However, in the instant *Petition,* Great Plains' analysis appeared to produce results that were not unreasonable. Therefore, the Department recommends that the Commission:

1. accept the Company's proposed design day method for the South District and the North District;

2. accept the Company's proposed reserve margins for the South District and the North District;

3. accept the Company's proposed PGA recovery of its demand entitlement proposals for the South District and the North District; and

4. request Great Plains to continue filing, on a going-forward basis, its annual demand entitlement filing by July 1 of each year.

The Department requests that Great Plains provide a detailed discussion, in its *Reply Comments*, explaining whether it believes the current peak day definition (coldest temperature in the past 20 years) is appropriate or whether maintaining the 1996-1997 heating season event as the planning objective, on a going-forward basis, is more appropriate.

/ja

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. G004/M-13-566

Dated this **19th** day of **August, 2013**

/s/Sharon Ferguson

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