

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: **January 29, 2015** **Agenda Item #9**

Company: Minnesota Energy Resources Corporation (MERC)

Docket Nos. **G-011/M-12-558**
In the Matter of a Petition by Minnesota Energy Resources Corporation
(MERC-PNG NNG) for Approval of Changes in Contract Demand
Entitlements effective June 1, 2012.

G-007/M-12-559
In the Matter of a Petition by Minnesota Energy Resources Corporation
(MERC-NMU) for Approval of Changes in Contract Demand Entitlements
effective June 1, 2012.

Issue: Should the Commission approve MERC's proposed changes to storage
reservation and capacity demand entitlements (levels) and cost changes as
described in the listed dockets, effective June 1, 2012?

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Relevant Documents

G-011/M-12-558 (MERC-PNG NNG)
MERC Initial Petition May 31, 2012
Department of Commerce (Department) Comments..... August 1, 2012

G-007/M-12-559 (MERC-NMU)
MERC Initial Petition May 31, 2012
Department of Commerce (Department) Comments..... August 1, 2012

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Table of Contents

Statement of the Issue	1
Introduction.....	1
Minnesota Rules.....	1
Should the Commission approve MERC’s proposed changes to storage reservation and capacity demand entitlements (levels) and cost changes as described in the listed dockets, effective June 1, 2012?	1
MERC	1
Department.....	2
PUC Staff Comment	2
Should the Commission approve MERC’s proposed allocation method for assigning storage demand charges to firm and interruptible customers?	3
PUC Staff Comment	3
Decision Alternatives.....	4

Statement of the Issue

Should the Commission approve MERC's proposed changes to storage reservation and capacity demand entitlements (levels) and cost changes as described in the listed dockets, effective June 1, 2012?

Introduction

MERC has entered into storage contracts that allow it to diversify its natural gas supply portfolio to make it more reliable and help MERC avoid volatile gas price swings during the winter heating season. These storage contracts help MERC to hedge against these gas price swings. Northern Natural Pipeline Company (NNG) provides most of MERC's storage capacity it has under contract, but NNG does not have any additional storage available at a reasonable cost.

PUC staff reviewed MERC's proposed changes to its storage demand reservation and capacity entitlements and the Department's *Comments* in these petitions. The Department and MERC have worked together and resolved all of issues raised by the Department. PUC staff generally agrees with the Department's August 1, 2012 recommendation with a minor qualification.

For its briefing papers, PUC staff is consolidating both of MERC's dockets¹ into one discussion.

Minnesota Rules

Minnesota Rule, part 7825.2910, subpart 2² require gas utilities to make a filing whenever there is a change to its demand-related entitlement services provided by a supplier or transporter of natural gas.

Should the Commission approve MERC's proposed changes to storage reservation and capacity demand entitlements (levels) and cost changes as described in the listed dockets, effective June 1, 2012?

MERC

MERC uses its storage capacity purchased from NNG to diversify its gas supply portfolio which helps prevent volatile gas price swings in its Purchased Gas Adjustment (PGA) gas costs during the winter heating season and provides it with a ready gas supply. NNG does not currently have any additional storage capacity available, except for, higher priced storage expansion capacity.

Historically, MERC has annually purchased LS Power's released storage capacity on the secondary market to help meet its storage needs; between 300,000 to 400,000 Dth.

¹ Docket Nos. 12-558 and 12-559

² Filing upon a change in demand, is included in the Automatic Adjustment of Charges rule parts 7825.2390 through 7825.2920 and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

In these petitions,³ MERC requested Commission approval for an additional 550,000 Dth of storage capacity that LS Power decided to release for the period of June 1, 2012 through May 31, 2013. MERC requested Purchased Gas Adjustment (PGA)⁴ cost recovery effective June 1, 2012.

Department

The Department's analysis indicated that the additional storage costs had a de minimus impact on MERC's current PGA rates and that the additional storage capacity provided additional benefits to MERC and its customers, by providing:

- A ready source of gas; and
- Meeting fluctuations in demand due to weather; and
- To act as a natural hedge, as storage gas is injected in the summer time, when natural gas prices are typically lower than winter prices; and
- Ability to use the additional storage gas when winter gas daily prices are higher than the storage weighted-average-cost-of-gas (WACOG), but assuring not getting out of storage guideline parameters.

The Department concluded that MERC's proposal is reasonable since MERC would be able to use the additional storage capacity during the upcoming 2012-2013 heating season as part of its gas supply plan to increase flexibility and provide a hedge against winter prices, and to meet fluctuations in demand due to weather at a cost that is more reasonable than the alternative of acquiring NNG storage expansion.

PUC Staff Comment

PUC staff reviewed the 12-558 and 12-559 dockets for MERC's NMU and PNG-NNG PGA areas and appreciates the Department comments. Staff believes that for the time period at issue in these dockets, all issues have been resolved by the parties. PUC staff believes that the Department's analysis covers all of the relevant factors and will not repeat those comments. PUC staff believes that MERC determined that purchasing storage capacity release from LS Power was cheaper than purchasing NNG storage expansion capacity.

PUC staff generally agrees with the Department's August 1, 2012 recommendation with one minor qualification discussed below.

³ Docket Nos. 12-558 and 12-559

⁴ The Purchased Gas Adjustment is a mechanism used by regulated utilities to recover its cost of energy. Minn. Rules 7825.2390 through 7825.2920 enable regulated gas and electric utilities to adjust rates on a monthly basis to reflect changes in its cost of energy delivered to customers based upon costs authorized by the Commission in the utility's most recent general rate case.

Should the Commission approve MERC's proposed allocation method for assigning storage demand charges to firm and interruptible customers?

In Docket No. 06-1208, the Commission requested MERC to submit its proposal on storage classification and allocation. In Docket Nos. 07-1402, 07-1403, 07-1404 and 07-1405 (on March 7, 2008), MERC submitted its proposal to allocate all storage demand charges to both firm and interruptible sales customers through its commodity charges.

In these two dockets (#s 12-558 and 12-599); the Department continued its discussion of assigning storage demand costs to MERC's commodity costs. MERC's initial petitions did not reflect the assignment of demand storage costs to the commodity factors. However, the Department continued to endorse its 2007-2008 demand entitlement petition recommendation to the Commission that MERC be required to reflect the storage demand costs in its commodity factors.⁵ In its August 1, 2012 comments for these dockets, the Department recommended that MERC apply its storage proposal as follows:

- that the Commission approve the recovery of the Company's proposed level of storage capacity and proposed recovery of associated storage costs effective June 1, 2012 with the modification that MERC recover costs associated with Storage contracts through the commodity portion of the monthly PGA. [Emphasis added]

In its August 6, 2014 Order on MERC's 2007-2008 demand entitlements, the Commission approved MERC's storage classification and allocation proposal,⁶ effective November 1, 2014.

PUC Staff Comment

PUC staff agrees the Department's recommendation that the Commission approve the PGA cost recovery associated with MERC's PNG-NNG and NMU PGA systems, but it considers the FDD storage costs allocation issue to be resolved on a going forward basis for all outstanding MERC demand entitlement petitions, thus, will not revisit it in these dockets briefing papers. The Commission approved MERC's March 7, 2008 storage classification and allocation proposal,⁷ effective November 1, 2014, in its August 6, 2014 Order in MERC's 2007-2008 demand entitlement petitions.

PUC staff believes the Commission does not need to address this portion of Department's recommendation re-classifying the storage costs from demand to commodity PGA cost recovery in these dockets. The Commission has made its decision on storage cost recovery. PUC staff modified the Department's decision alternatives at the end of these briefing papers because it believes this issue has been addressed and resolved. If the Commission issues informal letter orders adopting the Department's recommendations in these dockets, it may want to make clear in its order that it is not adopting that part of the Department's recommendation.

⁵ See the Department comments in MERC's 2008-2009, 2009-2010, 2010-2011, and 2011-2012 demand entitlement petitions

⁶ For further detail, see the July 15, 2014 PUC staff briefing papers for Docket Nos. 07-1402, 07-1403, 07-1404, and 07-1405

⁷ Ibid.

Decision Alternatives

The following Decision Alternatives apply to the MERC dockets addressed in these briefing papers. Those dockets were:

Docket Nos. G-011/M-12-558 (MERC-PNG NNG)

Docket Nos. G-007/M-12-559 (MERC NMU)

1. Approve the recovery of MERC's proposed level of storage capacity and proposed recovery of associated storage costs effective June 1, 2012.