

June 9, 2014

PUBLIC DOCUMENT

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. PL6580, G002/M-14-386

Dear Dr. Haar:

Attached are the **PUBLIC** Comments of the Minnesota Department of Commerce (Department or DOC) in the following matter:

A request by Greater Minnesota Transmission, LLC (GMT), for approval by the Minnesota Public Utilities Commission (Commission) of Firm Transportation Agreement (the Agreement) between GMT and Northern States Power Company, a Minnesota Corporation, d/b/a Xcel Energy (Xcel Energy).

The petition was filed on May 9, 2014. The petitioner is:

Kristine A. Anderson
Corporate Attorney
Greater Minnesota Transmission, LLC
202 South Main St., PO Box 68
Le Sueur, Minnesota 56058-0068

The Department recommends that the Commission **approve** the Agreement with a condition and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ja
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE

DOCKET No. PL6580, G002/M-14-386

I. SUMMARY OF GMT'S REQUEST

A. *THE AGREEMENT*

Pursuant to Minn. Stat. §216B.045 (Regulation of Intrastate Natural Gas Pipeline), Greater Minnesota Transmission, LLC (GMT or the Company) requests approval by the Minnesota Public Utilities Commission (Commission) of a Firm Transportation Agreement (FTA or Agreement) between GMT and Northern States Power Company, a Minnesota corporation, d/b/a Xcel Energy (Xcel Energy), a public utility.

Under the proposed Agreement, GMT agrees to:

- construct, own, and operate a new Town Border Station (TBS) at a location near Hawley, Minnesota;
- build a 36-mile pipeline that would contain several interconnection points and provide service in and around Barnesville, Minnesota; and
- provide Firm Transportation service on the facilities it installs for the benefit of Xcel Energy.

For its part, Xcel Energy intends to build local distribution facilities to deliver the natural gas transported via the pipeline to retail customers in and around Barnesville.

Xcel Energy has made or will make the necessary contractual arrangements to purchase natural gas and have it delivered to GMT's new TBS near Hawley. Under this proposal, GMT would accept delivery of Xcel Energy's gas and transport the gas to the new TBS in volumes up to [TRADE SECRET DATA HAS BEEN EXCISED] dekatherms per day, at a minimum operating pressure of [TRADE SECRET DATA HAS BEEN EXCISED] pounds per square inch (psig) or such other volumes and pressure as mutually agreed.

The FTA's term is for **[TRADE SECRET DATA HAS BEEN EXCISED]** years beginning (i) September 1, 2014 or (ii) the service date for the new intrastate pipeline.

According to GMT, the Agreement complies with the statute in that it:

- provides firm gas transportation service at reasonable rates;
- offers services by contract on an open access, nondiscriminatory basis; and
- will receive Commission approval prior to being effective.

Additionally, the Company stated:

- the FTA was the result of arms-length negotiations between GMT and Xcel Energy;
- the terms and conditions included in the Agreement are substantially similar to those in the contracts previously approved by the Commission; and
- the revenue that would be recovered under the Agreement is based on the estimated cost to complete the new 36-mile transmission line.

Regarding benefits, GMT stated that the Agreement would provide Xcel Energy with access to natural gas utility service customers and provide benefits to the inhabitants of Barnesville.

II. DEPARTMENT ANALYSIS

The Department's analysis is divided into the following sections: 1) the statutory requirements of an intrastate natural gas pipeline, and 2) the responsibility for cost recovery for the investment in the intrastate pipeline.

A. REQUIREMENTS OF MINNESOTA STATUTES AND RULES

As an intrastate pipeline, GMT must comply with Minn. Stat. §216B.045. The Department notes that GMT is not a public utility since it does not furnish retail natural gas service. As such, it is not subject to the same Minnesota Rules as regulated distribution companies such as Xcel Energy. The Commission has not promulgated rules applicable to intrastate pipelines under Minn. Stat. §216B.045. Thus, there appear to be no Minnesota Rules that specifically apply to GMT's provision of intrastate wholesale transportation service. The statute, Minn. Stat. §216B.045, requires intrastate pipeline providers to:

- contract at rates that are just and reasonable (Minn. Stat. §216B.045, subd. 2);
- offer services by contract on an open access, nondiscriminatory basis (Minn. Stat. §216B.045, subd. 3); and

- obtain Commission approval for each contract to be effective (Minn. Stat. §216B.045, subd. 4).

Below, the Department discusses each of these statutory requirements.

1. Contract at Reasonable Rates

The Agreement contains standard language and rate design. As explained in the filing, Minn. Stat. §216B.03, states: “Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in the application to a class of customers.”

The Department notes that, under most circumstances, a reasonable rate could be defined as being a rate based on a utility’s cost-of-service. In certain situations a reasonable rate may be a rate that is negotiated as part an arm’s-length transaction. GMT incorporated this latter argument in its filing. The Department is willing to accept this reasoning in this instance due to its understanding of the cost-recovery mechanism that is proposed to be used for the pipeline-related costs associated with this project. This discussion is developed further in the following section.

2. Obligation to Offer Service

As previously noted, GMT is required to offer services by contract on an open access, nondiscriminatory basis. GMT states in the filing that “it is willing to enter into negotiations with other retail providers to discuss similar cooperative arrangements that would serve the public interest.” In addition, the terms and conditions contained in the FTA are substantially similar to those approved by the Commission in Docket Nos. 06-1063, 13-91, and 13-94.

Based on its analysis, the Department concludes that GMT is offering its services to Xcel Energy by contract on an open-access, nondiscriminatory basis which appears unlikely to unreasonably discriminate among customers receiving like services if such a situation arose.

3. Approval of the Agreement

GMT and Xcel Energy signed the Agreements on May 8, 2014. GMT formally submitted the Agreements for Commission approval on the following day. Subject to jurisdictional regulatory approvals, GMT will begin providing service beginning on the later of (i) September 1, 2014 or (ii) the service date for the new intrastate pipeline. Because the Agreement is subject to Commission approval, the Department concludes that the proposed effective date is not inconsistent with the governing statute.

B. COST RECOVERY

The Department's primary financial concern in a filing of this type is cost recovery. Xcel Energy has contracted with GMT to build an intrastate pipeline to serve what would be new customers in and around Barnesville. The Department's primary concern is to identify which stakeholder would be responsible for the monthly payments to GMT if Xcel Energy is unable to generate a sufficient level of revenue to recover the costs associated with obligations contained in the Agreement.

According to conversations with Xcel Energy staff, Xcel Energy is drafting a filing that will seek Commission approval for a new area surcharge for the proposed natural gas local distribution service in and around Barnesville. Xcel Energy anticipates filing that petition in the near future. The language regarding the allocation of the risks associated with stranded costs in the New Area Surcharge Rider in Xcel Energy's *Minnesota Gas Rate Book* is very concise – "The Company assumes the risk for under-recovery of expansion costs, if any, which may remain at the end of the maximum surcharge term."¹

Assuming that Xcel Energy does file a proposed new area surcharge for Barnesville and that the risk of the under-recovery of the costs associated with the expansion, including the costs associated with the construction of the intrastate pipeline included in this petition, falls entirely on Xcel Energy's shareholders, the Department recommends approval of GMT's request.

III. CONCLUSIONS AND RECOMMENDATIONS

Based on its analysis, the Department recommends that the Commission approve the Agreement subject to the condition that any and all costs billed to Xcel Energy under the Agreement will be recovered via revenue collected from either a Commission-approved new area surcharge for the Barnesville area or from Xcel Energy's shareholders.

/ja

¹ Xcel Energy Natural Gas tariff, Section 5, 3rd Revised Sheet No. 47.

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
Public Comments**

Docket No. PL6580,G002/M-14-386

Dated this 9th day of **June 2014**

/s/Sharon Ferguson

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