MINNESOTA DEPARTMENT OF COMMERCE

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September 2, 2014

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-14-563

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 July 2, 2014 by:

> Tamie A. Aberle
> Director of Regulatory Affairs
> 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*.

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

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G004/M-14-563

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 July 2, 2014 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 increase its seasonal capacity by 1,500 dekatherms (dk) per day for its South District customers served by Northern Natural Gas Company's (NNG or Northern) pipeline system. The Company projects a 5.1 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 with an incremental 500 dk per day forward haul on Viking, is expected to be sufficient to meet the estimated peak-day demand. The North District capacity for the 2014-2015 heating season will increase by 500 dk from the 2013-2014 heating season. The Company projects a 4.6 percent reserve for the upcoming heating season.

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

- increase rates for South District residential customers by $0.0864 per dk or approximately $7.62 per year for customers using 88.2 dk; and

[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.

- increase rates for North District residential customers by $0.0066 per dk or approximately $0.69 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, 2014.

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 states that NNG's reallocation of TF-12B and TF-12V services are not known at this time and that the changes are not significant normally. The changes will be known by November 1, 2014 and will be in accordance with NNG's tariff approved by the Federal Energy Regulatory Commission (FERC).[2] According to Great Plains, there is no deliverability difference between TF-12B and TF-12V services, but TF-12B service is less expensive than TF-12V service. The Department recommends that Great Plains supplement its *Petition* once the final demand entitlement changes and the associated rate and bill impact are known.

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

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[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).

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	17,145	1,500	9.59%

As indicated in Table 1, the Company's proposal would result in an increase in the overall demand entitlement level for the South District compared to the current entitlement level. Great Plains estimated an increase of demand charges to South District customers by approximately $0.086 per dk, or 7.3 percent, from the June 2014 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	15,500	500	3.33%

As indicated in Table 2, the Company's proposal would result in an increase in the overall demand entitlement level for the North District compared to the current entitlement level. Great Plains estimated a slight increase in demand charges to North District customers by approximately $0.007 per dk, or 0.4 percent, from the June 2014 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 more recent 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] Subsequently, Great Plains submitted a *Compliance Filing* on June 27, 2012 in Docket No. G004/M-10-1164. In its *Compliance Filing*, Great Plains provided additional discussion and analysis regarding its design-day method using different scenarios (i.e., as filed 36 months, 36 winter months only, 60 winter months only) as requested by the Department. The Department concluded that, "As noted above, despite these concerns, the Department believes that the Company's design-day analysis does not appear to produce unreasonable results."[5] The Commission agreed with the Department's conclusion that, while concerns about sample size and changing weather patterns still exist, the Company's design-day methodology was acceptable because its results were not unreasonable.

Consistent with the analysis presented by the DOC in Docket Nos. G004/M-11-1075, G004/M-12-740, and G011/M-13-566 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.[6]

1. South District

For the South District, the Department multiplied the peak sendout per firm customer for the 2013-2014 heating season of 1.2411 dk, which is the highest peak sendout per firm customer in the previous five heating seasons, by the expected number of firm customers

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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 Department's concerns on this issue are discussed in detail in the following documents:

- the Department's March 18, 2013 *Comments* in Docket No. G004/M-12-740; and
- the Department's August 19, 2013 *Comments* in Docket No. G004/M-13-566.

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

for the 2014-2015 heating season of 11,842 to arrive at an estimated design day amount of 14,697 dk/day. This amount is 1,615 dk/day less than the Company's proposed design day level of 16,312 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 a sufficient level of entitlements for the 2014-2015 heating season for the South District.

The Department also calculated an estimated design-day amount using data from the 1995-1996 heating season, which represents the highest peak sendout per firm customer in the South District in the previous 19 heating seasons. Specifically, the Department multiplied the peak sendout per firm customer for the 1995-1996 heating season of 1.5331 dk by the expected number of firm customers for the 2014-2015 heating season of 11,842 to arrive at an estimated design day amount of 18,155 dk. This amount is 1,843 dk more than the Company's proposed design day level of 16,312 dk/day. The Department addresses this situation further below.

2. North District

For the North District, the Department multiplied the peak sendout per firm customer for the 2013-2014 heating season of 1.1431 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 2014-2015 heating season of 11,682 to arrive at an estimated design day amount of 13,354 dk. This amount is 1,458 dk less than the Company's proposed design day level of 14,812 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 2014-2015 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 19 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 2014-2015 heating season of 11,682 to arrive at an estimated design day amount of 19,066 dk. This amount is 4,254 dk more than the Company's proposed design day level of 14,812 dk/day.

As noted above, when the 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. However, 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.

The extreme weather in the past heating season offers further insight into reliance on the all-time versus the 5-year peak-day sendout to evaluate the Company's design day estimate. Great Plains experienced an outage this past January when the TransCanada pipeline, which supplied gas to the Viking Gas Transmission Company that serves Great Plains customers in the North District, exploded. Further, Great Plains experienced some extremely cold weather during the months of January through March 2014[7]. Despite these challenges, the peak send out of 13,236 dk was below the previous design day of 14,140 dk and the Company appears to have had sufficient levels of entitlements.

As noted above, the Commission in its January 9, 2014 *Order* in Docket No. G004/M-13-566, accepted the Company's proposed design-day method for the South and North District, as recommended by the Department.

The Department recommends that the Commission accept the Company's same proposed design-day method for the South District and the North District.

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.[8]

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

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[7] See pages 3 through 5 of the Company's August 29, 2014 Filing in Docket No. E,G999/AA-14-580.
[8] *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.

Table 3: Great Plains' Authorized Reserve Margins for the 2013-2014 Heating Season and Proposed Reserve Margins for the 2014-2015 Heating Season

District	2013-2014 Reserve Margin	Proposed Reserve Margin
South	2.3%	5.1%
North	6.1%	4.6%

As indicated in Table 3, Great Plains proposed to increase its reserve margin for the South District from 2.3 percent to 5.1 percent, and to reduce its reserve margin for the North District from 6.1 percent to 4.6 percent. Both of the Company's proposed reserve margins are near the 5 percent reserve margin preferred by the Commission. The Department concludes that Great Plains' reserve margins are reasonable, given the 5 percent rule of thumb that is typically used.

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 2014 PGA to compare its proposed changes.[9] 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 increase of $7.62 or approximately 1.2 percent, for the average residential customer consuming 88.2 dk annually; and
- an annual bill increase of $29.45, or approximately 1.3 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 increase of $0.69 or approximately 0.1 percent, for the average residential customer consuming 103.8 dk annually; and

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

- an annual bill increase of $2.48, or approximately 0.1 percent, for the average firm general service customer consuming 375.7 dk annually.

The Department notes an error in the Exhibit C of the Company's *Petition*. The rates that are described as being from the last rate case for the Commodity and Demand portion are neither the rates that were listed in the Company's Base Cost of Gas in Docket No. G004/MR-06-1141, nor those shown in the Company's PGAs. These rates do not affect the bill impact calculations above and the Department provides as Attachment 1, a corrected Exhibit C of the Company's *Petition* for use in future *Petitions*.

As mentioned earlier, Great Plains is filing its demand entitlement petition before the NNG TF 12 Base and Variable reallocation is known. The Department recommends that Great Plains supplement its *Petition* once the final demand entitlement changes and the associated rate and bill impact are known.

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

In the instant *Petition,* Great Plains' analysis produces results that appear to be reasonable. 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 supplement its *Petition* once the final demand entitlement changes and the associated rate and bill impact are known.

/ja

GREAT PLAINS NATURAL GAS CO.
RATE EFFECT OF PROPOSED DEMAND - NOVEMBER 1, 2014
NORTH DISTRICT

					% Change from			Change from
	Last Rate Case 1/	Last Demand Change 2/	June 2014 PGA 3/	Proposed 4/	Last Rate Case	Last Demand Change	June 2014 PGA	June 2014 PGA
Residential								
Commodity Cost of Gas	$5.5520	$3.8879	$4.5727	$4.5727	-17.6%	17.6%	0.0%	$0.0000
Demand Cost of Gas	2.0613	1.5253	1.5112	1.5178	-26.4%	-0.5%	0.4%	0.0066
Commodity Margin 5/	1.7671	1.8005	1.8005	1.8005	1.9%	0.0%	0.0%	0.0000
Total Rate	9.3804	7.2137	7.8844	7.8910	-15.9%	9.4%	0.1%	0.0066
Average Annual Usage (dk)	103.8	103.8	103.8	103.8				
Average Annual Cost of Gas	$973.69	$748.78	$818.40	$819.09	-15.9%	9.4%	0.1%	$0.69
Firm General Service								
Commodity Cost of Gas	$5.5520	$3.8879	$4.5727	$4.5727	-17.6%	17.6%	0.0%	$0.0000
Demand Cost of Gas	2.0613	1.5253	1.5112	1.5178	-26.4%	-0.5%	0.4%	0.0066
Commodity Margin	1.4471	1.4869	1.4869	1.4869	2.8%	0.0%	0.0%	0.0000
Total Rate	9.0604	6.9001	7.5708	7.5774	-16.4%	9.8%	0.1%	0.0066
Average Annual Usage (dk)	375.7	375.7	375.7	375.7				
Average Annual Cost of Gas	$3,403.99	$2,592.37	$2,844.35	$2,846.83	-16.4%	9.8%	0.1%	$2.48

	Commodity Change		Demand Change		Total Change		Average Annual
Customer Class	($/dk)	(Percent)	($/dk)	(Percent)	($/dk)	(Percent)	Bill Change
Residential	$0.0000	0.0%	$0.0066	0.4%	$0.0066	0.1%	$0.69
Firm General Service	0.0000	0.0%	0.0066	0.4%	0.0066	0.1%	$2.48

1/ Base Cost of Gas Effective January 2007 in Docket No. G004/MR-06-1141.
2/ Demand in Docket No. G004/M-13-566, effective November 1, 2013.
3/ June 2014 PGA.
4/ Proposed in this docket, G004/M-14-____ effective November 1, 2014.
5/ Includes CCRA and GAP.

GREAT PLAINS NATURAL GAS CO.
RATE EFFECT OF PROPOSED DEMAND - NOVEMBER 1, 2014
SOUTH DISTRICT

	Last Rate Case 1/	Last Demand Change 2/	June 2014 PGA 3/	Proposed 4/	% Change from Last Rate Case	% Change from Last Demand Change	% Change from June 2014 PGA	Change from June 2014 PGA
Residential								
Commodity Cost of Gas	$5.8954	$3.8667	$4.5427	$4.5427	-22.9%	17.5%	0.0%	$0.0000
Demand Cost of Gas	1.8689	1.1963	1.1878	1.2742	-31.8%	6.5%	7.3%	0.0864
Commodity Margin 5/	1.4279	1.4165	1.4165	1.4165	-0.8%	0.0%	0.0%	0.0000
Total Rate	9.1922	6.4795	7.1470	7.2334	-21.3%	11.6%	1.2%	0.0864
Average Annual Usage (dk)	88.2	88.2	88.2	88.2				
Average Annual Cost of Gas	$810.75	$571.49	$630.37	$637.99	-21.3%	11.6%	1.2%	$7.62
Firm General Service								
Commodity Cost of Gas	$5.8954	$3.8667	$4.5427	$4.5427	-22.9%	17.5%	0.0%	$0.0000
Demand Cost of Gas	1.8689	1.1963	1.1878	1.2742	-31.8%	6.5%	7.3%	0.0864
Commodity Margin	1.1775	1.1687	1.1687	1.1687	-0.7%	0.0%	0.0%	0.0000
Total Rate	8.9418	6.2317	6.8992	6.9856	-21.9%	12.1%	1.3%	0.0864
Average Annual Usage (dk)	340.9	340.9	340.9	340.9				
Average Annual Cost of Gas	$3,048.26	$2,124.39	$2,351.94	$2,381.39	-21.9%	12.1%	1.3%	$29.45

Customer Class	Commodity Change ($/dk)	Commodity Change (Percent)	Demand Change ($/dk)	Demand Change (Percent)	Total Change ($/dk)	Total Change (Percent)	Average Annual Bill Change
Residential	$0.0000	0.0%	$0.0864	7.3%	$0.0864	1.2%	$7.62
Firm General Service	0.0000	0.0%	0.0864	7.3%	0.0864	1.3%	$29.45

1/ Base Cost of Gas Effective January 2007 in Docket No. G004/MR-06-1141.
2/ Demand in Docket No. G004/M-13-566, effective November 1, 2013.
3/ June 2014 PGA.
4/ Proposed in this docket, G004/M-14-____ effective November 1, 2014.
5/ Includes CCRA and GAP.

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 Nos. **G004/M-14-563**

Dated this **2nd** day of **September, 2014**.

/s/Linda Chavez

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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