

December 31, 2015

Daniel P. Wolf  
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-15-724

Dear Mr. Wolf:

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 (MERC or the Company) for Approval of a Change in Demand Entitlement for its Customers Served off of the Northern Natural Gas-Albert Lea (NNG-ABL) System Effective in the Purchased Gas Adjustment (PGA) on November 1, 2015.

The filing was submitted on July 31, 2015. The petitioner is:

Amber S. Lee  
Minnesota Energy Resources Corporation  
1995 Rahncliff Court, Suite 200  
Eagan, MN 55122

Based on its investigation, the Department recommends that the Minnesota Public Utilities Commission (Commission):

- **accept** MERC NNG-ABL's peak-day analysis with the caveats mentioned herein and require MERC to fully justify its selection of weather station in the Company's next NNG-ABL demand entitlement petition; and
- **approve** MERC NNG-ABL's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2015.

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

Sincerely,

/s/ SACHIN SHAH  
Rates Analyst

/s/ MICHELLE ST. PIERRE  
Financial Analyst

SS/MS/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/M-15-724

**I. SUMMARY OF COMPANY'S PROPOSAL**

Effective May 1, 2015, Minnesota Energy Resources Corporation (MERC or the Company) acquired Interstate Power & Light Company's (IPL) Minnesota natural gas operations and customers. The Minnesota Public Utilities Commission (Commission) required MERC to maintain the transitioned customers on a separate Purchased Gas Adjustment (PGA) until MERC's next rate case.<sup>1</sup> MERC named the PGA for the transitioned customers "Northern Natural Gas-Albert Lea" (NNG-ABL). Pursuant to Minn. R. 7825.2910, subpart 2, MERC filed a change in demand (capacity) entitlement petition (Petition) on July 31, 2015 for its customers served off of the NNG-ABL PGA system.<sup>2</sup> In its Petition, MERC requested no changes in the level of contracted capacity. MERC stated that "Since this is the first time MERC Albert Lea is filing for the properties acquired from IPL, Table 4 will reflect actual capacity assigned from IPL to MERC in the transaction."<sup>3</sup>

The Company also stated that MERC was in the process of performing a design day analysis and would update the Petition in a November 1, 2015 filing.<sup>4</sup>

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<sup>1</sup> See the Commission's December 8, 2014 *Order Approving Sale Subject to Conditions* in Docket No. G-001, G011/PA-14-107.

<sup>2</sup> In its December 21, 2012 Order in Docket No. G007,011/GR-10-977, the Commission approved consolidation of MERC's four PGA systems effective July 1, 2013. MERC named the PGA for the Northern Natural Gas customers "MERC-NNG." At the time, MERC's only other PGA system was named "MERC-Consolidated." On July 31, 2015, MERC filed a demand entitlement request for MERC-Consolidated in Docket No. G011/M-15-722 and MERC NNG in Docket No. G011/M-15-723.

<sup>3</sup> Petition, page 3.

<sup>4</sup> MERC's July 31, 2015 cover letter.

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

The Minnesota Department of Commerce, Division of Energy Resources' (Department or DOC) analysis of the Company's request includes the:

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

### A. MERC'S PROPOSED CHANGES

#### 1. Capacity

Table 1 and DOC Attachments 1 and 2 present MERC's proposed capacity in Dkt<sup>5</sup> as filed on July 31, 2015 and updated November 2, 2015 as follows:

**Table 1**

Type of Entitlement	14-560 IPL's Capacity (Dkt)	July 31, 2015 Proposed Capacity (Dkt)	Nov. 2, 2015 Proposed Capacity (Dkt)	Change (Dkt)
TF 12 Month Base	1,393	3,904	3,157	(747) <sup>6</sup>
TF 12 Month Variable	8,020	5,489	6,236	747
TFX 5 Month	4,006	3,997	3,997	0
TFX 5 Month (Max Rate)	800	800	800	0
	<b>14,219</b>	<b>14,190</b>	<b>14,190</b>	<b>0</b>

On page 9 of its Petition, MERC noted that the actual capacity assigned from IPL to MERC is reflected in its Table 4. The Department notes that the capacity assigned from IPL to MERC is slightly lower, by 29 Dth (14,219 - 14,190), than IPL's previous level. This is a reasonable level of change.

In addition to reviewing the proposed changes in demand, the Department also reviews other changes in non-capacity items in the demand change filings.<sup>7</sup> As part of the acquisition mentioned above, 350,000 Dkt<sup>8</sup> of NNG Firm Deferred Delivery (storage) and related reservation of 6,071 Dkt was assigned from IPL to MERC.<sup>9</sup> This is 3,640 Dkt more of storage than IPL previously held during the heating season.<sup>10</sup> MERC was also assigned 1,700 of NNG's System Management Service (SMS) which provides additional tolerances for

<sup>5</sup> Dekatherms.

<sup>6</sup> This change is due to NNG's annual November reallocation of units between TF12 B and TF12 V services based on the utility's previous May through September usage.

<sup>7</sup> Minnesota Rule 7825.2910, subp. 2, requires that gas utilities file for a change to increase or decrease demand.

<sup>8</sup> This is the five-month Maximum Storage Quantity (70,000 Dth/month x 5 months).

<sup>9</sup> Petition, page 4. On MERC's Attachment 10, the Reservation and Capacity figures were inadvertently reversed. In MERC's *November 2, 2015 Update*, Attachment 10, the figures were corrected.

<sup>10</sup> IPL's previously held 346,360 Dkt of storage.

shippers, beyond the allowed five-percent tolerance.<sup>11</sup> The Department considers that these assignments in non-demand items from IPL to MERC are reasonable.

## 2. Design-Day Requirement

Table 2 and DOC Attachment 2 present MERC's proposed design day levels in Dkt as filed on July 31, 2015 and updated November 2, 2015 as follows:

**Table 2**

Filing	Previous Design Day (Dkt)	Proposed Design Day (Dkt)	Design Day Changes (Dkt)	Change From Previous Year (%)
July 31, 2015	12,915	12,915	0	0%
Nov. 2, 2015	12,915	13,813	898	6.95%

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. However, it is slightly different compared to what MERC used in its current demand entitlement filings in Docket Nos. G011/M-15-722 (MERC-Consolidated) and G011/M-15-723 (MERC-NNG). In these particular dockets MERC did regressions by interstate pipeline and weather station. In addition, in these other dockets, MERC was able to utilize the daily metered data for all interruptible customers as a result of MERC's telemetry program, thus the Company no longer had to estimate their peak-day impact for the MERC-NNG and MERC-Consolidated as it had previously done.<sup>12</sup>

In its *November 2, 2015 Update* in the current docket, page 4, MERC stated in part the following:

Theoretically, the peak day regression should be performed using daily net firm load by pipeline and weather station.

While daily total throughput data is available, daily data for Interruptible and transportation load is not currently available. In addition, monthly data was only available through December 2014 and after May 2015.

The Team followed an approach generally consistent with that followed in prior years for the other MERC PGAs that would make the best use of the best available data.

In the Company's *November 2, 2015 Update* in the current docket, page 8, MERC in part stated the following:

<sup>11</sup> Storage and SMS costs are charged in the commodity portion of the PGA.

<sup>12</sup> See the Department's *October 15, 2015 Comments* in Docket No. G011/M-15-723 and Docket No. G011/M-15-722.

In order to determine firm peak day load, volumes contained in the daily pipeline meter readings for interruptible and transportation customers needed to be isolated and removed. While it would have been ideal to have daily billing data for all customers, interruptible and transportation was only available from monthly billing records. An unfortunate, but unavoidable consequence was that this data was based on monthly billing cycles that introduce billing lag, meter read lag (not all meters were read every month resulted [sic] in billing cycle estimates and reversals), and other potential errors into their volumes. In addition, this data was only through December 2014. Therefore, MERC used the same values for interruptible and transportation load as was used by IPL for the prior year.

Thus, as a result of the data issues described above, MERC used the average estimated interruptible and transportation load from IPL's last demand entitlement filing to back out<sup>13</sup> from its design day estimates.<sup>14</sup> This approach seems acceptable given the constraints in data availability.

Regarding the use of weather station data in its peak-day analysis, MERC in its *November 2, 2015 Update*, stated the following at page 5:

Each daily weather station data file was searched to find the coldest Adjusted Heating Degree Day (AHDD65) in the last 20 years. This 1-in-20 approach is consistent with prior years. The results are provided in the following table:

Station	Date	Avg. Temp	Avg. Wind	HDD65	AHDD65
Rochester	2/2/1996	-27	10	92	101

In IPL's demand entitlement filings in Docket Nos. G001/M-14-560 (Docket 14-560) and G001/M-13-579 (Docket 13-579), IPL provided supplemental information in its *Supplemental Attachment A*, page 8 of 13, on October 30, 2014 and in its *Supplemental Attachment A*, page 8 of 17, on October 31, 2013, respectively. Data from those attachments indicates that the Albert Lea Town Border Station (TBS) experienced the vast majority of the throughput used to serve IPL's Minnesota customers. Even on January 6, 2014 when IPL experienced the coldest conditions during the last twenty years at the time, its Albert Lea TBS had the majority of the throughput.<sup>15</sup> MERC in its *Petition and November 2, 2015 Update* did not provide any details on why it chose Rochester as the weather station as opposed to Albert Lea.

<sup>13</sup> See MERC's Attachment 1, page 2 of 3 and Attachment 6 in its *November 2, 2015 Update* in Docket No. G011/M-15-724.

<sup>14</sup> See IPL's Supplemental Attachment A, Page 4 of 13 in its *October 30, 2014 Supplemental Filing* in Docket No. G001/M-14-560.

<sup>15</sup> See page 4 of the Department's July 31, 2014 Comments in Docket 14-560.

Given that two months out of the five-month 2015-2016 heating season have lapsed and on which the Company's Petition and *November 2, 2015 Update* are based upon, and given that MERC has requested no changes in the level of contracted capacity, the Department recommends acceptance of MERC NNG-ABL's peak day analysis with the caveat that this does not preclude any party from disputing the assumptions used by MERC in any other ongoing and/or future proceedings before the Commission and/or in its future demand entitlement petitions. Further, the Department recommends that the Commission require MERC to fully justify its selection of weather station in the Company's next NNG-ABL demand entitlement petition.

The Department notes that MERC appropriately corrected its models for autocorrelation, as was discussed in the Department's March 4, 2013 Comments in Docket Nos. G011/M-12-1192, G011/M-12-1193, G011/M-12-1194, and G011/M-12-1195 wherein the Department requested that, in future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present. The Department appreciates MERC's attention to this issue.

Thus, the Department recommends that the Commission accept MERC NNG-ABL's peak day analysis with the caveats mentioned herein.

### 3. Reserve Margin

Table 3 and DOC Attachment 2 present MERC's proposed reserve margin in Dkt as filed on July 31, 2015 and updated November 2, 2015 as follows:

**Table 3**

Filing	Total Entitlement (Dkt)	Design-day Estimate (Dkt)	Difference (Dkt)	Reserve Margin %	Change From Previous Year
July 31, 2015	14,190	12,915	1,275	9.87%	(0.20)%
Nov. 2, 2015	14,190	13,813	377	2.73%	(7.37)%

The proposed November 2, 2015 filed reserve margin of 2.73 percent represents a decrease of 7.37 percent over last year's reserve margin of 10.10 percent.<sup>16</sup>

### C. THE COMPANY'S PGA COST RECOVERY PROPOSAL

In its *November 2, 2015 Update*, the Company's demand entitlement proposal would result in the following annual demand cost impacts:<sup>17</sup>

- Annual bill decrease of \$32.70 related to demand costs, or approximately -28.46 percent, for the average General Service customer consuming 89 Dkt annually;

<sup>16</sup> Petition, page 2.

<sup>17</sup> Attachment 11, page 1.

- no demand cost impacts related to MERC-ABL's Large General Service and interruptible rate classes.

### **III. THE DEPARTMENT'S RECOMMENDATIONS**

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

- accept MERC NNG-ABL's peak-day analysis with the caveats mentioned herein and require MERC to fully justify its selection of weather station in the Company's next NNG-ABL demand entitlement petition; and
- approve MERC NNG-ABL's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2015.

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DOC Attachment 1  
MERC NNG-ABL  
Docket No. G011/M-15-724

	14-560 IPL Total	15-724 NNG-AL July 15 Total	Jul-15 Change	15-724 NNG-AL Nov 15 Total	Jul-15 Change
MERC NNG-AL Design Day	12,915	12,915	0	13,813	898
<u>Entitlements in PGA</u>					
TF12B	1,393	3,904		3,157	(747)
TF12V	8,020	5,489		6,236	747
net change	9,413	9,393	(20)	9,393	0
TF5	4,006	3,997	(9)	3,997	0
TFX12	0	0	0	0	0
TFX(5)	800	800	0	800	0
Total Entitlements in PGA	14,219	14,190	(29)	14,190	0
Total Annual Transportation	9,413	9,393	(20)	9,393	0
Total Seasonal Transportation	4,806	4,797	(9)	4,797	0
Total Percent Seasonal	33.8%	33.8%	0.01%	33.8%	0
Reserve Margin	10.10%	9.87%	-0.22%	2.73%	(0)
<u>Other (not included in Peak Day Deliverability)</u>					
TFX Oct	0	0	0	0	0
TFX Apr	0	0	0	0	0
FDD Storage reservation	6,008	6,071	63	6,071	0
FDD Storage capacity	69,272	70,000	728	70,000	0
Maximum Storage Quantity (MSQ)	346,360	350,000	3,640	350,000	0
SMS	1,682			1,700	18



Heating Season	Number of Firm Customers			Design Day Requirement			Total Entitlement + Peak Shaving			Reserve Margin	
	(1) No. of Design Day Customers	(2) Change from Previous Year	(3) % Change From Previous Year	(4) Design Day (Mcf)	(5) Change from Previous Year	(6) % Change From Previous Year	(7) Total Entitlement (Mcf)*	(8) Change from Previous Year	(9) % Change From Previous Year	(10) Margin [(7)-(4)]/(4)	(11) % of Reserve
2015-2016*	10,690	0	0.00%	13,813	898	6.95%	14,190	-29	-0.20%	2.73%	
2014-2015	10,690	14	0.13%	12,915	(120)	-0.92%	14,219	0	0.00%	10.10%	
2013-2014	10,676	68	0.64%	13,035	(407)	-3.03%	14,219	0	0.00%	9.08%	
2012-2013	10,608	-41	-0.39%	13,442	515	3.98%	14,219	-3,271	-18.70%	5.78%	
2011-2012	10,649	66	0.62%	12,927	(3,767)	-22.56%	17,490	0	0.00%	35.30%	
2010-2011	10,583	n/a	n/a	16,694	133	0.80%	17,490	0	0.00%	4.77%	
Average:			0.20%			-3.12%					11.29%

\* As filed July 31, 2015

IPL figures used up to July 2015.

**Firm Peak Day Sendout**

Heating Season	(11) Number of Peak Day Customers	(12) Firm Peak Day Sendout (Mcf)	(13) Change from Previous Year	(14) % Change From Previous Year	(15) Excess/Def. per Cust. [(7)-(4)]/(1)	(16) Design Day per Customer (4)/(1)	(17) Entitlement per Customer (7)/(1)	(18) Peak Day Sendout per DD Customer (12)/(11)**
2015-2016*	10,690	unknown			0.0353	1.2921	1.3274	
2014-2015	10,690	10717	(513)	-4.77%	0.1220	1.2081	1.3301	1.0025
2013-2014	10,676	11,230	1,318	13.30%	0.1109	1.2210	1.3319	1.0519
2012-2013	10,608	9,912	1,500	17.83%	0.0732	1.2672	1.3404	0.9344
2011-2012	10,649	8,412	(1,830)	-17.87%	0.4285	1.2139	1.6424	0.7899
2010-2011	10,583	10,242	(1,731)	-14.46%	0.0752	1.5774	1.6527	0.9678
Average:				-1.15%	0.1409	1.2966	1.4375	0.9493

IPL figures used up to July 2015.

## **CERTIFICATE OF SERVICE**

I Marcella Emeott, 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-15-724  
Dated this 31<sup>st</sup> day of December 2015**

**/s/Marcella Emeott**

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