MINNESOTA DEPARTMENT OF COMMERCE

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December 3, 2015 **PUBLIC DOCUMENT**

Daniel P. Wolf
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/M-15-968

Dear Mr. Wolf:

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

> A *Petition* by Greater Minnesota Transmission, LLC for Approval by the Minnesota Public Utilities Commission (Commission) of a Firm Gas Transportation Agreement (Agreement) with Community Co-ops of Lake Park.

The filing was submitted on November 5, 2015. The petitioner is:

> Kristine A. Anderson
> Corporate Attorney
> Greater Minnesota Transmission, Inc.
> 202 South Main Street, P.O. Box 68
> Le Sueur, Minnesota 56058

The Department recommends that the Commission **approve** the Agreement as filed.

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

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst
651-539-1740

JK/lt
Attachment

PUBLIC DOCUMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. PL6580/M-15-968

I. BACKGROUND

On November 5, 2015, Greater Minnesota Transmission, LLC (GMT or the Company) filed a *Petition* for a Firm Gas Transportation Agreement (Agreement) with Community Co-ops of Lake Park (the Co-op) with the Minnesota Public Utilities Commission (Commission). The Agreement encompasses, and sets forth, the terms and conditions of service, including rate design and rates, between GMT and the Co-op to provide natural gas service to the communities of Beltrami and Fertile, Minnesota. The planned project governed by the Agreement involves the construction of 16 miles of new transmission line from a proposed Town Border Station (TBS) near Beltrami, Minnesota to two interconnections with the Co-op near Beltrami and Fertile, Minnesota respectively.

Under the terms of the Agreement, the Co-op would purchase its own natural gas and arrange transport to GMT's planned Beltrami TBS with the Viking pipeline. From the Beltrami TBS, GMT would accept delivery of the Co-op's natural gas and transport it to the agreed-upon interconnections with the Co-op's facilities. The Agreement allows for the transport of up to **[TRADE SECRET DATA HAS BEEN EXCISED]** Dekatherms (Dth) per day at a minimum operating pressure of 50 pounds per square inch (psi) over a **[TRADE SECRET DATA HAS BEEN EXCISED]** term.

The Agreement contains a standard rate structure for an intrastate pipeline. The rate negotiated by GMT and the Co-op involves a monthly demand charge of **[TRADE SECRET DATA HAS BEEN EXCISED]** and a volumetric charge of **[TRADE SECRET DATA HAS BEEN EXCISED]**.

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis of the *Petition* below.

TRADE SECRET DOCUMENT

II. ANALYSIS

The Department's analysis is divided into the following sections: 1) the statutory requirements of an intrastate natural gas pipeline; and 2) cost recovery associated with the Agreement.

A. REQUIREMENTS OF MINNESOTA STATUTES AND RULES

Minn. Stat. §216B.045, subd. 1 states:

> For the purposes of this section "intrastate pipeline" means a pipeline wholly within the state of Minnesota which transports or delivers natural gas received from another person at a point inside or at the border of the state, which is delivered at a point within the state to another, provided that all the natural gas is consumed within the state. An intrastate pipeline does not include a pipeline owned or operated by a public utility, unless a public utility files a petition requesting that a pipeline or a portion of a pipeline be classified as an intrastate pipeline and the commission approves the petition.

As an intrastate pipeline, GMT must comply with the provisions of Minn. Stat. §216B.045. The Department notes that GMT is not a public utility since it does not furnish retail natural gas service.[1] As such, the Company is not subject to the same Minnesota Rules as regulated distribution companies such as Xcel Energy or CenterPoint Energy. The Commission has not promulgated rules applicable to intrastate pipelines under Minnesota Statute § 216B.045; as such, there appear to be no Minnesota Rules that specifically apply to GMT's provision of intrastate wholesale transportation service.

Minnesota Statute §216B.045 requires that an intrastate pipeline provide service under the following three conditions:

- Contract at rates that are just and reasonable and do not unreasonably discriminate among customers receiving like or contemporaneous services (Minnesota Statute §216B.045, subd. 2);
- Offer services by contact on an open access, nondiscriminatory basis (Minnesota Statute §216B.045, subd. 3); and
- Obtain Commission approval for each contract to be effective (Minnesota Statute §216B.045, subd. 4).

The Department separately discusses these statutory requirements below.

[1] The Department notes that Community Co-ops of Lake Park filed a request for exemption from Commission regulation as a small gas utility franchise on September 25, 2015 in Docket No. G-6956/M-15-856. That docket is still under Commission review.

1. Contract at Reasonable Rates

The Agreement contains standard language and rate design. As noted in the filing, Minnesota Statute §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. This reasonableness check is generally associated with the review of retail rate regulated utilities. In certain instances, however, a reasonable rate may be a rate that is negotiated as part of an arm's length transaction. GMT incorporated this latter argument in its filing. In simple terms, one could find the rate in this filing reasonable because all parties involved, through the negotiating process, have agreed to the set rate. The Department is generally agreeable to the Company's reasoning in this *Petition*, because the proposed cost-recovery mechanism is for the pipeline-related costs associated with this project, which is similar to other intrastate pipeline projects previously proposed by the Company and its affiliate.[2] Despite the negotiated rate, it is necessary to review the various assumptions made by GMT to determine whether or not they are reasonable. Although this project is not fully analogous to a retail utility project, the Department believes it is important that the rate is reviewed to ensure that it is crafted in a way that provides reasonable benefit to the Co-op while still allowing GMT an opportunity to earn an acceptable return. These issues are discussed in greater detail in Section B below.

2. Obligation to Offer Service

As previously noted, GMT is required to offer services by contract on an open access, non-discriminatory basis. GMT stated in the *Petition* that since it would willingly enter into negotiations with other similarly situated private entities to discuss similar cooperative agreements that would serve the public interest in other respective communities, there is no discriminatory element to the Agreement and GMT has complied with its statutory obligation to offer its terms on an open-access basis. In addition, the terms and conditions contained in the Agreement are substantially similar to those approved by the Commission in previous GMT and affiliate filings. Consequently, the Department concludes that the Company offers service on an open access, non-discriminatory basis.

Based on its analysis, the Department concludes that GMT is offering its services by contract on an open-access, non-discriminatory basis which appears unlikely to unreasonably discriminate among customers receiving like services.

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[2] Docket Nos. PL6580/M-06-1063; PL6580/M-13-91; PL6580/M-13-94; PL6580/M-14-386; G022/M-14-342; and PL6580/M-14-1056.

TRADE SECRET DOCUMENT

3. Approval of the Agreement

The Co-op signed the Agreement on October 29, 2015. GMT followed on October 30, 2015. The Company formally submitted the Agreement to the Commission for approval on November 5, 2015. Subject to regulatory approval,[3] GMT will begin providing service beginning the later of (i) September 1, 2016 or (ii) the date when the Company has completed the construction of all necessary facilities to effectuate the transportation of gas. Since the Agreement is subject to Commission approval, the Department concludes that the proposed effective date is not inconsistent with Minnesota Statutes.

B. FINANCIAL ANALYSIS

The Department's primary criterion for review in a filing of this type is that the project is financially viable from GMT's perspective. Since GMT owns, and operates, several other intrastate pipeline projects, it is necessary to verify whether construction of the project may have a negative impact on the Company's overall financial health and, potentially, the operation of other pipelines.

While the rates the Co-op has agreed to as part of the Agreement are also a concern for the Department, the fact that Minn. Statute §216B.045, subd. 5 allows for a complaint process before the Commission lessens the Department's rate-related concerns over the long-term.

The Department reviewed the assumptions, and calculations used by the Company in its financial analysis of the project. If the project is constructed and operates in accordance with the assumptions in the model, GMT will earn an average of **[TRADE SECRET DATA HAS BEEN EXCISED]** percent return on equity over the term of the Agreement[4].

1. Contingencies Evaluated

The first contingency the Department developed (Scenario 1) attempted to quantity the risk GMT assumed under the Agreement related to changes in throughput. Scenario 1 assumes no gas would be delivered via the project on an annual basis for the term of the Agreement, but otherwise uses the same inputs developed by the Company.[5]

The Department's analysis indicates that, even if the Co-op were not to purchase any gas (zero annual throughput), GMT would maintain a small positive, before tax, cash flow given current financial assumptions **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Agreement. While the possibility of the Company experiencing **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Agreement is concerning, the financial benefits that accrue to GMT over the balance of the term of the Agreement outweigh those concerns. A second point that supports the Agreement's finances is that **[TRADE SECRET DATA HAS BEEN EXCISED].** The additional revenue associated with this potential customer would help to offset any shortfall in forecasted revenues from other customers.

[3] See Section 7.0 of the Agreement.
[4] A summary page for that scenario "base case" is included in **TRADE SECRET** Attachment 1.
[5] A summary page for the Scenario 1 contingency is included in **TRADE SECRET** Attachment 2.

A second contingency (Scenario 2) evaluated relates to the risk associated with GMT's ability to forecast its capital costs correctly. This contingency assumed a 50 percent across-the-board increase in the project's capital costs, but otherwise used the same inputs developed by the Company.[6] The results of this analysis indicate that GMT would maintain a small positive, before tax, cash flow given current financial assumptions **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Agreement. The Department estimates that Company would experience **[TRADE SECRET DATA HAS BEEN EXCISED]** under this scenario. As mentioned previously, the additional revenue that could be derived from **[TRADE SECRET DATA HAS BEEN EXCISED]** could help to remedy this issue.

A third contingency (Scenario 3) considered combined the effects of higher-than-forecasted capital costs and lower-than-forecasted volumetric revenues. The Department increased the project's capital costs by 65 percent and lowered the forecasted annual firm throughput by 65 percent. The combination of higher costs and lower revenues identified in Scenario 3 were sufficiently severe such that the project would struggle to be financially viable. The results of this analysis indicate that GMT would generate a positive before tax, year-end cash flow **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Agreement. By extension, GMT would not generate a positive before tax, year-end cash flow for **[TRADE SECRET DATA HAS BEEN EXCISED]** of the Agreement[7]. Scenario 3, like Scenarios 1 and 2, didn't include **[TRADE SECRET DATA HAS BEEN EXCISED].**

The Department's review suggests that if the project is developed as planned, GMT's ability to serve other customers and projects are unlikely to be negatively impacted. As such, the Department recommends that the Commission approve the Agreement.

III. RECOMMENDATIONS

Based on its review, the Department recommends that the Commission approve the Agreement as filed.

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[6] A summary page for the Scenario 2 contingency is included in **TRADE SECRET** Attachment 3.
[7] A summary page for the Scenario 3 contingency is included as **TRADE SECRET** Attachment 4.

Beltrami Fertile GMT
Cash Flows

	NPV @	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Cash Flows form Operating Activities:	**[TRADE SECRET DATA HAS BEEN EXCISED]**																
Net Income																	
Adjustments to reconcile net income to net cash provided by (used in) operating expenses:																	
Depreciation																	
Change in Deferred Income Tax																	
Net Cash Provided by (used in) Operating Activities																	
Capital Expenditures																	
Project Loan Proceeds																	
Principal Repayments																	
Proceeds from Paid-in Capital																	
Net Cash Flows from Investment & Financing Activities																	
Net Increase (Decrease) in Cash																	
Cash - Beginning Balance																	
Cash - Ending Balance																	

Note:
Net Plant In Service after 15 years

Beltrami Fertile GMT
Cash Flows

	NPV @	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Cash Flows form Operating Activities:	**[TRADE SECRET DATA HAS BEEN EXCISED]**																
Net Income																	
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Cash - Beginning Balance																	
Cash - Ending Balance																	

Note:
Net Plant In Service after 15 years

Beltrami Fertile GMT
Cash Flows

	NPV @	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Cash Flows form Operating Activities:	**[TRADE SECRET DATA HAS BEEN EXCISED]**																
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Cash - Ending Balance																	

Note:
Net Plant In Service after 15 years

Beltrami Fertile GMT
Cash Flows

	NPV @	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Cash Flows form Operating Activities:	**[TRADE SECRET DATA HAS BEEN EXCISED]**																
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Net Increase (Decrease) in Cash																	
Cash - Beginning Balance																	
Cash - Ending Balance																	

Note:
Net Plant In Service after 15 years

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/M-15-968

Dated this 3rd day of December 2015

/s/Sharon Ferguson

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