



Minnesota Energy Resources Corporation
2665 145th Street West
Box 455
Rosemount, MN 55068-0455

March 20, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: 90-Day Compliance Filing, Joint Service Rates

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota; Docket No. G-011/GR-13-617

Dear Mr. Wolf:

On October 28, 2014, the Minnesota Public Utilities Commission (the "Commission") issued its Findings of Fact, Conclusions of Law, and Order ("Order") in the above referenced Docket. The Order required that Minnesota Energy Resources Corporation ("MERC" or the "Company") work with the Department of Commerce, Division of Energy Resources (the "Department") to address and resolve concerns related to MERC's joint service rates and submit a compliance filing within 90 days reporting on those efforts. In particular, the Commission identified four categories for further review: (1) MERC's curtailment hierarchy as it relates to joint service rates, (2) MERC's joint service premium, (3) the cost of gas applied to load designated as firm by joint service customers, and (4) application of the interruptible distribution charge to joint service customers. The last three of these are all related to Commission staff's concern, as raised in briefing papers, that joint service customers are receiving a subsidy from MERC's general sales customers.

Pursuant to the Commission's Order, MERC has conferred with the Department with respect to the concerns raised regarding MERC's joint service rates. MERC submits this compliance filing in accordance with the Commission's Order. A discussion of each of the four issues identified in the Commission's Order is provided below.

As summarized in greater detail below, MERC is submitting a proposed revision to its tariffs with this filing to address the Commission's concerns regarding curtailment hierarchy. With respect to the subsidy concerns, while MERC believes it is in compliance with its existing tariff provisions and has properly administered its joint service rates in accordance with those tariffs, based on review of its



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tariffs and rates, MERC believes that modifications to its joint service rates and terms of service are appropriate to address the concerns raised by Commission staff and summarized in the Commission's Order.

MERC proposes to include a request to modify its joint service rates in its next rate case to address the subsidy concerns that were raised in this proceeding. MERC is currently planning to file its next rate case in 2015 and believes that a rate case is the most appropriate venue for the Commission to evaluate and approve changes to MERC's joint service rates. MERC has discussed this approach with the Department and the Department is in agreement that a rate case proceeding is the most appropriate proceeding to address the rates-related issues raised by Commission staff.

1. Curtailment Hierarchy

The Commission's Order at page 8 states "MERC's tariffs do not appear to create a separate position in the Company's curtailment hierarchy for the portion of Joint Rate Service loads designated as firm, despite other tariff provisions providing that these loads will be curtailed before those of firm customers."

As shown in Attachment A to this Compliance Filing, MERC proposes to revise its tariff Sheet No. 8.41, to clarify the position of its joint service customers' firm capacity loads in its curtailment hierarchy. Specifically, the proposed tariff amendment makes clear that unless circumstances arise that make it impossible to avoid curtailment, the Company will not curtail the firm capacity of interruptible customers receiving service under a joint service rate until all available interruptible capacity has been curtailed. Further, MERC previously included the following language in the tariffs filed in its January 21, 2015 Compliance Filing:

If a customer wishes to obtain or maintain joint gas service, the customer or the customers' brokers must provide the Company with details as to the amount of firm capacity purchased to date in a calendar year on the interstate pipeline by August 1. If a customer or its broker provides this information, the Company will take this information into account when evaluating the upcoming heating season. This information will allow the Company to reconcile the amounts purchased for firm capacity from these joint customers on the interstate pipeline with the capabilities of the Company's distribution system for the upcoming heating season.



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This process is intended to address concerns regarding unnecessary curtailment of firm-supply customers during emergencies and was included pursuant to an agreement between MERC and Intervenor-Constellation New Energy.

2. Joint Service Premium

The second issue related to joint service raised in the Commission's Order is the issue of the demand-based premium paid by joint service customers. The Commission's Order at page 9 states "It is unclear that the demand-based premium applied to load designated as firm adequately reflects interstate pipeline demand charges and hedging demand costs."

In particular, PUC staff raised the concern in briefing papers that MERC's joint service is a firm service and PUC staff believes that the service should be treated as such. According to staff, MERC's current method of charging joint service customers requires the customer to only pay a small demand based premium. PUC staff believes that the joint service premium does not adequately compensate the general sales customers for use of demand service such as: interstate pipeline and hedging demand costs. Therefore, staff concluded that a possibility exists that the joint service customers could be receiving a subsidy from general sales.

Currently, all capacity that joint service customers are receiving is first assessed the interruptible rate for that customer, the same as they would be assessed if they were an interruptible customer. The joint service customer then pays a monthly Daily Firm Capacity ("DFC") charge based on the amount of capacity that is has selected to receive as firm on a daily basis (the maximum daily quantity ("MDQ")). This DFC charge is comprised of the currently effective DFC rate plus the DFC Tariff Margin rate, which is then multiplied by the joint service customer's MDQ. This DFC charge is assessed to the customer on a monthly basis. The premium charged goes directly back to the benefit of the general service customers and is meant to offset interstate pipeline demand charges and hedging demand costs in order to prevent a situation where general service customers are subsidizing the firm capacity of joint service customers.

MERC has calculated its Non-Margin DFC charge in Docket No. 13-732 for both MERC-Consolidated and MERC-NNG. The non-margin DFC charge is calculated by dividing the total demand costs by MERC's total demand weighted volume in therms, i.e. annualized demand entitlements. The non-margin DFC charge is applied to each converted joint service customer's MDQ as a monthly charge. MERC credits back the non-margin DFC revenues through the PGA, which provides a benefit to all firm general sales customers by lowering the rates.



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While MERC continues to believe, based on its review and consultation with the Department, that it is in compliance with its tariff provisions and has properly administered its joint service in accordance with those tariffs, MERC also agrees with staff that adjustments to the joint service to ensure that joint service customers fully cover the cost of interstate pipeline and hedging demand costs may be appropriate. MERC therefore proposes to make adjustments to its joint service rates in its next rate case proceeding. Specifically, one possible approach to modify joint service rates, which MERC believes could address the concerns raised by Commission staff would be to apply the monthly demand charge associated with general service customers to all therms that a joint service customer receives as firm. Under this approach, joint service customers would pay the same demand price as general service customers for any amount of firm capacity that those customers have reserved. This adjustment would be achieved by modifying the way in which a joint service customer is charged for its therms of firm capacity. Instead of paying a blanket monthly amount for the amount of firm capacity, the firm capacity would be divided over the course of the month as if the customer was receiving a set amount of firm capacity per day. For example, if a customer has elected to receive 100 therms of firm capacity, the first 100 therms received through that customer's meter, divided by 30 days in a month, would equate to the customer paying the monthly demand charge associated with general service customers for its first 3.33 therms of gas received per day.

Because any modification to the joint service customers' rates should be considered in the context of all MERC rates and with allowances for appropriate comments by all interested parties, MERC believes this issue is best addressed in its next rate case, which MERC has previously indicated will be filed in 2015. Further, such a change is best implemented during a rate case because it would require a billing system change as well as conversion of some customers to telemetry. These significant modifications are best addressed in the context of a rate case.

3. Cost of Gas

The third issue raised in the Commission's Order is whether the cost of gas applied through the Purchased Gas Adjustment ("PGA") to load designated as firm adequately reflected the cost of gas, given the interstate pipeline demand charges and hedging demand costs normally passed through the PGA.

The DFC base rate and the currently effective DFC rate used to calculate a joint service customers DFC charge are both calculated via the PGA. The DFC base rate is calculated by dividing the sum of the total annual demand costs by the total quantity of annual demand contracts, resulting in a dollar per therm, per month rate for each therm of MDQ. This DFC base rate is adjusted via the PGA process. The current effective DFC rate is calculated by dividing the sum of the total current annual demand costs by the total *current* quantity of annual demand contracts, resulting in an average dollar



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per therm, per month, rate for each therm of MDQ. The difference between the DFC base rate and the current effective DFC rate is the DFC PGA factor. Because the revenues collected via the assessment of the current effective DFC Total Tariff Rate is included as a component of the PGA, it is credited back to cost of gas, and thus credited back to system customers.

As discussed above, MERC acknowledges that certain modifications to its joint service rates may be appropriate. Because the joint service premium and cost of gas discussions are so closely linked, MERC believes the solution proposed in the above section discussing the joint service premium is also the method for resolving staff's cost of gas concerns. By assessing the monthly demand charges associated with general service customers to the number of therms that a joint service customer has designated as firm, the cost of gas applied through the Purchased Gas Adjustment ("PGA") to those therms designated as firm by those customers will more closely reflect the cost of gas for that firm capacity. Again, consistent with its previous discussion, MERC proposes that this resolution is best sought in its next rate case, which MERC plans to file in 2015.

4. Distribution Charge

The Commission stated that it was unclear that the interruptible distribution charge remained the appropriate distribution charge for joint service customers. Specifically, staff expressed concern that general sales customer are paying a \$0.11048 distribution charge, while the interruptible customer pays a \$0.03568 distribution charge. Staff proposed that the joint service be treated as firm, and, as such, those customers should be paying for the service as general sales customers rather than interruptible service customers.

Joint service customers are essentially interruptible customers that are choosing to pay a premium to designate a portion of their capacity as firm. Joint service customers are not entitled to the same rights as general service firm customers, and MERC's first priority via the previously discussed hierarchy is still general firm customers. Therefore, because joint service customers fall into a different priority (as reflected in issue 1 above and the corresponding tariff revisions), MERC believes that it has been appropriate for the base distribution charge to be that of an interruptible customer

While MERC's review found that the interruptible distribution charge is the appropriate distribution charge for joint service customers, it understands staff's concern. Based on MERC's review of the distribution charge and its Class Cost of Service Study, MERC believes that while changes may be appropriate in the next rate case, equating joint service customers to general service customers for purposes of setting the appropriate distribution rate may not be appropriate for the reasons discussed above. However, modifying the way in which a joint service customer is charged for the local



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distribution service for the firm daily portion of gas delivered by MERC may be more appropriate. Under this approach, which is similar to the methods proposed above, joint service customers would pay a distribution service price that would recover the same type of costs as recovered from a general service customer for any amount of firm capacity that those customers have reserved. MERC proposes that any additional review of the appropriateness of this distribution charge take place in its next rate case, which it plans to file in 2015.

The following schedules are attached to this compliance filing as described above:

Schedule A – Redlined and Clean versions of tariff sheets

Please contact me at (920) 433-2926 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Seth DeMerritt".

Seth DeMerritt
Rate Case Consultant

Schedule A

Revised Tariff Sheet No. 8.41

Redline Tariff Sheet No. 8.41

GENERAL RULES, REGULATIONS, TERMS AND CONDITIONS

16. CONTINUOUS SERVICE POLICYA. Priority of Service

Company will make every reasonable attempt to maintain continuous gas service to customers. The following priorities will be followed when operational and supply conditions require service interruptions with highest priorities listed first:

1. General Service Customers.
2. Small Volume Firm.
3. Large Volume Firm.
4. Joint Service Customers' Firm Capacity.
- ~~5~~4. Small Volume Interruptible.
- ~~6~~5. Large Volume Interruptible.

B. Curtailment of Service to Interruptible Customers

1. Standard Order of Curtailment: When in the opinion of the Company it becomes necessary to curtail or interrupt service to any of the Company's Interruptible Customers, such service shall be interrupted in the following order to protect deliveries to General Service Customers:

First: Large Volume Interruptible Customers.
Second: Small Volume Interruptible Customers.

Company must comply with curtailment plans, orders, definitions and classifications as set out in Federal Energy Regulatory Commission Gas tariffs of wholesale pipeline suppliers and in the rules and orders of regulatory or governmental bodies having jurisdiction. Further, unless circumstances arise that make it impossible to avoid curtailment, the Company will not curtail the firm capacity of interruptible customers receiving service under a joint service rate until all available interruptible capacity has been curtailed.

2. Partial Curtailment: Where curtailment of only part of the deliveries of gas under similar interruptible classification is necessary, all customers under such classification will over a reasonable period of time, be treated alike so far as practicable.
3. Unauthorized Overrun Deterrent and Liquidated Damages Charge: In the event an interruptible customer takes any volume of gas in excess of authorized limitations ordered by the Company, the customer shall be billed an overrun deterrent and liquidated damages charge. Such charge shall be that amount set out in the rate schedule or contract and will be in addition to the normal rate for volumes consumed. The only exceptions shall be when the volumes were taken because of a force majeure operating situation of the customer as defined in his contract or rate schedule.

Issued By: ~~DM Derricks~~Jim Schott
Asst. Vice President, Regulatory Services

Submittal Date: March 20, 2015

*Effective with bills issued on and after this date.

*Effective Date:
Proposed Effective Date:

Clean Tariff Sheet No. 8.41

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AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 20th day of March, 2015, on behalf of Minnesota Energy Resources Corporation, she electronically filed a true and correct copy of the attached Compliance Filing www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny _____
Kristin M. Stastny

Subscribed and sworn to before me
This 20th Day of March, 2015.

/s/ Alice Jaworski
Notary Public, State of Minnesota

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