Public Document

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: **July 10, 2014 .... * Agenda Item # 5**

Companies: Greater Minnesota Transmission, LLC (GMT) & Northern States Power Company d/b/a Xcel Energy (Xcel)

Docket No. PL-6580, G-002/M-14-386
In the Matter of Greater Minnesota Transmission, LLC's Petition for Approval of a Firm Gas Transportation Agreement with Northern States Power Company d/b/a Xcel Energy

Issue: Should the Commission approve the Firm Gas Transportation Agreement between Greater Minnesota Transmission, LLC, and Northern States Power Company, a Minnesota corporation d/b/a Xcel Energy?

Staff: Robert Harding 651-201-2237

Relevant Documents

GMT – Petition (NON-PUBLIC) .... May 8, 2014
City of Barnesville – Letter ....May 22, 2014[1]
Department – Comments (NON-PUBLIC) ....Jun. 9, 2014
GMT – Reply Comments...Jun. 11, 2014

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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July 7, 2014

[1] This document was eFiled on May 22 and is dated May 19, 2014.

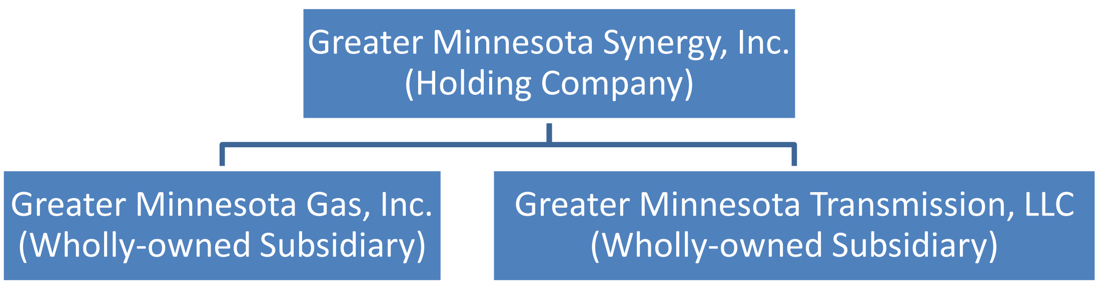
Statement of the Issue

Should the Commission approve the Firm Gas Transportation Agreement between Greater Minnesota Transmission, LLC, and Northern States Power Company, a Minnesota corporation d/b/a Xcel Energy?

Background

On May 8, 2014, Greater Minnesota Transmission, LLC ("GMT") filed a petition requesting approval of a Firm Gas Transportation Agreement ("Agreement") between GMT and Northern States Power Company, a Minnesota corporation d/b/a Xcel Energy ("Xcel"), pursuant to Minn. Stat. § 216B.045.

GMT is wholly owned by Greater Minnesota Synergy as is its affiliate Greater Minnesota Gas, a natural gas distribution company that provides service to approximately 5,300 customers in Minnesota.



GMT owns and operates two other intrastate pipeline segments in Minnesota. The first line GMT built is a thirteen-mile, sixteen-inch diameter, high-pressure pipeline that was built to transport natural gas from the Northern Natural Gas Company ("Northern") pipeline, at Northern's East Farmington town border station (located south of Coates, Minnesota in Dakota County), to the Canon Falls Energy Center (located on the northwest edge of Cannon Falls, Minnesota in Goodhue County). At the time this pipeline was put into service, Xcel Electric was this pipeline's only customer.[2]

The second GMT line is a lateral built as an extension from the original GMT intrastate pipeline. This lateral is a 23 mile line that runs from a new town border station on the main transmission line to one or more points on Prairie Island. Xcel and the Prairie Island Indian Community (PIIC) have intrastate pipeline contracts to use this lateral. GMG provides distribution service along the route of the GMT extension and Xcel provides distribution service to the PIIC as well as Xcel's own facilities.[3]

[2] Please see Docket Nos. PL-6580/M-06-1063 (GMT/Xcel) and PL-6580/M-08-190 (GMT/Xcel)

[3] Please see Docket Nos. PL-6580/M-13-91 (GMT/PIIC), PL-6580, G-022/AI-13-94 (GMT/GMG), and PL-6580/M-13-266 (GMT/Xcel)

The transmission main (lateral) that will be built for the project at issue in this docket is not physically connected to GMT's two lines described above.

Xcel Energy's gas utility is the counterparty to this proposed intrastate contract. This contract was filed and docketed under both companies' names but this request for approval of the contract does not appear to be a joint petition from GMT and Xcel, and Xcel has submitted no comments in this docket.

GMT's Barnesville Line

The Agreement obligates GMT to build a new 36 mile natural gas transmission line, 8" or less in diameter, operating at no more than 100 psi, from Hawley, Minnesota to several different interconnection points near Barnesville, Minnesota where natural gas will be delivered to Xcel Energy.[4] Because this line will be less than 50 miles long and has a proposed operating pressure that is less than 200 psi, this new line does not appear to meet the definition of large energy facility pursuant to Minn. Stat. § 216B.2421, subd. 2(5), and therefore does not appear to need a certificate of need. This line also does not appear to meet the definition of a pipeline under Minn. Stat. § 216G.02, subd. 1(2) because it will be operated at a pressure of less than 275 psi and therefore does not appear to need a routing permit from the Commission.

Xcel intends to transport natural gas on this pipeline to a distribution system Xcel plans to build and operate in Barnesville, Minnesota and the surrounding area. Barnesville, Minnesota and the surrounding area is not currently served by any other natural gas supplier.[5]

The Agreement obligates Xcel to pay GMT for the pipeline over a 15 year term starting on the later of September 1, 2014 or the date the pipeline becomes operational. The Agreement also gives Xcel the right to extend service on the pipeline for an additional 15 years.

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[4] In response to discovery from the Department, GMT indicated that the majority of the pipeline will be constructed with high-density polyethylene ("HDPE") pipe, with a small component being constructed with steel coated ("SC") pipe. The chart below identifies the distance and diameter of the pipe:

- 123,670 feet of 8" HDPE pipe (approx. 23.4 miles)
- 13,500 feet of 6" HDPE pipe (approx. 2.6 miles)
- 56,100 feet of 3" HDPE pipe (approx.. 10.6 miles)
- 200 feet of 8" SC pipe (used for a railroad crossing) (approx.. 04 miles)

All of the HDPE pipe for the project is designed and will be tested and installed to operate at 100 psi. Initially, the pipeline will operate at 90 psi. (Please see exhibit A, attached.)

[5] Barnesville is in Clay County on Interstate 94 between Fergus Falls and Morehead. According to Wikipedia, the population of Barnesville was 2,563 and there were 1,013 households at the 2010 census. According to Wikipedia, Barnesville is considered a bedroom community to the Fargo-Moorhead metro area.

Minn. Stat. § 216B.045. Regulation of Intrastate Natural Gas Pipeline.

The first four subdivisions of this statute are relevant to this petition:

Subd. 1. Definition of intrastate pipeline.
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.

Subd. 2. Reasonable rate.
Every rate and contract relating to the sale or transportation of natural gas through an intrastate pipeline shall be just and reasonable. No owner or operator of an intrastate pipeline shall provide intrastate pipeline services in a manner which unreasonably discriminates among customers receiving like or contemporaneous services.

Subd. 3. Transportation rate; discrimination.
Every owner or operator of an intrastate pipeline shall offer intrastate pipeline transportation services by contract on an open access, nondiscriminatory basis. To the extent the intrastate pipeline has available capacity, the owner or operator of the intrastate pipeline must provide firm and interruptible transportation on behalf of any customer. If physical facilities are needed to establish service to a customer, the customer may provide those facilities or the owner or operator of the intrastate pipeline may provide the facilities for a reasonable and compensatory charge.

Subd. 4. Contract; commission approval.
No contract establishing the rates, terms, and conditions of service and facilities to be provided by intrastate pipelines is effective until it is filed with and approved by the commission. The commission has the authority to approve the contracts and to regulate the types and quality of services to be provided through intrastate pipelines. The approval of a contract for an intrastate pipeline to provide service to a public utility does not constitute a determination by the commission that the prices actually paid by the public utility under that contract are reasonable or prudent nor does approval constitute a determination that purchases of gas made or deliveries of gas taken by the public utility under that contract are reasonable or prudent.

How Rates are Set for Interstate Natural Gas Transmission Pipelines[6]

With limited exceptions, when FERC authorizes an interstate transmission pipeline's rates under section 4 of the federal Natural Gas Act, those rates are established using one of the following methodologies:

1. The cost-of-service method requires that a pipeline operator submit cost and revenue data supporting a requested rate. The operator is allowed an opportunity to recover its cost of providing service and earn a reasonable return on its investment.

2. The negotiated rate method allows an operator to charge a rate that is agreed upon by the pipeline operator and a shipper. To safeguard against unequal bargaining power, the shipper must have the option to select service under the pipeline operator's "recourse rate" that is based on the pipeline's cost of service.

3. The market-based rate method may be employed when an operator can demonstrate that it lacks market power. In these circumstances, an operator is authorized to charge rates consistent with market conditions. Some interstate pipeline operators have market-based storage rates.

Parties Positions

Greater Minnesota Transmission, LLC

According to GMT, on pp. 4-5 of its petition

> The Agreement between GMT and Xcel at issue herein will facilitate a natural gas system that provides the benefits of natural gas to rural Minnesotans who are currently unable to access it and who have been trying to acquire natural gas service for decades. ....
>
> The Agreement is the result of a cooperative effort by GMT and Xcel to reach the affected unserved communities. It is the result of an arm's length negotiated transaction between GMT and Xcel; and, its terms are substantially similar to those in previously-approved contracts for transport near Cannon Falls and Prairie Island. The financial terms of the Agreement reflect pricing based on the estimated cost to complete the new construction necessary to support project to transport gas to the new interconnects with Xcel, with such costs being recovered through both demand charges and commodity charges. It further contemplates accepting delivery of Xcel's gas at the Hawley town border station receipt point and redelivering the gas to Xcel at various receipt points, thereby facilitating Xcel's ability to serve its new retail customers in Barnesville. ...

[6] Adapted from: Ratemaking for Energy Pipelines, American Gas Association, 2013

> Since both GMT and Xcel executed the Agreement as reflected in Exhibit A, it is a foregone conclusion that both companies determined that each company will benefit from the Agreement being instituted. In addition, given the mutual execution of the Agreement, a reasonable inference can be made that the rates identified therein are both reasonable and borne of market-based negotiation. ....
>
> GMT's existing customers would not see any adverse impact as a result of the proposal. Moreover, GMT will benefit from the Agreement by increasing its gross revenue and expanding its intrastate transmission capability. Given the unique opportunity and long-term nature of the Transport Agreement, GMT seeks Commission approval of its proposal so that it may ensure recovery of all reasonable and prudent costs associated with the project while assisting Xcel in bringing natural gas to the Barnesville community.

Department of Commerce

In its analysis of GMT's request for approval of the Agreement, the Department appears to agree that GMT meets the statutory definition of an intrastate pipeline and that Minn. Stat. § 216B.045, entitled "regulation of intrastate natural gas pipeline," applies to GMT's proposal.

The Department believes the proposed language, i.e. the terms and conditions of service, and rate design in the Agreement with Xcel are fairly standard and therefore reasonable. According to the Department,

> ... 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. [Department, comments, p. 3]

The Department also believes GMT's proposed Agreement with Xcel fulfils the requirement that service be provided on an open access, non-discriminatory basis. Because GMT states in its petition that it is willing to negotiate with other potential retail natural gas distributors and terms and conditions in this agreement are similar to the terms and conditions in the contracts the Commission has approved for GMT on its other intrastate pipelines, the Department believes GMT is "unlikely to unreasonably discriminate among customers receiving like services if such a situation" were to arise.

The Department also believes the proposed effective date for the Agreement between GMT and Xcel is not inconsistent with the "regulation of intrastate natural gas pipeline" statute. If approved, the Agreement requires GMT to begin providing service, and obligates Xcel to take service, on the later of: (1) September 1, 2014, or (2) the in-service date for this new pipeline.

The Department also said that its

> ... 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."
>
> 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. [DOC, comments, p. 4]

The Department recommended

> ... 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. [Department, comments, p. 4]

Greater Minnesota Transmission, LLC

In its June 11 letter, GMT stated

> GMT appreciates the Department's carefully considered analysis and its recommendation that the Commission approve the Agreement. GMT submits that no additional issues require discussion prior to the Commission's consideration. [GMT, Letter, p. 1]

Staff Comment

GMT's request for an expedited proceeding

GMT asked the Commission to act quickly to enable GMT to build this line and to facilitate Xcel's ability to provide service in Barnesville this winter. Staff believes the Commission has broad flexibility to determine what procedures are appropriate for acting on this petition. Staff notes that GMT submitted a petition on July 2, 2014 asking for approval of a second intrastate pipeline contract on the Barnesville line with West Central Ag Services, located in Ulen, Minnesota.[7] GMT has asked the Commission to act quickly on its contract with West Central Ag Services.[8]

Nevertheless, it is unclear from this record what Xcel's position is with respect to the Department's recommendation

> ... 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 ... [DOC, comments, p. 4]
>
> and
>
> ... 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. [Department, comments, p. 4]

Except for being the counterparty to the contract at issue in this docket, Xcel has been silent in this proceeding and has not yet filed its proposal for a new area surcharge (NAS).

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[7] As of July 3, 2014, GMT's request for approval of the West Central Ag Services contract is in eDockets under Docket No. G-022/M-14-342 where it appears to have been misfiled.

[8] GMT asked the Commission to treat its petitions as "expedited proceedings" under Minnesota Rules, Part 7829.1200. Staff does not believe these matters meet the definition of an "expedited proceeding" under Minn. Rules, Part 7829.0100, subp. 7, which states:

> Subp. 7. Expedited proceeding. "Expedited proceeding" means an informal proceeding described in Minnesota statutes, section 237.61, and subject to specific procedural requirements such as verification of pleadings.

These petitions are clearly not described in Minn. Stat. §237.61, a telecommunications statute; there are specific provisions in Chapter 237 that require or allow for expedited proceedings. GMT's pleadings are not verified, nor are the Department's or any of the public comments. As a practical matter, however, the GMT/Xcel contract is now before the Commission, notice has been given, and the Commission can proceed to act on the GMT/Xcel contract without labeling this process as "expedited".

GMT's representative did not respond to staff's question when asked if GMT was able to speak on Xcel's behalf with respect to the Department's recommendation in this docket, the details of Xcel's NAS proposal for this project, or Xcel's currently authorized NAS tariff.

Are the proposed rates in the GMT/Xcel contract sufficient to financially support this project?

The rates GMT proposes to charge Xcel are considerably higher than a normal, interstate pipeline rate or the rate that a pipeline would charge to build out its system on an incremental basis without rolled-in-rate treatment for the expansion. There are several possible reasons for this including interstate pipeline economies of scale which would lower the average cost of service for an interstate pipeline.

Staff also notes that on a per therm basis, the proposed rates in GMT's contract, if charged only to customers connected to this pipeline would be much higher than Xcel's or GMG's current demand rates which recover all (or at least most) of Xcel's and GMG's demand (pipeline) costs respectively.

Because GMT is not required by statute to set its rates using a cost-of-service/rate of return model, staff can only assume that GMT will recover its costs or at least break-even financially, over the life of this contract. Staff also assumes that GMT has not put its other pipelines or its affiliate, GMG, at risk because of this project. Staff believes this is a concern because GMT experienced financial difficulties with the first line it built (to transport gas to the Canon Falls Energy Center) when GMT's lenders initiated foreclosure proceedings. GMT was eventually able to restructure its finances and buy the mortgage back from the bank.[9] GMT, and GMT's affiliate, GMG, appear to be financially stable at present.[10]

Staff also notes that GMT filed a request on July 2, 2014 for approval of a second contract on this pipeline to provide transportation service to West Central Ag Services located in Ulen, Minnesota. However, GMT has not asked to reduce the rates it proposes to charge Xcel under the terms of the contract in this docket as a result of this new customer. If the Commission decides to approve GMT's contract with Xcel, it may want to condition its approval on Xcel demonstrating the prudence and reasonableness of its cost recovery proposal for this contract before authorizing Xcel to recover those costs.

Are the proposed rates in the GMT/Xcel contract just and reasonable?

The Department believes the proposed language, i.e. the terms and conditions of service, and rate design in the Agreement with Xcel are fairly standard and therefore reasonable. Staff is not sure about the basis of comparison that the Department used to arrive at this conclusion. For example, is the comparison based on GMT's other contracts, contracts on other intrastate pipelines or contracts on interstate pipelines?

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[9] In the Matter of Greater Minnesota Gas, Inc.'s Financial Integrity, Docket No. G-022/M-09-1172

[10] In the Matter of the Petition of Greater Minnesota Gas, Inc. (GMG) for Approval of 2014 Capital Structure and Permission to Issue Securities, Docket No. G-022/S-13-1169

Staff made some very rough estimates of what residential customer bills in Barnesville would be using various assumptions and under various scenarios and compared those to the rates currently charged by GMG, Xcel and the other two large Minnesota LDCs. Staff used 75 therms (or 900 therms per year) to estimate a monthly bill and June 2014 PGA filings. These estimated monthly bill amounts do not include rates after pending rate increase requests are implemented in the CenterPoint or MERC rate cases or the Xcel's gas utility infrastructure cost recovery rider. The estimated bill amounts also do not include taxes, franchise fees, other miscellaneous riders such as the GAP surcharge.

In addition, the estimated monthly amount of $14.00 per month for the GMT surcharge is a very rough estimate based on numerous assumptions including expected load factor. All of the financial information about GMT in the petition involving costs, rates, etc. is claimed to be non-public, however staff does not believe anything specific about the project can be inferred from the $14.00 per month estimate. It does not appear to staff that Xcel proposes to include the cost of the GMT line in its $25.99 NAS surcharge, however, Xcel has not said anything about that on the record in this proceeding.

Neither GMT or Xcel has provided the estimated cost of propane or heating oil over the life of this project.

Company	Estimated net monthly bills (75 therms/month)	
CenterPoint Energy	$60.58	June 2014 PGA - #14-464
Xcel Energy	$60.78	June 2014 PGA - #14-447 (adjusted)
MERC-Consolidated	$62.74	June 2014 PGA - #14-451
MERC-Northern Natural	$72.23	June 2014 PGA - #14-452
Greater Minnesota Gas	$90.94	June 2014 PGA - #14-518

Xcel + GMT + Xcel New Area Surcharge		
Xcel	$60.78	June 2014 PGA - #14-447 (adjusted)
Plus GMT	$14.00	Estimated
Plus Xcel New Area Surcharge	$25.99	
Estimated net monthly bill	$100.77	

Greater Minnesota Gas + GMT		
Greater Minnesota Gas	$90.94	June 2014 PGA - #14-518
Plus GMT	$14.00	Estimated
Estimated net monthly bill	$104.87	

Staff's main concern is that this project appears to be the size of a local distribution company (LDC) transmission main or lateral rather than an interstate pipeline. Staff believes that ideally, the cost of this project could (and perhaps should) be part of a GMG or Xcel new area surcharge rather than a separate surcharge or part of GMG's or Xcel's purchased gas costs.

With a New Area Surcharge, each customer pays his or her share of the extra cost of the extension over a 15 year period. The customer payments are treated as a contributions-in-aid-of-construction and at the end of the 15 year period, when the project is paid for, the new area surcharges stop. If the cost of the extension is recovered prior to the end of the 15 year period, the surcharge stops.

According to statements made by Xcel at its annual meeting and information on Xcel's website, Xcel is proposing a new area surcharge of $25.99 per month but does not explain what is included in the $25.99 per month surcharge. (Please see exhibit B, attached.) Xcel's New Area Surcharge tariff only applies to retail margin revenue. The assumption in the New Area Surcharge model is that the cost of any laterals to bring gas from the interstate pipeline to the new area will be included in the new area surcharge and will be recovered over a 15 year period. After the cost of the new laterals and any excess costs associated with building out the distribution system are recovered or at the end of the 15 year term of the surcharge, whichever comes first, the new area surcharge stops.

Because there is an option to renew this contract after the initial 15 year term, it appears GMT and Xcel may not be planning to include the cost of the GMT pipeline in Xcel's New Area Surcharge for Barnesville. Because Xcel has not submitted its proposal, it is unclear what Xcel proposes to do with the cost of using the GMT Barnesville line. It appears GMT and Xcel could be planning to make the cost of this contract a permanent feature of Xcel's Barnesville rates, through an adjustment to Xcel's PGA for this specific group of customers, or, alternatively, Xcel may propose to roll the cost of using this line into the PGA charged to all of its customers, including its customers in North Dakota. If the load factor and use of this line were high enough, it could possibly lower Xcel's average the cost of gas rather than increase its average cost of gas, however, that seems very unlikely.

However, there is no proposal yet from Xcel. Absent a proposal from Xcel, staff cannot tell whether the conditions proposed by the Department and agreed to by GMT protect potential future customers of Xcel in Barnesville from paying unnecessarily high rates over an extended period of time or permanently. There are two reasons for this. The Department appears to assume Xcel will include the cost of the GMT contract in its new area surcharge and will propose to treat those payments as contributions-in-aid-of-construction rather than try to include the cost of the GMT contracts in its purchased gas costs.

The other problem with allowing Xcel to recover the cost of this contract through its purchased gas cost rider is that the proposed rate in this contract is not a "cost-of-service" based rate. The cost of this contract might be lower if they were set on a cost-of-service basis using a normal amount of depreciation and might be much lower after 15 years.

Related GMT & GMG compliance issues

As of July 2, 2014, GMT had not filed its Annual Jurisdictional Report (AJR), pursuant to Minn. Rules, parts 7825.4700 through 7825.5400. Staff brings this up because the annual jurisdictional report provides a comprehensive picture of the company's financial situation. (Please see Minn. Rule, part 7825.5300.) That could be useful, given that GMT does not establish its rates using a traditional cost-of-service, rate of return, model or a traditional rate case process. The ability to provide accurate, comprehensive and timely financial information and statements is also an indicator of how well the company is able to function in a regulated environment.

GMT's AJR was due on May 1st, in Docket No. E,G-999/PR-14-04. On April 30, 2014, GMT requested an extension explaining that it was undergoing an audit and that it would probably be able to file its report on or before June 1, 2014. Granting this extension request would require the Commission to grant a variance to Minn. Rule, part 7825.4800. GMT did not explain why it would be in the public interest to grant the variance. And, even if the variance had been acted upon and granted for the requested 30 days, the report should have been filed over a month ago.

Decision Alternatives

1. Approve the Agreement between GMT and Xcel, or

2. Approve the Agreement between GMT and Xcel subject to the condition that any and all costs billed to Xcel Energy under this 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, (Department recommendation, GMT accepts), or

3. Approve the Agreement between GMT and Xcel subject to the condition in alternative two above, and also require that Xcel's new area surcharge (NAS) for the Barnesville area not be in effect for longer than the 15 year term currently permitted in the Xcel NAS tariff, or

4. Take no action on GMT's request until after Xcel submits its New Area Surcharge proposal for Barnesville so that the two dockets can be evaluated together, or

5. Reject GMT's request.

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Fax (507) 665-2588

May 14, 2014

VIA ELECTRONIC TRANSMISSION ONLY
TO alex.hofschulte@state.mn.us

Mr. Alexius M. Hofschulte
MN Department of Commerce
85 7th Place East, Suite 500
St. Paul, MN 55101-2198

RE: DOCKET NO. PL6580,G002/M-14-386
Firm Gas Transportation Agreement between GMT and NSP

Dear Mr. Hofschulte:

Attached hereto, please find Greater Minnesota Transmission's ("GMT's") responses to the Department of Commerce's Information Request Numbers 1—4 in the above-referenced docket. As requested, each response is a separate file in a searchable PDF format. As the analyst did not request anything on CD-ROM, no postal mailing will follow.

For ease of identification, GMT incorporated its responses with each Information Request and, as such, each identifies the appropriate docket number, request number, requesting analyst, and responding party's information. GMT's responses to Information Request No. 3 and Information Request No. 4 contain trade secret/privileged information and, as you requested, a trade secret version and a public version of each is submitted.

Thank you for your assistance in directing the responses to Mr. Kunder. Please do not hesitate to contact me should you have any questions or concerns or if you require additional information. My direct dial number is (507) 665-8657 and my email address is kanderson@greatermngas.com.

Sincerely,

GREATER MINNESOTA TRANSMISSION, LLC

/s/
Kristine A. Anderson
Corporate Attorney

Enclosures

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: PL6580,G002/M-14-386 Date of Request: May 13, 2014

Requested From: Kristine Anderson Response Due: May 23, 2014

Analyst Requesting Information: John Kundert

Type of Inquiry:			
	[ ] Financial	[ ] Rate of Return	[ ] Rate Design
	[x] Engineering	[ ] Forecasting	[ ] Conservation
	[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
1	Please provide a map that identifies the route for the proposed pipeline.

GMT RESPONSE:

A map of the proposed pipeline route is attached hereto for your reference. For your information, the proposed route will require two private easements. Both landowners have agreed to provide the easements because both want to benefit from the availability of natural gas to serve their grain operations.

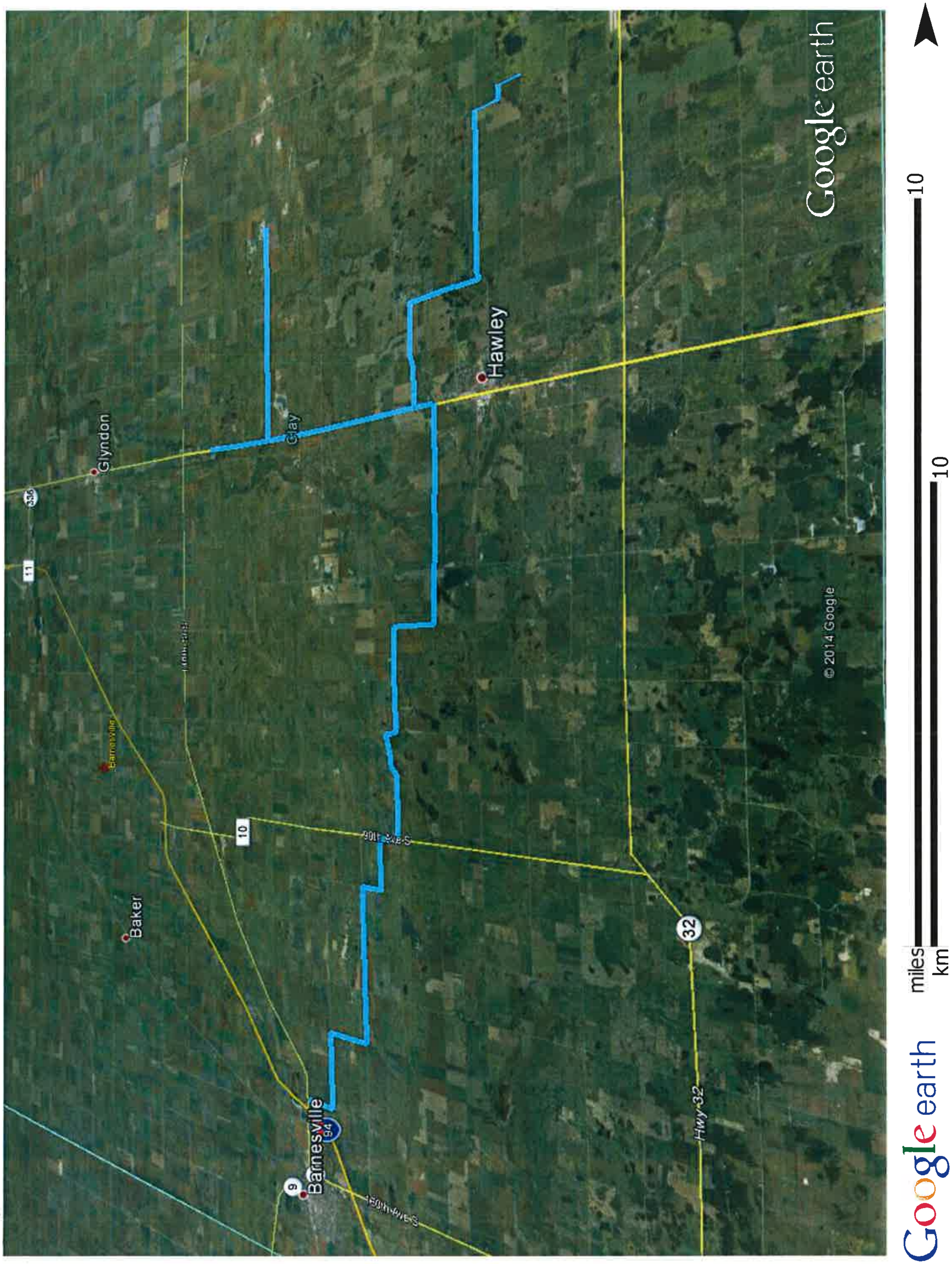
Response by: Kristine Anderson

List sources of information:

Title: Corporate Attorney

Department:

Telephone: 507-665-8657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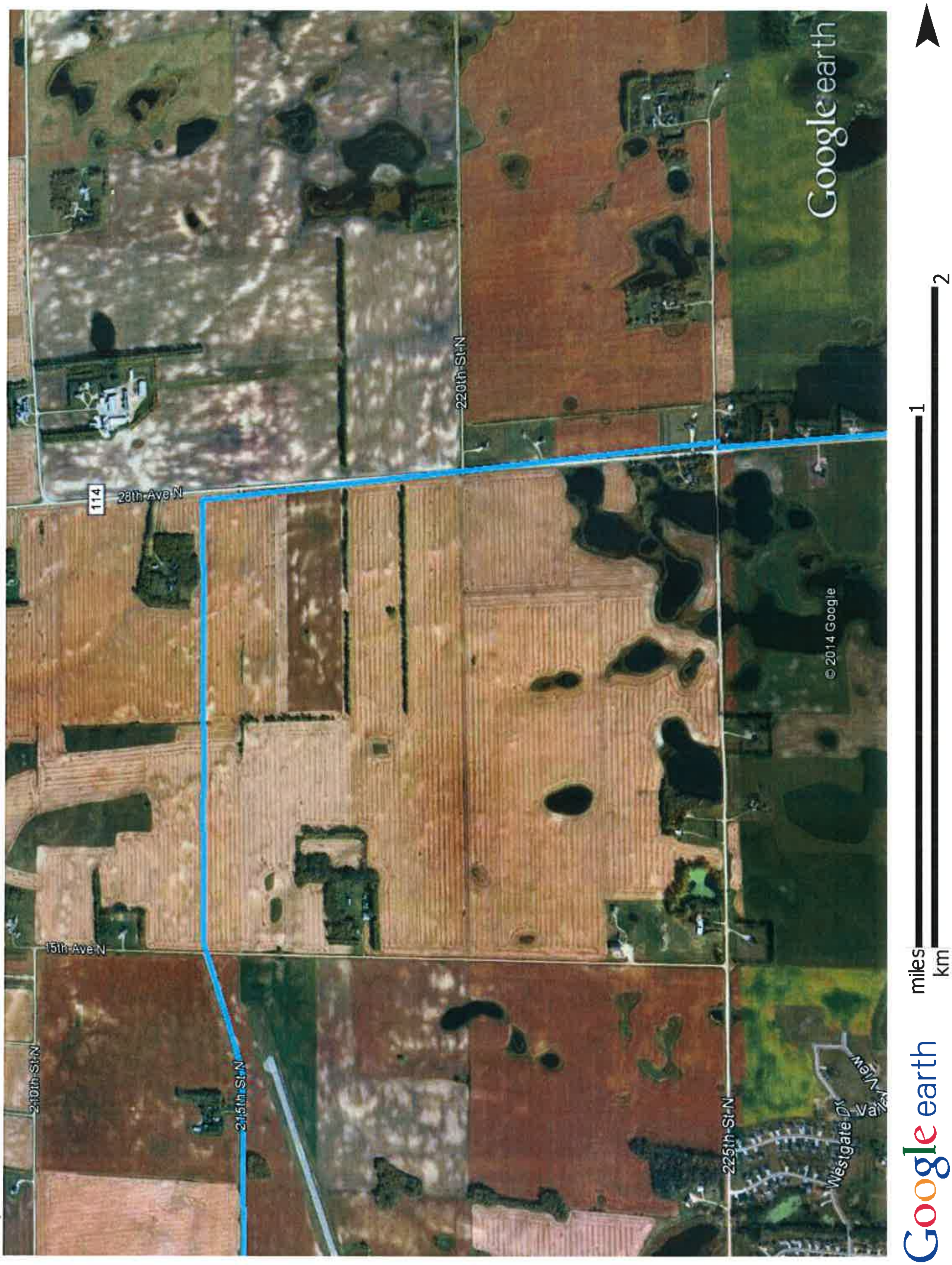

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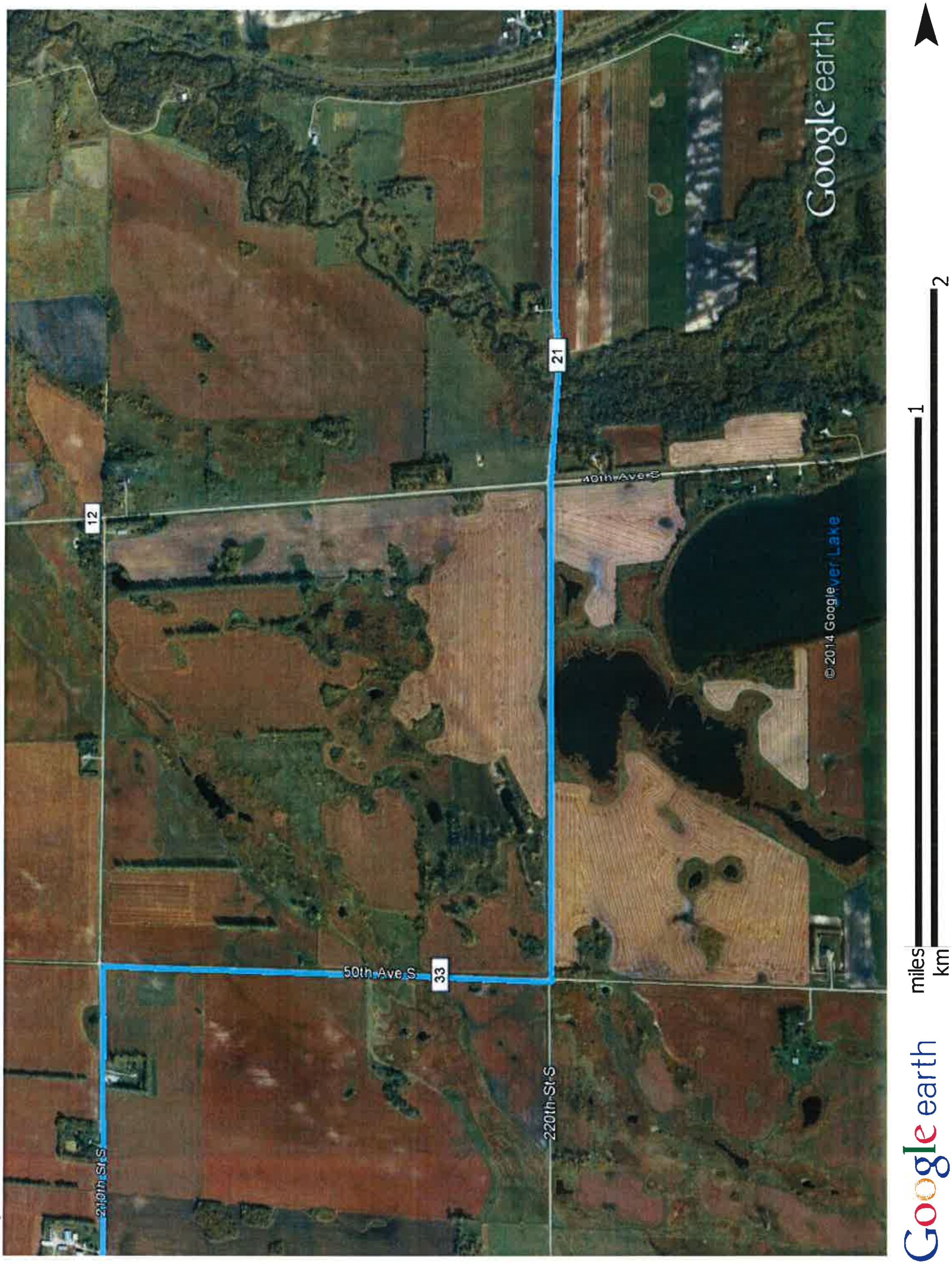
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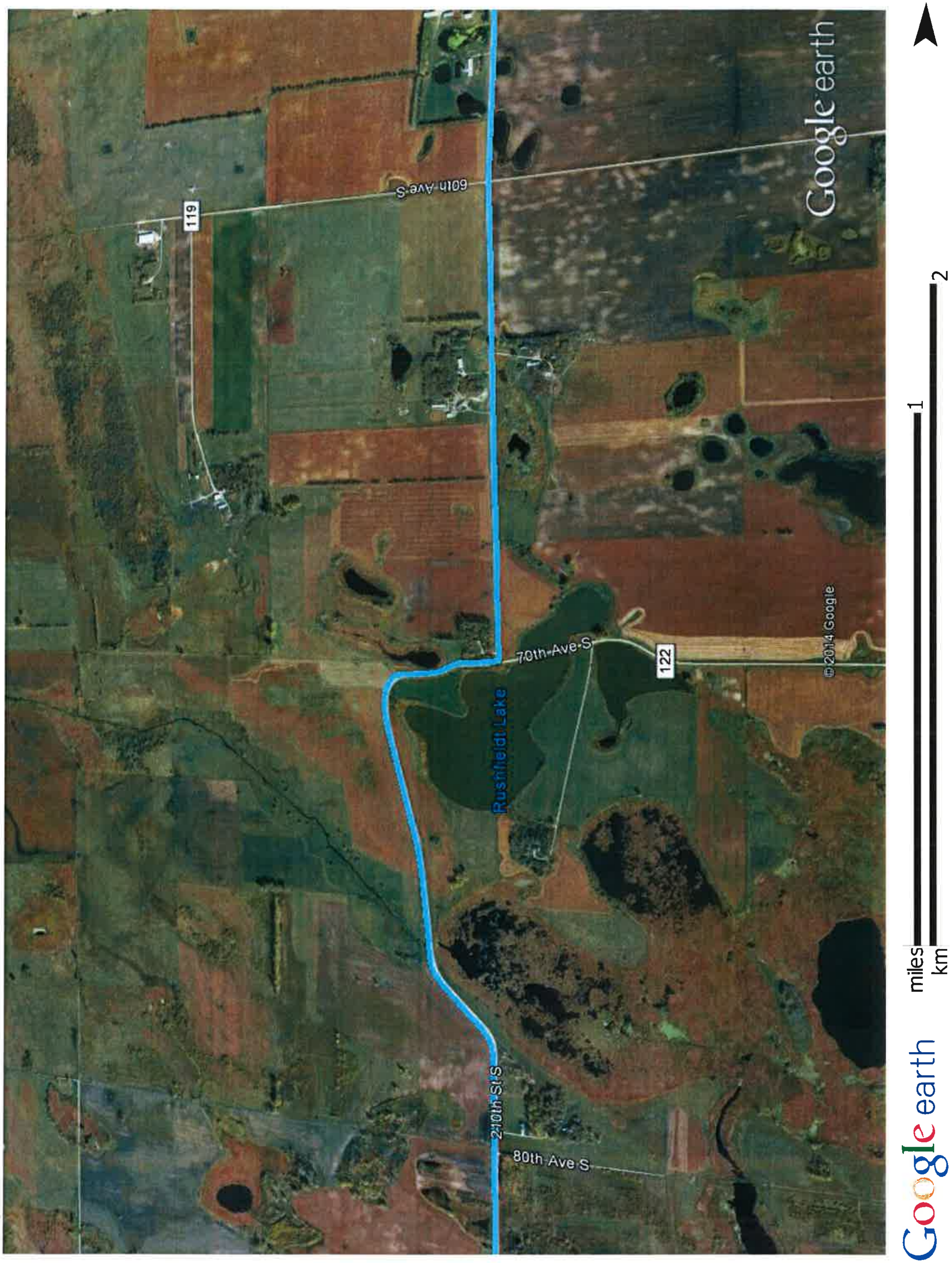
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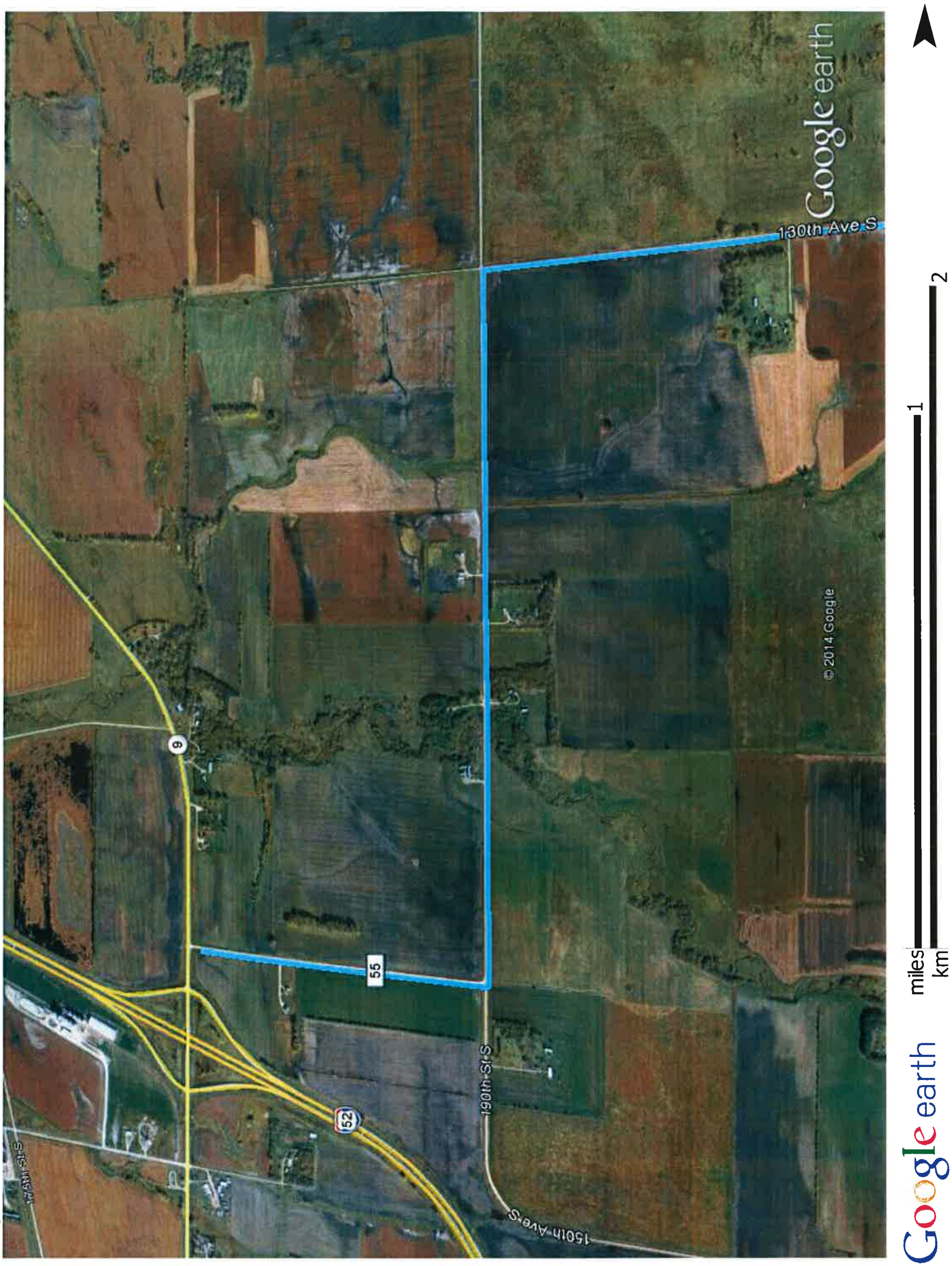
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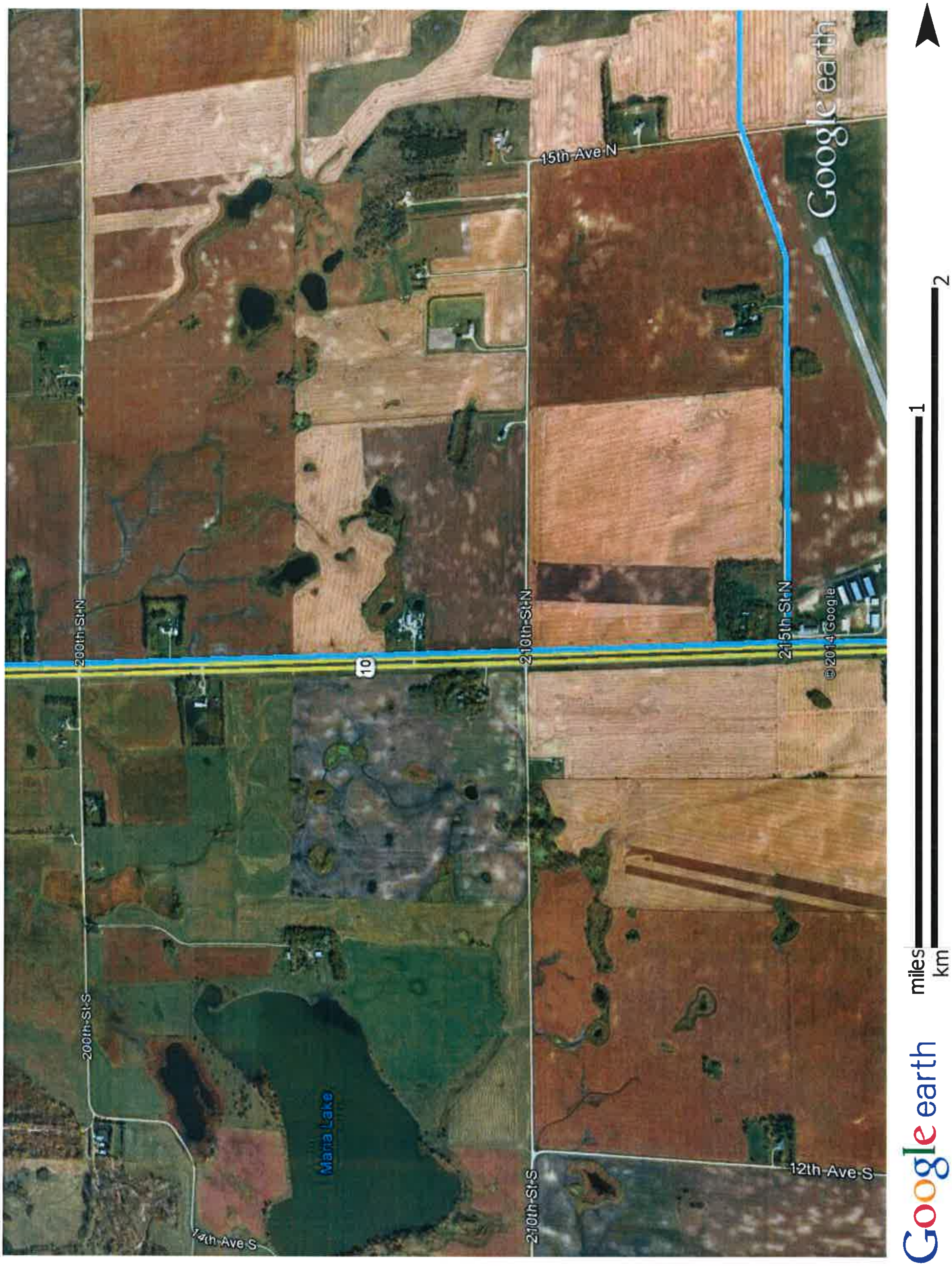
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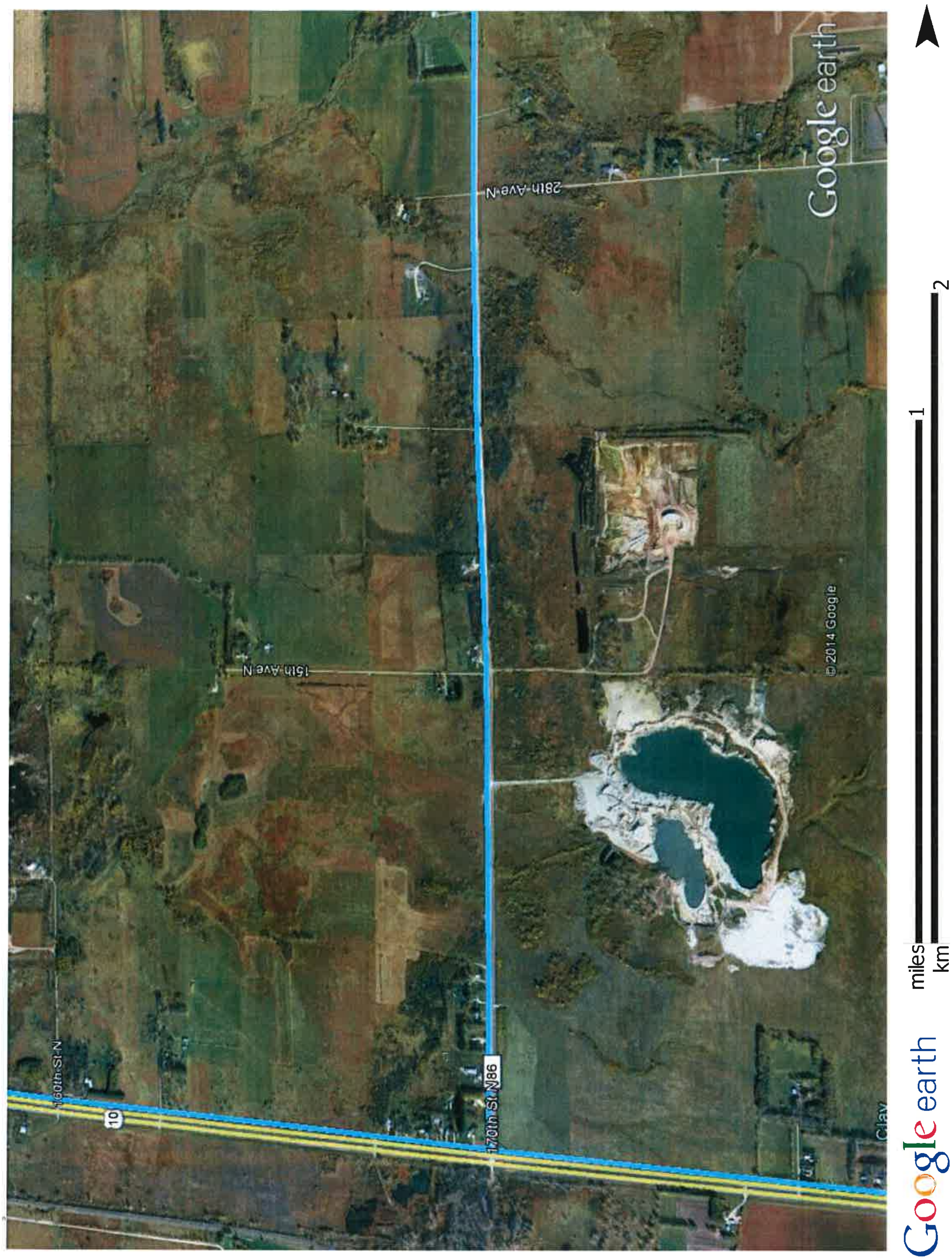
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State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: PL6580, G002/M-14-386 Date of Request: May 13, 2014

Requested From: Kristine Anderson Response Due: May 23, 2014

Analyst Requesting Information: John Kundert

Type of Inquiry:	[ ] Financial	[ ] Rate of Return	[ ] Rate Design
	[x] Engineering	[ ] Forecasting	[ ] Conservation
	[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
2	Please provide the pipeline's basic engineering parameters (e.g., diameter, material, maximum pressure).

GMT RESPONSE:

The majority of the pipeline will be constructed with high-density polyethylene ("HDPE") pipe, with a small component being constructed with steel coated ("SC") pipe. The chart below identifies the distance and diameter of the pipe:

123,670 feet of 8" HDPE pipe
13,500 feet of 6" HDPE pipe
56,100 feet of 3" HDPE pipe
200 feet of 8" SC pipe (used for a railroad crossing)

All of the HDPE pipe for the project is designed and will be tested and installed to operate at 100 psi. Initially, the pipeline will operate at 90 psi.

Response by: Kristine Anderson

Title: Corporate Attorney

Department:

Telephone: 507-665-8657

List sources of information:

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

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	[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
3	Please provide the estimated capital costs of the pipeline and the two town border stations referenced in the filing.

GMT RESPONSE (PUBLIC; TRADE SECRET/PRIVILEGED INFORMATION REDACTED):

The project involves only one town border station. The interconnection point(s) with Xcel will be metered regulator station(s). The capital cost for the Hawley town border station includes both Viking and GMT. A detailed project summary identifying estimated is below:

[TRADE SECRET MATERIAL BEGINS]

[TRADE SECRET MATERIAL ENDS]

Response by:	Kristine Anderson	List sources of information:
Title:	Corporate Attorney	
Department:		
Telephone:	507-665-8657	

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: PL6580, G002/M-14-386 Date of Request: May 13, 2014

Requested From: Kristine Anderson Response Due: May 23, 2014

Analyst Requesting Information: John Kundert

Type of Inquiry: [x] Financial [ ] Rate of Return [ ] Rate Design
[ ] Engineering [ ] Forecasting [ ] Conservation
[ ] Cost of Service [ ] CIP [ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
4	Will Viking charge GMC a connection fee for taking service at Hawley? If so, what will be the connection fee GMC will incur?

GMT RESPONSE (PUBLIC; TRADE SECRET/PRIVILEGED INFORMATION REDACTED):

The budgeted cost for the related Viking fees is [TRADE SECRET/PRIVILEGED BEGINS] . . . [TRADE SECRET/PRIVILEGED ENDS] for metering and facilities. A tap already exists at the site for the city of Hawley, Minnesota. GMT will incur approximately [TRADE SECRET/PRIVILEGED BEGINS] . . . [TRADE SECRET/PRIVILEGED ENDS] of equipment and installation costs at the town border station.

Response by: Kristine Anderson List sources of information:

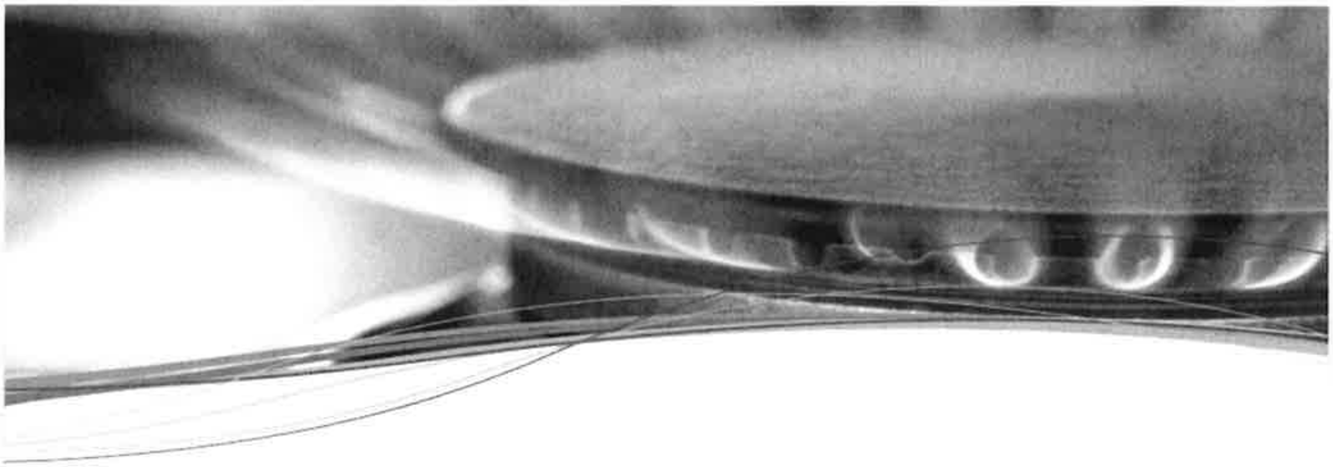
Title: Corporate Attorney

Department:

Telephone: 507-665-8657

Attachment B, p. 1 of 6

Xcel Energy



Save money, Barnesville.

Switch to Natural Gas.

Welcome Barnesville Resident,

We're pleased to provide Barnesville with natural gas service. And we're glad you're interested in saving money by switching to natural gas.

How much will you save? See for yourself.

Enter your current fuel oil or propane usage and find out how much you could be saving.

Barnesville Savings Calculator

Fuel Type:
Propane

Gallons Per Year: Price Per Gallon($):

Calculate

*The estimated savings was calculated by using Xcel Energy's Minnesota residential natural gas rates:

Monthly customer charge: **$9.00**
Monthly Barnesville new area surcharge: **$25.99**
Average price: $0.785/therm (winter weighted average through March 2014)

Yes, I'm interested in switching to natural gas.

First Name

Last Name

Service Address

Email

Email Confirm

Phone

Submit

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AVAILABILITY

Service under this rate schedule is available only to geographic areas that have not previously been served by Company. This rate schedule will enable natural gas service to be extended to areas where the cost would otherwise have been prohibitive under Company's present rates and service extension policy. Nothing in this rate schedule shall obligate Company to extend natural gas service to any area.

APPLICABILITY AND CHARACTER OF SERVICE

All customers on this rate shall receive service according to the terms and conditions of one of Company's gas tariff services.

RATE

As authorized by the MPUC, the total billing rate for any customer class will be the approved rate for that customer class plus a fixed monthly surcharge. All customers in the same rate class will be billed the same surcharge. The new area surcharge will be treated as a contribution-in-aid of construction (CIAC) for accounting purposes.

METHOD

A standard model will be used that is designed to calculate the total revenue requirements for each year of the book service life of the project. For new area surcharge projects, the calculation of revenue requirements associated with the rate of return on the rate base has been initially established at 11.8%. The model will compare the total revenue requirements for each year with the retail revenues generated from customers served (attached and/or expected) by the project to determine if a revenue deficiency or revenue excess exists.

The net present value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the overall rate of return authorized in the Company's most recent general rate proceeding. Projected customer CIAC surcharge revenues are then introduced into the model and the resultant NPV calculation is made to determine if the project is self-supporting. A total NPV of zero ($0) will show a project is self-supporting.

The model will be run each year subsequent to the initial construction phase of a project wherein actual amounts for certain variables will be substituted for projected values to track recovery of expansion costs and potential to discontinue the customer surcharge before the full term. The variables which will be updated in the model each year will be:

1. Number of customers used to calculate the surcharge revenue and the retail margin revenue,
2. The actual surcharge and retail revenue received to date and the projected surcharge revenue for the remaining term of the surcharge, and
3. The actual capital costs and projected remaining capital costs for the project.

(Continued on Sheet No. 5-47)

TERM

The term of service under this rate schedule shall vary from area to area depending on the service extension project. However, under no circumstances shall the surcharges applicable to any project remain in effect for a term to exceed 15 years. The Company assumes the risk for underrecovery of expansion costs, if any, which may remain at the end of the maximum surcharge term.

EXPIRATION

The surcharges for all customers in an area subject to the New Area Surcharge Rider shall terminate on the date specified for the project, by the NSP tariff, on the date the approved revenue deficiency is retired, or at the end of 15 years, whichever occurs first.

AREA SURCHARGE RIDER

See Surcharge Rider No. 2.

REVENUE REQUIREMENTS MODEL

Definitions. All terms describe the contents and general operation of the revenue requirements model used to determine a New Area Surcharge Rider for a project.

Column/Description

1. *Time Period.* A 12 month calendar interval which is one year of the project life. The year in which the project is constructed is designated as year zero.

2. *Year.*

3. *Plant-in-Service Additions.* Additions to plant-in-service in any particular year shall be all costs to provide pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters, and regulators.

4. *Surcharge Revenue.* The revenue generated by the surcharges collected to offset the cost of constructing facilities to serve the new service area. Customer surcharge revenue will be treated as a contribution-in-aid of construction (CIAC).

5. *Total Capital Investment.* The cost of all plant in service additions, less all customer surcharge CIAC revenue (Column 4).

(Continued on Sheet No. 5-48)

REVENUE REQUIREMENTS MODEL (Continued)

Column/Description (Continued)

6. *Net Investment Rate Base.* The total capital investment, less the accumulated reserve for book depreciation, less accumulated deferred income taxes.

7. *Equity Return.* The average of beginning and end-of-year net investment rate base, multiplied by the weighted costs of preferred equity capital and common equity capital established in the Company's most recent general rate proceeding.

8. *Debt Return.* The average of beginning and end-of-year net investment rate base, multiplied by the weighted costs of long term and short term debt capital established in the Company's most recent general rate proceeding.

9. *Book Depreciation.* The straight-line cost recovery over the life of the asset for total capital investment as defined above (Column 5) plus the cost of removal (negative salvage). The book depreciation rate is adjusted to recognize the effect of customer surcharge CIAC revenue.

10. *Tax Depreciation.* The income tax basis of cost recovery. The sum of all vintages of the product of plant in service additions as defined above (Column 3) and the appropriate value from the Internal Revenue Service's "Depreciation Schedule 20 Year Property MACRS Method".

11. *Deferred Income Taxes.* The difference between tax depreciation and the book depreciation and salvage value (if any) for that year, multiplied by the income tax rate. Deferred taxes will be reduced in any year by the current tax effect of the customer surcharge CIAC revenue (income taxes are in effect prepaid and will be recovered over the life of the project through the book and tax timing differences). Accumulated deferred income taxes in any year shall be the sum of deferred income taxes for the current year and all previous years.

12. *Salvage.* A positive amount for salvage represents the proceeds from the disposal of an asset removed from service. A negative amount for salvage represents the cost of removal incurred for an asset removed from service.

(Continued on Sheet No. 5-49)

REVENUE REQUIREMENTS MODEL (Continued)

Column/Description (Continued)

13. *Income Taxes.* The income tax calculation provides an amount of income tax to cover the equity return (Column 7); and customer surcharge revenue (Column 4); considers the timing difference between book depreciation (Column 9) and tax depreciation (Column 10); includes the current provision for deferred income taxes (Column 11); and considers income tax provisions related to salvage. The income tax calculation formula is:

    [(T / [1-T]) * (Customer Surcharge Revenue + [Book Depreciation - Tax Depreciation] + Deferred Income Tax + Salvage)] + (T * Equity Return)

    T = Minnesota jurisdiction income tax rate established in the most recent general rate proceeding.

14. *Operating Expenses.* Operating expenses includes provisions for transmission and distribution system operation and maintenance expenses, and provisions to cover customer accounting expenses such as meter reading, customer accounting and collection. Property taxes are also included as a component of operating expenses. All components of operating expense herein are driven by the amount of plant in service additions (Column 3).

15. *Total Revenue Requirement.* The total revenue requirement is the required equity return (Column 7), debt return (Column 8), book depreciation (Column 9), current provision for deferred income taxes (Column 11), income taxes (Column 13), and operating expenses (Column 14).

16. *Retail Revenues.* This amount represents the retail revenue generated by applying the various retail billing rates (customer charge and commodity margin) approved in Company's most recent general rate proceeding to the expected number of customers connected to the project each year.

17. *Revenue Deficiency or (Excess).* Revenue deficiency or excess is the difference between the total revenue requirement (Column 15) and the amount of the retail revenues (Column 16). Deficiency occurs when the total revenue requirement in a given year is greater than the total retail revenues generated. Excess occurs when the total revenue requirement in a given year is less than the total retail revenues generated. The total revenue requirement less retail revenues results in a revenue deficiency or excess.

(Continued on Sheet No. 5-50)

REVENUE REQUIREMENTS MODEL (Continued)

Column/Description (Continued)

18. *Present Value of Revenue Deficiency (Excess).* The cash flow from the various years of the project life that produce either revenue deficiencies or revenues excesses are discounted to a present value using a discount rate equal to the overall rate of return established in the most recent general rate proceeding.

    If the sum of the present value calculations over the life of the project is zero or as close to zero as possible, the model proves that the project is "self-supporting," that is, the customer CIAC surcharge is the proper amount of customer contributed capital necessary to support the project at the projected (or actual) level of retail revenues.