

February 14, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-19-497

Dear Mr. Seuffert:

On August 1, 2019, Minnesota Energy Resources Corporation (MERC or the Company) filed a petition (Petition) requesting a change in demand units for its customers served off the Consolidated Purchased Gas Adjustment (PGA) system (MERC-Consolidated). On November 1, 2019, MERC made its November Supplemental Filing (Supplement) detailing final entitlement levels for the 2019-2020 heating season. The Supplement included final updated demand rates and commodity prices. MERC did not recommend changes to its total entitlement levels from last year's entitlement levels, but the Supplement did reflect updated final futures contracts, storage positions, and call options for the 2019-2020 heating season.

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments on January 3, 2020 analyzing the Company's Petition and Supplement. Based on its analysis, the Department recommended that the Minnesota Public Utilities Commission (Commission) approve recovery of MERC's demand costs through the monthly PGA effective November 1, 2019. However, the Department withheld recommendation regarding the Company's total entitlement level pending the provision of additional information in reply comments. In particular, the Department observed that the Company's proposal would result in a negative reserve margin for customers served off the Viking Natural Gas Pipeline (Viking). Based on the Company's performance during the near peak-day event during the 2018-2019 heating season, the Department concluded that sufficient capacity likely exists to serve Viking firm customers on a peak day; however, the negative reserve margin raises the possibility that issues exist with the Viking regression model or there are reasons that explain why customers used less during the 2018-2019 cold weather event.¹

MERC filed reply comments on January 13, 2020 responding to the reserve margin concerns raised by the Department in its comments. The Company noted that the Department correctly concluded that MERC has a negative reserve margin for customers served off Viking. MERC further explained that it has approximately 200 Dekatherms (Dkt) per day (Dkt/day) less capacity than the forecasted design-day for the load served by Viking. The Company stated that due to the small volume of the shortfall, along with uncertainty about future rate structures on the Viking pipeline,² MERC determined that the most appropriate action is to use delivered gas supply to meet the needs for the 2019-2020 heating season.

¹ Department Comments, Page 7.

² Viking currently has a rate case pending at the Federal Energy Regulatory Commission (FERC).

MERC explained that, if design-day weather is forecasted, the Company will be able to proactively purchase delivered supply at one or more of its Viking delivery points to ensure the Company is able to meet its peak-day requirements. MERC further clarified that delivered supply provides the Company with a high level of flexibility to serve customer need on a peak day without the long-term obligation of a transport contract. The Company concluded its response by noting that prior to the 2020-2021 heating season, Viking's FERC rate case³ will conclude, and MERC will pursue either a term purchase of delivered natural gas or additional pipeline transport capacity for the 2020-2021 heating season to provide additional certainty of supply.

The Department appreciates MERC's additional discussion and clarification provided in its reply comments. As noted in its comments, the Department continues to conclude that sufficient capacity likely exists to serve Viking firm customers on a peak day; however, the Department remains concerned by the Company's negative reserve margin on the Viking pipeline. In the event of peak day weather, MERC has an obligation to ensure reliability for firm customers. Although the Company is prepared to purchase delivered supply if peak-day weather is forecasted, the Department notes that there is no guarantee that these supplies will be available, if needed, on a peak day because it is possible that other market participants may also need delivered supply. In addition, the Department is somewhat concerned by the Company's response that it may consider delivered supply even after the completion of Viking's pending FERC rate case. While all options should be considered, if MERC calculates, or anticipates, a negative reserve margin for an extended period, then procurement of fixed entitlement contracts is generally considered the most appropriate means to address negative reserve margins. The Department reiterates that it is MERC's burden to show that it has sufficient capacity to ensure firm reliability on a peak day.

Based on its review, continues to recommend that the Commission **approve** recovery of MERC's demand costs through the monthly PGA effective November 1, 2019. In terms of entitlement level, the Department recommends that the Commission **accept** the Company's total entitlement level.

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

Sincerely,

/s/ ADAM J. HEINEN
Public Utilities Rates Analyst

AJH/ja

³ MERC Reply Comments, Page 2.

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
Letter**

Docket No. G011/M-19-497

Dated this **14th** day of **February 2020**

/s/Sharon Ferguson

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