

March 4, 2013

Burl W. Haar  
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-12-1192

Dear Dr. Haar:

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-PNG (MERC-PNG, MERC, or Company) for approval by the Minnesota Public Utilities Commission (Commission) of a change in demand entitlement for its Great Lakes Transmission System (GLGT or Great Lakes) Purchased Gas Adjustment (PGA) effective November 1, 2012.

The filing was submitted on November 1, 2012. The petitioner is:

Gregory J. Walters  
Minnesota Energy Resources Corporation  
3460 Technology Drive NW  
Rochester, MN 55901

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

- **allow** MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion;
- **accept** the peak day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned herein;
- **accept** the Company's proposed level of demand entitlement; and
- **allow** the proposed recovery of associated demand costs effective November 1, 2012.

The Department requests that, in future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Finally, for future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments. The Department puts MERC on notice that it may recommend rejection of any of the Company's future filings that are in the same or similar condition as the instant Petition.

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

Sincerely,

/s/ MICHELLE ST. PIERRE  
Financial Analyst

/s/ SACHIN SHAH  
Rates Analyst

MS/SS/jl  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET NO. G011/M-12-1192

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

Pursuant to Minnesota Rules 7825.2910, subpart 2, Minnesota Energy Resources Corporation-Peoples Natural Gas (MERC-PNG, MERC, or Company) filed a change in demand entitlement petition (Petition) on November 1, 2012 for its Great Lakes Transmission System (GLGT or Great Lakes) Purchased Gas Adjustment (PGA). In its Petition, MERC requested that the Minnesota Public Utilities Commission (Commission) accept the following changes in the Company's overall level of contracted capacity.

**Table 1**

<b>MERC-PNG's Proposed Total Entitlement Changes</b>	
Type of Entitlement	Proposed Changes increase (decrease) (Dkt) <sup>1</sup>
FT0017	24
FT0075	0
FT0155(12)	8
FT0155(5)	9
FT8466	0
FT15782	22
<b>Total Entitlement Changes</b>	<b>63</b>

The Company's proposal would increase MERC-PNG's design-day (winter) capacity by 63 Dkt from the previous level. As discussed further below, the Company's 2012-2013 design-day requirements (overall needs of its firm customers on a design day) would increase by 699 Dkt (or approximately 7.51 percent) from the previous year.

<sup>1</sup> Dekatherms (Dkt).

In addition to the increase of 63 Dkt in total entitlement, the Company also proposed changes to non-capacity items in the November 2012 PGA compared to the October 2012 PGA. MERC made changes to its AECO storage contract as follows:

PNG-GLGT contracts and utilizes natural gas supplies from AECO Storage. To deliver the supply from storage to MERC-NMU's markets, MERC entered in an AECO/Emerson swap. MERC sells gas at the storage point (AECO) to a supplier and MERC buys an equivalent volume at Emerson/Spruce, which MERC then transports to its PNG-GLGT, PNG-VGT and NMU (GLGT, VGT and Centra) customers. The swap alleviated the need to contract for firm transport on TransCanada Pipeline (TCPL) to transport the gas from AECO to Emerson/Spruce.<sup>2</sup>

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) does not oppose any of the proposed changes. As discussed below, the effect of the above proposed changes is an increase in demand costs. The Company requested that the Commission allow recovery of the associated demand costs in its monthly PGA effective November 1, 2012.

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

The Department's analysis of the Company's request includes the:

- trade secret designation;
- timeline for filing the annual demand entitlement filing;
- storage costs allocated to commodity costs;
- changes to capacity;
- design-day requirement;
- reserve margin; and
- PGA cost recovery proposal.

### **A. TRADE SECRET DESIGNATION**

Regarding the designation of trade secret data, the Department notes that in MERC's November 1, 2012 trade secret and public filings, the trade secret data is not identified in a manner that satisfies the Commission's requirements. Further, such data appears to be inconsistently designated in the trade secret and public versions. MERC initially filed three trade secret attachments for each of its demand entitlement filings. Specifically, the Department identifies the following trade secret designation issues in the Company's attachments:

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<sup>2</sup> MERC Petition, page 14.

- On Attachment 1, page 1, the trade secret copy states “Non-public Document – Contains Trade Secret Data” but no indication of which words or numbers are considered trade secret is given; and
- No words or numbers are redacted from the public copy of Attachment 1, page 1.

When the Department asked MERC whether information was considered trade secret on Attachment 1, page 1, the response was that Attachment 1, page 1 should not have been marked trade secret. The Department cautions MERC about this erroneous designation of trade secret data. For future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments.

Additionally, the Department notes that MERC initially filed all of its attachments (approximately 13-15 attachments for each of its four demand entitlement filings) as electronic spreadsheets. While the Department appreciates spreadsheets that show formulas, some of the spreadsheets had no labels, certain pages seemed to be missing, and much formatting needed to be done in order to print paper copies. Rather than recommending rejection of the filing in this instance, the Department requested that the Company re-file its attachments in PDF format with the trade secret correctly marked and labels on every attachment so that the labels agreed with the references in the filing and could easily be printed. The Department puts MERC on notice that it may recommend rejection of any of the Company’s future filings that are in the same or similar condition as the instant Petition.

#### *B. TIMELINE FOR FILING*

As stated above, MERC filed its Petition on November 1. In MERC’s January 31, 2012 *Reply Comments* in Docket No. G011/M-11-1083, the Company stated that it would comply with the Department’s recommended initial filing date of August 1 for its annual demand entitlement filings on a going-forward basis. The Department continues to conclude that July 1 or August 1 is an optimal filing time since it would enable any reliability issues to be identified and possibly resolved prior to the start of the heating season.

#### *C. STORAGE COSTS*

The Department has advocated in several recent demand entitlement filings<sup>3</sup> that demand costs associated with storage contracts be recovered through the commodity portion of the PGA since all customers, not just firm customers, benefit from stored gas. The Commission has not yet determined whether storage-related costs are more appropriately recovered through the commodity or through the demand portion of MERC’s PGAs.

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<sup>3</sup> See the Commission’s February 6, 2008 Order in Docket No. E,G999/AA-06-1208, for more background.

The Department notes that the Commission allowed CenterPoint Energy to allocate a portion of its storage costs to commodity costs in CenterPoint Energy's PGA.<sup>4</sup> Similarly, the Department recommends that the Commission allow MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion.

While the Department has been recommending this rate design change since MERC's 2007 demand entitlement dockets, the Department is aware that it would be problematic to implement such changes retroactively; as a result, the Department urges the Commission to address this question of rate design and implement the change on a going-forward basis.

#### *D. MERC'S PROPOSED CHANGES*

##### *1. Capacity*

As shown in DOC Attachments 1 and 2, the Company proposed to increase its total entitlement level in Dkt as follows:

**Table 2**

Previous Entitlement (Dkt)	Proposed Entitlement (Dkt)	Entitlement Changes (Dkt)	Change From Previous Year (%)
10,149	10,212	63	0.62

As discussed below, the design day increased by 699 Dkt. As also discussed below, MERC-PNG GLGT's reserve margin is reasonable. Therefore, the Department concludes that the Company's proposed level of demand entitlement is reasonable and recommends acceptance of the proposed level of capacity.

##### *2. Design-Day Requirement*

As indicated in DOC Attachment 1, the Company proposed to increase its total design day as follows:

**Table 3**

Previous Design Day (Dkt)	Proposed Design Day (Dkt)	Design Day Changes (Dkt)	Change From Previous Year (%)
9,304	10,003	699	7.51

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. MERC once again explored the use of additional weather variables

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<sup>4</sup> See the Commission's February 28, 2012 Order in Docket No. G008/M-07-561.

in its review of other design-day regression models but did not use the variables in the Company's final design-day analysis. The Department does not oppose MERC's evaluation of other weather determinants in its efforts to produce the most robust design-day estimates possible; however, the Department also notes that some of these additional data were taken from a proprietary source as was discussed in the Department's January 3<sup>rd</sup>, 10<sup>th</sup>, and March 12<sup>th</sup>, 2012 Comments in Docket Nos. G011/M-11-1082, G011/M-11-1083, and G011/M-11-1084 respectively. When a utility uses proprietary data in its analysis, the Department cannot fully verify that the results of the analysis are correct.

The Department notes that MERC's analysis and models had correlation present in the regression analysis. The presence of autocorrelation in an Ordinary Least Squares (OLS) regression analysis implies that the errors are not independent of each other. This would violate one of the basic assumptions in typical regression analysis which is that one normally assumes that the errors are all independent of one another. Hence the presence of autocorrelation would affect the validity of the statistical tests that are typically applicable to OLS multiple regression analysis such as, for example, the coefficient of determination ("R-squared") test statistic, and the t-statistic. When forecasting with an OLS regression model, absence of autocorrelation between the errors is very important. Thus, in the Company's future demand entitlement filings, MERC should check the regression models it ultimately uses for autocorrelation and correct the models if autocorrelation is present.

The Department recommends that the Commission accept MERC's peak-day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned above. Further, in its future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the models if autocorrelation is present.

### *3. Reserve Margin*

As indicated in DOC Attachment 1, the reserve margin decreased by 209 Dkt as follows:

**Table 4**

Total Entitlement (Dkt)	Design-day Estimate (Dkt)	Difference (Dkt)	Reserve Margin (%)	Change From Previous Year (%)
10,212	10,003	209	2.09	-6.99

The proposed reserve margin of 2.09 percent represents a significant decrease over last year's reserve margin of 9.08 percent. Generally, a reserve up to five percent is not unreasonable. Based on this information and the Department's analysis of the Company's design-day analysis, the Department concludes that the reserve margin is reasonable at this time.

*E. THE COMPANY'S PGA COST RECOVERY PROPOSAL*

The demand entitlement amounts listed in DOC Attachment 2 represent the demand entitlements for which the Company's firm customers would pay. In its Petition, the Company compared its October 2012 PGA to its November 2012 PGA as a means of highlighting its changes in demand costs (MERC Attachment 4, page 1 of 4). The Company's demand entitlement proposal would result in the following annual demand cost impacts:

- an annual bill increase of \$4.40 related to demand costs, or approximately 0.07 percent, for the average General Service customer consuming 84 Dkt annually; and
- no demand cost impacts related to MERC-PNG GLGT's other rate classes.

Based on its analysis, the Department recommends that the Commission allow the proposed recovery of associated demand costs effective November 1, 2012.

**III. THE DOC'S RECOMMENDATIONS**

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

- allow MERC to recover storage gas costs through the commodity portion of the PGA, rather than the demand portion;
- accept the peak day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis as mentioned herein;
- accept the Company's proposed level of demand entitlement; and
- allow the proposed recovery of associated demand costs effective November 1, 2012.

The Department requests that, in future demand entitlement filings, MERC check the regression models it ultimately uses for autocorrelation and correct the model if autocorrelation is present.

Finally, for future demand entitlement filings, MERC should take additional care in its designation of trade secret data in its attachments. The Department puts MERC on notice that it may recommend rejection of any of the Company's future filings that are in the same or similar condition as the instant Petition.



Department Attachment 1

MERC-PNG's GL's Demand Entitlement Analysis

Docket No. G011/M-12-1192

Number of Firm Customers				Design Day Requirement				Total Entitlement + Peak Shaving, if any				Reserve Margin
Heating Season *	(1) Number of DD 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) % of Reserve Margin [(7)-(4))/(4)		
2012-2013	6,053	12	0.20%	10,003	699	7.51%	10,212	63	0.62%	2.09%		
2011-2012	6,041	(12)	-0.20%	9,304	(136)	-1.44%	10,149	-1,351	-11.75%	9.08%		
2010-2011	6,053	(15)	-0.25%	9,440	(1,362)	-12.61%	11,500	0	0.00%	21.82%		
2009-2010	6,068	194	3.30%	10,802	503	4.88%	11,500	1,000	9.52%	6.46%		
2008-2009	5,874	58	1.00%	10,299	749	7.84%	10,500	500	5.00%	1.95%		
2007-2008#	5,816	69	1.20%	9,550	7	0.07%	10,000	314	3.24%	4.71%		
2006-2007	5,747	68	1.20%	9,543	33	0.35%	9,686	0	0.00%	1.50%		
2005-2006	5,679	165	2.99%	9,510	61	0.65%	9,686	0	0.00%	1.85%		
2004-2005	5,514	103	1.90%	9,449	(198)	-2.05%	9,686	0	0.00%	2.51%		
2003-2004	5,411	133	2.52%	9,647	1,659	20.77%	9,686	1,186	13.95%	0.40%		
2002-2003	5,278	172	3.37%	7,988	(123)	-1.52%	8,500	0	0.00%	6.41%		
2001-2002	5,106	134	2.70%	8,111	(254)	-3.04%	8,500	0	0.00%	4.80%		
2000-2001	4,972	175	3.65%	8,365	92	1.11%	8,500	0	0.00%	1.61%		
1999-2000**	4,797	341	7.65%	8,273	588	7.65%	8,500	2,422	39.85%	2.74%		
1998-1999	4,456	241	5.72%	7,685	416	5.72%	6,078	0	0.00%	-20.91%		
1997-1998	4,215	386	10.08%	7,269	665	10.07%	6,078	0	0.00%	-16.38%		
1996-1997	3,829	336	9.62%	6,604	579	9.61%	6,078	0	0.00%	-7.96%		
1995-1996	3,493			6,025			6,078					
Average Change Since 1999-2000:						2.16%			4.32%	5.07%		

Firm Peak Day Sendout

Heating Season *	(11) Number of Peak Day Customers	(12) Firm Peak Day Sendout (Mcf)	(13) Sendout Change from Previous Year	(14) % Change From Previous Year	(15) Excess per Customer [(7)-(4))/(1)	(16) Design Day per Customer (4)/(1)	(17) Entitlement per Customer (7)/(1)	(18) Peak Day Sendout per PD Customer (12)/(11)	(19) Peak Day Sendout per DD Customer (12)/(1)
2012-2013	unknown	unknown			0.0345	1.6526	1.6871	unknown	unknown
2011-2012^	6,062	7,644	105	1.39%	0.1399	1.5401	1.6800	1.2610	1.2654
2010-2011***	unknown	7,539	148	2.00%	0.3403	1.5596	1.8999	unknown	1.2455
2009-2010^	6,071	7,391	(673)	-8.35%	0.1150	1.7802	1.8952	1.2174	1.2180
2008-2009^	6,144	8,064	(63)	-0.78%	0.0342	1.7533	1.7875	1.3125	1.3728
2007-2008***	unknown	8,127	1,355	20.01%	0.0774	1.6420	1.7194	unknown	1.3974
2006-2007***	unknown	6,772	(959)	-12.40%	0.0249	1.6854	1.6854	unknown	1.1784
2005-2006 ***	unknown	7,731	1,608	26.26%	0.0310	1.6746	1.7056	unknown	1.3613
2004-2005	5,714	6,123	(1,543)	-20.13%	0.0430	1.7136	1.7566	1.0716	1.1104
2003-2004	5,529	7,666	567	7.99%	0.0072	1.7828	1.7901	1.3865	1.4167
2002-2003	5,411	7,099	1,104	18.42%	0.0970	1.5135	1.6105	1.3120	1.3450
2001-2002	5,099	5,995	(567)	-8.64%	0.0762	1.5985	1.6647	1.1757	1.1741
2000-2001	4,970	6,562	(576)	-8.07%	0.0272	1.6824	1.7096	1.3203	1.3198
1999-2000	4,627	7,138	(368)	-4.90%	0.0473	1.7246	1.7719	1.5427	1.4880
1998-1999	4,627	7,506	1,567	26.38%	-0.3606	1.7246	1.3640	1.6222	1.6845
1997-1998	unknown	5,939	588	10.99%	-0.2826	1.7246	1.4420	unknown	1.4090
1996-1997	unknown	5,351	427	8.67%	-0.1374	1.7247	1.5874	unknown	1.3975
1995-1996	unknown	4,924			0.0152	1.7249	1.7401	unknown	1.4097
Average Change Since 1999-2000:				0.98%	0.0782	1.6620	1.7402	1.2889	1.2995

# -- The analysis conducted by the Department does not include the 423 Mcf/day capacity related to MERC's FT0011 agreement.

This decision to omit these volumes is discussed in the Department's Comments in Docket No. G011/M-07-1404.

\*According to the Company, information prior to 1995 is not available.

\*\*Corrected from peak day to design day number of customers.

\*\*\* The Company has not provided the number of peak-day customers.

^ The number of peak day customers is calculated using the Residential and Commercial customer count data provided in MERC's Attachment 11 for the peak month.

Department Attachment 2  
Docket No. G011/M-12-1194  
MERC-PNG GL's Demand Entitlement Historical and Current Proposal

2008-09 G011/M-08-1330	Quantity (Mcf)
T-17	4,105
FT-075 Res fee	1,973
FT-155 (12)	2,422
FT-155 (5)	1,500
FT8466 ***	500
FT0011 **	0
Total Design Day Capacity	10,500
Total GL Transportation	10,500
Total Transportation	10,500
Total Seasonal Transport	1,500
Percent Seasonal on GL	14.3%

2009-10 G011/M-09-1283	Quantity (Mcf)
T-17	4,105
FT-075 Res fee	1,973
FT-155 (12)	2,422
FT-155 (5)	1,500
FT8466 ***	1,500
FT15782	0
Total Design Day Capacity	11,500
Total GL Transportation	11,500
Total Transportation	11,500
Total Seasonal Transport	1,500
Percent Seasonal on GL	13.0%

2010-11 G011/M-11-1082	Quantity (Mcf)
T-17	3,899
FT-075 Res fee	0
FT-155 (12)	1,386
FT-155 (5)	1,400
FT8466	0
FT15782	3,464
Total Design Day Capacity	10,149
Total GL Transportation	10,149
Total Transportation	10,149
Total Seasonal Transport	1,400
Percent Seasonal on GL	13.8%

2011-12 G011/M-12-1197	Quantity (Mcf)	Change in Quantity
T-17	3,923	24
FT-075 Res fee	0	0
FT-155 (12)	1,394	8
FT-155 (5)	1,409	9
FT8466	0	0
FT15782	3,486	22
Total Design Day Capacity	10,212	63
Total GL Transportation	10,212	63
Total Transportation	10,212	63
Total Seasonal Transport	1,409	9
Percent Seasonal on GL	13.8%	0

## **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**  
**Comments**

**Docket No. G011/M-12-1192**

Dated this 4<sup>th</sup> of **March, 2013**

**/s/Sharon Ferguson**

[illegible]

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crounse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	No	OFF_SL_12-1192_12-1192
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_12-1192_12-1192
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_12-1192_12-1192
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW  Rochester, MN 55901	Electronic Service	No	OFF_SL_12-1192_12-1192