Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: April 23, 2014 .... *Agenda Item # 8

Company: Greater Minnesota Gas, Inc. (GMG)

Docket No. G022/M-13-730
In the Matter of GMG's Request for Approval of a Change in Contract Demand Entitlement Units Effective November 1, 2013

Issues: Should the Commission approve GMG's proposed level of demand entitlements and allow GMG to recover the associated demand costs through the monthly purchased gas adjustment effective November 1, 2013?

Staff: Sundra Bender 651-201-2247

Relevant Documents

GMG – Initial Filing .... August 19, 2013
DOC – Comments .... September 16, 2013
GMG – Reply Comments .... September 26, 2013
DOC – Response to Reply Comments .... January 10, 2014

Statement of the Issues

Should the Commission approve Greater Minnesota Gas, Inc.'s (GMG) proposed level of demand entitlements and allow GMG to recover the associated demand costs through the monthly purchased gas adjustment effective November 1, 2013?

Introduction

A demand entitlement filing is a look at a gas utility's resources to meet firm customer demand for gas and must include the utility's design-day demand by customer class and the change in design-day demand, if any, necessitating the demand revision. Design-day is defined as "a 24-hour-day period of the greatest possible gas requirement to meet firm customer needs."[1] Also examined are the reasonableness of the estimated design day reserve margin and the level and type of demand costs passed through the purchased gas adjustment.

Minnesota Rules

Minnesota Rules require gas utilities to make a filing whenever there is a change in their entitlement to the demand-related services provided to them by a supplier or transporter of natural gas.

Minnesota Rule part 7825.2910, Subp. 2, Filing upon a change in demand, is included in the Automatic Adjustment of Charges rule parts 7825.2390 through 7825.2920 and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

Minnesota Rule part 7825.2400, Subp. 13a. Demand, defines demand as "the maximum daily volumes of gas that the utility has contracted with a supplier or transporter to receive."

Minn. Rule, parts 7851.0010, subpart 21 and 7610.0800, subpart 21. Peak day. Both of these rules define peak-day as "the 24-hour period of greatest gas sendout."

Background

On August 19, 2013, GMG filed its petition for approval of a change in contract demand entitlement effective November 1, 2013.

On September 16, 2013, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission withhold its decision on GMG's petition subject to the provision of additional information regarding GMG's reserve margin and total entitlement level.

On September 26, 2013, GMG filed reply comments in which it provided information addressing

[1] Minn. R. 7825.2400, Subp. 13d. Design day.

the concerns raised by the Department.

On January 10, 2014, the Department responded to GMG and recommended that the Commission:

- Approve GMG's proposed level of demand entitlements as shown in GMG's Reply Comments; and

- Allow GMG to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2013.

Summary of Parties Positions

GMG

According to GMG, the Company requires an increase in demand entitlement for two main reasons:

> First, GMG's growth during the previous heating season necessarily requires an increase in demand, simply to meet the needs of its recently acquired customers. Second, GMG's continued growth, which is anticipated to continue through the 2013-2014 heating season, will result in increased firm customer demand and, as a result, the need for increased firm capacity, both to meet customer's needs in the event that design day weather occurs and to maintain an adequate reserve margin.

GMG stated that it experienced substantial growth, well beyond its anticipations, during the 2012-2013 heating season. Further, its growth has continued at a substantial rate, and the vast majority of GMG's new customers previously used alternate heating methods, making it difficult to obtain information for predictive purposes.

In its design-day analysis, GMG used qualitative data for its anticipated new customers and combined that information with historical quantitative data for its existing customers. GMG anticipated the bulk of its substantial growth will be in two wholly new locations, identified in GMG's petition as Project 1 and Project 2. GMG stated that the vast majority of the new customers in both projects are commercial; and, most of these new customers are firm customers. Further, GMG stated that the majority of the likely new customers are transitioning from propane use to natural gas.

GMG calculated the firm commercial customers in its two new projects could be anticipated to increase 2013-2014 design-day demand by 3,059 Dth. Additionally, GMG's design-day forecast for its existing customers for the 2013-2014 heating season is 5,858 Dth. Combined, GMG's design-day forecast for the 2013-2014 heating season is 8,917 Dth, which is an increase of 3,953 Dth, or 80%, over the 2012-2013 estimated design day requirements of 4,964 Dth.

As revised in its reply comments, GMG proposed the following changes in demand entitlement levels, increasing its peak-day deliverability by 4,350 Dth, or approximately 84%, from 5,209

Dth for the 2012-2013 heating season to 9,559 Dth for the 2013-2014 heating season.

Type of Entitlement	2012-2013 Entitlements Dth	Proposed Changes Increase (Decrease)	2013-2014 Revised Proposed Entitlements
TF-7 (Apr.- Oct.) [2]	300	(300)	-
TF-12 (Nov. – Oct.)	210	-	210
TFX-7 (Oct.-Apr.)	665	-	665
TFX-5 (Nov. – Mar.)	4,244	2,100	6,344
Viking Zone 1[3]	-	2,000	2,000
TFX-5 (Nov. – Mar.)	90	-	90
Viking Fwd Haul/Emerson	-	1,300	1,300
Delivery Contract		950	950

GMG requested that the Commission approve its Petition for Change in Contract Demand Entitlement for the 2013-2014 Heating Season.

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The Department initially expressed concern about whether GMG's proposed reserve margin is adequate given (1) GMG's lack of adequate capacity last heating season to meet design-day conditions, and (2) the addition of a large number of new customers for this heating season. Subsequent to the Department's comments, GMG procured additional capacity. With this additional capacity, the Department responded that it does not have additional concerns regarding GMG's reserve margin at this time.

According to the Department, GMG, in its revised proposal, proposed to increase its total peak day entitlement level from 5,209 Dths to 9,559 Dths, an increase of 4,350 Dth or 83.51 percent. GMG's revised entitlement levels result in an estimated reserve margin of 642 Dth, or 7.20%.

The Department reviewed GMG's two hypothetical examples of how the Company can integrate its system and serve all firm customers on a peak day. The Department stated that the two examples appear reasonable. However, under both scenarios, GMG uses backhaul contracts to meet need for its Viking-served customers and has capacity available from the Viking line to serve Northern-served customers if necessary. Backhaul volumes are typically not credited toward design-day entitlement levels because these contracts are only financial and require a back-up, physical supply of gas to meet needs. However, the Department stated that in this case, GMG's decision to use backhaul contracts is likely not an issue given current economics on the Viking pipeline. The current economics on the Viking pipeline are such that there is a great deal of forward capacity available and the availability of gas to serve the backhaul capacity is likely

[2] This denotes a change in April through October, or non-heating season entitlement. It does not affect heating season peak-day deliverability.
[3] This contract is transport only and it does not increase the total amount of supply that GMG can deliver to its customers on a design-day.

not in question. Because there may be future changes in pipeline economics on the Viking pipeline, the Department requested that GMG remain apprised of any developments on the Viking pipeline and inform the Department and the Commission of any changes that would require significant modification to the manner in which the Company currently plans to serve its Viking customer base.

The Department noted that GMG had initially indicated that it planned to procure 630 Dth/day of non-heating season firm capacity, 120 Dth/day more than in GMG's previous demand entitlement filing. In its reply comments, GMG reduced that level to 210 Dth/day, 300 Dth/day less than the year before. The Department expressed some concern about whether GMG will have sufficient supplies during the non-heating season to serve firm need without additional gas purchases. However, the Department does not believe action on this topic is needed at this time given the relatively low risk to system reliability. The Department requested that GMG review its non-heating season entitlement levels and provide a detailed discussion and analysis in its initial filing in its next demand entitlement proceeding supporting its proposed levels of non-heating season demand entitlements.

In its September 16, 2013 comments, the Department discussed the rate impacts of GMG's demand entitlement proposal. The Department stated that:

> At first glance, a projected decrease in cost seems unusual given the fact that Greater Minnesota is adding … capacity. However, the decrease in the per-unit rate is correct because the additional customers to the Greater Minnesota system more than counteract, on a rate basis, the additional level of capacity (*i.e.,* in the per-unit calculation, the denominator increases more than the numerator increases). Subject to possible changes in anticipated entitlements between now and November 1, 2013, the Department recommends that the Commission allow recovery of associated demand costs effective November 1, 2013. Given the possibility of changes in final entitlements, and costs, the Department also recommends that Greater Minnesota make a supplemental filing on November 1, 2013 with final demand costs.

In its January 10, 2014 response comments, the Department compared demand costs and volumes from GMG's September 2013 PGA filing to the information in Attachment A of GMG's reply comments to determine the annual bill impacts on ratepayers. According to the Department, the annual rate impacts compared to the last demand entitlement filing are:

- Annual bill decrease of $15.16 for the average Residential customer consuming 87.1 Dth annually; and
- Annual bill decrease of $237.61 for the average Commercial and Industrial Firm customer consuming 1,365.2 Dth annually.

In summary, the Department recommended that the Commission:

- Approve Greater Minnesota's proposed level of demand entitlements as shown in its *Reply Comments*; and

- Allow Greater Minnesota to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2013.

The Department also requested that GMG:

- review its non-heating season entitlement levels and provide a detailed discussion and analysis in its initial filing in its next demand entitlement proceeding supporting its proposed levels of non-heating season demand entitlements.
- remain apprised of any developments on the Viking pipeline and inform the Department and the Commission of any changes that would require significant modification as to how the Company currently plans to serve its Viking customer base.

Staff Comment

As indicated in the Department's response comments, GMG's revised entitlement levels result in an estimated reserve margin of 642 Dth (9,559 Dth of entitlement less design-day estimate of 8,917 Dth), or 7.2%. In its initial comments, the Department reiterated its concerns that an approximately 5% reserve margin may not be appropriate for GMG given the system dynamics, the higher level of growth experienced by this utility, and the fact that GMG is a small utility with limited operational history. In response comments, the Department concluded that the additional capacity procured by GMG, resulting in a 7.2% reserve margin, is reasonable.

Staff agrees that a reserve margin higher than 5% is reasonable at this time given some of the uncertainties associated with (1) how GMG's system would perform during really cold weather, and (2) the addition of customers for which there is no historical natural gas consumption data available. However, this should be reviewed again next heating season. As GMG grows and gains more operational history during really cold conditions, a reserve margin much higher than 5% may become unreasonable. Further, as stated in the Department's comments, GMG's decision to use negative baseload in its regression models over-estimates peak day consumption per customer. This means the estimated design-day requirements could be overstated and the estimated 7.2% reserve margin understated.

Staff agrees with the Department's recommendations to:

- Approve Greater Minnesota's proposed level of demand entitlements as shown in GMG's *Reply Comments*; and
- Allow Greater Minnesota to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2013.

Decision Alternatives

1. Approve GMG's proposed level of demand entitlements as shown in GMG's Reply Comments; and

2. Allow GMG to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2013.

3. Do not approve GMG's proposed level of demand entitlements.