MINNESOTA DEPARTMENT OF COMMERCE

85 7TH PLACE EAST, SUITE 500
SAINT PAUL, MINNESOTA 55101-2198
MN.GOV/COMMERCE
651.539.1500 FAX: 651.539.1547
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July 28, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/M-15-285

Dear Mr. Wolf:

Attached are the *Response Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> A Request by Greater Minnesota Gas, Inc. (Greater Minnesota or the Company) for Approval by the Minnesota Public Utilities Commission (Commission) of a Change in Contract Demand Entitlement Units Effective November 1, 2015.

The filing was submitted on June 2, 2015. The petitioner is;

> Kristine A. Anderson
> Corporate Attorney
> Greater Minnesota Gas, Inc.
> 202 South Main Street, P.O. Box 68
> Le Sueur, MN 56058

For a more complete record in this proceeding, the Department recommends that the Commission accept these *Response Comments*. Based on the information provided by the Company in its *Reply Comments* and June 23, 2015 *Letter*, the Department recommends that the Commission:

- Approve Greater Minnesota's proposed level of demand entitlements, subject to any possible changes in anticipated entitlements between the filing of these *Response Comments* and November 1, 2015, as shown in the Company's *Petition*;

- Approve Greater Minnesota's proposed short-term firm contract with Northern Natural Gas, and associated cost recovery through the monthly Purchased Gas Adjustment, for the month of July 2015 as noted in the Company's June 23, 2015 *Letter*; and

- Allow Greater Minnesota to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2015.

The Department also recommends that the Company clarify how its storage contract cost recovery proposal will be treated in the annual true up and whether ratepayers will receive a credit for the demand costs associated with these unusable entitlement contracts.

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

Sincerely,

/s/ ADAM J. HEINEN
Rates Analyst
651-539-1825

AJH/ja
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. G022/M-15-285

I. BACKGROUND

On March 25, 2015, Greater Minnesota Gas, Inc. (Greater Minnesota, GMG, or the Company) filed its annual demand entitlement filing for the upcoming 2015-2016 heating season. In this filing, the Company requested that the Minnesota Public Utilities Commission (Commission) approve an increase in entitlements needed to serve firm natural gas use on a peak day and cost recovery of a storage contract through the demand portion of the monthly Purchased Gas Adjustment (PGA).

On June 2, 2015, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed *Comments* recommending that the Commission:

- Approve Greater Minnesota's proposed level of demand entitlements, subject to any possible changes in anticipated entitlement between the filing of these *Comments* and November 1, 2015, as shown in the Company's *Petition*;

- Withhold decision on Greater Minnesota's cost recovery proposal until the Company provides additional discussion regarding its proposed storage contract and associated cost recovery proposal;

- Require Greater Minnesota to maintain, on a going-forward basis, a two-part design-day process involving both regression analysis and mathematical analysis based on the Company's historical all-time peak day sendout until such time that Greater Minnesota has sufficient historical load data beyond the 2012-2013 heating season;

- Explore segregating its linear regression modeling into two components, for larger and smaller firm customers; and

- If the Company does not provide additional clarifying information or an alternative cost recovery proposal, require Greater Minnesota to recover storage costs, beyond firm customers, from any interruptible customer that used gas, at any point, during the most recent heating season. Further, any new interruptible customer should be charged the cost of the storage contract until such point that either actual, historical data are available or the prospective customer provides convincing evidence that they will not consume gas during the heating season.[1]

On June 11, 2015, Greater Minnesota filed *Reply Comments* responding to the Department's *Comments*. The Company also filed a *Letter* on June 23, 2015 notifying the Commission of a short-term entitlement change in response to planned hydrostatic testing on the Viking pipeline. The Department responds to the Company's filings below.

II. DEPARTMENT ANALYSIS

A. DESIGN-DAY ANALYSIS

In its *Reply Comments*, the Company responded to the Department's requests regarding the design-day estimates and provided additional discussion regarding how the Company conducts its design-day analysis. Greater Minnesota did not respond to the Department's recommendation that a two-part design-day process be used going-forward apart from noting that it used a single regression model in its analysis. However, the Company did provide a discussion regarding the use of separate regression models for smaller and larger firm customers. The Company agreed that this approach is appropriate and it has been investigated, but there are insufficient data available at this time to produce meaningful regression results. As such, the Company requested that it be allowed to utilize its current methodology until there are three years of data available to calculate design-day and baseload usage.

The Department appreciates that the Company has investigated using separate regression models and it has intentions to separate these customers when sufficient data are available. The Department agrees with the Company that there are not sufficient data available at this time to separate the regression models and these separate models should not be used until three years of data are available. In terms of the two-stage design-day approach, the Department continues to recommend that the Company employ this

[1] For clarity, the Department notes a correction to a statement on page 3 of the comments. The statement summarizing the need for increased demand volumes on GMG's system should read:

> The Company describes the main factor contributing to the need for changing demand entitlements as insuring that the Company has sufficient reserve to meet its customers' increasing need in light of continued expected growth in the number of customers during the upcoming (2015-2016) heating season.

technique until sufficient data exists beyond the 2012-2013 heating season. Greater Minnesota may believe its single regression analysis is sufficient; however, given the concerns noted by the Department in the past two demand entitlement filings, the Department continues to believe that the two-stage process ensures that sufficient entitlements will be available to serve firm customers on a peak day.

B. STORAGE CONTRACT AND COST RECOVERY

In its *Reply Comments*, the Company provided additional discussion regarding the cost savings associated with its storage contract and a response to the Department's concerns regarding Greater Minnesota's proposed cost recovery for the storage contract.

When discussing the cost savings associated with the proposed storage contract, the Company notes that the Department stated at Page 17 of its *Comments* that the proposed entitlement level would "substantially increase customer bills." This statement references the following statement:

> According to the Company, Greater Minnesota's demand entitlement proposal would result in the following annual rate impacts:
>
> - Annual bill increase of $34.89, or approximately 43.97 percent, for the average Residential customer consuming 94.1 Dth annually; and
> - Annual bill increase of $1,243.26, or approximately 43.97 percent, for the average Commercial and Industrial Firm customer consuming 3,352.9 Dth annually.

Greater Minnesota is correct that the statement should be revised. Bills will not increase by 43.97 percent; instead, average Residential bills would increase by $34.89 annually, or $2.91 per month, as a result of GMG's proposal (and using the Department's standard practice of holding the effects of changes in the weighted average cost of gas constant).[2] Since average annual bills without the increase in demand costs are $415.80, the increase amounts to 8.39 percent. [3] Similarly, the increase in bills for Commercial and Industrial Firm customers should be revised to reflect an increase of 8.39 percent.[4] Thus, the language above should be revised as follows:

[2] The originally quoted 43.97 percent increase relates solely to the change in demand costs. The Department apologizes for any confusion this may have caused.
[3] Calculated as $34.89/$415.80.
[4] Calculated as $1,243.26/$14,811.05.

> According to the Company, Greater Minnesota's demand entitlement proposal would result in the following annual rate impacts:
>
> - Annual bill increase of $34.89, or approximately ~~43.97~~ 8.39 percent, for the average Residential customer consuming 94.1 Dth annually; and
> - Annual bill increase of $1,243.26, or approximately ~~43.97~~ 8.39 percent, for the average Commercial and Industrial Firm customer consuming 3,352.9 Dth annually.

The Department appreciates GMG's correction and apologizes for any difficulties caused by this error. To be clear, as indicated in our initial comments, the Department recommended that the Commission approve Greater Minnesota's proposed entitlement level.

In its *Comments*, the Department expressed concern with Greater Minnesota's proposed cost recovery proposal for its storage contract. The Company's proposal would recover the costs of this contract solely through the demand portion of the PGA, which means that costs would only be charged to firm ratepayers. The Department stated that this proposal did not conform to prior Commission orders and precedent and was inappropriate. Since all ratepayers that use gas during the heating season will use gas associated with the storage contract, the Department instead recommended that Greater Minnesota recover storage costs, beyond firm customers, from any interruptible customer that used gas, at any point, during the most recent heating season.

Greater Minnesota responded that it recognizes the Department's concern, and those voiced by the Commission in other dockets, and revised its cost-recovery proposal. The Company acknowledged that it and the Department agree in principle that if a customer (including an interruptible customer) benefits from stored gas then that customer should share in the cost of the storage contract. Therefore, the Company now proposes that the cost of the storage contract be shifted to the commodity portion of the PGA. The Department appreciates GMG's agreement on this issue. Greater Minnesota stated that for the purposes of calculating an annualized rate, it assumes that it will treat withdrawal in a manner consistent with how the Company used spot gas under normal winter conditions (*e.g.,* 10 days in November, 25 days in January). The Company further stated, to the extent that an interruptible customer uses gas during any month in which stored gas is withdrawn, that customer will pay its proportionate cost of the storage agreement because these costs will be included in the WACOG. The Department agrees that this approach is reasonable.

Further, the Department recommends that, in subsequent true-ups, GMG should attempt to match any under- or over-recoveries of the costs of storage as equitably as possible to the customer classes and to explain fully how GMG has done so.

C. SHORT-TERM NORTHERN NATURAL GAS CONTRACT

On June 23, 2015, Greater Minnesota filed a *Letter* notifying the Commission of its decision to procure a one-month firm contract with Northern Natural Gas (Northern). The Company stated that this contract was necessary because of planned hydro-testing that will occur on the Viking pipeline during the month of July. Greater Minnesota further stated that the proposed contract will be for 350 Dekatherms per day (Dkt/Day) for the month of July, and the Company calculated a savings of $336 for this period compared to purchasing interruptible capacity on Northern.

Although the hydro-testing on the Viking pipeline is scheduled for a non-heating month, the Company's decision to procure firm capacity was prudent and operationally necessary. The Department reviewed Greater Minnesota's initial filing and notes that base firm consumption on the Company's system is between 320 Dkt/day and 500 Dkt/day (Initial Filing, Attachment A, Page 2 of 3).[5] The Department also reviewed Greater Minnesota's current entitlement portfolio, and the Company only has 210 Dkt/day of capacity available during the summer months on Northern. As such, without procurement of this one-month contract for 350 Dkt/day, the Company may not be able to adequately serve firm customers. With the addition of the 350 Dkt/day, Greater Minnesota will have 560 Dkt/day of firm capacity available throughout the course of the hydro-testing on Viking, which is sufficient capacity to serve baseload for firm customers.

In addition, since the Viking pipeline will not be available for part of July, the Company should clarify whether ratepayers will receive a credit for the demand costs associated with these unusable entitlement contracts.

The Department recommends that the Commission approve this one-month contract and the associated recovery of costs through the monthly PGA.

III. RECOMMENDATIONS AND CONCLUSIONS

Based on the information provided by the Company in its *Reply Comments* and June 23, 2015 *Letter*, the Department recommends that the Commission:

- Approve Greater Minnesota's proposed level of demand entitlements, subject to any possible changes in anticipated entitlements between the filing of these *Response Comments* and November 1, 2015, as shown in the Company's *Petition*;

[5] The Company calculates baseload of approximately 320 Dekatherms per day; however this amount includes negative baseload estimates for some of the Company's regression models. If the negative baseload numbers are "zeroed" out, total baseload is approximately 500 Dekatherms per day.

- Approve Greater Minnesota's proposed short-term firm contract with Northern Natural, and associated cost recovery through the monthly Purchased Gas Adjustment, for the month of July 2015 as noted in the Company's June 23, 2015 *Letter*;

- Allow Greater Minnesota to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2015;

- In true-ups, GMG should attempt to match any under- or over-recoveries of the costs of storage as equitably as possible to the customer classes and to explain fully how GMG has done so.

The Department also recommends that the Company clarify whether ratepayers will receive a credit for the demand costs associated with the unusable entitlement contracts in July on the Viking pipeline.

/ja

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
Response Comments

Docket No. G022/M-15-285

Dated this 29th day of July 2015

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.	202 S. Main Street Le Sueur, MN 56058	Electronic Service	No	OFF_SL_15-285_M-15-285
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-285_M-15-285
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-285_M-15-285
Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc.	202 South Main Street P.O. Box 68 Le Sueur, MN 56058	Electronic Service	No	OFF_SL_15-285_M-15-285
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-285_M-15-285
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.	PO Box 68 202 South Main Street Le Sueur, MN 56058	Electronic Service	No	OFF_SL_15-285_M-15-285
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_15-285_M-15-285
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-285_M-15-285